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December 7, 1942
2:59 p.m.

HMJr: Hello.

Cong. Robert Doughton: All right, Henry.

HMJr: How are you, Bob?

D: Fine, thank you. How are you?

HMJr: Never better.

D: Well, that's good.

HMJr: Say, Bob?

D: Yeah.

HMJr: Mr. Gamble of the Treasury here has a suggested program for next Saturday night at Winston-Salem.

D: Who's that, Henry?

HMJr: Gamble. His name is Gamble.

D: Oh, not my gamble.

HMJr: No, this fellow - you know....

D: Yeah.

HMJr: He can....

D: All right.

HMJr: He's like a lamb; he gambols in the spring.

D: Yeah, well, I hope he wins.

HMJr: All right. He's a pretty good fellow.

D: Well....

HMJr: Now he'd like to come up and get your suggestions, and when could you see him?

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D: Well, I can see him - I've got a meeting - yeah, I can see him about four o'clock.

HMJr: He'll be there. His name....

D: Four or four-thirty, yes.

HMJr: Good.

D: Say four-thirty.

HMJr: Four-thirty.

D: At my office.

HMJr: His name is Ted Gamble.

D: All right, thank you.

HMJr: And he'll come up to get - show you what they got in mind, and so forth and so on.

D: Well, that's fine. I'm very glad to find out right early about it.

HMJr: Good.

D: All right, thank you.

HMJr: Goodbye.

D: Goodbye.

See also Mr. Shields
report of 12/21 -

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December 7, 1942
3:15 p.m.

FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Kuhn
Mr. Buffington
Mr. Tickton
Mr. Woodward
Mr. Knott
Mr. Lemmon

H.M. JR: Go ahead, Mr. Woodward.

MR. WOODWARD: I will summarize mine very briefly, and then Mr. Knott would probably like to add to it.

We visited eleven towns, motoring four hundred and seventy-eight miles from Fort Wayne around the Loop in Chicago. Our first feeling is that the promotion and publicity have outrun the organization that is available, as we said this morning, and that actual solicitation for the securities is not under way in a very aggressive manner in many of the towns. In some it is.

The bankers feel that the securities that are being offered are appropriate and quite well cover the needs for the funds that are available for investment.

With one or two exceptions, the public is participating fairly well. The farmers, they say, in most of the towns, are not subscribing in accordance with their ability. The professional people, the moderately well-to-do professional people, are likewise said, in some places, not to be participating fully.

In the banks, the very small banks, many say they are not attracted by the securities that are being offered, primarily because of the rates. There was the statement in all cases, that the public was not aroused to the financial needs of the situation - that they could do very much more - and that is evidenced by the increase in deposits of both businesses and individuals.

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The deterrents to the sale of securities arise from fear that existed in a good many places - fear that is leading to hoarding in, I think, half, perhaps, of the cities that we visited, on some scale, and likewise, leading to the piling up of bank deposits in more than normal amounts. The fear, they say, for the most part, arises from discussions of forced or compulsory savings or lending, which is translated into a feeling that bank deposits may be confiscated or frozen, or something of that kind.

There is very little talk of inflation. There is some talk of the risk of a price decline in the securities, either later in the war or afterwards.

One banker figured that the two and a half's, if interest rates rose as they did after the last war, would go to fifty-two, and that bothered him.

Redemptions of E Bonds were commented on in certain places, and are expected to increase as a consequence of Christmas shopping and taxes.

I have a few specific suggestions that were offered, but that covers the general outline.

Mr. Knott has some comments on the publicity.

MR. KNOTT: I will make this very brief. In eight of the eleven towns in which we visited bankers had cooperated in publishing the large Treasury advertisement. In two others they had published similar ads. In other words, in ten of the eleven towns, the story of the new securities in the Victory Fund Drive had been told to the public in the local papers by the local people.

As far as free publicity, in six of the towns complete stories had been published; and in about three others fairly complete stories had been published. We saw a lot of placards, of course, on the E Bonds. Much of the E Bond campaign was amazingly good, I should say, in all the towns we visited.

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In about twelve of the banks it appeared that a good to fairly good job of circularization of prospects had been made on the new securities. I think that covers the principal part.

MR. BELL: Do you mean they circularized their own depositors?

MR. KNOTT: Yes, that is right.

MR. BELL: The banks did that?

MR. KNOTT: Nine banks had done that, and in one case, of course, the committee had gotten together and picked out a few and started that. But in about four or five cases they intended to do that, lump their prospects and get busy on a wider circularization. But it was just under way at the time we were there, of course, the early part of this month.

H.M.JR: Let me read this, may I?

(The Secretary read the memoranda of Mr. Woodward and Mr. Knott, copies attached.)

H.M.JR: I would say this was most useful. Wouldn't you say you got quite a lot out of it?

MR. WOODWARD: I was tremendously stimulated by it.

H.M.JR: The thing that surprises me is that it is going as well as it is.

Now, Dan, what I would like to do is this. I wonder - did you see the questionnaire that we sent out through the Comptroller of the Currency?

MR. WOODWARD: No, sir.

H.M.JR: We sent out some information on that and we got very good - we sent them to one town in every State; we covered the whole country almost over night.

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I wonder if we could not take what Mr. Woodward has found here as to this scare business, and fix up a telegram which could go through the Comptroller's Office and ask them to do three cities in each State - not one, this time, but three. See how current this is in the whole of the United States. It may be sectional.

MR. WOODWARD: It was very spotty. There were some towns we got to where they said there was no evidence of it and the next town, thirty miles away, they were talking about it more than anything else.

H.M.JR: What time are you leaving town?

MR. WOODWARD: About eight o'clock this evening.

H.M.JR: You certainly could fix up - I think that is more important right now than the advertising, don't you? It seems to me I would like to know - the thing you found particularly about the hoarding and that - I would like that to go out tonight yet, Dan.

MR. BELL: That comes from all over the country. We have had an awful lot of letters on this scare business - freezing deposits and confiscating savings accounts.

H.M.JR: I think the only way to do is to keep in touch with it from week to week. Now, if it is as bad as this, I may have to ask the President to say something. I may have to get the President to say something. It won't be enough if I say it.

MR. WOODWARD: Of course, there are risks, obviously, in saying anything, because there are some spots where it isn't evident, and saying it might stir it there.

H.M.JR: There is no risk in finding out through the Comptroller's Office. I mean, he can go to three cities in each State. He would have a hard time finding three cities in Nevada, wouldn't he? (Laughter)

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MR. BELL: They have been to Boise, I think.

H.M.JR: Boise is in Idaho. They could go to Reno.

MR. BELL: Carson City and Reno.

H.M.JR: I think one city in each State is enough, isn't it?

MR. WOODWARD: I should think two or three, considering the spottiness of the thing as we found it.

MR. KNOTT: That is right. We found it most pronounced in Lafayette - we got to Crawfordsville and not at all.

H.M.JR: I would say two or three. I would very much like to have it go out today and give them two days to get it.

MR. BELL: About the same information or just the rumors?

H.M.JR: I would form the questions as to the things these people seem to be worrying about. Through other banks, see if this is a national problem.

Woodward can fix up a questionnaire. He can sit down--

MR. BELL: That would go out from the Comptroller's Office, to let his bank examiners do it.

H.M.JR: Yes, give them two days to do it in.

MR. BELL: I am having a conference at four o'clock on that last question raised there.

H.M.JR: War Loan accounts?

MR. BELL: The FDIC charge. We tried to eliminate it without legislation but could not do it, and we may have to get legislation.

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H.M.JR: In the advertising end, are the banks furnished with leaflets which they can give out to their customers, describing these securities?

MR. KNOTT: Yes, they all had those things, and they had, of course, the initial advertisement. They were doing a lot themselves. Some had prepared form letters on the new securities and sent them around to their customers, and they seemed to be doing a very good job, as far as I could observe.

H.M.JR: In this questionnaire the main thing is this scare thing. Then I would like to put in some questions: One, how much are the banks doing themselves; and two, through the banks, how much do the banks think the Victory Fund has been doing in its community.

There will be three things - this business about hoarding, and all that goes with it. Then the question - a man goes in and says to the bank, "How much are you doing to sell?" and three, "How much do you think the Victory Fund is doing in your community?" Wouldn't that cover the thing? At least that is what I would like to know.

I don't think there is much use of asking about advertising right now; that seems to be all right.

MR. KNOTT: In the eleven towns we visited it was fine - much better in the bigger cities in relative proportion.

MR. WOODWARD: It seemed to me quite adequate.

H.M.JR: Would that cover the thing?

MR. WOODWARD: I should think it would, yes, sir.

MR. BELL: Anyway, the advertising is ahead of everything else, apparently.

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MR. KNOTT: Yes, it far outstripped the Victory Fund activities in these eleven towns.

H.M.JR: In other words, how much are the people frightened, and why? What are they frightened of? How much is the bank doing, itself, to sell these things, and how much do the banks think the Victory Fund Committee is doing?

MR. WOODWARD: There is a little open end in there. Our impression is that the banks are willing and eager. They are not quite sure how to proceed - that there is some gap, as we said this morning, in the organization above these towns, between these towns and the Victory Fund headquarters in the Federal Reserve cities. If someone came around to these towns and gave the banker a lift and a push - gave the organizations a lift and a push - it would speed the thing quite a lot. The bankers are ready to go. Is that not correct?

MR. KNOTT: Yes, that is true.

H.M.JR: Well, Dan is very busy, so I am going to charge you (Buffington) with this one. Eccles should have a copy of this survey we made through the Comptroller's Office. Has he had that?

MR. BELL: Yes, George has a copy of it.

MR. BUFFINGTON: I have, but you want Eccles to have it?

H.M.JR: I want Eccles to have it and then let George's shop take that and break down the information into the twelve Federal Reserve districts and send it out to the president of each Federal Reserve bank.

MR. BUFFINGTON: We are breaking that down, now.

H.M.JR: But Eccles should have it, and he should have it today. I am doing it this way to save you (Bell).

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Then, if Mr. Woodward and Mr. Knott still have time after they get this questionnaire, and Mr. Eccles is still available, I would like you to take them over to see Mr. Eccles and give him a similar report.

MR. BUFFINGTON: If he is not available, shall I send him a copy?

H.M.JR: He will be available. He works late. It ought not to take so long to fix up this questionnaire. But I would like them to see Mr. Eccles and give it to him verbally. Then I think what they found in this district should go to each president of the twelve Federal Reserve districts.

In other words, let's service Eccles and the presidents - anything that I get along these lines should go to Mr. Eccles and the presidents of the twelve Federal Reserve districts.

MR. BELL: You will have to prepare a rather careful letter, George, to the presidents. Some of the people might think you are snooping around.

MR. BUFFINGTON: They raised that question.

H.M.JR: And so what?

MR. BUFFINGTON: O.K.

H.M.JR: I don't care. Sure, and I am going to do a lot more of it, too. I mean this doesn't show up so good for your (Buffington's) boys, you know.

MR. BUFFINGTON: I think in this case we are still - these men were out during the first week - the last three days. I don't know that they have gotten down as far last week as I hope they will be this week.

H.M.JR: That is why I want to send out another telegram tonight, and have these men from the Comptroller's Office go out into a hundred and fifty cities and see what

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is going on. That is the only way. I can't cover the country, but that is the only way I can do it to find out. But they certainly haven't got going yet - last week.

MR. BUFFINGTON: That is right.

MR. BELL: When we started they admitted they wouldn't be able to get out into the smaller towns for a while.

MR. BUFFINGTON: This week would be a better test for the localities you went into than last week.

MR. HAAS: Murray Shields is out this week.

H.M.JR: Where is he?

MR. BUFFINGTON: He is in Ohio.

H.M.JR: I want very much - what you men have done I know is not easy to do. When I do a little of it I am always more than repaid for what I get.

MR. WOODWARD: I certainly feel so.

H.M.JR: Don't you feel so?

MR. KNOTT: Yes, I do.

H.M.JR: After hearing it, Mr. Lemmon, have you got any new ideas on publicity or anything?

MR. LEMMON: No, my only interest is past this point - that some place, whether it may be during a drive or just after, I think we need to get more fully a cross-section of America on these reactions. I mean, for purposes of helping lay the plans for the next drive, more than for doing anything specifically within this drive. Ordinarily, the best time to get that information is while it is on people's minds, so that that becomes a little wider job, based upon the time factor, and the number of men who are getting the sample throughout the country.

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In other words, by that you are able to average down to the points that are important, nationally.

MR. WOODWARD: I can perfectly imagine that some of these communities may be much further ahead by the end of this week than they were last.

MR. LEMMON: My only other point, Mr. Secretary, is that the report you have had on these towns on the advertising publicity - I see a great value in bringing pressure against the organizational side. There is a value - it isn't the fact - it isn't too bad that the promotion has run ahead of the sales work, because of the fact that it is out there and will put pressure on the sales activity.

H.M.JR: No, I am not - look, I have said this before - I mean, everybody knows that this is a big country, and I know the most difficult thing of all is to reach the towns of twenty-five thousand, but they are the backbone of America, and when you were selling flour--

MR. LEMMON: We were in there.

H.M.JR: And if you had those towns sized up you didn't have to worry about New York and its fashions and changes from day to day. Is that right?

MR. LEMMON: Quite right.

H.M.JR: I mean, New York might be with you one day and against you the next, but if you had the towns of twenty-five thousand buying your flour you were all right.

MR. LEMMON: And they stay with you.

H.M.JR: They stay with you and they don't change their minds so often. That is why you have got to get these fellows. That is why I am going to do a job on Congress.

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MR. LEMMON: If we carry this forward across the country, get a cross-section picture, we needn't plan for it, because we have got the right men to go into these areas.

H.M.JR: I think that was very worth while. I think if you can get together and show Bell the thing, you won't have to bother me with it, but just let them work out something, Dan, and get these men out in the field again. I would like something back from the Comptroller not later than Friday morning.

MR. BELL: Would you give them Wednesday and Thursday? That wouldn't give them time to compile it. It takes time to compile it when it comes in from forty-eight States.

H.M.JR: Tell them I want it, anyway.

MR. BELL: By the time it gets in the hands of the chief bank examiners tomorrow, and then they get their examiners out in the field, they will probably lose tomorrow. Their examiners are out examining banks so they will have to pick them out and send them to cities.

H.M.JR: Give them Friday and we will hope for Saturday.

MR. BELL: They ought to have Wednesday and Thursday, at least, to make the survey.

H.M.JR: Right.

MR. BELL: They get the report in here Friday sometime.

H.M.JR: Well, have you people seen Tickton's most recent figures? This is on the Victory Fund, isn't it?

MR. TICKTON: They are in the Chart Room.

H.M.JR: While you are all here, let's go in there.

December 7, 1942

Field Survey of Bond Drive in Northern Indiana
and Illinois, December 3-5

Scope

Eleven smaller cities ranging in size from 10,000 upward were visited in a 478 mile motor trip which began at Fort Wayne, Indiana, Thursday, December 3, and ended at Chicago, Saturday, December 5. The cities visited in Indiana were Fort Wayne, Huntington, Marion, Kokomo, Logansport, Lafayette, and Crawfordsville; those in Illinois were Danville, Champaign, Bloomington and Streator.

My interviews were entirely in the banks, mostly with the presidents. Mr. George H. Knott, of the Victory Fund Committee in Chicago, who also made the trip, visited the newspapers and some banks.

Findings

Organized personal solicitation of prospects was not yet underway in most of the cities, and in some probably will not occur. Quality and activity of Victory Fund Committees varies widely and there are no committees in some places. In some cities confusion exists as to what is expected or as to means of operations. Most bankers appear to realize that a big job must be done, and to be willing and eager to work; publicity promotion through the press Mr. Knott will report to be good. The deficiency, and I believe it to be serious, is in organization on a regional district, state or other basis to lead and to spur these smaller cities into activity.

The securities offered are generally regarded as adequate and appropriate. In a few cases one or more of the following three qualifications were made: a) the 2 $\frac{1}{2}$ s 63-68 are long for individuals, b) banks in towns smaller than these cities are not attracted, and c) many bankers speak wistfully of a "better" return. Some confusion is created by the number of issues, the variety of conditions, and changes which have been made. (I have the impression that most bankers in these cities view all security selling effort, including the E bonds, together.)

The bankers generally expect a good response from the public, but are almost unanimous that the public could lend much more to the Treasury than it is doing or is likely to do in this drive. The public is said to be unaroused as to the Government's financial needs and "people aren't mad". Farmers and the moderately well-to-do, especially professional people, were mentioned specifically in several places as participating inadequately on a basis of ability. Funds of both individuals and businesses are accumulating rapidly as deposits which the bankers generally feel could and should be lent to the Treasury, and some banks have recently or soon will cut the rate paid on deposits farther; a few bankers, however, do not wish to see deposits reduced for bond purchases, feeling that such purchases should be made from individual's income. A number of bankers remark the much lower intensity of the bond selling efforts in this war than in 1917-18.

A consequential positive deterrent to security sales appears to be fear of something. This fear is leading to what the bankers feel is considerable hoarding of currency in a number of the places visited, (though in others hoarding was said to be negligible) and to the accumulation of greater deposits than needed. Forced or compulsory loans or savings discussions were most commonly mentioned causes, and some bankers suggested vehemently that this be curtailed. Such discussions, some say, are being translated as a possibility of bank deposit confiscation. Price depreciation of securities in the war or afterward, is feared by some, (including some banks--"the 2^{1/2}s would go to 52 if rates rose as they did after the last war") and "repudiation" was mentioned in one or two places. Inflation was hardly mentioned.

Rising taxes, or concern about farther increases are likewise given as a deterrent to sales, now or later.

In several places redemptions of E bonds were said to be considerable, and Christmas shopping and taxes were expected to cause increased redemptions.

Other specific suggestions and comments are listed below:

The suggestion should be made to farmers that AAA checks be put into War Bonds.

Smaller businesses should be educated to put depreciation and depletion reserves into short term government issues. (One banker said Bureau of Internal Revenue policy would discourage this.)

Banks might be made issuers for F and G bonds and tax notes, in addition to E bonds, to save time, and perhaps relieve Federal Reserve banks.

E bond pledges in earlier campaign were not followed up so committees did not know what people actually did. In this drive all pledges should be followed up and checked. This could be done if purchases are made through banks, or if post offices will cooperate.

E, F and G bonds might be made eligible as collateral, so that temporary cash needs can be met without necessity for redemption.

Bank clerks, who are doing much work, should be given some recognition--badge, certificate, letter or such device.

Form of bank statements should be changed, so as to avoid term "notes payable" or any such terminology which might cause public apprehension.

Some resentment was expressed that in large cities the Victory Fund committees have federal funds to pay for advertisements, but in smaller places banks are expected to pay.

FDIC charge might be eliminated on War Loan accounts, and perhaps other types of deposits.

Donald B. Woodward
Donald B. Woodward

Report on Advertising, Publicity and General Promotional
Activities in 11 Indiana and Illinois Towns* in the

VICTORY FUND DRIVE

During the period covered by this survey (December 3, 4 and 5, 1942) the general promotion in these 11 towns was devoted principally to sale of the E bonds and the payroll allotment plan. Banks, merchants, clubs and newspapers have been doing an outstanding job in aiding in the war bond effort. Newspapers were sponsoring full-page cooperative advertisements signed by from 25 to 50 local firms and institutions.

Publicity on the 10% plan was the principal theme of these cooperative efforts. Placards were everywhere. Local papers were contributing much publicity space to war bonds generally. Many store windows had elaborate displays and many billboards were seen. It was clear that in these 11 towns the promotion for war bonds and the 10% plan was being handled in an efficient and successful manner.

* Fort Wayne, Huntington, Marion, Kokomo, Logansport, Lafayette, Crawfordsville, Indiana; and Danville, Champaign, Bloomington, Streator, Illinois.

What Was Being Done in the Victory
Fund Drive in These 11 Towns

1. NEWSPAPERS: In 8 of the 11 towns, banks had cooperated in publishing, or were about to publish, the large Treasury advertisement ("The Most Important Announcement..."). In two other towns (Kokomo and Huntington), banks had published their own advertisements. This means that in 10 of the 11 towns advertisements had carried or would carry in a day or so, a good story of the new securities to the public. In one town (Danville) no advertisement on the new securities had appeared. It was under consideration but the unwillingness of one banker to participate was the obstacle.

I found only one instance (Lafayette) in which a Victory Fund Committee had talked to bankers or the newspapers about the additional series of advertisements. In a few towns we did not get to see the chairmen of the local committees so do not know what action they may have taken. No newspaper, as far as I could learn, knew of the additional series.

2. PUBLICITY: In 6 of the 11 towns publicity stories ranging from complete to fairly-complete had appeared in local papers. All seem to have originated with the local Victory committees. In two others shorter ones appeared and in the other three towns nothing seems to have appeared.

3. PLACARDS: Placards, wall signs, counter cards and other displays were observed everywhere--but all on the E bonds and 10% plans. None on the \$9,000,000,000 financing were seen. Several banks--not more than 6--were using counter cards on the tax notes.

4. FOLLOW-UP ADVERTISEMENTS: In only one instance (Bloomington Pantagraph, December 4) did I see one of the follow-up advertisements published. This one was paid for by the State Farm insurance organization. It was headed "Will the Patriots in the 17th Congressional District Meet This Challenge?" I did not get to talk to the paper so cannot say if the insurance company got the copy from the Committee or not.

5. CIRCULARIZATION: In about 12 banks it appeared that prospects for the new securities had been circularized. This circularization ranged from use of the official circular to form letters to slips enclosed with announcements of stopping interest on time deposits and urging investments in government securities. All banks received the ABA folder as well as the treasury material.

Some General Conclusions

The E bond promotion in these 11 towns has been excellent--there can be no doubt of that. For the Victory Fund Drive it seems to have been good when compared to some large cities. (Example: in Chicago following the full page November 30th advertisement--published in none of the 11 towns visited--only two banks followed up with individual advertisements on the new securities. One merely said: "Buy Victory Loan securities. Subscriptions entered by banks without charge." The large Treasury announcement which we found published in 8 of the 11 towns visited did not appear in Chicago nor has any of the others. Thus, on a comparative basis, these 11 towns have done a far better job than Chicago.

There can be no doubt that the publicity, advertising and general promotion in these 11 towns has outstripped the activities of the Victory Fund committees, and that undoubtedly much of its effect has been lost by ineffective organization of these committees. This isn't true in all cases, as for example, Lafayette and, to an extent, Bloomington and Streator.

A Few Suggestions of Bankers Pertaining to Future Public Relations in War Bond Sales

1. A public statement from someone in high authority might be helpful in stopping needless hoarding of currency in safety

deposit boxes. This view was expressed in three or four instances but was most pronounced in Lafayette.

2. The time is nearly here--or may be here-- to seriously plan for a much wider use of "shoe leather brigades". Many bankers expressed the view that banks will, in the end, have to buy more and more war bonds; and that next year the war financing effort will require far greater house-to-house solicitation. Some have done this with the Es with great success--notably Champaign.

3. Stop repudiation talk. This sort of suggestion was heard in only one instance--and this case appeared to be of a somewhat political nature. The banker interviewed seemed to think "waste in government expenditures" was hurting sales, that what he termed "repudiation talk" was a deterrent and that the rates on the new offerings were too low. (His bank had deposits of \$6,800,000, loans of \$1,000,000 and \$2,800,000 in governments.)

4. Devise some means to make farmers buy more bonds. This group is the conspicuous laggard was the complaint heard in towns where agriculture predominates. At least five bankers in areas where AAA payments are heavy felt something should be done to induce farmers to buy war bonds--and "what can the Treasury do about it". That they are buying relatively few now seemed to be the general opinion.

Additional Comment

1. Practically all of the bankers I interviewed are keenly interested in helping in every way they can and realize their responsibility. In a number of cases, however, they seem to have been lax in doing the organization work in getting the Committee going full speed--and getting it going early. In almost all instances they have been LATE. In future efforts it would seem that bankers ought to play a more active part in the actual organization of the committee's work. Lack of Committee organization would appear to me to be the outstanding criticism. Obviously, if this is lacking, full advantage cannot be taken of the facilities for promotion and advertising which clearly exist in these towns--and which seems to be available just for the asking.

2. Do bankers know the securities? Those I interviewed showed a good knowledge of the details of the offerings and had definite opinions about the individual issues. In only two cases was this not the case.

December 7, 1942
George H. Knott
One North LaSalle Street
Chicago, Illinois

December 7, 1942
5:00 p.m.

WAR BONDS

Re: North Carolina Speech

Present: Mr. White
Mr. Kuhn
Mr. Mager

(First draft of speech attached.)

MR. KUHN: On page six I have done a little injustice to the employers in not complimenting them on their part in the pay-roll savings thing. I can fix that one up easily.

H.M.JR: I like the part where it says, "And I like to feel that the new relationship between labor and management which has been shown so magnificently in this War Savings campaign is helping to build the post-war world right here and now. I like to feel that it is setting the pattern for an era in which labor and industry will work side by side for their country's good and for their own."

MR. KUHN: I think I will cut out the business about the Liberty Loan because it is gratuitous.

H.M.JR: Well now, Ferdie, let me just talk a little bit, because I don't think that you have given me what I want. I don't know whether I can do it at this hour; but I will do the best I can.

In the first place, the thing that I am trying to get over - some of the men here said that it takes three hours--

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

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MR. KUHN: I steered away from the inflationary stuff purposely.

H.M.JR: Do you mind if I could just - I have something that I would like to get over, and I think I may be able to get it over through the mouth of Harry White. Let me just try an experiment, see, because it took them from three to four hours to get over a new idea to him. He has got it now; let's see if he can give it to you.

Just the other day when I had this man from Hollywood doing the two-reel picture, I said, "Would you mind repeating to Mr. Skouras what I told you?" When he repeated it, he didn't get what I meant at all.

I mean, they have taken from three to four hours to get over what volunteer pay-roll deduction can do.

Now I know Harry has something, and I want to see if he can translate that into words. If he can, that is what I want to get over to this audience. It took three to four hours by the War Bond people to explain it to a man like White, who wants to do away with the volunteer - what did he get out of that four hours the other day, you see. I mean, there either is something here which we have not said at all as yet to the American public about the volunteer, or it is not worth saying. I am not saying that - I mean, it is this chart which constantly increases, up to three hundred fifty - the number of people.

(Mr. White entered the conference.)

H.M.JR: Harry, sit down. I would like to use you, if I can. Harry, this is a speech for Winston-Salem for Saturday night, where I am going to talk for ten minutes on the air on the pay-roll deduction, in the home of Robert Doughton.

Now, what I am groping for is this: I wanted to try - I will tell you quite frankly what I want. I think there is a message which we have not gotten over

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to the public on what the volunteer has done. I mean, the steady growth, and so forth, and so on.

I know you attended a meeting here the other day which lasted three or four hours. Now, as I told these people, I know how you feel about the volunteer plan, and I know how you feel about compulsory savings, and I wonder if you would be willing to say what you have now that is new and which you did not know before about the good points of the volunteer plan. Do I make myself clear?

MR. WHITE: Perfectly clear.

H.M. JR: What is there in the plan which was new and which, after you thought about it, was worth while that you didn't know about before?

MR. WHITE: Chiefly two things - two simple things. One is the rapid and substantial increase in the number of workers whom they have obtained subscriptions from; and secondly, the increase in the average subscription which each one has contributed.

It seems from the figures that you are approaching the maximum that you could hope to get, and I would say that from the point of view of evaluating the pay-roll savings plan you are approaching a hundred percent perfection. I didn't think it was as good as that.

I don't think that the public realizes that so good a job has been done in the number of people that you have reached that you have a right to expect to reach. There are a great many whom you have not reached whom you knew from the beginning that you probably couldn't reach. There are administrative reasons why you can't get a great many of the small concerns and self-employers. But for the number of persons employed in concerns having more than fifty or a hundred employees, I think that you have gotten an unexpectedly large proportion of that group, and I think that that group has contributed a larger percentage than I would have expected they would have. On both counts it was news to me. I suppose those figures were available at any time, but I didn't happen to see them.

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H.M.JR: You see, let me go back to this--

MR. WHITE: There are some others, but the others are less important.

H.M.JR: Go ahead.

MR. WHITE: One was that there was a smaller proportion of redemptions called for than I expected. Another factor was the rapid increase in the twenty-five-dollar subscriptions as against the almost parallel curve of the very high denominations, showing that the progress is being made where you want to make it most, namely, in the low-income group.

Those are two other points.

H.M.JR: Let me just talk a minute, because this is sort of new for Mager, and you (Kuhn) have lived with this so long it is an old story.

When we started out with this volunteer plan, in the first place, the thing that appealed to me the most was that it was a volunteer plan and that through a volunteer plan we could avoid some of the mistakes which were made in the first war when they had the quotas, and so forth and so on.

I realized perfectly that there would be certain people that we would not reach, and I always remember the President referring to some old fellows in Hyde Park and a talk he had with them in the early days. He said, "Jim, how is this thing going?" He said, "Mr. President, where I live, Violet Avenue, Hyde Park, a third of the people volunteer to buy; a third you have to work on, and a third are very difficult." So he said, "Is that satisfactory?" He said, "Yes, it is; that is what I would expect, and that is about what it is." It has not changed very much from this old fellow - the town gossip at Hyde Park.

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Now, I realize perfectly that maybe there is a third that will never buy any bonds, but in weighing this thing I weighed the thing very, very carefully as to whether it is worth getting the third to volunteer. The more I have thought of it the more it seemed to me that it was worth while.

I think in order for you (Mager) to get a thing like that, you ought to go over and talk to some of the people in the Labor Section.

MR. KUHN: Houghteling.

H.M. JR: And his boys under him. Wolf is a good one. You ought to talk to those people because there is nothing in the war effort that I know of that has come to my attention which Labor gets as much satisfaction out of as they do out of this. They are very, very proud of this thing.

As we have gone along in this war, less and less things have become volunteer. The President has stopped the volunteer enlistment in the Navy; you can't enlist any more in the Navy. You look over the things that you can't decide - how much gasoline, how much rubber. And when you get all through and done about the only important thing which is left in the war effort which you can make up your own mind on is how you can invest your money, and I think that thing is worth saving, provided, always, that we find that there are other devices to take care of this gap.

Now, we are in the midst of studying it, and I don't want to go down and argue that this is the answer because I don't know whether it is the answer. Even if they reach the maximum I have grave doubts, but at least I think the American public and the people who have worked so hard, not only in putting the thing over but the people who have volunteered, are entitled to have me, as Secretary of the Treasury, present the case factually.

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As Al Smith used to say so admirably, "Let's take a look at the record." See? Let's take a look at the record. Now, what is the record? And I want to take a look at the record. I want the American people to take a look at the record.

I do not want to be down there pleading, but I do want to tell the story - "Take a look at the record."

The personal satisfaction that these people get out of doing this thing - I have said over and over again that the man and the woman, the wage earners, at home at their firesides, should decide when nobody is around how much they want to buy, and so forth; and once having made that decision that is what I think goes towards building up morale and belief in the war effort. They decide they want to do so much, then they go ahead and do it, and that is their decision. Having done it voluntarily is worth a thousand times having to be told that they have to take ten percent by law.

Now, what I want to do - and, as I say, I have not got it here - I mean, you have worked with me before, and there is no use being - I mean I only slow you up by trying to be overpolite.

I have not attended these meetings, but the man who can give you the things the best factually is Tickton. He gives the thing factually, and that is all I want to do, because I may have to recommend it to the President. He may do something else, but at least I want to state the case.

I mean, here is a plan. It is just like the only thing that I have loaned my name to outside of the Treasury is that I am Honorary Chairman of the Self-Help Cooperative of Washington. It is a system, and I believe in it and I fought for it. We made a success of it. It is a place where people work and have an exchange of work. It is a system, and it works. We would have done wonders with it if Hopkins

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and his people would have let us do it. There is a system.

Now, I am not saying that all relief should be self-help, because it is a very difficult technique. But at least it was a system. It had failed in California; it had failed in Ohio; but right here in Washington under the shadow of the Capitol it has worked.

And this thing has worked, and it is gradually getting up to the point where we will approach thirty million people who will be doing ten percent.

Now, all I want to do is to have it sink into the head of Mr. Doughton and the heads of the people who advise Mr. Doughton in the community that he lives that here is something typically American, typically of the people, typically of the masses, which they believe in, which has worked; and before they discard that thing they should weigh the thing very, very carefully. Is this thing worth saving, or should we through another edict of Congress throw this thing completely aside. We have at least, I think, agreed here - Harry can tell you - that if we do the forced savings it pretty well throws this other thing in the ash can.

MR. WHITE: The voluntary pay-roll deduction plan, definitely yes.

MR. KUHN: That is the heart of it.

MR. MAGER: But there are other alternatives even then.

MR. WHITE: May I say I am a little bit fearful of that kind of a speech. I would not know until I had seen it, but it looks as though you are defending it when you can see, even, a hundred percent success - and you certainly are closely approaching it - you are still left, unfortunately, with a program that is far from adequate. That is the trouble.

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You have done a swell job at it, but the demands have risen so that even if everybody gave ten percent - not only the workers - it would be far less than what you needed. You would only get a total of ten billion. You are getting almost that - you are getting six billion.

MR. MAGER: Here is the point, though. It has been taken for granted around here - and I am raising a theoretical question now, not raising the question that is involved in the speech alone - it has been taken for granted that a new program in 1943 will inevitably replace a volunteer savings program of this type. I think that has been more or less based on this new proposal that has been gotten out by the Tax Research people.

I do not think for a moment that it is necessary to replace voluntary savings even under a new program. That is, if you develop your ideas in regard to expenditure rationing, for instance, I think it is perfectly possible to retain voluntary savings and still have it.

I don't want to go into that now, but I really think it can be done.

MR. WHITE: What is more to the point, I think that if you make a case like that down there you may find that it will not be long before you are recommending something else.

Now, I think that the speech could be - and maybe this is what you have in mind - it could with a little twist show what a wonderful job the workers have done, what a wonderful response they have made; that out of a maximum you did not hope to get more than whatever your maximum was that you hoped to get; practically every worker is contributing, and almost full ten percent; that if every citizen had made as much of a contribution with respect to his needs as the worker has - well, I don't know whether you would want to say that - your problem would have been at least more

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nearly solved, but in any case, without comparing them with anybody else, they have done a marvelous job. They have responded in a perfectly splendid fashion to the program. You can say that without attempting to evaluate it in terms of replacing it with something else.

H.M.JR: Let me just say this. I want to come to what I originally wanted to say, which I have not mentioned yet at all. If we are going to talk about this thing, I think we have got to talk in terms of what the whole borrowing program is. I think you have got to mention it. I cannot go on the air in the middle of the Victory Fund drive and not say something about the nine-billion-dollar drive, and as of Friday night we have got seven billion dollars, or whatever it is; sixty percent of it from non-banking sources, and so forth; and that the thing is going very well, and so forth and so on. I mean, I don't think that I can just totally disregard it.

MR. WHITE: No, I think you can say that, too.

MR. KUHN: It is in here.

H.M.JR: I think, in fact, if we are going to talk about financing, the borrowing rather than the inflationary end, then I think you ought to open up and say, "Now, gentlemen, of course we are in the midst of this so-called Victory Fund Drive where we are attempting to borrow nine billion dollars. The first two weeks we have been two-thirds successful, and we have been able to get sixty percent outside of the banks." Say what we are trying to do, and so forth and so on; then go on into this pay-roll thing. But I just can't go down there and avoid it.

MR. KUHN: It is in here. It can be added to. It says, "the Treasury is now engaged . . ."--

MR. WHITE: Why don't you make that a report by you to those people - in other words, "I know you will be pleased--"

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H.M.JR: May I just - the man who is presiding,
Mr. Hanes--

MR. WHITE: John Hanes?

H.M.JR: His brother. He was president of the American Bankers. He is the fellow who attacked the President in his speech. But anyway, the point is that in the first place they say he is the closest man to Doughton; number two, he is the chairman of the Victory Fund regional committee; and he is chairman of the dinner. So there you have got Mr. Hanes.

Now let me go back. What am I going down there for? Some of you people may understand this; some of you may not. I am going down there to "schmeichel" Mr. Doughton.- Now, I want to do a good job of it. I told the President about it. He is tickled to death. He said the Cabinet should go to the field and go to the Congressional districts instead of sitting here and being shot at.

I am going into this fellow's district a little bit the way you would - to do a job on him. Now, I will be on the air, and so we want to keep sight of that all the time; and that is why I am going there instead of the Hotel Astor.

Now, let me just completely take this and go to another track - another railroad. There is another thing that I would like to do, and I do not know whether this is the place to do it at all.

Now, this is in the room here. Particularly after spending last night with the President and having him talk to me the way he has not talked for years - this is in the room - it was most encouraging. He is going to sound off the way he hasn't since '33, and he has made up his mind that now is the time, in January - in the next six months - to get what he wants in the way of New Deal legislation for the rest of his term. He is going back to where he was in '32

- 10 -

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in his thinking. I mean, I haven't heard him talk that way and haven't been so encouraged. I said, "Marvelous, you took me to the tops of the mountains."

Now, I made a speech at Worcester, Massachusetts, where I talked about feeding the people, the world, and so forth and so on, that you can look up. When they appointed Governor Lehman they quoted from it. It was long before Wallace's speech about the milk.

I am just thinking about the possibility of, instead of doing this all financing, doing a philosophical speech.

MR. WHITE: In North Carolina, in this place?

H.M.JR: I don't know. I have got it in me.

MR. KUHN: I tried it last week end, and you should do it; but I think that in Doughton's district, with all those conservative fellows around whom you are appealing to - I think it would be too bad.

MR. MAGER: Do you know what I was thinking of, if I may say a word or two. This is what I was thinking of: The objection to this speech is not that it is non-statistical. The fact is that it is statistical but it gives the same stuff over again. If I understood what you were saying - trying to say, as you would put it - trying to get over the idea that voluntary savings, even if not adequate, and even though we may have to supplement it or replace it, did contribute something concrete. It is that which it did contribute which represents the important thing which should be stressed; that is, that this is in a sense an assessment of the voluntary program.

Now, I think the only way that can be done - it is not in broad, philosophic terms, aside from the audience - in any audience it should not be done in broad, philosophic terms - the only way is to make it human, and that is what it is to me. It must be done in terms of individual cases which we must rake up - what did it do to this family, to that family, what did these people do, what are they doing for the post-war period in the

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way of laying away savings, in what way did it change their habits from what they were before, in what way did it make them better citizens as a result of participation. Do you see what I mean? Make it human. Now, we, of course, here, don't know - I mean specifically - but there are ways of finding out. That is, we have avenues, we have the material we can get.

H.M.JR: You can ask Mrs. Forbush to get it. She is in the Correspondence Section and can get all those letters out.

MR. MAGER: That is the kind of speech that should be made on the radio.

MR. WHITE: I have a little different idea, Mr. Secretary. I think the objectives should not be mixed. In other words, I think when you shoot at two different goals, neither one is struck successfully. I gather you are going down there for a definite purpose. You have picked out his district, and when you go away you want Bob Doughton to feel that you have done a wonderful job for him, and the fellows on the Victory Fund Committees will say that you have done a wonderful job. The fellows against you will say, "He isn't so bad a guy after all." Everybody will be pleased with a speech like that. It has got to be ninety percent applesauce of one character or another, but valid, and ten percent of anything else that you want it, but you don't attain any other objective than that.

Now, the other sort of speech that you want to make, or, there are two others - the one that you suggested is an entirely different kind, and it should be before an entirely different audience and should not be mixed up, because I don't think that kind of a speech would be as successful.

H.M.JR: The other speech should be given at Chapel Hill.

MR. WHITE: That is right. That place is waiting any time you are ready.

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H.M.JR: But that kind of speech - the New School of Social Research, or something like that--

MR. WHITE: There are better places than that.

H.M.JR: Are you through, Harry?

MR. WHITE: Just one further thought. A third speech - this question of what - you can't speak of what the bond program did, because the minute you use the past tense they will assume that you are pronouncing the headstone on it.

MR. MAGER: There are ways of doing it; it all depends on the treatment.

H.M.JR: I think the point is that I am going down there, and not only am I making a test case, but I would like to show the President - we can talk here very much in the room - Leon Henderson has gotten himself in such a position that he is practically useless. Now, they were going to try to do that to me through taxes, and I have not let them do it. Without being conceited, I am a better administrator, and I think I am better on public relations.

But when the President of the United States wants to get a bill through Ways and Means, he can't get it; he has lost his touch with Bob Doughton. It isn't just for me. I am doing it for the President and for something else. If he decides, which I think he will, that he is going all-out for social security, he has got to have Bob Doughton in the frame of mind that he will push the thing. And he has practically made up his mind that he is going all-out on social security. I have had two or three talks with him on it.

So I am going down there to soften this fellow up, and I want - if Mr. Robert Hanes is the man who is closest to him, I have got to pay my respects to him and his Victory Fund Committee, and I have got to pay my respects--

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MR. WHITE: ... to his brother, while he was here.
(Laughter)

H.M.JR: No, that is too much; I can't swallow that. (Laughter)

But you can say something in the district which contributes so many hundreds of millions of dollars in taxation through cigarettes - I don't know, but pay your respects to the district - say that Winston-Salem contributed so much.

MR. WHITE: It is one of the popular places with the Treasury because it yields the most revenue. (Laughter)

H.M.JR: Say something like that. As long as I am going to go down there, I want to do what White said. I want Doughton's chest to expand three inches. I want Robert Hanes to say, "Well, Morgenthau is all right; I was wrong. He has let bygones be bygones, and I am tickled to death that I am chairman of this Victory Fund Committee," and so forth, and so on.

Remember, you have a most peculiar district. You have a district there from the western hills of North Carolina that is one of the most primitive bootlegging districts - I mean, really this old English stock, two or three hundred years old, and down through to Winston-Salem, where you have Robert Hanes, and so forth, and so on.

So you have an unusual district, and I am on the air from coast to coast - but I don't think that the first draft does that, and I don't want - I didn't want to bring in "over here" and "over there."

MR. WHITE: Do you have to be on the air from coast to coast on this?

H.M.JR: Yes.

MR. KUHN: That is the difficulty. The program on which you are appearing is called, every week, "Over Here."

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That is the title of our Saturday night Blue Network program. The subject matter of that program is the wonderful things that ordinary people are doing over here to help win the war. That is why I brought in that device, "over here" and "over there."

MR. WHITE: ~~What~~ the ordinary people are doing?

MR. KUHN: That is right.

MR. WHITE: Is there any possibility of tying in along with this - nobody has given the Congressmen any credit - not that they deserve any credit - (Laughter) - for the work they are doing. That might be a very appropriate place to spend a few minutes to say, "Here is Congressman Doughton, at his age, and nobody appreciates the work that he does." You know, you can stretch it out at great length, make it a plea for all Congressmen, and say that no credit is given to them, which they deserve, for sticking their noses to the grindstone through the hot summer months and through the cold winter months, and so on.

MR. KUHN: That goes in all right. What does not go in, to my mind, is a statistical discussion of the inflation problem, or a statistical report and assessment of the voluntary savings thing, at length. That is not right for this kind of a radio talk, which will be heard, remember, by millions.

H.M.JR: But you can say that you have twenty-three million people, and that that is increasing from month to month. I would like to get that picture of that chart. They have everything from six to seven to eight percent, and that you have got.

MR. KUHN: That is easy.

H.M.JR: And that you have these industries where some of them have gone to seventeen and eighteen percent, and this thing is steadily growing, growing, growing. We have been at war a little over a year, and

- 16 -

contrary to the last war, we have not got the silk shirts here, and so forth, and so on; and the people are saving money, and so forth, and so on. But I think this idea of Harry's, the Congressmen have passed this legislation which has made it impossible for people to buy the new automobiles, and so forth, and so on, and we are not going through the twenty-five dollar silk shirt era that we did the last time, and Congress saw the thing in time, and so forth, notwithstanding the fact, as Mr. Doughton says, "What is inflation?"

MR. WHITE: He probably couldn't hear you if you answered.

H.M. JR: When I talked to him about the high cost of living, he said, "Henry, you don't understand it. In our district we just get a little bit higher prices for stuff, and we like it." But I think, gentlemen, that White summed the thing up. The first thing to do is to please Robert Doughton; never mind the rest of the country. But in pleasing Doughton, we can please the other six hundred Congressmen, whatever they are, and I would be the first man in the Administration to come out and say a good word for a Congressman.

MR. WHITE: You can do it for him because he typifies - because he is very old - he has been there a long time, and he is chairman of an important committee. Therefore, in praising him - I mean, it is quite appropriate, it seems to me, to use him as an illustration, give him the personal praise, and through him, some word about all the Congressmen.

You can also take that opportunity to do what I think you said. Say that you are taking that opportunity to report to the Nation on the state of how this bond issue is going. You know that they will be - you are reporting to them on how this nine-billion-dollar issue is going - the biggest thing that has ever been done in the world - and you would like them to know that as of an hour ago--

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H.M.JR: I think the way to open the thing up is the way I did in Virginia, where I opened up the address and paid my respects to my good old friend Cliff Woodrum, who from the very first day back in 1932 when I came down here has been my friend. He is the second most important man on the Appropriations Committee. He went on and talked. I used not more than a hundred words. He is chairman of the subcommittee handling Treasury appropriations. When we got through, he said, "I will be perfectly frank; I had no idea about this volunteer plan." They had two hundred and twenty flags which they presented in this little town. He said, "Any time you want anything, just let me know." It was an accident; it wasn't arranged to build up Cliff Woodrum, but when Cliff Woodrum was there he was smart and he grabbed the ball; he made it his personal show. I can go to that fellow any time I want and get something that I am absolutely not entitled to, just because we put this thing on, and it is true - these fellows are so vain.

MR. WHITE: They make political capital out of it. I think that if you could also sound this note--

H.M.JR: Well, Harry, leaving me out - I am just his hired man - the President of the United States needs something like this very, very badly.

MR. WHITE: All you have got to do to Doughton is say, "I showed this speech to the President, and he loved it" - something like that.

H.M.JR: Let's not be too - it is all right to be cynical, but the President himself with this Congress and the small majority and everything else, he needs this. He needs this very badly.

MR. WHITE: You will find that these fellows will take this position, as they all do, obviously, "You help me in my district and support me, and, naturally, I will

- 18 -

help you as far as I can." There should be an appropriate place somewhere to say, "Bob Doughton and I have not always agreed, but I will say this about him, that he has always had the interest of his country at heart," some bologna like that. (Laughter) They know that you don't agree with him all the time. My throat almost sticks when I say that about him. (Laughter)

MR. KUHN: Too bad Harry isn't making the speech. (Laughter)

H.M.JR: Thank God he is not. He would get up and say, "Bob Doughton, who always had the darnedest bologna I ever heard," just like that General you and I saw, who said "Boy, you are the finest soldier there is in the world; you can lick any Jap you see, you can just do it," and then he whispered, "I hope I am right." That was the Third Army Corps at Fort Bragg. He said, "You can lick your weight - you can just eat them up," and then he said, "I hope I am right."

MR. KUHN: I have one idea that I want to ask you about. It was put in here to appeal to Doughton and Hanes and all those babies down there. That is, the idea of having fifty million people owning Government securities, guaranteed as to getting their money back. That is an idea that, to my mind, has always appealed to those men. It is the thing that appealed to Woodrum, and it is the most popular thing.

MR. WHITE: Yes, this is the first time in history when there have been more than a few million people who have held bonds of their Government. From that, you lead into Doughton's favorite subject, economy, and say that he was one of the people responsible for this joint committee of Byrd's, and so forth, and so on, and this billion dollars which was saved, and so forth, and so on. You have got to say something about his being interested, and the way to get the thing is through having thirty to fifty--

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MR. KUHN: Fifty million people. That is why that was in here, to appeal to them.

Now, if you were going to appeal to somebody else, something else would have been in here; but it was done deliberately.

H.M.JR: After Doughton heard one of these, he said, "You have got to do something to cut the expenses down." "O.K., we will have a meeting on Thursday." He said, "I can't come Thursday." I said, "Why not? I will call the meeting." He said, "You see, it is like this. I have got to leave Thursday to go down home, because on Saturday we are dedicating the WPA project, and I have got to be there." (Laughter)

MR. KUHN: That was one of the greatest moments in the last two years. It was marvelous.

H.M.JR: So don't think we fool ourselves here, but I still think if we are going to go down there, let's do a good job.

MR. KUHN: A lot of these ideas can be put in; some of these things can be cut.

H.M.JR: Let's have another shot at this tomorrow afternoon.

MR. KUHN: Tomorrow afternoon, right.

H.M.JR: Do you want to sit in when they come in again?

MR. WHITE: If I can be of any help.

H.M.JR: I wish you would, and read this over. If you have any ideas give them to them tomorrow.

But I think, to sum up, the thing to do is to go down there and make these people feel happy, and, also, so that the man will be friendly - I mean, we have been over the lot, but I think--

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MR. KUHN: I can't get everything in that we mentioned this afternoon, but we can get in a lot of it.

H.M.JR: You have some ideas; you got what I got?

MR. MAGER: Yes.

MR. KUHN: Mr. Secretary, may we have a copy of the report of this meeting?

H.M.JR: Yes.

Copy to: Mr. Kuhn

1st draft 40

I am happy that you have invited me to come here to North Carolina, to the home State of Congressman Bob Doughton, of Comptroller General Lindsay Warren, and of so many others who are giving distinguished service to our country today. You in North Carolina have known from the very beginning what this war was all about. As long ago as the Lend-Lease debate you showed clearly where our duty lay, and we in Washington have not forgotten how you made your voice heard in those days through a magnificent resolution of your State Assembly. Today this city and this State are heart and soul behind the war, and this great meeting is evidence that you will not relax your efforts until victory is won.

I have wanted to come to an American community like this ever since I came home a few weeks ago from a visit

to wartime England. I have wanted to share with my fellow citizens the mental and moral "lift" which that brief but inspiring visit gave me. My time "over there" was short, but I saw enough of the toughness and keenness of our troops, of the grim efficiency of our Allied forces, of the miracles of British production and of the vitality and strength of the British people themselves, to convince me that our enemies can no longer win this war.

Whatever trials lie ahead of us in 1943 -- and they are going to be severe -- the Nazis and the Japanese have failed in their mad conspiracy against mankind. We are not only not losing this war, but I think we can say with confidence that we and our allies are at last on the road, the long and dangerous road, that leads to victory.

That is the impression that I have brought back with me from "over there". It is reinforced by all that I can

see "over here". It is not so much the result of our production figures, great and impressive as they are, or of the quality of the troops whom I have seen training in great camps from the Atlantic Coast to Kansas. The overwhelming fact for our enemies to remember is the spirit of our people. That spirit is reflected right here in this room, where every element in this community has come together with one purpose -- to help win the war.

We "over here" have not been at war for almost three and one-half years as they have "over there". Great as our war effort has been in 1942, we are just beginning to fight, we are just beginning to show what this country of 130 million people can do when it puts all its heart and mind and muscle to a single job. Yet even this beginning of ours in 1942 contains achievements that should make our enemies see the handwriting on the wall. In this community

and in every community the first year of the war has brought miracles in some field of patriotic effort. And not the least of these is the War Bond campaign which brings us together tonight.

Take, for example, the payroll savings program in which you in North Carolina have made such an enviable record. You will not find it in the headlines, you do not get medals for your part in it, you get nothing but a little blue and white flag as a symbol of achievement. Yet it is, I think, a tribute to the American people themselves that 24 million workers are now setting aside an average of eight and one-half percent of their pay every pay day so that our soldiers and sailors and airmen can have the weapons they need to win. In North Carolina every big company now has a payroll savings plan, and 99% of all the workers in those companies are subscribing

week by week. That is an achievement "over here" that will give encouragement to our Allies "over there" and to our fighting men at battle stations around the world. It will show them, I think, that the working men and women of this country are not just content to produce the tools of victory but that they are also helping to pay for them -- helping at a rate of \$350 million every month from payrolls alone.

Such an achievement does not happen by accident.

It is, as you War Bond workers know, the product of untiring hard work in thousands of communities. The labor-management relationship which makes the payroll savings achievement possible is also not just an accident. It is the product of intelligent planning and public spirit on the part of all concerned. If we had gone to the employers alone or to the workers alone, we would not now have 160,000 companies

throughout the United States with payroll savings plans in operation, nor would we have anything like our present record of subscription. As you know, the Treasury went first to the national labor organizations with its payroll savings program, and they in turn passed the word down the line to their local unions and to their shop stewards. The result was that the workers took the initiative and asked the employers to make facilities available for the regular purchase of Bonds out of their pay. The result is just one example of what can be done with labor and management in harmony. It is my firm belief that the good will created by the payroll savings plan has been felt all along the production line.

7.

The work of promoting labor-management good will has not ended with the establishment of payroll savings plans. Those plans have in turn been intensified by drives conducted in thousands of plants and by entire industries through the help of labor-management committees. Where the employees of a plant were not participating in great enough numbers, or where their weekly investment was far below the 10% goal, we set to work to push the total participation to at least 90% of the employees and their investment to at least 10% of the company's gross payroll. We have succeeded in thousands upon thousands of cases affecting millions of workers. We have done it again by using the mechanism of a labor-management committee, by persuading the workers and the employers to sit down together around a table and plan

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a more effective payroll savings program for themselves.

Way back in the summer of 1941 -- the date that seems almost pre-historic now -- we set the precedent with this kind of approach by inviting the leaders of all three national labor organizations to come to my office and discuss the Defense Savings program, as it was called then, with the leaders of the National Association of Manufacturers and the United States Chamber of Commerce. They came, and their example has been followed. Today we have more than 4,000 labor-management committees hard at work in almost every section of the country to bring us to our announced goal of 30 million workers investing at least 10% of their pay every pay day. From the correspondence that pours into the Treasury and from first-hand reports that I receive from our workers in the field, I am

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convinced that this labor-management partnership has had results far beyond the War Savings program which called it into being.

When labor and management sit down together in this spirit, it is, of course, a contribution to the winning of the war. But the war itself is only a necessary prelude to victory and victory in turn will turn to ashes unless we regard it as an opportunity to build a saner, sounder and better world. We cannot build such a world by mere aspirations. We can only build it by deeds. And I like to feel that the new relationship between labor and management which has been shown so magnificently in this War Savings campaign is helping to build the post-war world right here and now. I like to feel that it is setting the pattern

for an era in which labor and industry will work side by side for their country's good and for their own.

For that matter, I think it is not immodest to claim that the whole War Savings program is, in fact, one of the foundations upon which we are building the world of the future. I have always believed in the value of having millions of Americans become stockholders in their Government through the ownership of Government securities. I believe it promotes a more intelligent interest in the problems of Government if the people can have a direct stake through government bonds in the way their Government manages its affairs. What would have been said in normal times if we had proposed that more than 50 million Americans should have become owners of United States Savings Bonds, each one of which bonds should be registered and guaranteed against fluctuation

11.

in the market? Why the idea would have been described as Utopian, as another one of those new-fangled, New Deal ideas that were fine in theory but impossible in practice. Yet that is exactly what has been achieved in the War Savings program in the year and a half since these bonds first went on sale. More than 50 million Americans now own a share in America. More than 50 million Americans now know that they will get back from the bonds at least as much as they put in and that if they hold them until maturity they will get \$4 back for every \$3 they lend to their country.

In the last war, as you may remember, we issued bearer bonds -- that is, bonds that could be traded in the market and they fluctuated in value. The result was that many holders of Liberty Bonds got back only 90, 85, or \$82 for every hundred dollars they subscribed.

This time the War Savings Bonds are not negotiable, they can be sold back only to the Government that issued them, they are redeemable for the full value paid, and they are a guarantee to our people that their savings will be safe.

To my mind, this a fact of tremendous significance for the troubled years that will follow our victory. It will be of psychological importance for one thing, to have this vast body of bondholders with a nest egg of savings for the future in their possession. But more than that it will be of importance in getting the wheels of industry to turn once more after the great change-over from war production to peace production has been accomplished. If there are businessmen listening to me tonight -- and I know that many of them are in this hall -- I would remind them that the holders of

War Bonds are their future market. They are the ones who will be buying the products of American industry ten years from now when the War Bonds mature. The bonds that they are buying today represent new homes, new comforts, new standards of living for the common man. They are the ones whose purchasing power is being saved up until the day when it can flow back into the stream of American business. They will help to fulfill the promise of this people's war and the people's peace that we are determined to win. They will have the means through their War Bonds to translate freedom from want into actuality in thousands of American communities and in millions of American homes.

In saying this I do not mean that our job on the home front is anywhere near accomplished. If I may borrow a phrase from my friend, Mr. Churchill, whom

I saw in England only a few weeks ago, full of vitality and full of confidence, I would say that we have not yet reached the beginning of the end but we have reached the end of the beginning. We must strain every effort to bring every employed man and woman in the country into the habit of payroll savings. We must concentrate intensively upon the 7 million farmers so that they will make every market day bond day. We must not lose sight of the professional workers and the self-employed who are already saving through War Bonds at an annual rate of more than \$2 billion, but who must do much more than this if our program is to succeed. For those of us with accumulated balances in the bank, for corporations and the custodians of trust funds, the Treasury is now engaged in a \$9 billion Victory Loan campaign, the most gigantic

15.

borrowing operation in the history of the world, and there is a chance here for everyone with more than \$500 of idle money to make those dollars fighting dollars -- to put them to work now in the service of the country. As the President said only the other day, "This is no time for men or money to be idle."

There is much that we can do in the immediate future to help finance this war, to guard against inflation and to build our future wisely and well. Is there, for example, any better way to celebrate the Christmas season this year than to give a Bond for Christmas? I would like to see Christmas presents in the old-fashioned sense confined to the children and to the troops abroad. The rest of us, it seems to me, can celebrate with Bonds as symbols of our deep resolve to

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see this war through to final and complete victory.

I cannot tell you how heartening it is to see

expressions of unity such as this War Bond program

has produced, in this community and throughout the

land. It is for us to show a renewed and deepened

unity as we start our second year of war. It is for

us to show that we over here can do as well as they

are doing over there.

D-A

December 7, 1942
5:48 p.m.

Operator: Mr. Bell.

HMJr: Bell?

Daniel
Bell: Yeah.

HMJr: The name is Morgenthau.

B: (Laughs) Judge Byrnes is coming.

HMJr: He is coming?

B: He's coming from four to six. He says he has
this alfalfa dinner on....

HMJr: Oh....

B:and he's president of it and he wants to
get in there and resign, and he's got to go.
But he'll come from four to six, and the rest
of the boys can stay on right - in the evening.

HMJr: Wonderful.

B: So he's all right. Hopkins is coming.

HMJr: Wonderful.

B: Now I haven't done anything about Wallace.
There was some question as to whether he
should come this night or come with the legis-
lative.

HMJr: Well....

B: I should think the legislative would....

HMJr: I....

B:be better.

HMJr: I think so.

B: And Rosenman is sick....

HMJr: Well, I better....

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- 2 -

B:and he's in his hotel. I'm trying to get him to see whether or not he thinks he'd be well enough.

HMJr: Did Byrnes call you or did you call Byrnes?

B: He called me.

HMJr: Fine.

B: He had called me while I was in your office.

HMJr: And he decided to come?

B: Yeah, he called me while I was in your office, and then when I called him back he was in a conference.

HMJr: Well, that's....

B: And he just this minute called me.

HMJr: That's a bigger victory than we realize.

B: Yup, I think it's pretty nice.

HMJr: Yeah.

B: All right.

HMJr: Well, you have an agenda for me.

B: Yup, and we'll - we're going over that tomorrow and we'll have something.

HMJr: Right.

B: All right.

HMJr: Thank you.

B: Goodbye.

Proposed press release dictated by
HM Jr 12/7/42.

Read to Cong. Dougherty's

58

Secretary 12/7/42 - 10:45 -

Sen. George out of town -
won't be back until after
Christmas.

Secretary Morgenthau said today that the Treasury Department has not decided on any tax recommendations for presentation to Congress. The Secretary said that the Treasury is now in the process of consulting a number of government agencies who are interested in curbing inflation. He added that they had not progressed far enough in their studies to decide on any program of fiscal legislation to present to the President or to discuss with Congressional leaders. The Secretary said he doubted that he would be ready to say anything definite on a tax program until after the President has sent his Budget Message to Congress in January.

the subject of T-1000

*Dougherty's
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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, December 7, 1942.

Press Service
No. 34-46

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-oOo-

25-Billion Tax, Forced Savings Plan Studied

Rationed Spending And Expenditure Tax Are Also Suggested

By Cecil B. Dickson

Washington Bureau of Chicago Sun

United States Treasury experts are studying feasibility of getting Congress to enact a record-breaking combination tax and compulsory savings program to absorb 40 billion dollars in anticipated excess consumer buying power in 1943.

This was learned yesterday by the Chicago Sun following reports by members of congressional tax raising committees that the Treasury was planning to submit a new tax and compulsory savings bill in excess of 25 billion dollars in January.

Besides aiming at raising around six billion dollars more annually in individual income taxes, the program includes these four propositions:

1. Compulsory lending to the Government by individuals out of assets they have accumulated.
2. Compulsory savings by collecting funds at the source from workers, the savings to be returned in postwar years.
3. The rationing of expenditures according to individual and family needs.
4. Expenditure or spending tax on individuals and families that buy consumer goods outside of normal needs in war time.

The program is designed not only to raise taxes and funds to aid the Treasury finance the war, but to help prevent disastrous inflation. It also would lower the Treasury's need to borrow so much money from banks, which operation in itself is highly inflationary.

Randolph Paul, Treasury general counsel and head of the ex-

perts who present tax matters to Congress, insisted, however that the 1943 tax program was far from complete.

He conceded that "several billions in new taxes" would be sought along with action to write a heavy compulsory savings provision into the revenue law.

A definite figure on the amount of the bill awaits consultations with Federal Reserve Board and Office of Price Administration officials, and finally President Roosevelt.

"We still have about a month," Paul said, "in which to complete our program of recommendations."

Mr. Paul insisted that:

"To safeguard against the chaos of inflation, consumers must be induced, whether by additional taxation or by other measures, to refrain from spending some 40 billion dollars, or 34 out of every \$11 of income at their disposal after payment of existing taxes.

Under the 1942 Revenue Act, which became effective November 1, new income taxes were imposed on individuals to raise \$15 billion dollars annually in revenue. This is exclusive of corporate and miscellaneous revenues.

Above Existing Taxes

Paul made it clear that the 40-billion dollar program should be adopted over and above existing taxes. He also indicated that he favored raising individual income tax rates to equal those in Canada. If not the even higher ones in England.

This would mean that if Canada's rates were applied, a single man here would pay a fourth instead of a fifth of his income of \$2500 to the Federal Government.

"It would be highly unrealistic to rely on taxation along traditional lines to absorb the entire excess of civilian spending which threatens runaway inflation," Mr. Paul emphasized. "Even a doubling of the present 15 billion dollars of personal taxes would fall far short of the goal, for if anything like 15 billion dollars of new personal taxes were enacted, the level of voluntary savings would surely fall below the current level of 24 billion dollars annually.

"Unaided by other fiscal measures, personal taxes would have to be increased by more than 20 billion dollars to complete the absorption of 40 billion dollars of excess spending power.

"Such a volume of taxes appears not to be politically feasible and may not be economically desirable. Other measures must be adopted to restrict spending."

Paul said that in 1943, the national income would be 125 billion dollars.

"Personal taxes of Federal, State and local governments will take away not more than 15 billion dollars of this amount," he explained.

"Therefore, individuals will have about 110 billion dollars at their disposal or, at present prices, about 40 billion dollars over and above the supply of goods and services available to meet civilian demands."

"The 40 billion dollars is the inflation potential from 1943 income. Unless it is withdrawn or immobilized, the rush of spending power to the market will break through price ceilings on a broad front. Black markets will mushroom; evasion and dealer favoritism will become commonplace, and empty shelves and illegitimate profits will become the order of the day."

Paul said that when the Government enforces compulsory savings of the taxpayers that the voluntary purchases of war bonds, which Secretary of the Treasury Morgenthau had hoped to push up to 12 billion dollars a year, would virtually disappear.

Thus, in attacking the problem of immobilizing excess consumer power, the amount of enforced savings would have to include the amount of voluntary purchases of bonds, or 12 billion dollars.

Paul attributed the present high voluntary savings rate of 24 billion dollars annually to the fact that consumers are unable to spend money for automobiles, washing machines and other goods that have been restricted due to the war.

Increased savings have been expressed in growing volume of Government bond purchases, insurance premium payments, currency and deposits, debt repayments and the like," he recalled. Not only that but there are \$14,000,000,000 in currency in circulation, double the normal amount.

Paul said "without strong governmental action" it was doubtful whether the present high savings rate can be maintained in 1943, let alone be increased, in the face of heavier taxes and higher living costs.

"Yet, if consumer spendings are

to be brought into line with the value of supplies available at present prices, Government action must immobilize \$18,000,000,000 of consumer income in 1943, over and above the current \$24,000,000,000 rate of saving.

"Our fiscal policy must be framed with that end in view. If we fail to add \$40,000,000,000 in 1943 to net individual savings and existing taxes, prices will rise in either an open or concealed way."

"Measure must be adopted to restrict spending," he said, adding that mere saving of \$40,000,000,000 was "not enough." He cited that holders of \$13,000,000,000 in Federal war bonds could cash them and start on a spending spree that would wreck the price-ceiling structure.

"The Treasury has examined four general measures" designed to keep price of consumer goods stabilized and to insure their equitable distribution, Mr. Paul explained.

"These four measures are compulsory lending, compulsory saving, expenditure rationing, and expenditure taxation," he said.

Mr. Paul described "compulsory lending" as different from compulsory savings, in that the Government could compel an individual to draw on "previously accumulated assets" and lend to the Treasury during the war. He could do this and "yet not save."

On the other hand, compulsory savings could be enforced by having employers deduct a percentage of earnings for investment in war bonds which could not be cashed until after the war.

"To a considerable extent, especially, among the upper income groups, the compulsory lending obligation would be met out of accumulated savings or out of current income that would have been saved anyway," Mr. Paul explained.

Discussing the proposal to ration expenditures, the Treasury official said consumers might be issued a license to purchase only so much rationed goods and services.

In addition, the imposition of a tax on spending by the individual for consumer goods and services would bolster the rationing of expenditures.

"It would not be imposed on income received, and it would specifically exempt income saved," he noted. "The spending tax looks to the difference between income received and income saved."

Paul suggested a 20 percent levy on the "second \$1000 of income" spent by a family, and 30 percent on the "third \$1000" and successively steeper taxes on additional increments of spending."

DEC 7 - 1942

Dear Eleanor:

I have read the letter from Mr. Herman Lee Smith, dated November 24, 1942, which you sent me November 30, 1942. I hope the information that I can give you will be helpful in replying to Mr. Smith.

We do not have the information needed to determine whether anyone in England actually has more than \$21,000 income left after payment of taxes although we know it is possible for a larger amount to remain. A married person without dependents and with a net income of \$400,000 would have \$23,680 left after taxes; if his net income were \$1,000,000, he would have \$38,680 remaining.

Mr. Smith does not appear to be concerned with the \$21,000 figure, however, but with the difference in the tax treatment of capital gains in the two countries and the resulting effect on stock prices. It is true that England does not include in taxable income profit derived from certain property transactions. It depends on whether the transaction is a part of the taxpayer's trade or business. Since it is difficult to draw the line between taxable and nontaxable transactions, substantial evasion is believed to take place. Moreover, there is evidence that capital transactions are used as the means of realizing income earned in business operations for the purpose of avoiding tax.

In this country, under the present law, one-half of the capital gain derived from an asset held more than six months is includible in income subject to tax, and the maximum rate is 50 percent, i.e., 25 percent of the gain. There are other important differences in the income taxes of the two countries.

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- 2 -

Mr. Smith is also correct in stating that the value of shares on the London Stock Exchange has increased during the last two years while that of shares on the New York Stock Exchange has decreased. However, it cannot be concluded that the difference in the methods of taxing capital gains is responsible for the difference in the movements of stock prices in the two countries. Many other factors, including, for example, differences in the taxation of corporations and in economic conditions, may well account for this condition.

I hope this will answer Mr. Smith's questions satisfactorily.

I am returning his letter to you.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt

The White House

Enclosure

Photo file in Diary

File to Thompson

By Mess. Sturgis 4:16 12/7/42

OLH:ml
12/8/42

THE WHITE HOUSE
WASHINGTON

November 30, 1942

Dear Mr. Secretary:

In order to answer the enclosed letter from Mr. Norman Lee Smith, New York City, Mrs. Roosevelt would like to have information as to the correctness of the statements made therein.

With the return of Mr. Smith's letter, Mrs. Roosevelt would appreciate your advice on the questions he raises.

Very sincerely yours,

Malvina @ Thompson

Secretary to
Mrs. Roosevelt

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

NORMAN LEE SMITH
41 EAST FORTY SECOND STREET
NEW YORK CITY

November 24, 1947

Mrs. Franklin D. Roosevelt,
The White House,
Washington, D.C.

Dear Mrs. Roosevelt:

I am taking the liberty of writing you as I once had the pleasure of meeting you, although I hesitate to recall the occasion as it is now some time ago.

I notice from the New York press that you have been informed that \$21,000 is the maximum net income in England after payment of taxes.

This may be correct as regards income derived from salaries or investments, but I think that your informer omitted to tell you that there is no tax on capital gains in England, which means that any profits or income derived from the purchase and sale of shares and securities on the London stock exchange are exempt from taxation. Consequently, I suspect that there are many incomes in England today in excess of \$21,000.

Because of this policy of not taxing capital gains, share values on the London Stock Exchange have increased very considerably during the past two years, while the reverse has been the case with securities listed on the New York Stock Exchange.

Trusting you will pardon my bringing this matter to your attention, I am

Yours sincerely,

Norman Lee Smith

NLS:T.

December 7, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

You will recall a report that came through Leo Goodman of the War Savings Staff to Randolph Paul that Vincent Dallman, our Collector of Internal Revenue at Springfield, Illinois, was under the thumb of John L. Lewis and that Martin, Chief of the Income Tax Section in the Collector's office at Springfield, was about to resign and be replaced by a man named Hecklebech, a brother of the Secretary-Treasurer of District 25 of the United Mine Workers in New York.

Elmer Irej finds that a recommendation has been received in the Bureau from Dallman raising Martin from Grade 10 to Grade 11 and raising Hecklebech from Grade 7 to Grade 12, coupled with a request for permission to promote Hecklebech from Assistant Chief of the Field Division to Chief Office Deputy. Elmer has also learned that Martin told Sharp, Intelligence Unit Special Agent at Springfield, that he was considering resigning to accept an attractive outside offer.

Rudolph Hartmann, Special Agent in Charge at St. Louis, who is conducting this investigation, plans to leave here Wednesday evening to return to St. Louis and from thence will go to Springfield to complete the investigation there. He will be accompanied by Special Agent Durbin and Revenue Agent Reilly, who are working with him on the case. Lewis signed the transcript of the interview with him on Saturday and gave the agents the benefit of a long monologue about the attack on him, during which he referred to the stories in the Post Dispatch. Hartmann will also go to Denver to check up on the transactions with Josephine Roche's Rocky Mountain Fuel Company, although on the basis of what has been found in United Mine Workers files he does not believe there is anything irregular in these transactions or anything of interest from a tax standpoint.

Martin has been helpful in the Edmundson-Elshoff case. He interviewed a man named Glasgow, who lives in Taylorsville, Martin's home town. Glasgow is described as an ex-murderer and racketeer. He is believed to be a rival of Edmundson.

WJ

December 7, 1942

MEMORANDUM TO: Under Secretary D. W. Bell

You have asked for comment upon a series of articles appearing in the Newark (N.J.) Evening News making certain charges against the Federal Deposit Insurance Corporation.

To correct a bad banking situation in Jersey City, the FDIC made two loans aggregating \$15,000,000 secured by unacceptable or charged-out assets of two state banks. The FDIC has a general policy whereby loans are made upon undesirable assets, or such assets are purchased outright, for the purpose of preventing bank failures. Throughout the country the FDIC has invested well over \$150,000,000 in these rehabilitations. Recovery exceeding \$100,000,000 has been made from liquidation of such assets. The loans here in question were made in the usual course of this general policy.

The FDIC has an extensive field organization for the purpose of managing, selling or collecting the many thousands of bank assets so acquired, necessarily including a large volume of mortgages upon or titles to, real estate. As the liquidation of a large body of such assets requires years, provision is made whereby the funds of the FDIC may be advanced for the conservation or protection of such assets, including the payment of taxes as taxes accrue.

The Newark Evening News charges that the FDIC paid \$531,417 to Jersey City on December 30, 1939 by way of back taxes on 142 parcels of real estate held among the pledged assets securing the Jersey City loans above described; that the date of payment, being the day before the fiscal year ended, portends some political accommodation to the city government of Jersey City; and that many of the individual tax redemptions were not warranted by the condition and existing value of the properties.

It is also alleged that the Corporation consistently failed to take appeals from land assessments, thereby helping Jersey City to keep up its high tax ratables.

At my request a full report of the matter was made to the FDIC Board on December 5, 1942, and the findings spread upon the minutes. It appears that in December 1939 the Federal Deposit Insurance Corporation, as the result of a compromise with the tax authorities, paid the City of Jersey City \$529,555.72 in settlement of all municipal liens on 258 properties. The total amount of liens then due was \$775,429.98. In making the payment, an abatement of \$245,874.26 was made by the City of Jersey City. One of the conditions of the compromise was that this payment by the Corporation should be made during the fiscal year 1939. The properties on which the payment was made for the release of all liens had an independent appraised value of \$2,580,682.00. To date on the advance of \$529,000, the FDIC has recovered \$130,000.00, leaving a recovery of approximately \$400,000.00 to be made on property possessing an independent appraised value of roughly \$2,000,000.00.

Since the inception of the Hudson County office of the Corporation, there have been filed 1,643 appeals. Of this group,

699 were filed in 1940
511 " " " 1941
433 " " " 1942

Included in the total number, the following were filed on properties located in Jersey City:

For the year 1940 - 471 appeals
" " " 1941 - 130 "
" " " 1942 - 140 "

In my judgment, the charges made by the Newark Evening News are largely political in character, and are not substantiated by the facts.

Preston Delano
Preston Delano

Treasury Department 73
Office of the Under Secretary

Date: 1/2

To: Mr. Delano

From:

Can you throw
any light on this?

SWB

FDIC Aids Jersey City By Few Tax Appeals

Enables Hague to Keep Up High Ratables—By Contrast HOLC Fought to Cut Levies

Staff Correspondent.

JERSEY CITY—Federal Deposit Insurance Corporation has helped Jersey City keep up its high ratables by consistently failing to take appeals from assessments on land even where the assessments exceeded the corporation's own appraisal.

By contrast, Home Owners' Loan Corporation, another federal agency, has consistently appealed Jersey City's assessments on the land it holds. John Milton is general counsel for FDIC in New Jersey, while the HOLC tax appeal work is apportioned among many lawyers and real estate brokers. Milton is Mayor Hague's personal counsel.

Records of the Hudson County Tax Board disclose the contrasting attitude of the two governmental agencies. Where HOLC failed to obtain reductions from the Hudson Tax Board it carried appeals to the State Board of Tax Appeals at Trenton. Effect of FDIC's failure to appeal from land assessments, even where it did appeal assessments on buildings, was to help maintain an artificial or fictitious value for Jersey City real estate. By keeping its ratables up, Jersey City is able to keep its tax rate down.

Contrast

A more striking contrast is that in Hudson municipalities outside Jersey City. There FDIC appealed wholesale for reductions in land assessments. FDIC helped Jersey City also by approving \$530,000 in payments to redeem broken down properties taken over at tax sales, as disclosed in previous stories. There is no record of FDIC redeeming properties en bloc from tax sales in other municipalities.

Examination of 67 FDIC appeals on Jersey City properties reveals that land reductions were asked in only six cases. The total reduction requested on land was \$14,500. The total land assessment on the 67 properties was \$465,370. On the buildings, FDIC asked nominal reductions in most cases, less than was granted by the Hudson Tax Board.

While FDIC failed to take appeals on Jersey City land assessments, it took a different view on other Hudson County property. Where only six Jersey City properties out of 67 examined at random had appeals filed on land, all

26 Union City appeals in the same batch asked reductions in land values. Land reductions were asked on three Hoboken appeals filed the same day. The 26 Union City appeals asked land reductions of \$59,300 and the three in Hoboken sought cuts of \$22,350.

HOLC Asked, Got Cuts

HOLC on 100 appeals in Jersey City asked for reductions on land in every case. Land in the 100 parcels was assessed at \$242,500 and HOLC asked that it be reduced to \$139,825. In most cases the Hudson board granted the reductions sought by HOLC. In some cases it permitted even greater cuts.

Robert M. Kerr Jr., assistant regional manager in charge of HOLC property management, submitted figures to show that HOLC filed appeals in 1940 on 477 of the 841 properties it owned, that 721 appeals were filed last year on 883 properties owned and 742 this year on 845 owned. The 1940 properties were assessed at \$4,040,400, while HOLC valued them at \$2,337,163. The 1941 properties were assessed at \$5,766,950 while HOLC listed them at \$3,275,691.

Going before the new tax board this year for the first time, HOLC claimed overvaluation of \$2,772,125 by Jersey City or 55 per cent. Jersey City assessed HOLC properties this year for \$6,003,995 while the corporation valued them at \$3,231,870.

HOLC's Record

During the same three-year period HOLC sold 234 properties for \$1,008,750 that had been assessed by Jersey City at \$1,579,700. HOLC officials have held numerous conferences with real estate brokers and public officials in an effort to solve the problem created by high assessments "on untenable and boarded-up properties."

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM Treasury Department

75

BUREAU _____

CHG. APPROPRIATION Expenses of Loans

December 7, 1942

TO ALL WAR SAVINGS ADMINISTRATORS AND
TO THE TWELVE VICTORY FUND CHAIRMEN AND
EXECUTIVE MANAGERS.
(List attached)

I WANT YOU TO KNOW THAT I RELEASED THE FOLLOWING STATEMENT
TO THE PRESS AT ELEVEN AM TODAY.

"Secretary Morgenthau said today that the Treasury Department has not decided on any tax recommendations for presentation to Congress. The Secretary said that the Treasury is now in the process of consulting a number of Government agencies who are interested in curbing inflation. He added that they had not progressed far enough in their studies to decide on any program of fiscal legislation to present to the President or to discuss with Congressional leaders. The Secretary said he doubted that he would be ready to say anything definite on the subject of taxes until after the President has sent his Budget Message to Congress in January."

I SHOULD APPRECIATE YOUR GIVING THIS THE WIDEST POSSIBLE
PUBLICITY IN YOUR OWN COMMUNITY.

Henry Morgenthau, Jr.
Secretary of the Treasury

FK/cgk



TREASURY DEPARTMENT
WASHINGTON

December 7, 1942.

MEMORANDUM FOR THE SECRETARY:

Mr. Sloan has just advised me that the distribution of the press release to employees of the War Savings Staff was completed during the lunch hour, except for the Women's Division under Miss Elliott.

Copies have been distributed to Miss Elliott and the people in her Division within the last half hour.

GRAVES.

SA 5:30 P.M.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, December 7, 1942.

Press Service
No. 34-46

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-oOo-

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

cleared of

DATE Dec. 7, 1942.

TREASURY DEPARTMENT

TO Secretary Morgenthau

FROM Mr. Haas *HAAS*

1942 DEC 7 AM 11 51

Just a reminder -- Mr. Woodward and Mr. Knott, the advertising

men, are here to report on their field trip. Mr. Woodward is obliged to be in New York tomorrow, but can return to Washington later in the week if necessary.

Secy saw these people
g

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

WESTERN UNION

146

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SYMBOLS

DL	Day Letter
NT	Overnight Telegram
LC	Deferred Cable
NLT	Cable Night Letter
	Ship Radiogram

A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

NA292 TWS PAID 3=WUX NEWYORK NY 7 942A

1942 DEC 7 AM 9 50

VINCENT CALLAHAN, CHIEF =

RADIO DEPT U S TREASURY DEPT WASHDC =

FOLLOWING YOUR SUGGESTIONS SPECIFIED IN OUR TELEPHONE CONVERSATION. WE ARE TODAY EMBARKING ON A SPECIAL NEW CAMPAIGN DESIGNED TO RELEASE COINS INTO CIRCULATION. METHOD WE WILL USE CALLS FOR A SPOT ANNOUNCEMENT PRECEDING OUR REGULAR VICTORY PARADE OF SPOTLIGHT BANDS PROGRAM SIX NIGHTS MONDAY THRU SATURDAY, FULL BLUE NETWORK AND SUPPLEMENTARY STATIONS, NINE-THIRTY PM EWT. BEST REGARDS =

PAUL DUDLEY EXECUTIVE PRODUCER DARCY ADVERTISING CO.

PM EWT.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM Treasury Department 80
BUREAU War Savings
CHG. APPROPRIATION Expenses of Loans

December 7, 1942.

Ralph Dillon, President,
Canton Junior Chamber of Commerce,
Canton, Ohio.

THE WHITE HOUSE HAS TOLD ME OF YOUR BOND SELLING PROGRAM IN COMMEMORATION OF PEARL HARBOR. I AM DELIGHTED TO KNOW THAT YOU IN CANTON HAVE CHOSEN THIS WAY TO REMEMBER AND AVENGE THE DAY THAT WILL LIVE IN INFAMY. I HOPE YOU WILL MAKE THIS THE BIGGEST BOND BUYING DAY IN CANTON'S HISTORY. WE ARE ALREADY SHOWING OUR ENEMIES THAT THEY MISCALCULATED WHEN THEY THOUGHT WE WERE TOO SOFT AND TOO COMPLACENT TO FIGHT FOR FREEDOM. I AM CONFIDENT THAT YOUR RESPONSE WILL BE GREAT ENOUGH TO BE HEARD IN TOKIO AND BERLIN AND THAT YOU IN CANTON WILL NOT RELAX YOUR EFFORTS UNTIL VICTORY IS WON.

Henry Morgenthau, Jr.
Secretary of the Treasury

FK:egkt:eg

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE 12/7/42

TO: Secretary Morgenthau
FROM: Mr. Callahan

Attached is the script used by Miss Kay Halle in her broadcast of last Saturday.

I talked with Miss Halle over the telephone this morning and she told me that she was co-chairman of the Women's Committee of the Cleveland Victory Fund Committee. She further said that for many months she had been plugging War Bonds on each broadcast, the information about War Bonds coming to her direct from the Columbia Broadcasting System. In the case of last Saturday, she received no material from Columbia and decided that she would discuss the Victory Fund Campaign. She says that she obtained her information from three sources, from the Victory Fund Committee, from material issued by the Treasury Department, and from notes which she took at a Victory Fund Dinner held in Cleveland recently. Miss Halle told me that as co-chairman of the Women's Committee in Cleveland, her job is to obtain publicity in radio, newspapers, etc., on behalf of Victory Funds, work with churches, etc.

Vincent F. Callahan

At this moment the city considers itself mobilized and many are acting as deputies for Secretary of the Treasury Henry Morgenthau either to help sell or to invest in \$170,000,000 worth of War Bonds in the Victory Bond Campaign here, so that we can stop the slow hemorrhage which is draining our youth and our chance for a strong new world. To do this, tanks and bombs and planes in astronomical amounts and costs must reach the fighting men in the far-flung battle theatres on time.

This coming year it is going to cost \$78,000,000,000 to do it, and \$6,000,000,000 for Government expenses. Our combined taxes will only yield \$24,000,000,000. Figure it out. That means \$60,000,000,000 must be borrowed. \$12,000,000,000 will probably come out of War Savings Bonds and the 10% Payroll deduction that you who work in offices and factories know all about. But how to raise the remaining \$48,000,000,000? You know, of course, that the banks are buying Government Bonds, but if they were to do all the financing and we were not to use our own funds, we would be faced with inflation. This is the people's war. Throughout the land there is plenty of idle money and sleeping funds, some of it hidden away in mattresses, some in secret places on the mantel-shelf. Let's bring it all out to the light of day and invest it for the future homecoming of our soldiers, for the education of our children, and for the days of

reconstruction. Then let's begin with those \$25.00 and up Treasury notes under the Tax Savings Plan. They are just as good as money, only the Government pays you interest on them. And with them you need not worry about meeting the income tax. The Government is all ready to accept them as cash. Then there are the War Savings and Victory Bonds.



*Copies to Am 887
Mrs. Morgenthau 12/7/42*

SPYROS P. SKOURAS
PRESIDENT

444 WEST 56TH ST.
NEW YORK

December 7, 1942.

My dear Mr. Morgenthau:

It was a great pleasure indeed to dine at your home with Mrs. Morgenthau and yourself and to have had our very fine discussion. The evening I spent with you and your charming wife was one of delightful relaxation and one that I shall long remember.

I consider it an honor that you, as Secretary of the Treasury, have granted me the opportunity to serve you and, through you, the Department which has contributed so much in America's greatest crisis. It is an undeniable assertion that the work of your Department and yourself will be one of the determining factors in the ultimate defeat of the enemies of the United Nations.

Again may I thank you for the gracious hospitality of Mrs. Morgenthau and yourself.

Sincerely,

Hon. Henry C. Morgenthau, Jr.
Washington, D. C.

THE UNDER SECRETARY OF WAR
WASHINGTON



December 7th, 1942.

Dear Henry:

I deeply appreciate your thought
in sending me the record "Everybody Every Payday".
I am sure I shall enjoy hearing the song.

With best regards, I am

Sincerely yours,

Bob.

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

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE 12/7/42

TO Mr. Morgenthau

FROM Mr. Callahan *CC*

Attached are our two current posters.

WILL WE MEET AGAIN?



BUY WAR BONDS

Regraded Unclassified

The Present With A Future



Regraded Unclassified

Sales of United States savings bonds, Series E
December 1 through 5, 1942

Compared with sales quota for same period

(At issue price in millions of dollars)

Date	Actual sales		Quota, December 1 to date	Sales to date as percent of quota
	Daily	December 1 to date		
December 1	\$ 4.1	\$ 4.1	\$ 5.5	74.5%
2	4.5	8.6	11.0	78.2
3	10.0	18.6	23.1	80.5
4	39.7	58.3	35.2	165.6
5	16.6	75.0	57.1	131.3
7			95.3	
8			110.2	
9			133.2	
10			158.5	
11			181.5	
12			194.2	
14			233.6	
15			248.8	
16			272.9	
17			300.4	
18			326.3	
19			340.8	
21			385.5	
22			402.3	
23			428.2	
24			457.9	
26			472.7	
28			518.4	
29			551.3	
30			585.3	
31			650.0	

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

December 7, 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.



file

OFFICE OF CIVILIAN DEFENSE

Washington, D. C.

December 7, 1942

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

Dear Mr. Secretary:

I am so sorry not to have answered your note of November 9 sooner. However, it doesn't really matter much as a number of the people referred to in the memorandum are now no longer connected with the agency. The concern which I expressed to Mrs. Roosevelt had to do with what seemed to be an onslaught by the commercial advertising and radio interests.

As you may have heard, I am now Private Douglas. When I am next in these parts I would very much like seeing you and Mrs. Morgenthau and, if you are interested, give you perhaps a "bug's eye" view of the Army.

Very sincerely yours,

Melvyn Douglas

Melvyn Douglas



THE WHITE HOUSE
WASHINGTON

*Apr 9-91
follow up*

December 7, 1942

Dear Henry:

Many thanks for sending me Ann Terry White's book, "Men Before Adam". I know that it will be interesting reading.

Thank you too for telling me about Mrs. White and her other works.

Affectionately,



December 3, 1942.

Dear Eleanor:

With this letter I am sending you a copy of Ann Ferry White's latest book, "Men Before Adam". I am sure you will find this fascinating reading, and I would particularly appreciate it if you would review it in your column.

I think you will be interested in knowing that when I was about to leave for Europe I asked the President if he could recommend a few books that I might take with me. He gave me his copy of "Lost Worlds", which was also written by Mrs. White, and said that it was one of the most interesting books he had ever read, and that he was sure it would hold my attention straight through to the end.

I believe you would also like to see a copy of the little publication which Mrs. White, as an Associate Editor of the Civic Education Service, plans and prepares. She writes all of this publication, "The Young Citizen",* and it is intended for school children of from ten to twelve. You will note that in the issue I am sending, Mrs. White has a brief article about you.

My acquaintance with Mrs. White has come about through her husband, Harry White, who is my Chief Economist here in the Treasury, and who accompanied me on my recent trip to England.

With warmest regards,

Affectionately,

(Signed) HENRY

Mrs. Franklin D. Roosevelt,
The White House.

* 11/9/42 & 12/7/42 issues

CC in Diary

Del. to Miss Thompson by
SSAgent 1:14 12/3/42

*Book inscribed
"To Mrs. Roosevelt
with deep admiration,
Henry, 12/3/42"*

DRG 7 - 1942

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urgent

Dear Frank:

On December 1, 1942, I wrote you asking whether you would consider detailing Lt. Frank A. Southard, Jr. to the Treasury so that we could send him to North Africa. You will remember that you were kind enough to have him so detailed.

Lt. Southard called on me today and explained that after some discussions with his superior officers, he had gained a clearer understanding of his projected role in Naval Intelligence than he had a week ago when he indicated his interest in going to North Africa for the Treasury. He stated that he felt that the work which he would be doing was of sufficient importance to make him most reluctant to give it up and undertake the work in North Africa, notwithstanding the attractiveness of foreign service at this time. He feels particularly uneasy about leaving his present duties since learning that his continuance in them will expedite the release of his immediate chief, a Lieutenant Colonel in the Marine Corps, for active combat service.

I would not wish to deprive the Navy of the services of any man doing important work, much less of a man who will make it possible for a Marine officer to go to active combat. Therefore, I am willing to accede to Lt. Southard's request that he be permitted to continue his present duties with the Navy.

Thank you very much for your generous cooperation.

Sincerely,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Frank Knox,

The Secretary of the Navy.

Copy in Diary

Copies direct to
White's office
12/8/42

Marked "Conf." red
tag

By Sohey 4:50 12/7/42

HEDW:dmh
12/7/42.

P.S. Under the circumstances I withdraw my request for the services of Lt. Southard

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 7, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 5, 1942.

Summary

National income: Payments in October rose to a record annual rate of \$117.9 billions. This compares with an annual rate of \$116.1 billions in the previous month and \$97.7 billions in October 1941.

Cash farm income: Cash income from farm marketings in October rose more than seasonally to a new high. Including Government payments, income was 37 percent higher than in October 1941.

Corporation dividends: Payments in first 10 months of 1942 nearly 9 percent below corresponding period in 1941. Most of the decline was due to drop in dividends of manufacturing and heat, light and power companies.

Employment and payrolls: At new highs in October. Factory employment 11 percent and payrolls 40 percent above October 1941 levels.

Farm parity: Acceptance of House proposal for redefining parity would result in substantial increases in living costs or large Government subsidies.

Wholesale prices: BLS index of basic commodities rose slightly last week to a new war-time high. All-commodity index again unchanged at 100.1 in week ended November 28, despite rise in prices for certain farm products.

Retail trade: Department store sales rose more than seasonally in November. FRB adjusted index of sales rose to 135 from 128 in October, reaching second highest level on record.

Living costs: Canadian index of living costs showed a further rise during October and stood 17.7 percent above pre-war levels, as compared with a comparable rise of about 21 percent in U. S. living costs.

- - -

- 2 -

National income payments still expanding

The long upswing in national income payments continued in October with the annual rate of payments attaining a new record peak of \$117.9 billions. This figure compares with an annual rate of \$116.1 billions (revised) in the previous month and only \$97.7 billions in October 1941. Moreover, the "purchasing power" of national income payments showed a further moderate gain, as income continued to rise somewhat faster than living costs. (See Chart 1.)

Payments for salaries and wages, which accounted for 69 percent of total income payments in October, showed further gains during the month and ran more than 26 percent above year-earlier levels.

Cash income from farm marketings rose more than seasonally to a new high and (including Government payments) were 37 percent higher than in the corresponding month of 1941. Government payments in the first 10 months of 1942 totaled \$564 millions, an increase of 30 percent over year-earlier levels, while total cash farm income showed a gain of 36 percent in that period. The Department of Agriculture has estimated that farm income for the entire year will amount to \$15 billions. Moreover, it is believed likely that farm income in the early months of 1943 will run ahead of the corresponding months in 1942.

Dividend payments decline

In contrast with the gains shown by salaries and wages as well as farm income, interest and dividend payments this year have been running behind 1941 levels. Cash dividend payments in the first 10 months of 1942, as reported by the Department of Commerce, dropped nearly 9 percent below the corresponding period a year ago. The decrease was partly due, however, to substantial arrears payments on preferred stock made in 1941.

Most of the decline has been accounted for by lower dividends in the manufacturing and heat, light and power groups, both of which dropped 14 percent. Reflecting the effects of conversion to war production, the important automobile group showed a decline of 33 percent in dividend payments, while the transportation equipment group recorded a 37 percent decline, chiefly because of the poorer dividend declarations of large aircraft manufacturers. On the other hand, gains in dividend payments were shown by 4 manufacturing subgroups,--machinery, electrical machinery, nonferrous metals, and textiles and apparel. Moreover, 2 major groups, railroad transportation and trade, increased dividends 4 percent and 10 percent respectively in the first 10 months of this year.

Factory employment and payrolls at new high

In the face of the continuing inroads made by the armed services on the country's labor force, factory employment rose to another new high in October, although the rate of increase was noticeably slower than in recent months. On the other hand, factory payrolls expanded at a faster pace than in the previous month and stood nearly 40 percent above 1941 levels, as compared with a corresponding gain of only 11 percent in employment. (See Chart 2.)

Total employment in non-agricultural establishments in mid-October stood at a new record peak of 38,555,000, according to Department of Labor figures. This was 207,000 higher than in the previous month and 2,500,000 higher than in October last year.

Farm parity bill would increase living costs

The inclusion of farm wage costs in computing parity, as provided by the farm parity price bill passed by the House and accepted by the Senate Agriculture Committee last week, would result in a sharp rise in the cost of living through advances in certain retail food costs, unless subsidies were granted to avert such rises. Of the two, subsidies would be less directly inflationary. The House proposal is the most drastic of its type introduced, in that it includes not only the actual wage cost for hired workers but also wages for farm operators and owners. Incorporation of farm wages in the parity formula would tend to raise parity prices and prices of certain farm products, as long as the period of rising farm wages prevails.

When the proposal to include wage costs was advanced last September, in connection with the second price control act, the Department of Agriculture estimated on the basis of farm wage rates then in effect that the parity price level would be raised by 12.6 percent. Farm wages since then have risen further. (See Chart 3.) The Department now estimates that their inclusion in the index of prices paid by farmers, as of November 15, would raise parity prices by 14 percent, and would permit an advance of about 7 percent in average farm prices.

Farm prices most likely to be affected include those for wholesale milk, butter, eggs, chickens, wheat and feed grains, potatoes, sweet potatoes, beans and cowpeas, apples, citrus fruits for fresh use, soy beans, and peanuts. Major commodities whose prices would not be immediately affected would include livestock, rice, tobacco, wool, and cottonseed, since these already are at or above the estimated higher parity levels.

- 4 -

Two recent Administration measures designed to ease farm labor shortages paved the way for House members to pass this bill. The first measure was the temporary lifting of the ceiling on farm wages by the Director of Economic Stabilization. The second was the statement by the Manpower Chairman that a program was being formulated to bring farm wages more nearly in line with those of industrial workers. It is likely that this program will meet strong resistance on the part of farm operators and owners, which in some degree would operate to minimize the effect of the inclusion of wage rates in the parity formula.

Other pressure against Government
control of agricultural prices

An investigation of the price-fixing methods of the OPA and of subsidies granted by the Commodity Credit Corporation for the purpose of keeping farm product prices from rising is about to be launched by the Senate Agriculture Committee. Hearings will be held on Senate Resolution 312 adopted last week, which states that a study shall be made of maximum prices, the payment of subsidies, and the operations of the CCC.

Resolutions opposing Government controls of both agricultural prices and production were reported last week to be in preparation by the National Association of Commissioners, Secretaries, and Directors of Agriculture of the forty eight states. Meanwhile, in an effort to meet these various demands to weaken Government controls, the OPA and the Department of Agriculture are reported to be studying the application of subsidies in both production and processing, and ways of passing back to the farmer savings which might be made by cutting processing and distribution costs.

Penalty method to increase food production

The Department of Agriculture has announced a strong crop control program designed to give farmers incentives for meeting 1943 food production goals. Special war crops or highly desirable feed crops may be substituted for allotment crops and still be within the terms of the program. Failure to plant at least 90 percent of the crop allotments established for the six basic crops will result in punitive action by payment deductions of at least five times the rate of payment for compliance. For the "surplus" crops--cotton, tobacco, and wheat--however, farmers are asked to keep within their allotments or face deductions at ten times the normal compliance rate as a penalty for overproduction. According to press reports, the Agricultural Adjustment Agency expects next year, barring any action to the contrary by the Bureau of the Budget, to use nearly all of the approximately \$500 million earmarked for adjustment and conservation payments.

- 5 -

Farm product prices at 109 percent of parity

Prices received by farmers as of November 15 were unchanged from their general level of a month earlier. Higher prices for cotton, wheat, truck crops, dairy products, chickens, and eggs were offset by lower returns for corn, hogs, citrus fruit, and tobacco. (See Chart 4.) The index of farm product prices in November was 25 percent higher than a year earlier, and 92 percent above the pre-war month of August 1939.

For the third successive month the average of prices paid by farmers (including interest and taxes) increased 1 point. The net result was that the index of prices received by farmers in mid-November declined 1 point to 109 percent of parity from the war-time high reached in October.

Sharper rise in Canadian cost of living

An advance of 0.7 percent in the Canadian cost-of-living index during October was the most substantial since that which occurred last June. This advance continues the rise in living costs begun last May after a period of stabilization. While the Canadian index as of November 2 shows a rise of 17.7 percent from the pre-war level, a comparable rise of nearly 21 percent as of mid-October is shown by the United States index, indicating a lack of real effectiveness in stabilizing living costs in this country. (See Chart 5, upper section.)

As in September, the advance in Canadian living costs during October was due to sharply higher food prices. The index of food costs rose 2.0 percent, which was twice the percentage rise in September. (See lower section of Chart 5.) Prices of commodities accounting for the rise included beef, oranges, butter, potatoes, lard, and lemons. It will be recalled that in the United States the 2.4 percent increase in food prices was the principal cause of a 1.0 percent increase in the BLS cost-of-living index in mid-October.

As the chart shows, there has been no halt in the steep rise in food prices--the most important item in living costs--that has been under way since early 1941.

Last week the Canadian Government announced lowered retail prices of fluid milk, tea, coffee, and oranges, effective immediately, to ease the strain of the high cost of living. The reductions on milk, coffee, and tea will be accomplished by subsidies. Orange prices will be reduced by elimination of

- 6 -

duties and taxes. An advantage of this measure is that it affords relief to the entire population, including farmers and small business men who derive no benefit from the cost-of-living bonus, which applies only to wages and salaries.

Wholesale prices at new war-time high

Prices of staple commodities were buoyant last week on the strength of reports of Government and Red Cross purchases for increased exports of domestic commodities to North Africa and other foreign countries. The advance was led by wheat and feed grains. Heavy demand for flour and record farm and industrial consumption of corn were additional bullish factors. It was reported also that further stimulus was provided by the belief that the flour ceiling might be revised upward.

The BLS price index of 28 basic commodities rose slightly to a new war-time high. (See Chart 6.) This rise reflected a new high in the index of 9 uncontrolled commodities. Wheat prices were at their highest levels since January, and corn prices were at a new war-time high. Cotton prices were lifted by large Government textile orders and the renewed agitation by the farm bloc to include labor costs in the parity formula. Flaxseed was higher on an improvement in demand for linseed oil. Cattle prices declined as they met resistance by packers. Hog prices were unchanged at the levels of a week earlier.

Department store sales show more than seasonal gain

Department store sales in November rose 12 percent above the previous month and attained the largest dollar volume since last December. The rise was more than seasonal and the FRB adjusted sales index advanced to 135 from 128 in October. This is the second highest figure on record, being exceeded only by January 1942 when the index touched 138.

Due to the later observance of Thanksgiving this year in most states, the week ended November 28 had one less shopping day than the comparable period a year ago. As a consequence, department store sales during the period dipped 2 percent under year-earlier levels as compared with a gain of 30 percent in the week ended November 21 when the reverse situation prevailed. (See Chart 7.) Sales for the entire month ran 16 percent above November 1941. This rise was only partially accounted for by price increases, as average prices of typical department store items at the beginning of the month were only 6 percent above year-earlier levels.

- 7 -

Preliminary reports indicate that the pace of retail sales stepped up to even higher levels last week under the stimulus of colder weather and heavy Christmas buying. Dun and Bradstreet reported that retail stocks throughout the country were being rapidly reduced by record buying which was well above a year ago.

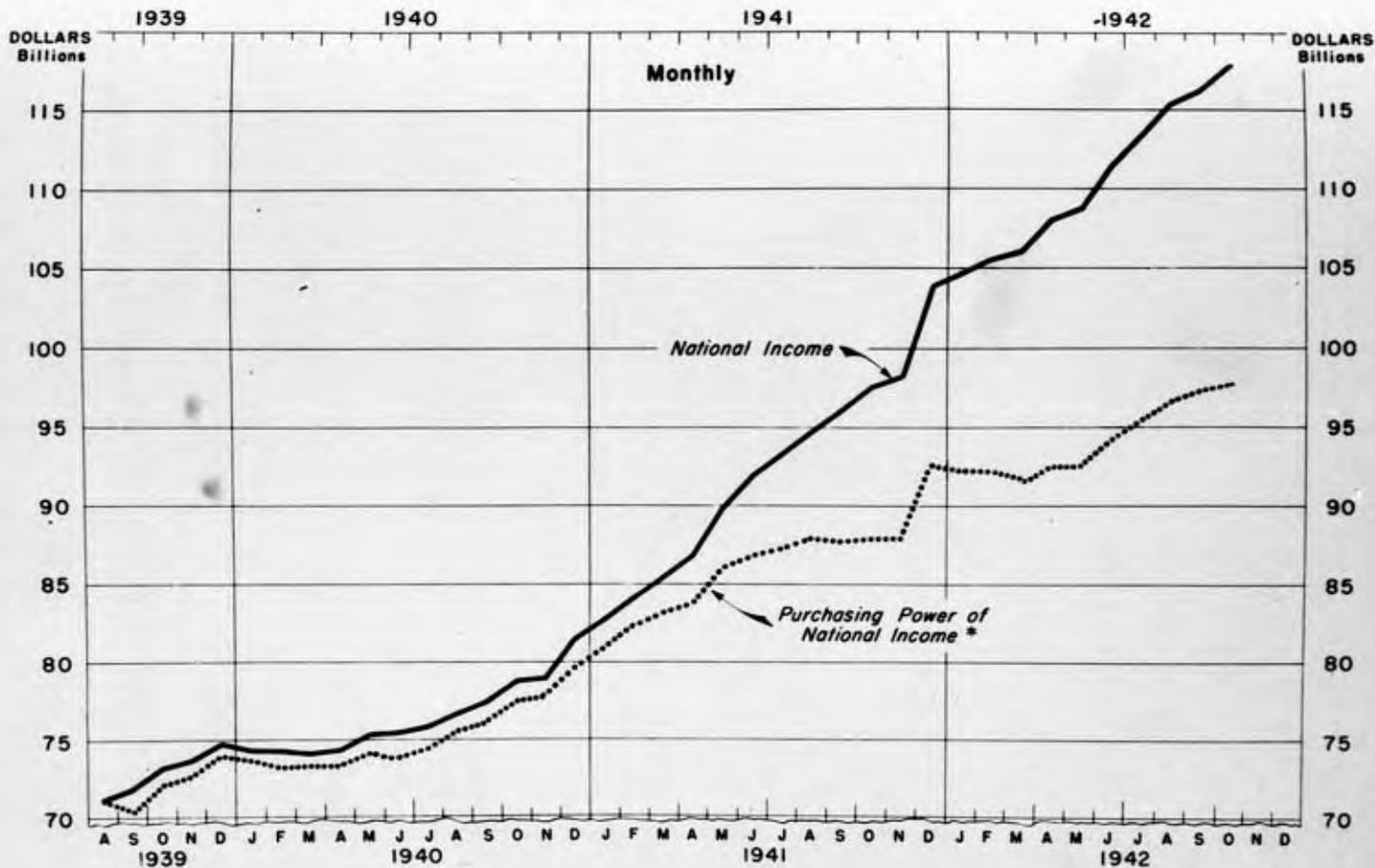
Retail sales of durable goods decline sharply from 1941 levels

Department of Commerce sales data for October show that retail sales of durable goods stores have declined to within 2 percent of the low touched in June, which was the lowest since 1938. (See Chart 8, upper section.) The sharp decline of about 42 percent from the 1941 peak has, of course, been due chiefly to the stoppage of automobile production, although credit restrictions and gasoline and rubber shortages have contributed to a heavy decline in used car sales. The sharp decline in retail durable goods sales has been accompanied by a decline in installment sale debt of even greater proportions, as shown on the chart. Federal Reserve Board credit restrictions have apparently been the principal factor in non-automotive installment debt decline, since retail stocks of furniture and household appliances remained fairly adequate through the middle of 1942.

Charge account debt out despite rise in sales

Although the dominant factor in installment debt liquidation has been production stoppages, such has not been the case in charge account debt. Reference to Chart 8, lower section, will disclose that ordinarily the volume of charge account debt is closely associated with retail sales of non-durable goods stores. Divergence in the usual relationship began to appear in 1941, however, and by the late spring of 1942 the similarity of movement between non-durable goods sales and charge account debt was completely lost. Charge accounts this year have declined rapidly under the impact of restrictions imposed by Regulation W, while retail sales of non-durable goods have steadily expanded to new high levels.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



*Based on cost of living index of B.L.S. Aug. 1939=100

FACTORY EMPLOYMENT AND PAYROLLS

1939=100, Unadjusted

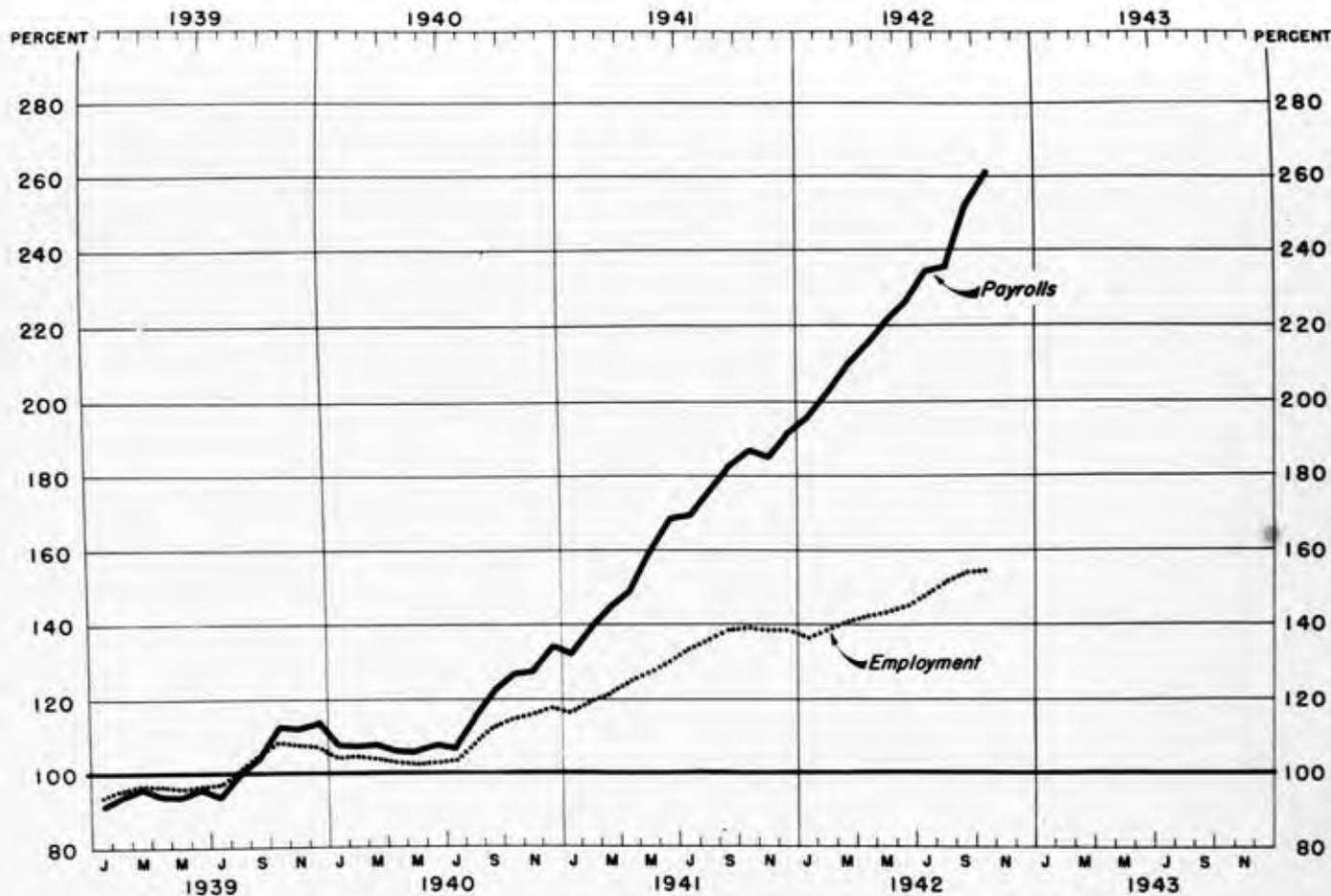
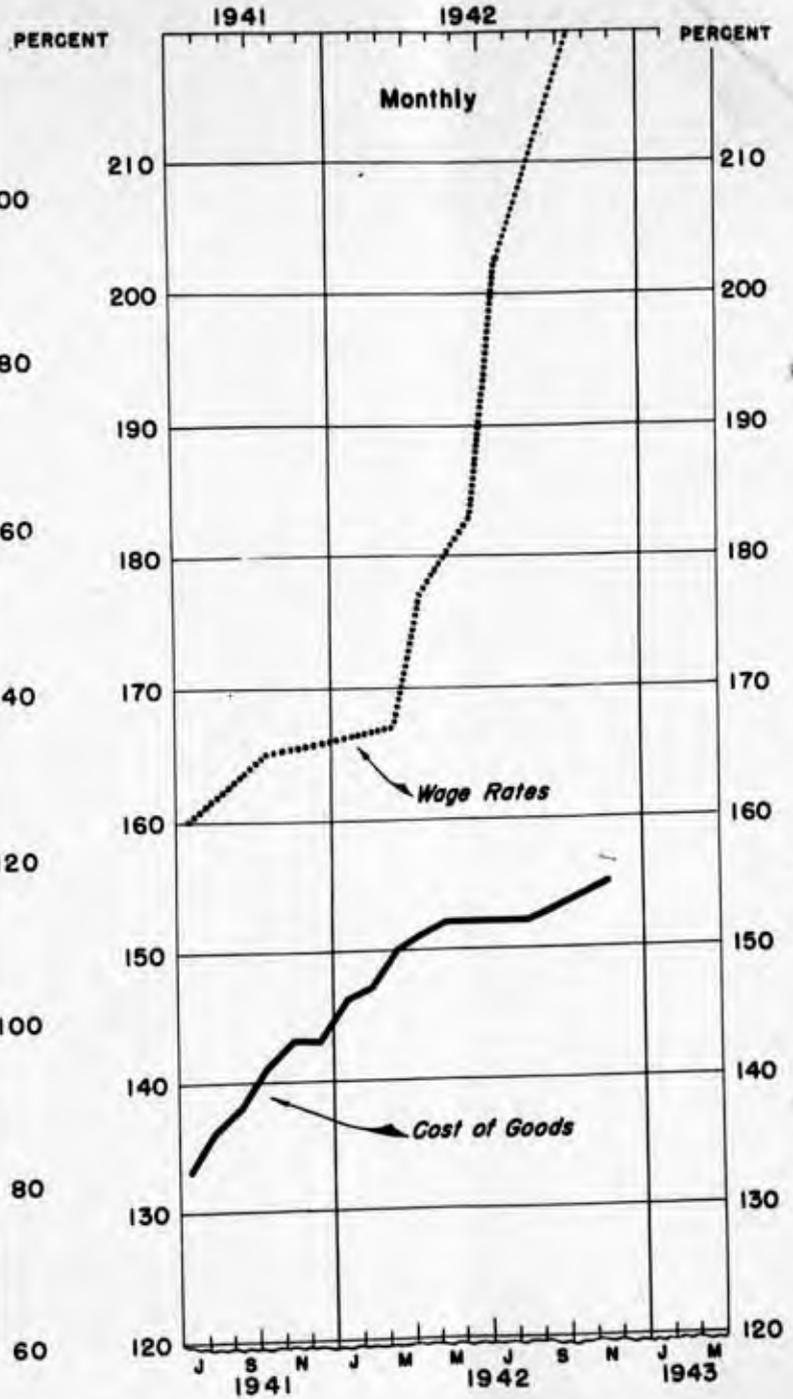
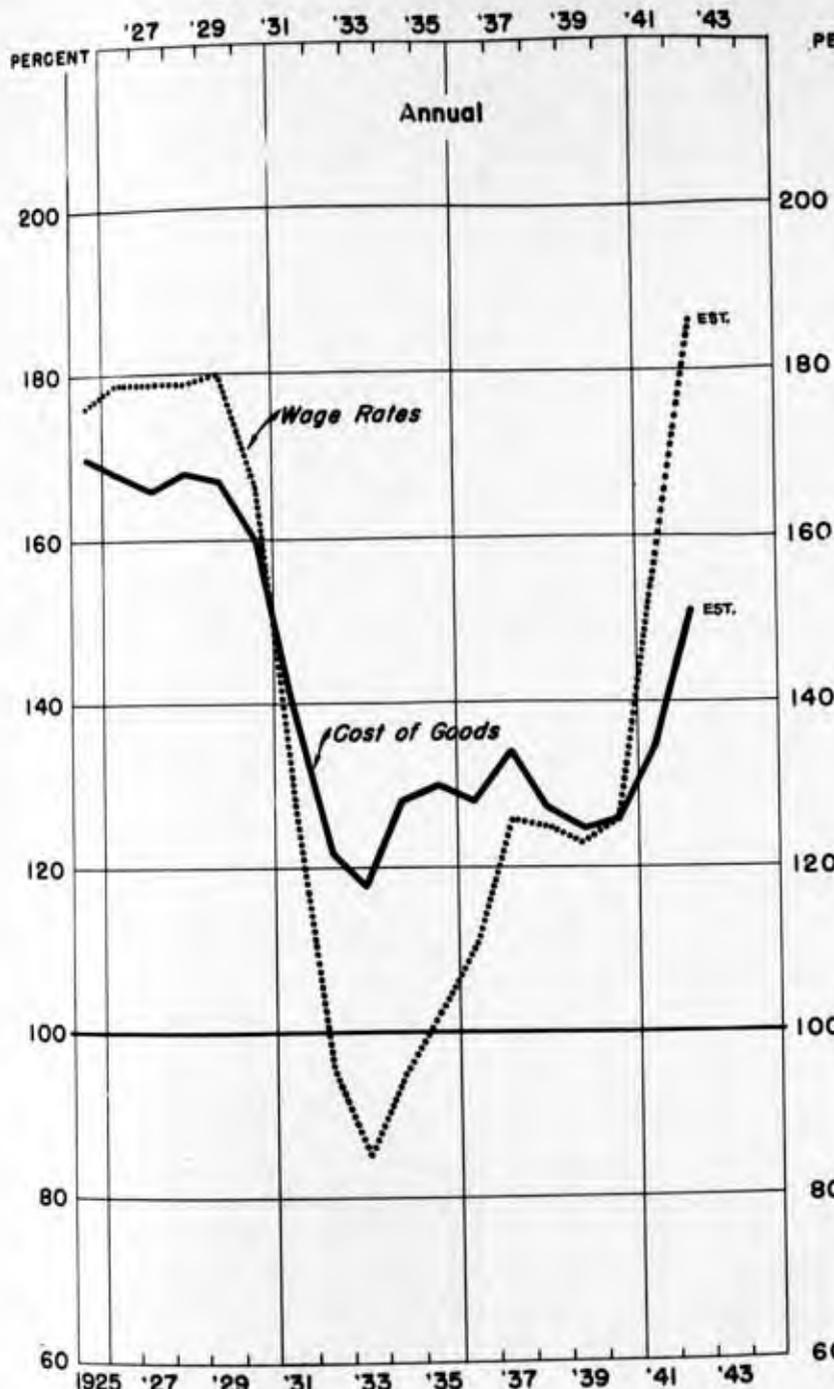


Chart 2
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FARM WAGE RATES AND COST OF GOODS BOUGHT BY FARMERS*

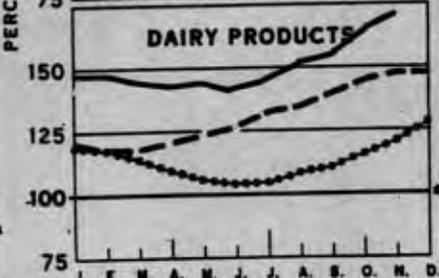
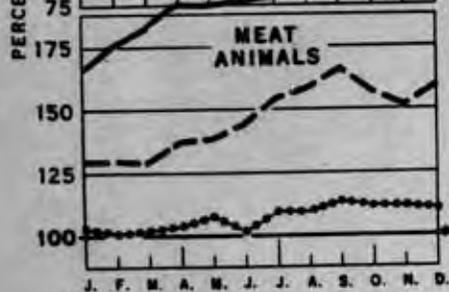
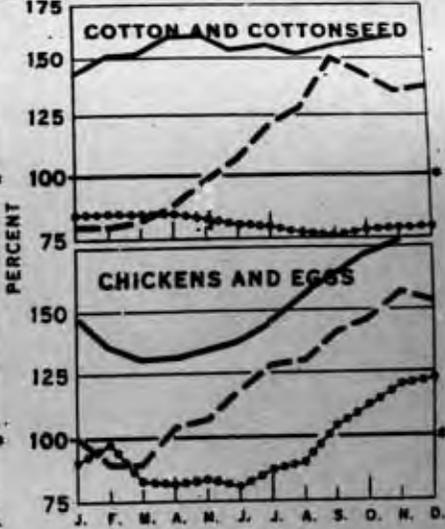
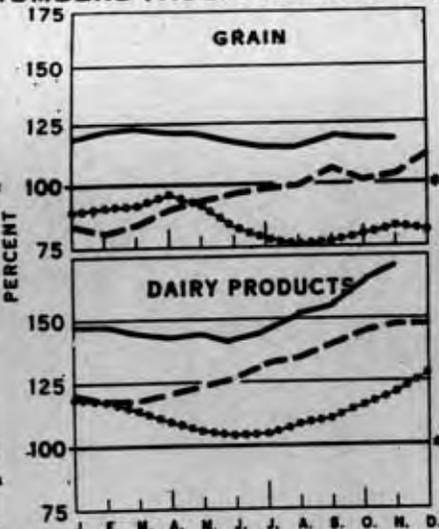
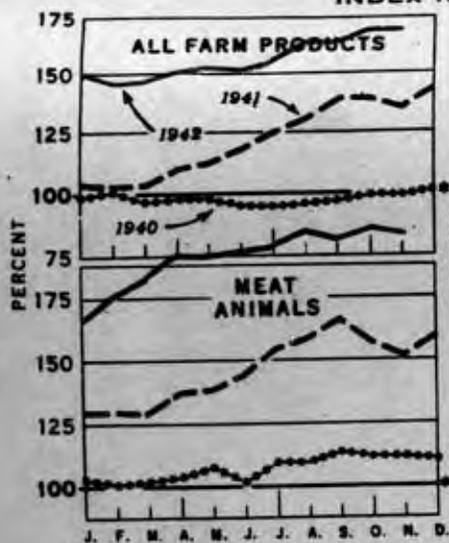
1910-'14=100



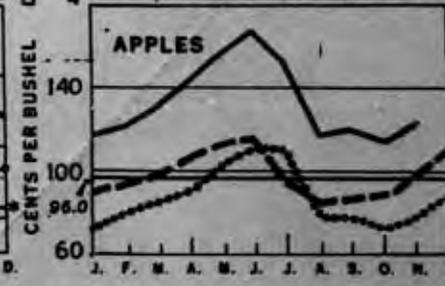
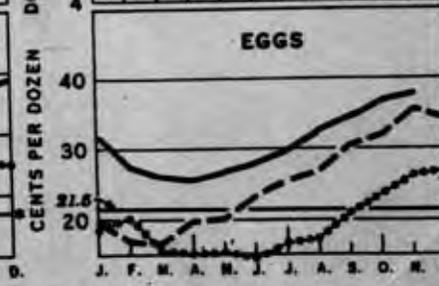
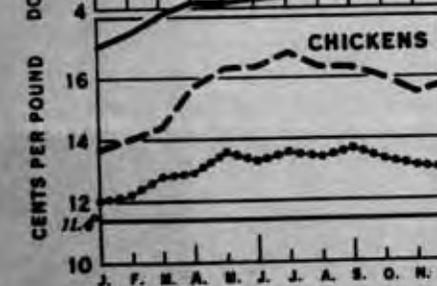
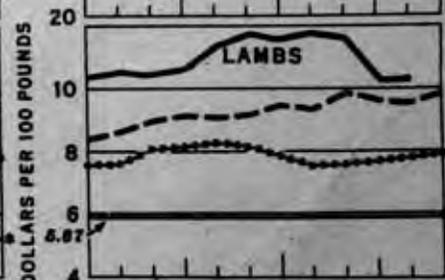
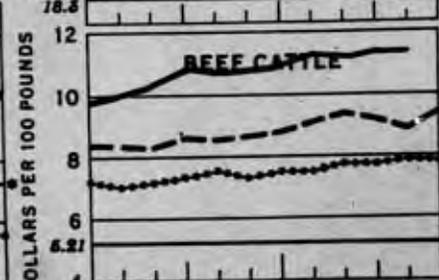
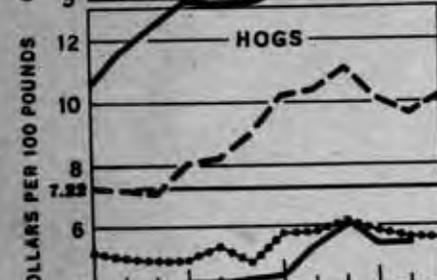
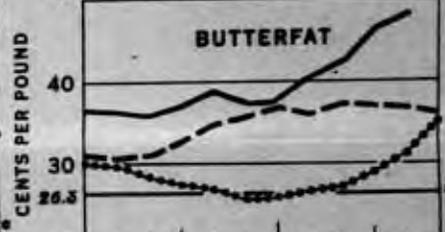
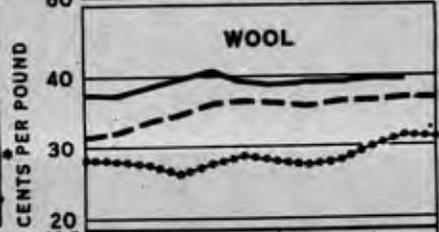
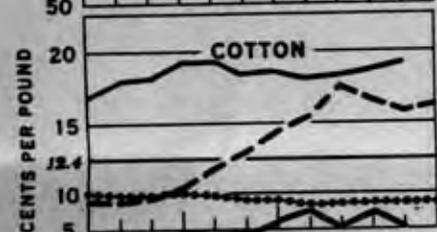
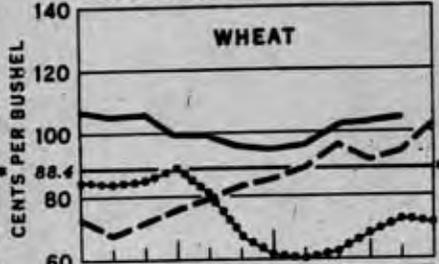
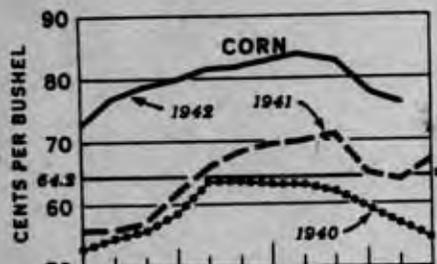
*Including Interest and taxes

AVERAGE PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES

INDEX NUMBERS (AUG. 1909-JULY 1914=100)

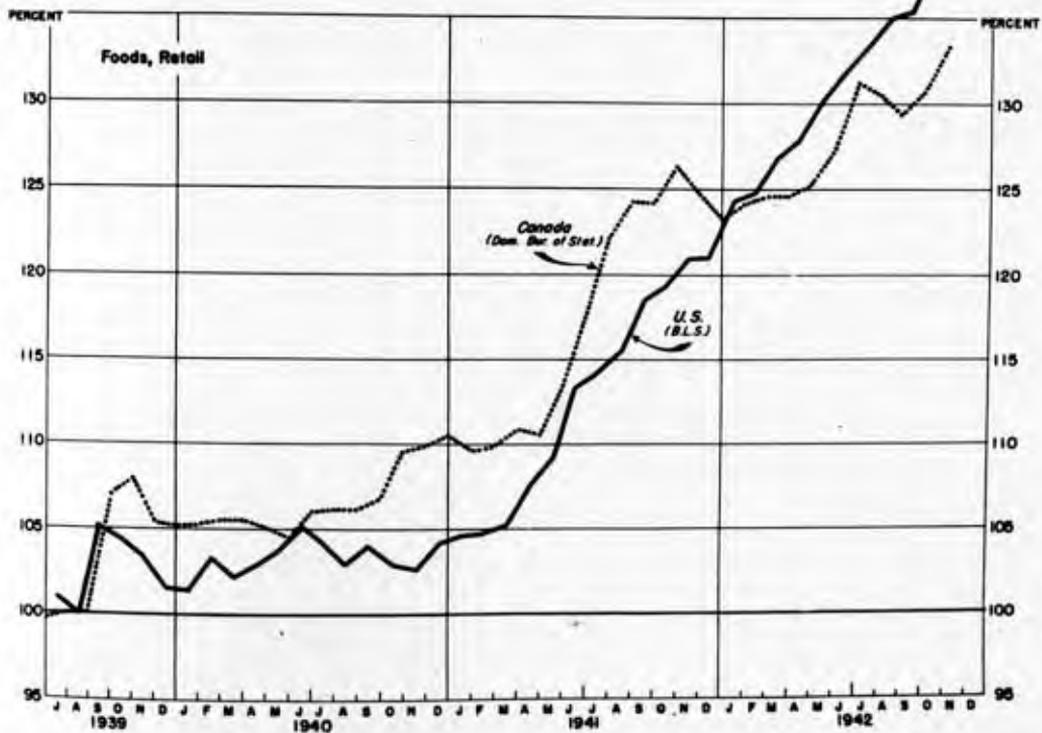
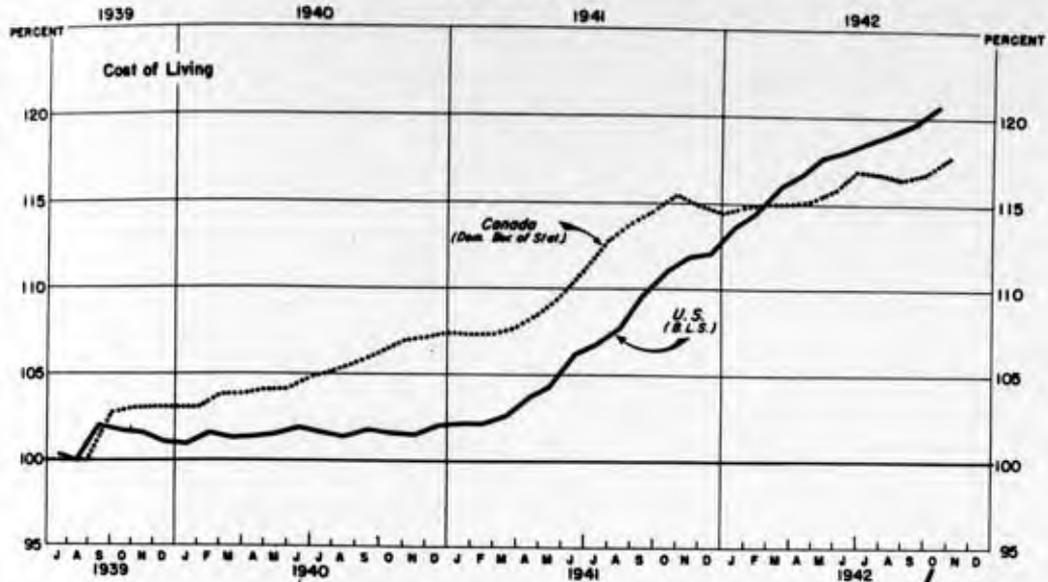


ACTUAL PRICES

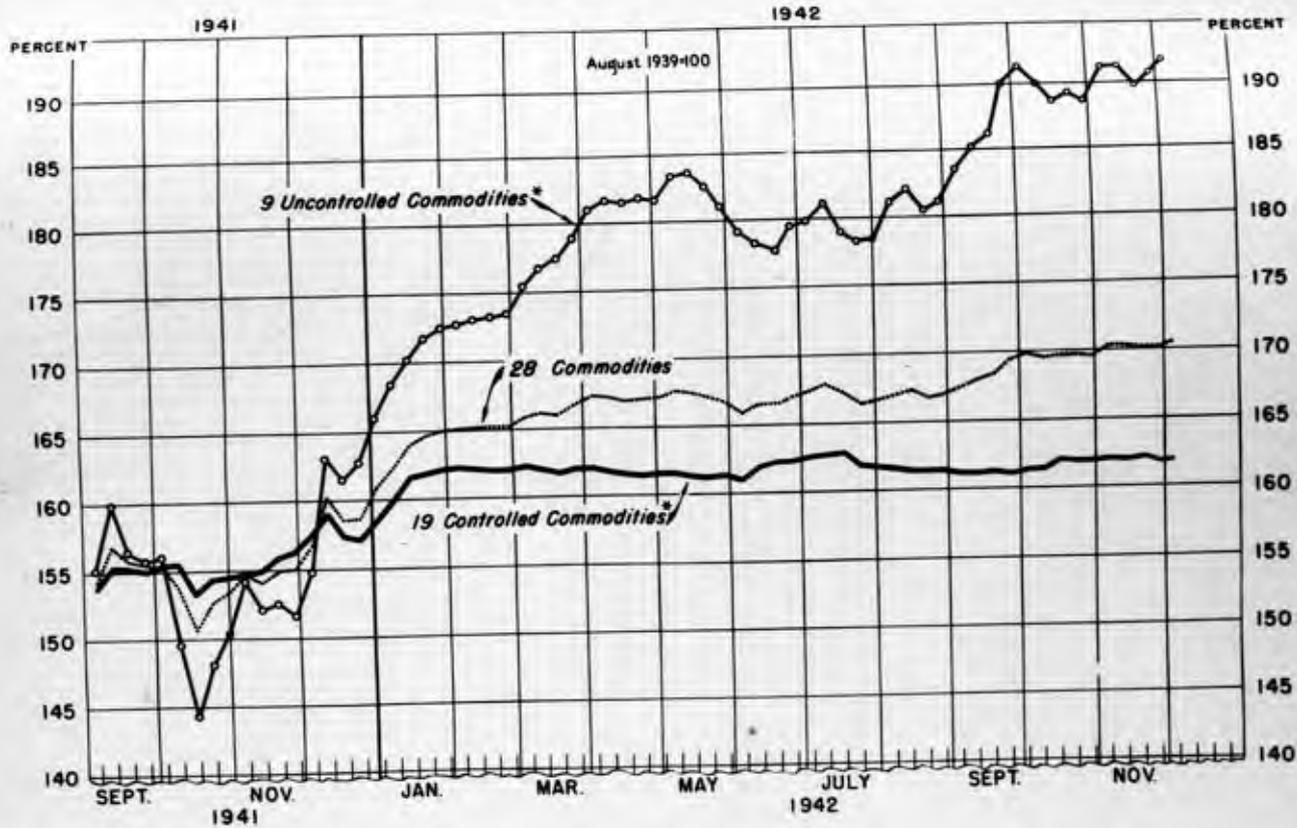


* 8-YEAR AVERAGE, AUGUST 1909-JULY 1914

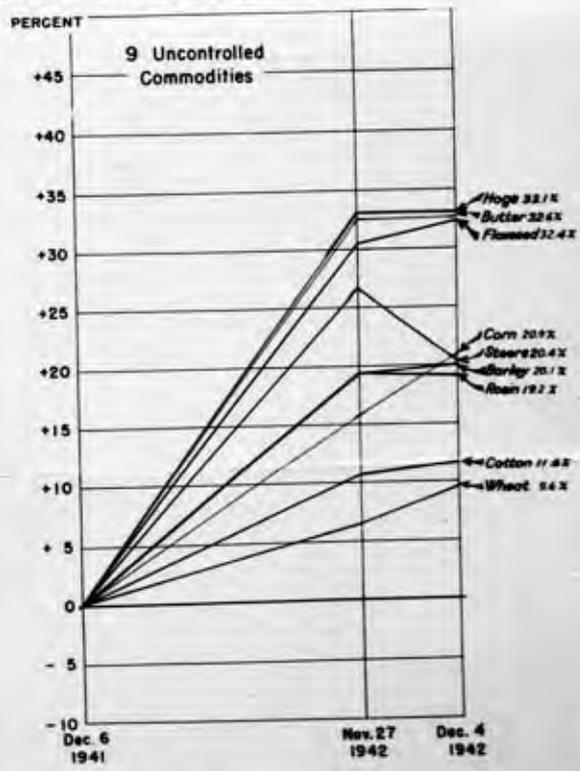
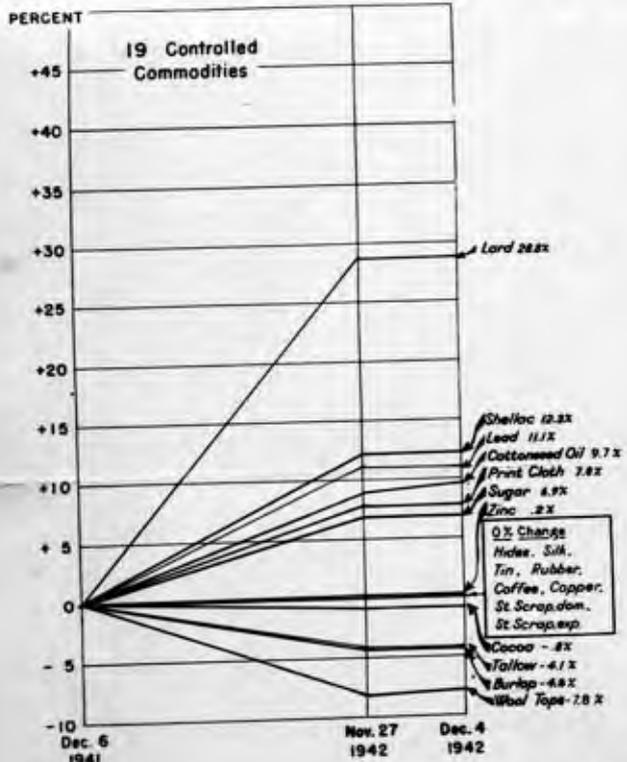
COST OF LIVING, U.S. AND CANADA
August 1939 = 100



MOVEMENT OF BASIC COMMODITY PRICES



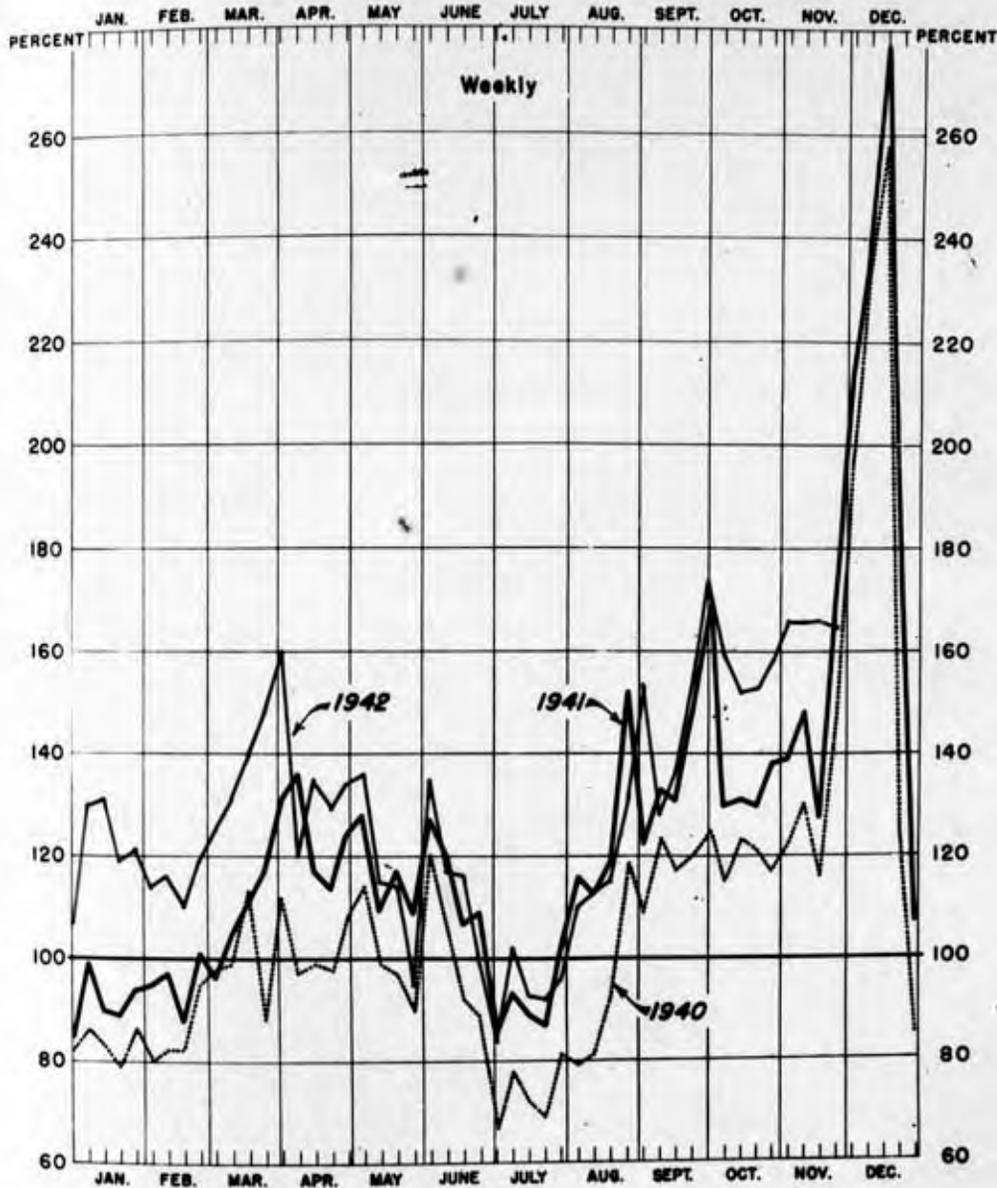
PERCENTAGE CHANGE DEC. 6, 1941 TO NOV. 27, AND DEC. 4, 1942



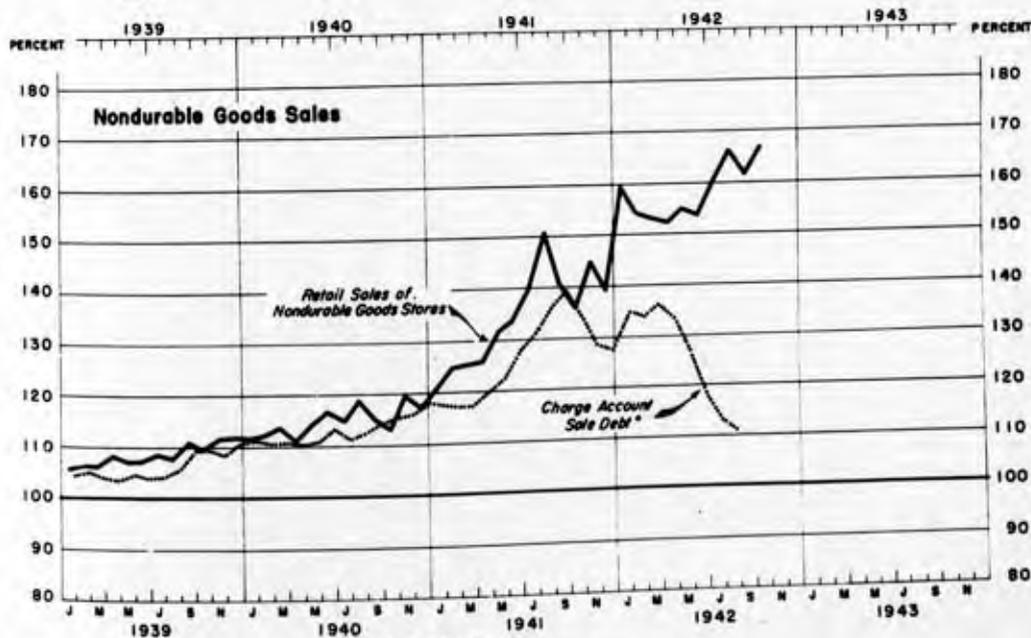
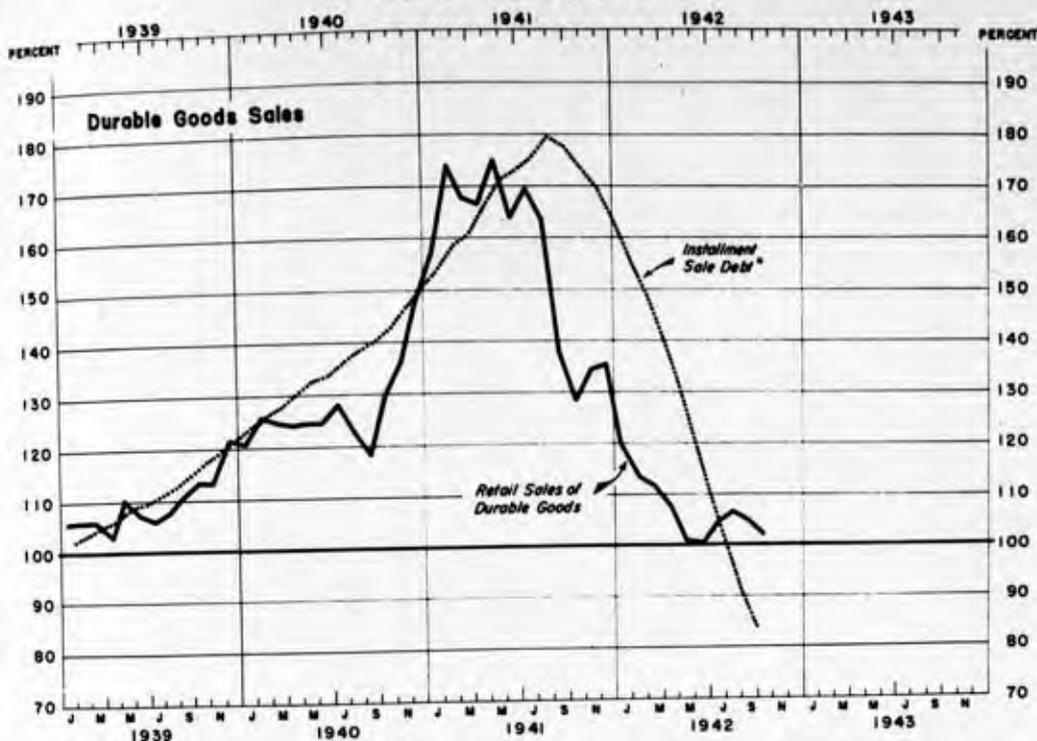
* 20 Controlled and 8 Uncontrolled previous to June 26

DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



RETAIL SALES AND CONSUMER DEBT 1935-'39=100. Adjusted



*Outstanding at end of month
Source: Department of Commerce and Federal Reserve Board

12/9/42

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The Secretary asked Mr. White to call up BEW and say it was impossible for him to attend and in that case would they want Mr. White to come.

Call up

BOARD OF ECONOMIC WARFARE
OFFICE OF EXECUTIVE DIRECTOR
WASHINGTON, D. C.

Harry White

December 7, 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Enclosed is the agenda for the next meeting of the Board of Economic Warfare to be held on December 10, 1942 at 10:00 a. m.

It is proposed that there be an oral discussion of certain phases of the administrative work of the Board. For this reason, it is requested that attendance at the meeting be limited to Board members only.

Sincerely yours,

Neil Percin
Executive Director

Enclosures

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD DECEMBER 10, 1942 AT 10:00 A.M.
IN THE CAPITOL

1. Fibers Report
2. Air Cargo Report

COPY 3

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BOARD OF ECONOMIC WARFARE
Domestic Security Section

425181

FIBERS

Report by the Fibers Section
of the Textile Division to
the Assistant Director,
Office of Imports,
Board of Economic Warfare

October 15, 1942
Washington, D. C.

CONFIDENTIAL



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- II. THE BASIC FACTS
 1. Statistical Difficulties and Inadequacies
 2. Table I - Hard fibers
 3. Table II - Soft fibers
- III. ~~SOME~~ MATTERS OF POLICY
 1. Expansion of Soft Fiber Program
 2. The Time Element
 3. The Equipment and Materials Factor
 4. Transportation
 5. The Cost Factor
 6. The Risk Factor
- IV. FIBER DEVELOPMENTAL CONTRACTS NOW IN ~~Force~~ *Force*
 1. Overall Government Agreements
 2. Purchase Contracts with Foreign Governments
 3. Contract with Individuals, Government a Party
 4. Individual Contracts
 5. Processing Contracts
 6. Experimental Planting Contracts
 7. Collateral - Servicing and Financing Contracts
- V. SUMMARY OF ACHIEVEMENT

I. THE PROBLEM.

There is at present an overall shortage of hard fiber which cannot be overcome by any means available within a reasonable period of time. Since hard fiber is necessary to the harvesting of our crops and the operation of our Navy and Army, this shortage is a matter of great national concern.

At this time, five steps appear necessary to meet the fiber problem:

First, make sure that all available supplies of hard fiber, anywhere in the world accessible to us, are acquired for the use of ourselves and our allies.

Second, explore all further present sources of fiber, both hard and soft.

Third, develop new sources of hard fiber, so far and as rapidly as can be done, provided quality is good enough to serve our needs, and provided the cost in dollars, materials and manpower will justify the result obtained.

Fourth, accumulate, in addition to the present inadequate stockpile of hard fiber, a stockpile of soft fibers sufficient to provide an adequate supply of substitute fiber at all times. For the most part, this requires the rapid attainment of a stockpile of Jute before there is any serious threat of losing Calcutta, and the maintenance of this stockpile by further accretions, so long as possible, until the anticipated supply of domestic hemp actually comes into being, and relieves the pressure on Jute.

Fifth, conserve the use of hard fiber by immediately requiring the substitution of soft fiber so far as possible, by expanding the use of paper bagging, osaburgs, etc., and by other conservation measures. This is, of course, a function to be performed primarily by the W.P.B. with which the BEW has discussed the same and which is already giving the matter full consideration.

To meet the needs, the Textile Division of the Office of Imports is now engaged in accomplishing the following tasks:

First, it is completing negotiations on all presently available supplies of hard fiber.

Second, it is maintaining representatives, temporary and permanent, in Cuba, Haiti, Central and South America. In particular it is checking on Haitian Sisal and Central American abaca developments, watching the Malva experiment, watching and helping Roselle development, and exploring the possibilities of Pita Floja, Figue, Gabuya, etc.

Third, it is developing in 1943 a crop of some 10,000 tons of Roselle fiber. If conditions warrant, it may have to divert some to seed to get much larger expansion of output in 1944.

Fourth, it is completing the scheduled purchase of Jute as soon as possible and clearing the way for further stockpile acquisition if then authorized.

Fifth, in the event that Calcutta and Africa should be lost, it is ready with plans to push for further increases in Mexican Istle and Sisal, in

Haitian Sisal, in Peruvian and Canadian Flax, in Chilean and U. S. Hemp; to double the quantity of experimental fibers such as Pita Floja, Figue, and Cabuya; to double the efforts, by education and publicity, for the reclamation of used fibers; to expand Roselle to 30,000 tons in 1943 (if we know in time) and in any event to 50,000 in 1944 and 100,000 in 1945, and to expand Ramie to 2,500, 10,000 and 25,000 tons.

This report was completed as of October 15 before recent spectacular successes of the British and Americans in Africa.

[The following text is extremely faint and largely illegible due to fading and bleed-through from the reverse side of the page. It appears to be a continuation of a report or a list of points.]

II. THE BASIC FACTS

In order to provide at a glance the total picture in hard and soft fibers, all the pertinent statistical data have been assembled and presented in the tables below. While long and complex they merit most careful consideration.

A word of caution about the Statistics is in order. The figures for 1941 are, of course, items of record; those for 1942 partly so. But the data given for 1943 and subsequent years necessarily represent in large part estimates subject to honest but considerable differences of judgment and opinion concerning the period that lies ahead.

Moreover, this report was compiled and submitted on October 15, 1942, and had, of course, to be based on the scattered and inconclusive data available at that date. Information made available since that time naturally makes more accurate estimates possible today.

For example, in the table the estimates for sisal from British Africa in 1943 and succeeding years was based on a Department of Agriculture crop estimate of 150,000 tons, of which we hoped to get half; later figures indicate a much smaller crop, of which our share is to be 45%; with carryover of lots afloat in 1942 but arriving in 1943 it is now estimated that receipt for 1943 will be about 65,000 tons and in succeeding years some 55,000 to 60,000 tons.

The fact should also be kept in mind that all figures of estimated future receipts by design represent the largest amounts which there is a possibility of receiving. The hard fiber deficits, therefore, are the minimum possible deficits, deliberately so prepared in the interests of national safety.

Moreover, when the preparation of this report was begun, in September, hard and soft fiber statistics were being handled separately and there appeared to be insufficient realization that soft fiber substitution for hard fiber was an immediate necessity. In cooperation with the WPE who undertook simultaneous studies, the BEW, by the methods of estimate used in this study, demonstrated beyond question that soft fiber substitution is necessary. As a result, remedial steps have been taken and soft fiber is now being processed into yarn in the Soft Fiber Industry, for delivery to the Hard Fiber Industry who will use it in the production of cordage and twine. The primary objective of this report has, therefore, already been accomplished.

Today the WPE is operating not on the basis of maximum but of the minimum receipt which appear assured. Its figures consequently show much greater deficits than appear in the LEF report. The matter is well understood by the Fiber sections in both Boards that the BEW figures show maximum receipts and minimum deficits and the WPE figures show minimum receipts and maximum deficits. The BEW will do its best to come as near as possible to the maximum receipts indicated; the WPE will do its best to conserve materials to guard

against the maximum deficits indicated.

Finally, at the date this report was compiled there was no adequate data on burlap requirements nor on the possibilities of substituting cotton and paper as bagging materials. Subsequent to October 15 the BEW called a conference which was attended by representatives of the Burlap Unit, the Carded Grey Goods Unit, the Pulp and Paper Branch and the Containers Branch of the WPE, the Agricultural War Relation Unit of the Department of Agriculture together with the Unit of the Department handling all matters of containers for agricultural use. The Corps of Engineers of the Army also submitted data for this meeting together with the fiber and container representatives of the BEW. Every possible use of paper, cotton and other substitute containers to replace jute bags was thoroughly explored.

It was found, for example, that there are considerable limitations upon the possible uses of paper. Similarly, there are limits to the amount of cotton machinery and labor available for the production of heavy cotton bags. The Army cannot use any substitute for jute sandbags without loss of military efficiency. After calculating all possible substitutions it was clear that there would still be a substantial vacuum if no burlap were imported. The WPE now calculates that 80,000 tons is the minimum required while a substantially larger amount is currently desirable were freight space available.

Experimental use of 500 paper bags on a shipment of Cotton sugar indicates many difficulties, but the BEW has recommended further experimentation on a scale of several thousand bags. The use of millions of paper bags for sugar cannot be recommended as yet on the basis of present data. Substantial use of cotton bags is being urged but there is doubt as to the possibility of obtaining substantial quantities of cotton bags for sugar in addition to the quantities required for many other articles. The growth of fibers such as Malva and Roselle in Cuba and the local manufacture of these fibers into bags depends on the supply of spinning and weaving machinery from the U. S. of which it would not appear that any supply is available.

In short, the statistical picture presented in the tables is still substantially true, however valid may be the honest and legitimate differences of judgment concerning the relative precision of individual items.

Note in Table I that even if Africa and India continue to be available as sources of supply, the deficit in hard fibers will be at least 43,500 tons in 1943. If Africa were to be lost the deficit in 1943 would be more than doubled to a figure of 82,000 tons.

In Table II notice that no estimate of the requirements of soft fiber is given, partly because there are such a multitude of variables in the picture as to make estimates more deceptive than useful, partly because programs of substitution and conservation have not advanced far enough beyond the experimental stage to permit quantitative evaluation of savings and/or consumption. Suffice it to point out that if our needs are expressed in terms

of burlap, the total deficit of bagging and cordage fibers to be met can hardly be regarded as amounting to less than 125,000 long tons and that too on the supposition that India is held.

If India should be lost the soft fiber situation would become indeed acute. Imports from India would, of course, drop to say 30,000 tons in 1943 and nothing thereafter. What would we do? Cotton production might be stepped up another 15,000 tons in 1943 and thereafter, little by little, to six thousand tons. Ramie from Cuba might be increased to 2,500 tons in 1943, 10,000 tons in 1944, and 25,000 tons in 1945. Imports of flax from Peru might be exported to 15,000 tons and those from Canada to 2,500, 5,000 and 10,000 respectively in 1943, 1944, and 1945. Hemp from Chile might be increased to say 10,000 tons, and in the United States itself increased some 10 percent more than the enormous increases planned in Table VI. The production of Rodelle and Malva, in Central America could possibly be increased to 30,000 tons in 1943, 50,000 tons in 1944, and 100,000 tons in 1945. Compare these figures with the 10,000 tons now projected for 1943 in Table VI. Even with all these highly optimistic but possibly attainable programs, the net result would be that total deficit expressed in terms of burlap, would instead of 125,000 long tons now be 260,000 long tons in 1943 and 325,000 long tons thereafter.

Year	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
India	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Cuba	2,500	10,000	25,000															
Peru	15,000	15,000	15,000															
Canada	2,500	5,000	10,000															
Chile	10,000	10,000	10,000															
USA	10,000	11,000	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	20,000	21,000	22,000	23,000	24,000	25,000	26,000	27,000
Central America	30,000	50,000	100,000															
Total	107,500	146,000	232,000															

TABLE I

ESTIMATED HARD FIBER RECEIPTS AND DEFICITS, 1941-1945
(IN LONG TONS)

FOOTNOTE NUMBER	FIBER	SOURCE	CALENDAR YEARS				
			1941	1942	1943	1944	1945
1.	ABACA	PHILIPPINES	109,211	7,366	-	-	-
	"	JAVA	1,964	402	-	-	-
	"	CENTRAL AMER.	-	.45	1,000	5,000	18,000
2.	SISAL	JAVA	64,777	11,102	-	-	-
2.	"	BRITISH E. AF.	7,054	85,000	75,000	75,000	75,000
3.	"	MOZAMBIQUE	(5,848	3,500	13,000	10,000	10,000
	"	PORT. W. AF.	(-	5,000	5,000	5,000
	"	MADAGASCAR	-	2,500	4,000	4,000	4,000
	"	BAHAMAS	-	1,500	1,500	1,500	1,500
4.	"	MEXICO (VICT.ETC)	-	3,000	3,000	3,000	3,000
4.	"	HAITI	9,957	11,000	11,000	15,000	25,000
	"	MISCELLANEOUS	1,027	1,000	1,000	1,000	1,000
5.	HENEQUEN	CUBA	4,643	4,000	3,400	2,800	2,200
5.	"	MEXICO	73,705	73,000	72,000	71,000	70,000
5.	CORDAGE&TWINE	CUBA & MEXICO	16,600	16,600	16,600	16,600	16,600
6.	HENEQUEN	SALVAGE	-	-	5,000	10,000	20,000
7.	X FIBERS	W.I.&CENT.AM.	-	-	2,500	5,000	10,000
TOTAL HARD FIBERS ALL SOURCES			294,786	220,015	214,000	224,900	261,300
8.	U.S.REQUIREMENTS		201,000	208,400	219,000	218,000	217,500
	REEXPORTS TO CANADA		40,000?	39,600	38,500	40,500	47,000
	TOTAL REQUIREMENTS		241,000	248,000	257,500	258,500	264,500
	SURPLUS (+) OR DEFICIT (-)		+ 53,786	-28,000	-43,500	-33,600	-3,200
	" " (AF.LOST)		+ 53,786	-28,000	-82,700	-93,400	-48,400
	STOCKS CARRIED OVER AT YR END		123,840	88000/96000	48,500	14,900	11,700
9.	" " (AF.LOST)		123,840	-	9,300		

* FOR SOURCES, METHODS OF ESTIMATE AND OTHER PROBLEMS CONNECTED WITH COMPILING THESE FIGURES, SEE FOOTNOTES IMMEDIATE FOLLOWING.

TABLE II

SOFT FIBER RECEIPTS AND BURLAP DEFICITS, 1941-1945
(IN LONG TONS)

FOOTNOTE NUMBER	FIBER	SOURCE	CALENDAR YEARS				
			1941	1942	1943	1944	1945
	COROA-SEMI SOFT	BRAZIL		1,100	10,000	10,000	10,000
10.	ISTLE	MEXICO	9,375	21,400	22,000	22,000	22,000
10.	RAMIE	CHINA & PHIL	373	-	-	-	-
	"	CUBA, ETC.	-	100	500	500	500
10.	FLAX	PERU	267	3,500	7,000	7,000	7,000
	"	CANADA	66	1,500	1,500	1,500	1,500
	HEMP	CHILE	1,165	3,500	3,500	3,500	3,500
11.	"	U.S.A.	3,348	3,500	90,000	110,000	120,000
12.	JUTE	INDIA	95,722	70,000	64,000	64,000	64,000
12.	JUTE BUTTS	INDIA	5,978	13,000	16,000	16,000	16,000
13.	"	CONGO	2,581	6,500	7,500	7,500	7,500
14.	ROSELLE/MALVA	CENTRAL AMERICA	-	-	10,000	10,000	10,000
	TOTAL SOFT FIBERS ALL SOURCES		118,875	123,000	222,000	242,000	222,000
	ADD RECEIPTS HARD FIBERS (TAB I)		294,786	220,015	214,000	224,900	261,300
	TOTAL RECEIPTS-HARD & SOFT & COROA		413,661	344,115	446,000	476,900	493,300
15.	BURLAP IMPORTS	INDIA	237,000	175,000	200,000	200,000	200,000
	BURLAP NEEDS		205,000	240,000	325,000	325,000	325,000
15.	SURPLUS (+) OR DEFICIT (-)		+ 32,000	-65,000	-125,000	-125,000	-125,000

* FOR SOURCES, METHODS AND OTHER PROBLEMS CONNECTED WITH THESE FIGURES, AND ESTIMATES, SEE FOOTNOTES IMMEDIATELY FOLLOWING.

FOOTNOTES TO TABLES I AND II.

In general import figures for 1941 are taken from the records of the W.P.B. and Department of Commerce.

1. Receipts of Abaca from the Philippines and Java are estimated to continue at zero. Even if the areas are reconquered, supplies might be uncertain. Abaca from Central America is calculated on the basis of 40,000 acres being planted, and to be planted in 1943 on land now being prepared.
2. Sisal from Java similarly estimated at zero after 1942. Estimated receipts of Sisal from British East Africa for 1942 are based on the current rate of receipts and British estimates of quantities likely to be received for the balance of the year, although this quantity is less than originally anticipated when general contracts were negotiated. The estimate on succeeding years is based on 50% of an estimated expanded production of 150,000 tons per annum, estimated by the Department of Agriculture. W.P.B estimates are substantially lower.
3. The figure for Mozambique in 1943 is based on expected shipment of balances from 1942 which are now under negotiation.
4. The figure for Sisal from Mexico includes Victoria Sisal and various other similar fibers. Haitian increase of Sisal production is calculated on the basis of additional 30,000 acres, a somewhat optimistic figure.
5. No new Henequen plantings will become available until after 1945 as this plant takes seven years to mature. Reduced demand for fiber in recent years resulted in reduced replacement plantings during those years. Consequently production will decline over the next few years. This decline is calculated for Cuba at 7 $\frac{1}{2}$ % of our combined receipts of fiber and cordage, but all the reduction shows up on the fiber figures, as it is assumed that Cuban Cordage production will be maintained at current rates. Henequen cordage and twine from Cuba 4300 tons, Mexico 12,200 tons, total 16,600 tons. While abandoned plantations cannot be generally restored to production because uncut plants go to seed, there is a limited recovery to be made from such plantations. There are reported to be numerous abandoned Henequen lands in Mexico and these should bring in sufficient fiber to very nearly offset the declining production on the active plantations. The Mexican Henequen figures are therefore drawn to show a decline of only about 1 $\frac{1}{2}$ % per annum.
6. Some salvage of old marine cordage can be effected; the Navy is cooperating on this program. The recovery of old used binder twine has been recommended to the Department of Agriculture. Conditions under which threshing machines operate make such recovery difficult. The wine would have to be cut by hand just before the bundle enters the thresher. Some additional recovery can be made at the silo, where the twine can to some extent be separated from the straw which is being prepared for silage. After recovery of the wine, the farmer or his children would have to

10. Istitic and Flax import estimates are based on contractual arrangements made, including substitution of Canadian flax for Egyptian flax. Ramie is being produced in a very small way in Cuba and is being proposed elsewhere. The processing of this fiber involves some difficulties but if the need is great enough, as it would be in the event of the loss of India, production could be greatly expanded.
11. The largest expected new source of fiber is in American Hemp (a soft fiber, cannabis sativa, not to be confused with Abaca, so called "Manila Hemp"). Whereas prior production has been from much less than 20,000 acres, seed is now being grown on 37,000 acres, estimated to plant 300,000 acres in 1943. Average crop yields are about 800 lbs. per acre. A possibility exists therefore of producing 120,000 tons of fiber in 1943. The complete inexperience of 95% of the personnel who will have to handle this new crop and the possible question of fitness of all the land which will be used, makes it quite possible that no more than 50% of normal yield will be obtained the first year, or 60,000 tons. A compromise figure of 90,000 tons is used, which is felt to be somewhat on the optimistic side for 1943, working up gradually to 120,000 in 1945.
12. Jute and Jute Butts from India are being purchased by the government for stockpile. A total of 80,000 tons for import is to be purchased, of which slightly less than half has already been bought. Further purchases will be made as suitable quality from the new crop becomes available. Together with private purchases previously made, estimated imports for 1942 are 70,000 tons Jute and 13,000 Jute Butts, but from 1943 onward it is assumed that purchases will be only at the rate of 64,000 Jute and 16,000 cuttings, or not exceeding 80,000 for both.
13. Statistics received direct from importers indicate receipts of 6,111 tons of Congo Jute from 1941/42 crop and 2,968 tons from 1942/43 crop. Department of Commerce figures are 2,581 tons for 1941 and negligible figures for 1940 and 1942. The official figure is shown for 1941, with offsetting increase in 1942, although these figures should be reversed if the information from the importers is correct. It is believed that with present conditions in the Congo the future crops are not likely to make more than 7,500 tons a year available.
14. The normal consumption of Jute is 80,000 tons, but prohibition of the manufacture of carpet yarns has reduced requirements to an estimated 41,000 tons per annum, leaving some 30,000 tons available as a substitute for hard fiber. Estimated use of jute as a soft fiber and as a substitute for hard fiber totals about 70,000 tons a year. There is a normal consumption of flax of say 3,000 tons per annum which will undoubtedly be increased by war needs. Our imports prior to 1941 came from Europe. Present and future

untie or cut out the knots. Such material, free of knots, can be returned to the suppliers for return to the processors who state that they can make use of it. It is believed that with adequate propaganda to explain the need of this salvage, a small recovery can be effected in 1943, working up to a more substantial recovery by 1945. If Africa is lost, sterner measures would have to be adopted to increase recovery. Italy requires a 50% return of old twine before issuing new twine and we might do likewise if the need were great enough.

7. X Fibers refer to such various fibers as Fiquo, Cabuya, Pita, etc. Various projects are under consideration for the increased production of these fibers, or for the production of soft fibers which can be used locally for the manufacture of bags and thereby release quantities of these hard fibers. Bags are now being made in Central and South America from these hard fibers, which would be better if made from soft fibers, whereas the hard fibers are needed by the U. S. for binder twine and cordage. A moderately increasing production is anticipated. In the event that African supplies are lost, intensified efforts, at substantially increased costs in money and in material, would possibly double the production.

8. War Production Board recent figures on requirements for hard fiber show approximately 220,000 tons for 1942, 230,500 for 1943, and 229,500 for 1944. These are understood to include Canadian needs, but have been adjusted to cover anticipated reduction of use due to absence of supply. The Canadians are entitled, according to present understanding, to receive 18% of hard fiber receipts. This is less than Canadian needs, but Canadian stocks make up the difference. Actual U. S. consumption as incurred to date and as approved for the balance of the year 1942 is 208,400 tons. The table shows this figure and the figures for succeeding years have also been adjusted to a comparable basis. This method is presumed to show more accurately the actual deficit which will have to be filled by substitution of soft fiber. The 1941 figure of re-exports to Canada is estimated from the trend in prior years.

9. The stock carryover figure of 123,840 at end of 1941 is furnished from the records of the W.P.B. A study has been made of the rate at which stocks have dwindled for the first seven months, and after making adjustments for anticipated acceleration of receipts in the last half of the year (Mexican Honequen in particular was held back by difficulties at the Port of Progreso but it is now coming forward freely), the balance of stocks at the end of 1942 should be 88,000 tons. According to the calculated deficit of receipts to fill requirements, stocks should be reduced at the end of 1942 to 96,000 tons and to a lower figure if estimates of receipts are too optimistic. This furnishes a fairly close check on the probable accuracy of the deficit figure. Stocks for year end 1942 are shown on the chart as 88,000/96,000 and succeeding years are calculated from an average of 92,000. As can be seen, stocks would be nearly exhausted in 1945, and if Africa is lost, stocks would be exhausted in 1944, unless substitute soft fiber is used.

estimated receipts are not likely to leave a surplus. The increased receipts of Istle are to be added to the surplus of Jute, pending realization of the expected liberal supplies of domestic hemp, to supply deficits in hard fiber.

Under these conditions, extensive planting of Ramie, Roselle and Malva are not warranted, as these are all somewhat experimental fibers which would probably not be as good as Jute although costing much more. However, if Calcutta should be lost, it would then be necessary to immediately expand all manner of soft fiber production. Under such a stimulus further increases could be expected in Peruvian and Canadian flax and in Chilean and domestic hemp. Ramie could be expanded, as already stated. Roselle and/or Malva could be very rapidly expanded if sufficient seed and experience is available. It is therefore proposed that production of Roselle/Malva be encouraged to the extent of 10,000 tons per annum, even at an uneconomic cost, to serve as a basis for rapid expansion to 30,000, 50,000, 100,000 tons, if needed.

15. Jute and Burlap and Sugar Bags are closely related, as the latter two are made from Jute and all come from Calcutta. Freight space must be apportioned between these three articles. 1942 imports of Burlap are estimated from information currently available from the Department of Commerce and from importers. Requirements of 240,000 tons are as indicated by the W.P.B., and include some provision for military use. Recently the army has been buying all frozen stocks, which are two-thirds of imports. This would show a rate of 120,000 tons a year (for sand bags) which if added to normal 1941 needs (no military use) would give a requirement of 325,000 tons, which is the figure indicated for 1943, 1944 and 1945. It is assumed that as some of these sandbags will be bought in Calcutta, the total receipts of burlap and/or sandbags will increase, for which an estimated figure of 200,000 tons is taken.

16. It can be seen that there will be a large deficit in burlap. It is expected that this will be filled by cotton. If Calcutta should be lost, it will be necessary so to increase substitutes that cotton machinery might not be able to take care of all of it. In that case it would be necessary further to expand the production of soft fibers and to convert carpet looms so that the fiber, after spinning on carpet yarn spindles, could be woven into cloth for bags. The Cuban and Porto Rico requirements for sugar bags are being just barely met by present imports and by re-use of old bags. Since sugar cannot be satisfactorily stored or shipped in bulk, the loss of Calcutta would require the further conversion of looms to take care of this need with domestic fiber. Whether or not such looms should be set up in Cuba and Porto Rico or in the U.S. is a question to be determined later in the light of many contributing circumstances, including labor.

III. SOME MATTERS OF POLICY

1. Expansion of the Soft Fiber Program.

Even on the basis of the most optimistic estimates of receipts, there will be a serious deficit of hard fibers. The stockpile recommendation for sisal is plainly unattainable. By ratiocinating sisal the same as abaca, present stocks could be stretched further, or some fraction of new receipts could be placed in stockpile.

In substantial part, however, hard fiber needs will have to be filled by soft fiber substitutes. This raises the question whether soft fiber stockpiles should not be built. While present jute imports are estimated at 30,000 tons in excess of soft fiber needs, this is but a small offset to unfulfilled sisal stockpile of 250,000 tons.

For it must be remembered in calculating substitution that since soft fiber is not as strong as hard fiber, more of it is required as replacement. Cordage made wholly or in part of jute, must be heavier than cordage made only of sisal, to supply the same tensile strength, to the extent of 1 1/4 to 1 1/2 lbs. jute for 1 lb. sisal. And sisal, being weaker than abaca, must itself be used in heavier weight when replacing abaca.

Even when due allowance is made for prospective receipts of American Hemp, the question remains whether an adequate substitute stockpile of soft fibers can be built up at present rate of acquisition, or whether the purchase program should be increased. The current directive for the purchase of 80,000 tons of Jute and Butts will be completed in about four months, August to November, inclusive for shipments running through December or January. Continuance of purchase at the same rate into the new year, so long as Calcutta remains available, would make it possible to substantially increase the soft fiber stockpile within the next few months. If consumption requirements decline, purchases can be discontinued or reduced at a later date, while we use up the accumulated stock. If consumption requirements increase, we might be caught unfortunately short of fiber, even if Calcutta is not lost.

3. The Equipment and Materials Factor

The equipment and materials required vary somewhat as between hard fibers and soft fibers. On the one hand, hard fibers are obtained mostly from the fleshy leaves of plants of the agave type. These plants attain a stage of development at which the leaves can be cut for fiber some three to seven years after planting, and continue growing new leaves as old ones are cut off, for a period of several years.

In developing new plantations, land must be cleared, soil must be prepared and drained. Machetes, tractors, plows and similar tools and machinery are necessary. During the years between planting and the cutting of the leaves the tract must be cultivated and weeded. The better the cultivation, the sooner good fiber will be developed. This requires cultivating machinery and tools.

At the decortivating mill, presses are required to crush the leaves and squeeze out the high percentage of water. Then rotary apparatus of one type or another is used to comb or scrape the chaff from the fiber. Conveyors are necessary to bring the leaves in and the refuse and fiber out. Drying apparatus is needed. Motive power is required to operate the various machines.

For plantations and decortivating mills which are already in operation, a constant supply of fuel, lubricants and other materials and of replacement parts and tools is necessary for maintenance of operation.

On the other hand, soft fibers are obtained mostly from the stalks of plants which are grown annually. Decortivation involves an entirely different problem. Wherever water and labor is sufficiently available, the stalks are retted, thus softening up the non-fibrous material. After retting the fiber can be separated from the chaff by hand methods. Machine methods for scutching or otherwise processing the retted stalks is preferable, however, as the improved quality of the fiber compensates for the cost of the machinery. Where labor is scarce, machine methods are not merely preferable; they are in such cases the only methods by which the fiber can be obtained. Lack of proper retting water, or shortage of labor, or both, will in some instances necessitate the further substitution of machine methods for crushing and treating the stalks instead of retting.

Soft fiber production also requires transportation facilities and motive power for whatever machinery is used, and while less decortivation equipment is necessary than for hard fiber more equipment is required for annual or semi-annual plantings. Maintenance supplies and replacement parts are likewise necessary.

2. The Time Element.

The period of time during which a program is scheduled to operate in many ways determines the fibers and areas to which attention needs be given. Thus, for example, old plantations of Henequen and Sisal which have been neglected for a year or more are of little value; when the leaves are not cut regularly the plant goes to seed and is useless for fiber. New plants have to be developed, from bulbils or suckers. But now Henequen plants take about seven years to develop to fiber producing stage. A henequen program would therefore be of little use within the next few years.

On the other hand, new Sisal plants reach the fiber production stage in three years and with good cultivation sometimes reach this stage in two years. New plantations of this plant, started in 1942 will bear fiber in 1944 or 1945. New Abaca plants likewise bear fiber in two years. The extensive new plantings of the United Fruit Co. in Panama, Costa Rica, Guatemala and Honduras should also bear fiber in 1944 and 1945.

The soft fibers are an annual crop, jute being harvested once a year, and under favorable conditions, hemp twice a year. The problem here is production of sufficient seed to expand plantings. Unfortunately foreign seed may require a year or more to become acclimated. Moreover, the fiber crop must be skipped if sufficient seed is to be produced for a largely expanded crop in the succeeding season. Thus the current expanded plantings of domestic hemp are mostly for seed, to produce a very large crop in 1943.

The most rapid grower is Roselle. For good fiber, the plants should be cut at the end of 80 days. Theoretically, four crops a year can be grown on the same land. Practically, one should not expect for certain more than three crops a year. While seed crops take longer to mature, three successive crops, all devoted to seed, would within a year and a half to two years enormously expand the possible plantings, for a crop to be reaped 80 days thereafter. Moderate expansion, largely for seed, is planned for 1942 and 1943 and can be expanded to greater or lesser extent, as need requires.

In both hard and soft fiber, if wild fiber is collected instead of cultivated fiber, planting and cultivating machinery is unnecessary, but more tools are necessary for cutting trails through jungle and much greater transportation problems are involved. In both hard and soft fiber production, baling presses and similar machinery is necessary if freight space is to be economized.

To increase sources of fiber and to maintain old existing sources, a substantial supply of machinery, equipment and materials is therefore necessary. Unless we can supply these things we cannot get the fiber. The detailed list of machinery, equipment and materials is amazingly complex and in many cases includes material necessary for the housing of the workers and for the requisite sanitation, medicine, etc. Many of the machines require the use of steel, copper, bronze, rubber and other critical material, and require six months to construct after materials are obtained.

A great deal of time has been lost because applications for the export of this necessary machinery and material have been denied, due to the fact that the parties who have been charged with the conservation of this critical material have not understood the critical need for fiber.

The Office of Imports is itself reluctant to endorse applications for the export of critical material, unless it is well satisfied that the same is truly necessary for the procurement of fiber and that the quality and quantity of fiber to be produced through the use of such material is sufficient to warrant exportation of the same. For example, on Abaca, the tonnage of materials, equipment and machinery to be exported is equal to one year's production of fiber from the use of this material. But in succeeding years the tonnage for maintenance material will be only a fraction of the tonnage of fiber. Abaca is the best fiber known, is practically irreplaceable for some uses; the expenditure of material is therefore justified.

The program now in effect centralizes all work in facilitation of export of materials, equipment and machinery necessary for the procurement of fiber, at one place in the Textile Division of the Office of Imports. When the Division on its own investigation is satisfied that the material, equipment or machinery is necessary, applications are endorsed, with explanation, to the Office of Exports, and are followed through, if need be, to the War Production Board, with the result that approvals of legitimate applications are now being greatly expedited.

Wherever possible, all materials, equipment and machinery necessary for a new development are consolidated on one schedule, known as a "Project," which is considered and approved as a unit. Similarly, maintenance requirements are being grouped on annual schedules, known as "Programs," which are considered and approved as units. Releases against approved programs are made quarterly and program lists are amended from time to time as necessary.

To assist plantation operators, the Division through its field staff is furnishing information and advice regarding the various types of machinery available and suitable. Where difficulty is encountered in getting machines built, advice and aid is being given and in case of need, patents, specifications, blueprints, patterns and tools will be requisitioned from shops unable to use them because of pressure of other war work and will be transferred to shops which can use them.

To provide more accurate information regarding materials, equipment and machinery which will be needed, a questionnaire has been sent to plantations and will be sent to prospective plantation operators. Meantime on the basis of partial information available, an overall estimate of probable requirements has been prepared and submitted.

Other information regarding the situation in the field is being furnished to the Bureau as it becomes available.

A list of the various types of machinery which are being used in the field is being prepared and will be submitted to the Bureau as soon as it is available.

The Bureau is also interested in the situation in the field regarding the availability of materials and equipment. It is being requested that you keep the Bureau advised of any changes in the situation in your area.

The Bureau is also interested in the situation in the field regarding the availability of labor. It is being requested that you keep the Bureau advised of any changes in the situation in your area.

The Bureau is also interested in the situation in the field regarding the availability of funds. It is being requested that you keep the Bureau advised of any changes in the situation in your area.

4. The Transportation Factor

Equally important with the production of fiber is its transportation. Many wild fibers are available in the interior of Central and South America, but the transportation of heavy decortication machinery into the interior and the transportation of the fiber out of the interior to a port may make their production impractical. Plantations, for this same reason, must, if possible, be located close to a port. Usually a fiber project is not of enough importance to warrant the exportation of track and locomotives to construct a railway into the interior from a port, but does warrant export of maintenance and replacement parts where a railway to the interior already exists.

As has just been noted, within the area of a plantation itself, transportation has to be provided quickly to convey the loads of leaves or stalks to the decortication plant, because good fiber is dependent on decortication within 24 hours of cutting. The average yield of fiber is from 2% to 5% of the weight of leaves or stalks; the weight of leaves or stalks therefore involves a local transportation problem of twenty to fifty times the volume of the fiber itself. On the best plantations this local transportation is effected by narrow gauge railways. Main lines are radiated from the decortication plant to the various areas of the plantation and portable track is laid from these main lines to the sections being cut. These portable lines are taken up and moved from section to section as cutting progresses. These narrow gauge tracks, with short radius curves, require light weight diesel locomotives; steam locomotives are too heavy and are too long to take the curves. This track and these locomotives have to be exported from the U.S. in order to establish and to maintain these plantations. On smaller establishments the work must be done by tractors, trucks and trailers, which must also be exported from the U.S.

Production of fiber must be coordinated with marine transportation, or vice versa. This involves a problem where relatively small quantities accumulate at outports. It also involves a problem where ships must move through enemy-infested waters. The purchasing program on jute in Calcutta has especially required coordination with the War Shipping authorities, so that jute purchased and ready for shipment will approximately match shipping space available. The representatives of the Board in Calcutta has also had to work in close cooperation with the local authorities, to obtain transportation of the jute to Calcutta from the interior, where transport facilities are greatly impaired by local military operations.

51 The Cost Factor

Because the war must be prosecuted and won regardless of cost, and because it is likewise vital that costs be not unduly inflated, decisions on the development of new fiber projects and on the purchase of available fibers must strike a balance between need and cost. For example, a limited development of Roselle must be carried out regardless of cost, to furnish the basis for rapid future expansion if needed, but immediate large scale operation at high cost is unwarranted so long as Jute and other less costly fibers are available.

A high cost of materials and dollars is being incurred on Abaca in Central America, which is regarded as warranted because there is no wholly adequate substitute for this fiber. A high cost is likewise being incurred on domestic Hemp, warranted because hemp is the best soft fiber substitute for hard fiber in marine cordage; because some one large new source had to be developed; and finally because no foreign transportation is necessary and a saving in cost of ships and lives is an adequate offset to an increased cost in dollars.

The Good Neighbor policy makes it highly inappropriate to pay one neighboring Republic substantially more than another for the same material. To maintain a reasonable parity of prices for fiber of the same type, it is consequently necessary to underwrite or to absorb some costs incidental to development of new projects. When production must be rapidly expanded, normal economics cannot always be effected. A point is reached, however, beyond which underwriting or subsidy cannot go. Many fiber projects cannot be entertained because they are altogether too costly in comparison to results which can be obtained elsewhere.

Finally, in areas such as India where we are buying in competition with the British, care must be exercised not to raise market levels by our buying to the undue detriment of our partners-in-arms. So far it has been possible to meet the need, by buying jute as fast as space and ready jute have been available, without raising costs.

6. The Risk Factor

In fibers, as in all development and underwriting programs, the government is beset by individuals desiring to participate in the program. The force of their insistence and the clamor raised when they fail to obtain what they want, is often in inverse ratio to the merit of their proposals.

Except in the case of Honequon and Sisal there have been very few competent producers of fiber in the Western Hemisphere. The producers of Figue and similar fibers which are regularly used in Central and South America for the production of coffee bags, are fully engaged on their own businesses. If they could increase their production they would prefer to use the same locally, thereby reducing their need of imported Jute.

Prospective producers of Sansevieria, Ramie, Malva, Roselle, Plantain or Banana Fiber, Palmetto, and many other new fibers have little or no practical experience. It is interesting to note that many of those who have had limited experience in one locality believe that they can operate successfully on a grand scale in other localities without regard to differences in climate, soil, rainfall and labor.

While some of these promoters are wholly incompetent and inexperienced, many are undoubtedly sincere. To all careful consideration is given, as fast as personnel can be obtained to visit and inspect their plantations and examine and test their machines. Whenever sizable samples of their product can be obtained, the same are submitted to experienced processors for trial. No substantial sums are advanced until the practical merit of each project is reasonably demonstrated. Moderate expenditure for trial lots is readily arranged.

There is another type of risk which requires continuous reevaluation in the light of changing facts, political and military. It is a risk best understood by taking a concrete instance, because needless to say, proposed solutions of the fiber procurement program have been numerous and diverse. Many of these proposals appear superficially to be highly plausible.

Thus, for example, it has been proposed that jute weaving machinery be brought to this country from India. When properly packed the machinery weighs as much as a year's product. With limited space we would therefore have to bring the machinery instead of the jute and wait another year before we brought the jute; or we could bring the machinery in place of the burlap and use the jute to make burlap, in which case we would still be without jute. By the time we have enough space to bring the machinery as well as the jute the war would be so nearly won that there would be no need for the machinery. Furthermore the Indian owners of the machinery were not anxious to sell it and thereby put themselves out of business.

To take another example, the proposal crops up time and again that we should grow sufficient fiber and build sufficient weaving machinery in the Western Hemisphere to be completely independent of India. But the Indian farmers in Bengal, the province or state which faces the threatened Japanese invasion, are dependent on jute for their cash. If we were to make it clear to them that they could no longer sell jute or jute products to the Western Hemisphere, they might have no one else left to turn to for a livelihood except the Japanese. Such a measure, intended to make us independent of India might by increasing disaffection in India not only incur the risk of losing the benefit of India's contribution to Allied resistance but seriously endanger or prolong the successful outcome of the war.

[The following text is extremely faint and largely illegible due to bleed-through from the reverse side of the page. It appears to be a continuation of the discussion on economic independence and the impact of such policies on India.]

IV. FIBER DEVELOPMENTAL CONTRACTS NOW IN FORCE

Fibers are produced under such diverse conditions in so many different countries, each with its own legal and political peculiarities, and the producers vary so greatly in type of productive operation, financial capacity, and contractual competence that our government necessarily pursues diverse modes of negotiation and operates under contracts that differ markedly in their detail. The fiber contracts which have been negotiated and executed thus far may be classified by type as follows:

1. Overall Government Contract
2. Purchase Contracts with Foreign Governments
3. Contract for Purchase from Individual Producers with Foreign Government a Party
4. Contracts with Private Producers without Intervention of Foreign Government
 - A. Contracts for fibers to be produced in the future.
 - B. Contracts for fibers already produced.
5. Contracts for Cultivating and Processing Projects
6. Other Experimental Planting Contracts
7. Collateral Contracts
 - A. Servicing contracts
 - B. Financing contracts

1. Overall Government Contract

The overall contract is a contract with a foreign government by which prices and other terms of purchases from private producers are fixed and the foreign government agrees to set up export controls. This type of contract has to be implemented by direct purchase contracts with producers. There are three such contracts in effect at present. One is with the Government of Peru for flax, one with Brazil for Burlap, and one with Mexico for ixtle and henequen.

By formal contract with the Republic of Peru, executed on May 14, 1942, Defense Supplies Corporation agrees to purchase upon fixed prices and other terms all scouted flax offered by Sellers in Peru up to 4,000 long tons each year for the duration of the war, and the Government of Peru agrees to maintain export restrictions on such flax, exporting only to Defense Supplies Corporation during the period of agreement.

The Brazilian Burlap overall agreement is in the form of an exchange of diplomatic notes signed as of July 28, 1942. The notes provided that Brazil will limit exports of Burlap to Defense Supplies Corporation during calendar years 1942 and 1943, and Defense Supplies Corporation will purchase upon fixed prices and other terms the exportable surplus of Brazil's Burlap.

The Mexican overall agreement covers henequen, ixtle, pita and similar fibers, and twine, cables and cords of these fibers. It consists of a Mexican decree of July 10, 1941 and a letter from the Federal Loan Agency to the Mexican Government dated July 15, 1941. The Mexican decree prohibits exportation of the named commodities except to countries "considered as of the Americas" which have similar export regulations. By letter, Federal Loan Agency agrees to purchase at prices and terms to be negotiated, the exportable surplus of the named commodities while Mexican export control is in effect.

2. Purchase Contracts with Foreign Governments

These provide for the purchase of fibers directly from the foreign government. At present there are five such contracts, the negotiations for which have been completed. Two of these are with the British Government, providing for the purchase of 46,000 long tons of sisal and 4,000 long tons of sisal tow. Another is with the Government of Bahamas, providing for the exportable surplus of sisal up to 10,000 short tons for a three year period. A contract has also been made with Canada for one-half of the exportable surplus of flax less domestic needs, for the duration of the war (minimum of 750 long tons annually). The British have agreed to sell to us one-fourth of the British purchases from the Egyptian crop, or 1,500 short tons whichever is smaller. This agreement is supplemented by an understanding that the British may deliver Canadian flax in the place of Egyptian flax, and that we shall not call upon the British for the flax if our needs are otherwise satisfied.

3. Contract for Purchase from Individual Producers with Foreign Government a party

In these contracts the purchase is made directly from private producers, but the Government is a party and agrees to maintain control such as over exports and taxes. Of the five Mexican contracts of this type, for sisal, henequen and ixtle, four are executed and one for henequen is completely negotiated. Two of these provide for at least 63,143 long tons of henequen annually, over a three-year period, and two for at least 1,780 tons of sisal, annually during a three year period. The other provides for the purchase of all of the seller's production of ixtle, of a minimum of 11,111 long tons annually, for a one year period with option to extend the contract.

4. Contracts with Private Producers without Intervention of Foreign Government

These fall into two general classes:

- A. Contracts for fibers to be produced in the future. There are six 1 year contracts for the purchase of all of each Cuban seller's production of Agave fiber of cordage grades. According to the terms of these six contracts, the maximum sold thereunder will not exceed a total of 13,304 long tons. Five of these are at present executed; the sixth will shortly be executed. There are four contracts with producers in Haiti for all of their production of Agave fibers of cordage grades, not to exceed a total of 45,535 long tons during a three year period. One of these has been executed, two are in the process of execution and one in negotiation.
- B. Contracts for fibers already produced. Of this type of contract one has been executed with Brazilian producers for 20,000,000 yards of Burlap. For Jute, a basic form has been adopted covering purchases f.o.b. Calcutta, in U. S. dollars per long ton, comparable to the basic contract terms prevailing in this trade. To date, 220 individual contracts have been negotiated and executed on this form. A slightly modified form has been developed covering special cases where jute has been bought for shipment but for payment after arrival. Three such contracts have been executed.

5. Contracts for Cultivating and Processing Projects

There are six contracts for the cultivation and processing of Abaca in Panama, Costa Rica, Guatemala and Honduras, covering a total of 40,000 acres. These contracts were executed over a period from January 3, 1942 to September 11, 1942. There is one contract covering the cultivation and processing of Malva in Cuba, for about 300 acres, executed May 19, 1942.

Under the terms of the Abaca contracts, United Fruit Co. manages the cultivating and processing projects. United Fruit Co. is reimbursed by Defense Supplies Corporation for direct costs. Under four of these contracts United Fruit Co. gets no management fee, but receives a bonus of 1¢ per pound for producing more than an average of 1200 pounds of dried Abaca fiber per acre annually. All of the contracts are for seven years, from January 1, 1942 to December 31, 1948, with option in DSC to renew for the duration of the war.

Under the Malva contract, Cuban Fiber Company Rial operates this experimental cultivating and processing project, Defense Supplies Corporation is to advance to Cuban Fiber Company Rial, a crop loan of not more than \$53,900, and agrees to buy all Malva fiber and all Malva seed resulting from this 1942 planting at a price of 8¢ per pound against warehouse receipts issued at Havana, or in the case of fiber f.o.b. vessel at Havana.

6. Other Experimental Planting Contracts

There are five contracts for the purchase of 3 metric tons of Malva, 42 metric tons of Pita Floja, and 10 metric tons of Figue, resulting from experimental plantings in Colombia. These contracts were accepted by Defense Supplies Corporation on August 1, 1942.

In addition to these contracts, on August 5, 1942, W. A. Dalton of El Salvador contracted to sell 15,000 pounds of Roselle seed to Defense Supplies Corporation, in consideration of \$1.00. This seed is to be used for experimental plantings in Central American countries.

7. Collateral Contracts

A. Servicing Contracts. There are certain contracts collateral to the various purchasing contracts. One such type of collateral contract is the agreement with a group of importing agents, to service the importation and forwarding of ixtle imported under one of the Mexican Contracts. Each of the importing agents is allocated a quantity to the fiber which corresponds to his proportion of imports of such fiber during the last five years. There are also servicing contracts made with individual agents.

B. Financing Contracts. Another type of collateral contract is the agreement to finance foreign production of fibers. There are three such contracts outstanding. One of these is collateral to the Agave fiber contract with the Haitian Agricultural Corporation, the Export-Import Bank loaning up to \$950,000 for production of sisal, and the Coordinator of Inter-American Affairs matching funds expended for improvement of labor and health conditions. There is also a loan contract by which Defense Supplies Corporation advances \$200,000 to Honequencros de Yucatan to buy certain supplies and equipment necessary for the performance of the purchase agreement for henequen in Mexico. By another agreement, Export-Import Bank advanced to SHADA (a Haitian governmental corporation) \$5,000,000 for development projects for rubber and fibers.

8. All of the foregoing contracts are with Defense Supplies Corporation excepting flax contracts which are with Commodity Credit Corporation and the Mexican overall contract with Federal Loan Agency.

V. SUMMARY OF ACHIEVEMENT

From the foregoing, the fact is obvious that the program of fiber procurement involves many diverse fibers, from many scattered sources, grown under differing conditions and processed under methods varying from primitive hand-cleaning to intricate decortication machinery. Each has involved a problem and has required a solution along different lines.

When the Philippines were attacked, cutting off supplies of Abaca (Manila fiber), the Defense Supplies Corporation initiated negotiations with the United Fruit Co. for the production of Abaca in Central America. The BEW, through its Textile Division of the Office of Imports, has carried on and completed the negotiations, for 40,000 acres planted and to be planted, in Panama, Costa Rica, Guatemala and Honduras, to produce by 1945 18,000 tons of fiber yearly. (All quantities in tons referred to in this report are long tons.) Negotiations have been opened with the Standard Fruit Co. for Abaca developments in Nicaragua.

The D.S.C. initiated negotiations for expansion of Sisal production in Haiti. The BEW has completed negotiations for 18,000 acres of new plantings, and is cooperating on further expansion to, we hope, 30,000 acres, so that fiber production will be raised by 1945 to 25,000 tons yearly.

Since henequen plants take seven years to reach the fiber producing stage, no early increase can be effected, but current supplies have been contracted for. In both Cuba and Mexico the D.S.C. initiated negotiations which were completed by the BEW, for annual receipt of some 73,000 to 76,000 tons of fiber.

To accomplish the installation of these and other new plantations and to maintain production on old plantations, the BEW has facilitated the exportation of the requisite machinery, equipment and material.

The BEW has initiated and concluded negotiations for the receipt of Victoria and other similar types of Mexican Sisal, estimated to yield upwards of 3,000 tons of fiber yearly.

The BEW has initiated and concluded negotiations for the receipt of Bahama Sisal, estimated to yield upwards of 1,500 tons of fiber yearly.

The BEW has conducted negotiations for the acquisition of a share of British East African Sisal, estimated to yield receipts in 1942 of 85,000 tons and thereafter not exceeding, at maximum, some 75,000 tons yearly. Requirements have been roughly calculated to service this territory with a proportionate share of the requisite parts and other maintenance material.

Extensive negotiations have been conducted by the BEW, and are still in process, for the acquisition of supplies of Portuguese African Sisal, estimated to be 15,000 to 18,000 tons of fiber yearly.

The BEW has initiated and concluded negotiations for the receipt of Palma and Fita grades of Mexican Istle, amounting to some 21,000 to 22,000 tons of fiber yearly.

The BEW is investigating the possibilities of Sansevieria fiber from Cuba and other sources, of Cabuya from Ecuador, of Figue from Colombia, and of other hard fibers.

An overall contract was negotiated with the Government of Peru for the exportable surplus of Peruvian Flax. The Chief of the Division made a special trip to Peru to conclude detailed arrangements with the producers. The estimated receipts are 3,500 to 7,000 tons of fiber yearly.

Negotiations were conducted by the BEW with Canada, to substitute, should we need it, Canadian flax for Egyptian flax. Next year we may get as much as 1,500 tons.

No negotiations have been undertaken on Chilean Hemp, on which private trade is permitted to operate. U. S. receipts through private purchases are estimated at 3,500 tons yearly. The BEW has cooperated closely with the Department of Agriculture in connection with their program for the domestic production of hemp (i.e. American Hemp, Cannaeis Sativa, and not Manila fiber) on which production of 90,000 to 120,000 tons of fiber yearly is anticipated.

The BEW has promoted experimental production of Lalva fiber (similar to Jute) in Cuba.

The BEW has investigated the production of Roselle (another Jute-like fiber) in Salvador, is encouraging production of same in Salvador and Guatemala, and has acquired 15,000 lbs. of seed for experimental production.

The BEW is investigating the possibilities of developing Fita Floja, a wild fiber in Colombia, including the development of improved machinery for its treatment.

To accomplish its field work, the Textile Division of the BEW has employed the services of recognized experts, including Colin Noise, experienced hard and soft fiber spinner, Milo Borges, attorney, business negotiator and linguist, Claud Horn, Agronomist on loan from the Department of Agriculture, and Lynn H. Sumpter, recognized authority on tropical fiber engineering, in addition to the regular BEW representatives stationed in the countries mentioned. Mr. Simon Swerling, a burlap and fiber expert, acts as special representative of the Board to Calcutta.

The BEW is under directive from the W.P.B. for the purchase of 80,000 tons of Jute and Jute Butts for import for stockpile. The directive became effective late in July. The new crop of Jute in India becomes available from about September onward, desirable qualities from October onward. Half of the total has been purchased for shipment from Calcutta, corresponding to the amount of freight space so far available. Some 14,000 tons have been shipped.

SECRET

The BEW has initiated and concluded negotiations with the British for the U. S. purchase of Congo Jute and purchases are now being negotiated with the suppliers in the Congo. Arrangements have been made for the purchase of 12,500 bales of Benares Sunn Hemp, as directed by the W.P.B., for Navy caulking.

Statistics have been collected by the BEW, and presented to the Army, showing means for saving the Government upwards of \$1,000,000 on current purchases of burlap for Army and Navy use, with further prospective savings hereafter. Negotiations are under way for the procurement of rot-proofed sandbags by the BEW for the Army, to be shipped direct from India to Pacific theatres of war.

On advice and through the cooperation of the BEW, the services of experienced importers and import agents have been organized and utilized, on a fee basis, in connection with procurement, allotment, inspection, and other fiber problems.

The new law instituted and amended negotiations with the British for the purchase of surplus war and equipment are now being conducted with the assistance of the Joint Commission. Arrangements have been made for the purchase of 10,000 cases of medical supplies, as directed by the War Reliance Authority. The new law has been collected by the War Reliance Authority and is intended to be used for the purchase of surplus war and equipment. The Government expects to purchase \$1,000,000 worth of surplus war and equipment. The War Reliance Authority is now working on the purchase of surplus war and equipment. The War Reliance Authority is now working on the purchase of surplus war and equipment. The War Reliance Authority is now working on the purchase of surplus war and equipment.

On advice and through the cooperation of the War Reliance Authority, the services of expert technical inspectors and technical agents have been organized and utilized, on a large scale, in connection with procurement, allocation, inspection, and other first problems.

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Three major air transport systems are currently available for the
transportation of strategic materials into the United States. The
air military--the Army Air Forces Air Transport Command and the
Civil Air Transport Service. The third system is that portion of
the Pan American system which will operate as a private com-
mercial carrier.

The principal activities of the civilian agencies of the Government
have been devoted to making the maximum use of the remaining military
aircraft to carry the highest priority cargoes of strategic materials.
The great distances covered by the Army and Navy are being met pri-
marily for forward movements of military cargoes, and advantage is
taken of empty space on the return trips.

IMPORTATION OF STRATEGIC MATERIALS BY AIR

All persons, including military and civilian, are required to file
with the military department what military demands for plane space
shall have first priority and what tonnage is available to carry
other strategic cargoes. Within the strategic cargo group, the
relative priorities of the various cargoes is determined and fixed
by the War Production Board after consultation with representatives
of interested Government agencies. No effort is made to restrict
the movement of those commodities which might qualify as additional
air cargoes for profitable commercial operation in peacetime. The
identity of the cargoes is defined generally by the strategic needs
of the United States for materials. The question of cost recovery
does not arise, because the planes used in any event, which return
to civilian use, were in fact for the purpose of military transport
and are being used for that purpose.

Under the existing law, air transport is a special status item, the use of
military aircraft in foreign areas is subject to considerable con-
trol by the Commanding General of the area. Under certain conditions
defined in the regulations, he has the right to refuse cargo which
will be carried and the right to restriction plans.

The Board of Economic Warfare
Office of Economic Warfare Analysis
December 1, 1942

The Board of Economic Warfare is a comparatively small
agency of the limited number of lines exists in this country.
and the program construction program for flying boats, combined with
the use of land planes by the Army and Navy is limited to rigid control.
The Board is currently engaged in a study of the situation and has
been instructed by the Navy Department to carry out a study of the

SECRET

Three major air transport systems are presently available for the importation of strategic materials into the United States. Two are military--the Army Air Forces Air Transport Command and the Naval Air Transport Service. The third system is that portion of the Pan American Airways system still operated as a private commercial venture.

The principal activities of the civilian agencies of the Government have been devoted to making the maximum use of the returning military aircraft to carry the highest priority cargoes of strategic materials. The great airlines operated by the Army and Navy are designed primarily for outward movements of military cargoes, and advantage is taken of empty space on the return trips.

All present cargoes are carried on a "space available" basis; that is, the military determine what military demands for plane space shall have first priority and what residue is available to carry other strategic cargoes. Within the strategic cargo group, the relative priorities of the various strategic materials are fixed by the War Production Board after consultation with representatives of interested Government agencies. No effort is made to restrict the movement to those commodities which might qualify as economical air cargoes for profitable commercial operation in peacetime. The identity of the cargoes is defined primarily by the strategic needs of the United States for materials. The question of cost economy does not arise, because the planes must, in any event, make the return trip and, were it not for the cargoes furnished, might return empty or partly empty.

Under the existing Army Air Forces organization plan, the use of military transports in foreign areas is subject to considerable control by the Commanding General of the area. Under certain conditions defined in the regulations, he has the right to determine what cargoes will be carried and also the right to requisition planes.

The Priorities Division of the Air Transport Command in Washington notifies the officers abroad of the relative priorities for strategic materials and, although the instructions are merely advisory, there has been no instance, to date, of any friction or disagreement.

The Naval Air Transport Service started on a comparatively small scale because of the limited number of flying boats in this country, but the present construction program for flying boats, together with the use of land planes by the Navy, has resulted in rapid growth. An immensely important shuttle service between Rio and Natal was recently inaugurated by the Navy primarily to carry quartz crystals

EXHIBIT I

Accomplishments To Date

The following gives a cumulative total of the materials carried to date on Army and Navy airlines between the indicated points, according to the advices received up to the dates shown in the last column opposite each commodity.

These figures are obtained from Consular reports, reports from special foreign field representatives, cables and manifests of the Army Air Transport Command and from representatives in ports of entry in the United States.

	Cumulative total reported May 15 to date stated	Date
<u>Commodity Movements, China - India:</u>		
Bristles	67,534 lbs.	11/20/42
Silk (for British account)	291,949 lbs.	"
Tungsten	5,305,634 lbs.	"
Tin	101,000 lbs.	"
Mercury (for U.S.S.R.)	117,490 lbs.	"
Tea	10,000 lbs.	"
	5,893,607 lbs.	11/20/42
<u>Commodity Movements, Rio - Natal, by the Navy air shuttle service:</u>		
Columbite	1,070 lbs.	11/27/42
Mica	35,631 lbs.	"
Quartz Crystal	109,372 lbs.	"
Tantalite	4,292 lbs.	"
	150,365 lbs.	11/27/42
<u>Mica Movements from:</u>		
Karachi, India	328,289 lbs.	11/28/42
<u>Arrivals in the U. S.:</u>		
<u>Tantalite:</u>		
From Brazil	137,646 lbs.	11/28/42
From Belgian Congo	2,000 lbs.	"
	139,646 lbs.	11/28/42
<u>Industrial Diamonds:</u>		
From Brazil	75,000 carats	11/14/42
From Belgian Congo	225,000 carats	"
From United Kingdom	3,250,000 carats	"
	3,550,000 carats	11/14/42

2--Exhibit I

Cumulative total reported
May 15 to date stated

Date

Rubber:

From Liberia	291,959 lbs.	11/20/42
From Canal Zone and Nicaragua	108,078 lbs.	11/28/42
From Brazil	262,969 lbs.	11/23/42
From Manaus by RRO- DSC planes	28,472 lbs.	11/25/42
	691,478 lbs.	

Quartz Crystals:

From Brazil	95,527 lbs	11/28/42
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Beryl:

From Brazil	12,048 lbs.	11/28/42
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Tungsten Ore (Scheelito):

From Brazil	5,282 lbs.	11/28/42
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Senna Seed:

	271 lbs.	11/28/42
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Platinum:

	38,561 oza.	11/28/42
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Columbite sample:

From Brazil	420 lbs.	11/28/42
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Arrivals at Puerto Rico and Miami
for transshipment to Haiti:

<u>Rubber Seeds:</u>	4½ tons	11/28/42
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Exhibit II

Estimates For 1943

It is not possible to make any accurate forecast of what strategic commodities can be moved by air during 1943. Too many factors exist which can upset any firm prediction.

So long as import cargoes of strategic materials are carried on a "space available" basis, the amount of material moved is directly connected to the amount of space available.

The present outstanding military directives governing priorities for air transportation fix the following classifications:

1. Persons specified by the President, Secretary of War, or Secretary of the Navy;
2. Ferry pilots, either Army, Navy, or Marine, including 100 pounds of baggage per passenger;
3. Military and civilian personnel where emergency air travel is essential for the war effort.
4. Army and Navy equipment, ammunition, supplies and materials essential to the war effort.

The "space available" classification, read in the light of these regulations, limits strategic materials to space remaining when none of the specified priority personnel or material is available. The Army is presently considering, however, the possibility of placing these strategic materials in the class 4 priority group.

The broad language of the class 4 priority practically eliminates any appreciable outbound space, since the demands of the military for personnel and supplies will undoubtedly occupy substantially all of the space on all of the planes which can be put into outbound service. In fact, at the present time, there is a large backlog of material and supplies stored in warehouses at various points waiting for movement to outlying destinations by air.

On certain of the inbound routes, there have been and will be, from time to time, substantial amounts of vacant space. From certain areas there will be a large return movement of casualties, evacuees, machinery and equipment being returned to this country for major repair (particularly airplane engines and parts), and materials and supplies being moved from one military theater to another. Every route, however, is subject to the vicissitudes of military operation, and all space may be cut off at a moment's notice.

Three recent illustrations will indicate the unreliability of any predictions of future capacities:

1. The movements of mica out of Karachi, which began the latter part of May, gradually increased in volume during June so that from May 22 until June 24 a total of 40,200 pounds were moved. The movement was accelerating to such an extent that in the last week alone of this period 22,000 pounds were moved, that is, a rate of over 80,000 pounds a month. On that day, it would have been safe to predict that during the next thirty-day period at least 50,000 pounds would be shipped. As a matter of fact, however, the military demands on the planes, due to the Egyptian operation, together with the disruption of the operations through the demands of the Commanding General of the local area, stopped all movements entirely for a period of 35 days, and it was not until July 29 that the next shipment of 2,500 pounds was made.

During August a total of 65,000 pounds was moved.

Then during the first 12 days of September 20,460 pounds were moved, which would indicate a rate for that month of nearly 80,000 pounds. In the period from September 12 to September 24, however, only 1,000 pounds were reported; the reason for the drop-off being as yet unexplained, and the total for September aggregated only slightly over 40,000 pounds.

2. In June and July, the Air Transportation Division of the Air Transport Command stated that the route from the Panama Canal to Brownsville and San Antonio, Texas, was running extremely light, and that there was an average of 4,000 to 5,000 pounds per day of payload space available to carry strategic materials. At that time, there were no existing programs which could supply the material, and, after considerable difficulty, arrangements were made to move South American rubber and balsa wood to the Canal Zone by steamer for transshipment by air.

By the time these arrangements were completed, a military order had been issued directing the evacuation of certain personnel from the Canal Zone area, which completely filled the available payload space of this plane service. Accordingly, all arrangements for the transshipment of balsa wood at the Canal Zone for air movement to San Antonio were cancelled.

3. The air movement from China into India has been increasing by leaps and bounds. The movement for September reached the

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On certain of the inbound routes, there have been and will be, from time to time, substantial amounts of vacant space. From certain areas there will be a large return movement of casualties, evacuees, machinery and equipment being returned to this country for major repair (particularly airplane engines and parts), and materials and supplies being moved from one military theater to another. Every route, however, is subject to the vicissitudes of military operation, and all space may be cut off at a moment's notice.

Three recent illustrations will indicate the unreliability of any predictions of future capacities:

1. The movements of mica out of Karachi, which began the latter part of May, gradually increased in volume during June so that from May 22 until June 24 a total of 40,200 pounds were moved. The movement was accelerating to such an extent that in the last week alone of this period 22,000 pounds were moved, that is, a rate of over 80,000 pounds a month. On that day, it would have been safe to predict that during the next thirty-day period at least 50,000 pounds would be shipped. As a matter of fact, however, the military demands on the planes, due to the Egyptian operation, together with the disruption of the operations through the demands of the Commanding General of the local area, stopped all movements entirely for a period of 35 days, and it was not until July 29 that the next shipment of 2,500 pounds was made.

During August a total of 65,000 pounds was moved.

Then during the first 12 days of September 20,460 pounds were moved, which would indicate a rate for that month of nearly 80,000 pounds. In the period from September 12 to September 24, however, only 1,000 pounds were reported; the reason for the drop-off being as yet unexplained, and the total for September aggregated only slightly over 40,000 pounds.

2. In June and July, the Air Transportation Division of the Air Transport Command stated that the route from the Panama Canal to Brownsville and San Antonio, Texas, was running extremely light, and that there was an average of 4,000 to 5,000 pounds per day of payload space available to carry strategic materials. At that time, there were no existing programs which could supply the material, and, after considerable difficulty, arrangements were made to move South American rubber and balsa wood to the Canal Zone by steamer for transshipment by air.

By the time these arrangements were completed, a military order had been issued directing the evacuation of certain personnel from the Canal Zone area, which completely filled the available payload space of this plane service. Accordingly, all arrangements for the transshipment of balsa wood at the Canal Zone for air movement to San Antonio were cancelled.

3. The air movement from China into India has been increasing by leaps and bounds. The movement for September reached the

figure of 1,000 tons, mostly tungsten. Expectations for October were even greater and for the first few days averaged 40 tons per day. However, on the basis of a request from the Commanding General, the interested civilian agencies in Washington agreed to a complete discontinuance of all movements of strategic materials out of China for a substantial period, which began about October 15th and may run until the middle of December.

The Air Transport Command has furnished us a theoretical program of the expansion of total capacity of its airlines up to and including December 1943, according to the attached schedule. For purposes of comparison, September 1942 is also given, so that some idea of the growth of the service may be had.

The figures given are the total net payload capacities of the projected routes, after providing all necessary gasoline load.

On some of these routes, despite the large available payload space, many of the planes will, nevertheless, come back practically empty. It will be difficult to provide cargoes of strategic materials back from Alaska (unless the route is made part of a through route to Russia or China), which will be worth the additional aviation gasoline needed to haul the extra load. There will not be substantial amounts of strategic materials to be imported from the United Kingdom-Iceland-Greenland route.

On the trans-Pacific operation, the Air Transport Command anticipates an extremely heavy movement of personnel, which will leave relatively little space for cargoes.

The figures given as of December 1942 represent the present estimates of the operating officers of the Plans Division and Air Transportation Division of the Air Transport Command. The estimated increase of 15% per month obviously will not be mathematically applicable for each route. On some of the routes there will be, because of lack of traffic, no increase whatever. On other routes, the increase may be substantially greater than the figure given. If, for example, the largest proportion of the increased plane service is allotted to routes from which there are substantially no return cargoes of strategic materials, the entire increase in plane service will be wasted as far as our program is concerned. In addition, the changing necessities of the war may at any time make it imperative to shift services arbitrarily from one route to another, or perhaps to divert a substantial number of planes from the entire operation for other military purposes. The operations of the Naval Air Transport Service during 1943 must not be overlooked, although an accurate estimate of capacities are not presently available.

4-Exhibit II

Based on present information and the history of the operations to date and subject to all of the vicissitudes and contingencies inherent in a military operation, it would seem reasonable to expect that movements during 1943 might easily be three or four times the present movement, which is aggregating approximately 250 tons per month from all sources, excluding the shuttle movement from China into India.

Daily capacity in pounds

Month	Capacity (Pounds)	Actual (Pounds)	Percentage
January	100,000	100,000	100%
February	100,000	100,000	100%
March	100,000	100,000	100%
April	100,000	100,000	100%
May	100,000	100,000	100%
June	100,000	100,000	100%
July	100,000	100,000	100%
August	100,000	100,000	100%
September	100,000	100,000	100%
October	100,000	100,000	100%
November	100,000	100,000	100%
December	100,000	100,000	100%

5-Exhibit II

The following figures indicate the expected available capacities of the ATC in 1943 for planes leaving the indicated points for the United States. The December, 1942 capacity represents the present program and is used as the base figure with an average increase of 15% per month each, beginning in January, 1943. The figure for September, 1942, represents as nearly as can be ascertained the average daily capacity for that month. As yet the ATC has not gathered together figures indicating the cargo movements for their past operations. In the early days, cargo operations were so sporadic and casual that it is doubtful whether complete records will ever be available. However, figures for July and August will eventually be accumulated.

Daily capacity in pounds.

	<u>Karachi</u>	<u>Cairo</u>	<u>Khartoum</u>	<u>accra thru Natal to Miami</u>	<u>United Kingdom</u>
September 1942	3,000	10,000	15,000	19,000	1,700

December 1942	25,000	25,000	50,000	60,000	30,000
January 1943	28,750	28,750	57,500	69,000	34,500
February "	32,500	32,500	65,000	78,000	39,000
March "	36,250	36,250	72,500	87,000	43,500
April "	40,000	40,000	80,000	96,000	48,000
May "	43,750	43,750	87,500	105,000	52,500
June "	47,500	47,500	95,000	114,000	57,000
July "	51,250	51,250	102,500	123,000	61,500
August "	55,000	55,000	110,000	132,000	66,000
September "	58,750	58,750	117,500	141,000	70,500
October "	62,500	62,500	125,000	150,000	75,000
November "	66,250	66,250	132,500	159,000	79,500
December "	70,000	70,000	140,000	168,000	84,000

6 - Exhibit II

- 2 -

Daily capacity in pounds.

	<u>Australia</u>	<u>Alaska</u>	<u>Canal Zone</u>	<u>Guayaquil</u>
September 1942	2,800	21,000	10,000	0

December 1942	20,000	55,000	22,000	5,000
January 1943	23,000	63,250	25,300	5,750
February "	26,000	72,500	28,600	6,500
March "	29,000	80,750	31,900	7,250
April "	32,000	89,000	35,200	8,000
May "	35,000	97,250	38,500	8,750
June "	38,000	105,500	41,800	9,500
July "	41,000	113,750	45,100	10,250
August "	44,000	122,000	48,400	11,000
September "	47,000	130,250	51,700	11,750
October "	50,000	138,500	55,000	12,500
November "	53,000	146,750	58,300	13,250
December "	56,000	155,000	61,600	14,000

Exhibit III

On the following four pages is a verbatim quotation of that portion of the War Production Board Cargo Plane Committee report which discusses the magnitude of possible air cargo operations if the entirety of a selected group of strategic materials was imported into the U.S. by air. The list and the accompanying map also show the amount of potential strategic air cargoes of raw materials. The annual tonnages of cargo given in the list are based on the reports of the Joint Intelligence Committee. Other materials such as balsa wood and certain needed fibers might be added to swell the total.

The map includes all of the items contained in the attached list with the exception of the three bulky cargoes of rubber, copper and quebracho.

IMPORTS

The effective prosecution of the war by the United Nations depends to a large extent on the ability of the United States as the most potent producer of war materials to import from abroad large enough volumes of necessary strategic material without which our productive program cannot succeed.

We have selected a list of thirty-seven commodities, all highly strategic, and all rated from A-1 to A-4, for water-borne shipping priority. They range from one short ton of quinine to 657,200 tons of copper as expected cargoes for the year 1942. The total tonnage is 1,303,159 tons for the year and as shown on the accompanying map, they come from almost every area now under the control of the United Nations.

Expected Imports
Selected Critical Materials (1942)

<u>Commodity</u>	<u>Expected Cargo (1942)</u> (Short Tons)
Antimony	30,550
Asbestos	34,815
Beryllium	5,000
Bismuth	550
Cadmium	1,022
Cobalt	11,760
Coconut shell char	5,000
Columbium	1,000
Copper	657,200
Corundum	3,606
Cryolite	27,416
Fish Liver Oil	7,000
Graphite	20,061
Henbane	75
Hog Bristle	1,518
Ilmenite	36,000
Iodine	762
Kyanite	10,000
Mica (block)	2,540
Mica (splittings)	6,526
Nickel Matte	7,690
Platinum	2
Pyrethrum	5,000
Quartz Crystals	2,000
Quebracho	100,000
Quinine	1
Rubber	184,000

<u>Commodity</u>	<u>Expected Cargo (1942)</u> <u>(Short Tons)</u>
Rutile	13,820
Silk	725
Mangrove	9,000
Myrobolans	3,500
Wattle	18,800
Tantalum	750
Tin	44,500
Tungsten	3,900
Vanadium	1,970
Zirconium	45,000
World Total	<u>1,303,159</u>

Assuming that the total expectable production of cargo planes for the years 1942 and 1943 were available immediately for this purpose and that each plane would operate an average of 2000 hours total flight time per annum, we would still be unable to move into this country the total of all these urgently needed materials.

However, by the end of 1943 we would be able to move the total of those products, the demand for which is less than 100,000 tons per annum. There would still be available for movement 491,119 tons of bulkier items; namely, rubber, copper, quebracho.

The above assumption, of course, does not allow for the use of a substantial portion of these planes in direct military activities - which means that actually the amount that could be carried with the present production would be very much smaller. It is for this reason that this report repeatedly points out the necessity of at least doubling the present production.

Certain importable materials, particularly those coming from China, India and points in the Middle East and Near East, are not now easily available for water transport, because in many instances the country of origin is completely blockaded by the enemy. In other instances, the water trip is so long and so vulnerable to enemy action that materials of strategic importance to the United States should not be subjected to the risk of loss.

We can best demonstrate the urgent need for imports by air by pointing out that if the northern and southern Atlantic shipping lanes were cut so that water-borne movement of strategic imports across these areas became impossible, we would find ourselves completely cut off from:

4 - Exhibit III

- " (a) A special type of strategic asbestos, which is the only asbestos which will meet certain Navy specifications and which comes from South Africa;
- (b) The greater portion of our strategic corundum needed for the grinding of optical lenses, range finders, bomb sights, and similar optical equipment - likewise a product of South Africa;
- (c) A substantial part of the United Nations requirements for graphite suitable for fine crucibles, most of which originate in Madagascar and Ceylon;
- (d) Over half of our requirements for strategic mica, absolutely essential for the manufacture of short-wave radios and other electrical equipment - the principal source of which is the northeastern part of India;
- (e) Practically all of our cobalt needed for certain types of steel, and which is imported from the Belgian Congo;
- (f) Almost 25% of our remaining available supply of tin, coming from Nigeria and the Belgian Congo; and
- (g) Our entire supply of cryolite from Greenland, essential in the aluminum industry.

Shipping losses of strategic materials in the last three months have been extremely serious, including dangerously large proportions of antimony, tin, and other materials. Were sufficient cargo planes available to move these materials into the United States from points of origin, the damaging effect on our economy during the next eighteen months which will result from these losses would be averted.

In addition, on a number of these materials, our present stockpiles are dangerously low and speed in imports as well as safety is essential. The versatility of the airplane in such cases gives a great advantage over shipping by not having to wait for a suitable accumulation.

The Mack

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

December 7, 1942

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

On November 3, 1942 I transmitted to you the October 29, 1942 final report of the Interdepartmental Valuation Committee, with my recommendation that we all adopt the conclusions of the Committee (to the effect that the problem be tabled for the duration).

We have now heard from all the Departments addressed, and there is unanimous concurrence with the conclusions of the Committee.

Yours very truly,

E. R. Stettinius, Jr.

E. R. Stettinius, Jr.

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

This letter to:

- Bureau of the Budget
- War Shipping Administration
- War Department
- Navy Department
- Department of Agriculture



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 62 - Aircraft Despatched
- for week ended December 1, 1942.

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

December 7, 1942.

STATEMENT NO. 62

AIRCRAFT DISPATCHED FROM THE UNITED STATES

WEEK ENDING DECEMBER 1st, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>LOCKHEED</u> Fortress II A	U.K.	Canada enroute		1	
<u>WHEELER</u> Bermuda	U.K.	U.K.	4		
<u>CONSOLIDATED</u> Catalina 1B	U.K.	Bermuda enroute		15	
Liberator III	U.K.	Canada enroute		1	
<u>DOUGLAS</u> Boston III A	U.K.	Canada enroute		1	
<u>LOCKHEED</u> Hudson VI	U.K.	Canada enroute		3	
<u>GLENN MARTIN</u> Baltimore III A	Middle East	Middle East		27	
<u>NORTH AMERICAN</u> Harvard	India	Bombay	6		
<u>BOEING</u> Vengeance	India	Bombay	26		
<u>TOTAL</u>			<u>36</u>	<u>48</u>	

36
48
—
84

Movements Division.
British Air Commission
December 5th, 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 7, 1942

TO Secretary Morgenthau

FROM Mr. White *W.W.*1. Stabilization Fund's Gold Transactions

During November, 1942, the Stabilization Fund sold about \$11 million in gold to foreign countries to be earmarked for their accounts with the Federal Reserve Bank of New York. Sales, by countries, were as follows:

<u>Country</u>	<u>Sales in millions of dollars</u>
Argentina	5.0
Switzerland	5.0
Vatican	1.0

In addition, the Fund purchased about \$2.5 million in gold from the earmarked account of Uruguay.

In order to maintain its gold balance, the Stabilization Fund purchased \$11.5 million in gold from the Treasury General Fund.

As a result of the above transactions, there was a net increase of about \$3 million in the Stabilization Fund's gold holdings to about \$19 million as of November 30.

TREASURY DEPARTMENT

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-2-

Division of Monetary
Research2. Treasury Gold Stock

During November, the Treasury's gold stock increased by \$3.7 million to \$22,743.4 million as of November 30. Known and estimated acquisitions were as follows:

	<u>Millions of dollars</u>
Newly-mined domestic	2.9
Imports sold directly to mints and assay offices (nearly all from Canada)	11.8
Miscellaneous (coin and scrap)	<u>0.5</u>
Total	15.2

The Treasury sold \$11.5 million to the Stabilization Fund, making a net increase of \$3.7 million.

3. Total Gold Holdings of the United States

	<u>October 31, 1942</u>	<u>November 30, 1942</u>
Treasury Gold Stock	\$22,739,749,323	\$22,743,411,716
Stabilization Fund Gold	<u>16,049,997</u>	<u>19,090,888</u>
Total	\$22,755,799,320	\$22,762,502,604

The increase in the gold holdings of the Treasury and the Stabilization Fund during November was \$6.7 million.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 7, 1942.

TO Secretary Morgenthau
FROM Mr. White
Subject: The Current Situation in Cuba.

In view of President Batista's arrival in Washington tomorrow, you may be interested in the following statement of Cuba's economic and political situation.

I. United States Aid and Cooperation.

1. Batista intends to sign new economic agreements probably involving the purchase of the 1943 sugar crop. We bought the entire 1942 crop at 2.65 cents per pound (one cent above the 1941 average price, but only one-fourth the 1920 price). The Cubans are worried by current expectations of a less favorable 1943 agreement.

2. A United States Technical Mission (under Treasury control) has advised Cuba on a Central Bank and related topics. Cuban legislation growing out of the Mission's reports is near passage. Another report, on an Agricultural Bank, is almost completed.

3. The gold agreement of July 6, 1942, gives Cuba 120 days to pay for gold purchased. To date Cuba has bought \$15 million of gold, which is used as reserve against issuance of the new peso notes printed in Washington last spring.

4. The United States has signed a \$7.2 million Lend-Lease Agreement with Cuba calling for a maximum total repayment of \$4.2 million (58 percent). Through September, shipments totaled \$330,000.

5. Export-Import Bank active commitments to Cuba total \$40 million: (a) \$25 million for general public works, and for industrial and agricultural development, (b) \$15 million for improving Habana's waterworks. No actual disbursements have been made under either of these. Repaid loans of \$27 million aided Cuba's coinage program in the middle thirties and \$11 million helped Cuba store and grind part of her 1941 sugar crop.

6. Defense Supplies Corporation plans to purchase critical agricultural commodities from Cuba under long-term contracts at remunerative prices.

II. Current Economic Situation.

1. Cuba faces an economic slump. There are not enough ships to move her sugar and Cuban warehouses cannot hold a large accumulating surplus. Imported foods are limited, and priorities restrict materials

necessary for domestic production. Wages have not kept up with the 40 percent rise in food prices during the past year. Habana's tourist trade has ceased. Favorable factors include a sizable export trade balance and the rapid growth of mining.

2. A deficit of nearly \$10 million is expected in the regular budget, but extra-budgetary accounts have produced surpluses which will nearly offset the budget deficit. Government revenues depend heavily on import duties, which are shrinking with the curtailment of the quantity of imports. Most other revenues are from sales taxes.

3. The monetary system in Cuba, long merely an appendage of the dollar system, is now developing an independent existence. Cuban peso coins have largely replaced United States coins, in public use, and the circulation of peso banknotes now exceeds that of dollars.

4. The values of Cuban exports and imports are higher than last year because of rising prices. Cuba's favorable trade balance was \$30 million during January-July 1942. The United States provides some 85 percent of Cuba's imports and takes over 90 percent of her exports.

5. Cuban funded debt (all being serviced) totals \$121 million, including \$114 million external and \$7 million internal. These figures do not include a floating debt estimated at \$50 million or more.

III. Political Developments.

1. Batista was elected president in July 1940 but his regime dates from 1933, when he seized control of the Army, ousted Machado, and placed in office the first of eight puppet presidents. Batista ruled as a military dictator and did not run for office until 1940 for fear that the United States would not recognize his Government.

2. Cuba declared war on the Axis immediately after the United States declaration. Cuba is now the United States base of supply for the whole Caribbean area.

3. Batista's presidential term has been marked by a new constitution, an unsuccessful Army revolution in February 1941, two Cabinet crises, and an obstructionist legislature which resorts to street brawls to settle differences.

4. Relations with Spain have been strained because of Cuban Falangists who have received support from the Franco Government.

INCOMING CABLEGRAM

Received: December 7, 1942

Dated: December 7, 1942

From: Chungking

Federal Reserve Bank of New York

New York

No. 29

Please debit our Allied Victory United States Bond Account \$100,000,000 and Savings Certificate Account \$50,000,000 and subscribe \$150,000,000 United States Treasury Certificates as arranged by the United States Treasury, also hold these certificates for our account.

Receive for our account \$3,250,000 from yourselves by order of Stabilization Board of China.

(Signed) Central Bank of China

(Received by telephone from Federal Reserve Bank of New York, N. Y.,
December 7, 1942.)

BRITISH MOST SECRET
U.S. SECRET

KTCL No. 424

Information received up to 7 A.M., 7th December, 1942.

NAVAL

3 Russian ships independently routed have reached ICELAND (C) from North Russia. Russian warships sank a 10,000 ton tanker, 2 ships of 2,500 tons and some small craft in the Western Black Sea on the 1st.

COCOS ISLANDS. 6th. 6 bombs dropped by 3 Japanese aircraft. No message to communications.

MILITARY

TUNISIA. In TEBOURBA area the enemy is maintaining considerable pressure with mechanised troops and infantry. His patrols are active in the regions of PONT DU FAHS and MASSICAULT between MEDJES EL BAB and TUNIS. The attack on our forward positions at TEBOURBA on 3rd was heavier than early reports suggested, casualties severe on both sides. On our Southern flank enemy patrols from SFAX and KAIROUAN have been active in the direction of FAID and BOUZID, both held by U.S. An armoured attack on the former was successfully repulsed.

NEW GUINEA. Heavy fighting is taking place in BUNA. The village isolated except from the sea by night.

AIR OPERATIONS

WESTERN FRONT. 6th. In the morning 2 large scale operations involving 210 bombers and 30 squadrons of fighters were carried out. Fives-Lille factory was bombed by 54 U.S. Fortresses supported by 16 Spitfire Squadrons. Preliminary reports indicate satisfactory attack, Works and railway yard being hit. 6 escorted U.S. Liberators made diversion attack on ABBEVILLE airfield with observed results. Total about 90 tons dropped. Casualties: Enemy by fighters 1, 2. by Bombers (provision) 11, 5, 8. Ours, 1 Fighter, 2 Bombers. Philips Electrical Works LINDHOVEN was attacked from low level by a total of 90 Venturas, Mustangs and Mosquitos, 63 tons dropped. Many parts of main plant set on fire and reported on boiler house, erection sheds, laboratories and stores. Principal Blow Valve Factory also left well alight, walls seen to collapse and particularly large explosion occurred. Casualties - enemy nil, nil, 1. Ours 14, nil, nil. One crew safe.

6th/7th. 287 aircraft sent out - MANNHEIM 273, sea mining 14. First reports indicate identification at MANNHEIM extremely difficult owing to visibility. 9 bombers missing, 5 crashed, 25 personnel saved.

FRENCH NORTH AFRICA. Bombing of BIZERTA by our aircraft was continued and on 5th 2 attacks were made on DJEDEIDA Airfield. Enemy aircraft heavily attacked BONE 4th/5th and MEDJES EL BAB airfield on 5th. Casualties, enemy, 2, 5. Ours 8, nil, 5.

BURMA. 24 escorted Japanese bombers attacked CHITTAGONG Harbour caused no important damage.

December 8, 1942
10:53 a.m.

Operator: All right.

HMJr: Hello.

White House
Operator: Hello, Mr. Secretary, General Watson. Thank
you, sir.

Operator: There you are.

Major General
E.M. Watson: E. M. W.

HMJr: Well, it's very nice to hear your voice.

W: How are you?

HMJr: I'm....

W: Say, look here, what I want to tell you was,
Ross doesn't think I ought to go out quite
yet. He says I'm almost there, about the turn
of the year I'll be taking anything in.

HMJr: I see.

W: So he - they've eliminated me from the list.
I just wanted to thank you anyhow and tell
you how sorry I was I couldn't come.

HMJr: Well, that's too bad.

W: I'm going to the White House dinner tonight,
but I get away about ten.

HMJr: Yeah.

W: And I could go to get away at ten, but it's
better to have a man staying on - take the
gab a little later.

HMJr: You know what I told Grace Tully that they
need over at the White House....

W: Yeah.

HMJr:a first-class veterinarian.

- 2 -

W: I think so. (Laughs) That's - really that's what they do need.

HMJr: Yeah.

W: (Laughs)

HMJr: Because I understand that maybe Ross can't come either.

W: Yeah, he's a little laid up.

HMJr: Yeah, what they....

W: Well, a little fresh blood wouldn't hurt him.

HMJr:first-class - just a - no, a little veterinarian, I think.

W: I think maybe we'd all be better.

HMJr: Yeah.

W: Yeah, I think you're right. He....

HMJr: Well, I'm sorry. We'll miss the Old Dollar Watson.

W: Thank you, and I'll - I'll be there at the next one, no, if we ever have another one, I sure will.

HMJr: What do you mean if you ever have another one?

W: Well, I know - we'll - I'll be there. I'll be there.

HMJr: All right.

W: And thank you a thousand times. I just wanted to tell you.

HMJr: That's very polite.

W: Thank you, sir.

December 8, 1942
11:31 a.m.

Operator: Thompson.

HMJr: Norman?

Norman Thompson: Yes, sir.

HMJr: Haas is sitting here....

T: Yes.

HMJr:and could we take Tickton and Lindow and put them up to \$6,500?

T: Yes, sir. We could make them assistant directors.

HMJr: Do that as of when?

T: We could start it on December 11, the next pay period.

HMJr: Uh....

T: Just - Friday of this week.

HMJr: (Talks aside: Why not do it the first of January?) I'd do it January 1.

T: Well, okay, that will be all right.

HMJr: Why - why do you hesitate?

T: We gen.. - well, I'm just thinking we generally try to start it each pay period.

HMJr: All right, do it the next one.

T: The 10th and 25th, you see.

HMJr: All right, do it the next one. That's all right.

T: Yeah.

HMJr: Okay.

- 2 -

T: That'll be the 26th of December or the 11th of....
HMJr: Do it the 11th.
T: 11th, fine.
HMJr: All right.
T: Okay, sir.
HMJr: Okay.
T: I'll take care of it.
HMJr: Thank you.

December 8, 1942 150 ✓

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Secretary Morgenthau's Office
December 8, 1942
11:30 A.M.

Present: Secretary Morgenthau
Mr. Currie
Mr. Charles Wilson
Miss Kistler

The conference was in progress when I entered. Mr. Currie and Mr. Wilson had called to submit to the Secretary the plan drafted by the Joint War Production Committee to permit the Treasury to exercise closer control over Canada's U.S. dollar receipts than is possible under the present procedure, under which other U.S. Government agencies are to submit to the Treasury for review any large orders they contemplate placing in Canada. The alternative procedure being proposed is that control be exercised through the allocations of the finished munitions rather than through the placing of contracts. Specifically, it would consist in the Treasury watching Canada's U.S. dollar position and when the holdings had reached the desired level to so inform Mr. Wilson who, with Mr. Howe of Canada, would divert material being delivered on U.S. Government contracts to British account and charge them against Canada's gift to Britain. Mr. Currie indicated that this would be relatively simple to do because a large proportion of materials being produced in Canada on U.S. Government contracts are of British specifications destined for British use.

It was agreed that the procedure set forth by the Secretary at the meeting in his office on July 21, 1942, had broken down. Since this is so the Secretary said he was willing to try the new scheme. Mr. Currie stated that he had discussed the plan informally with Mr. White and that Mr. White had been favorably impressed.

I raised the point of the proposed plan presupposing some pre-determined figure of adequate dollar holdings of Canada, or alternatively the acceptance of some criteria as a measure of that adequacy, and told the Secretary that such an exploration, not only with respect to Canada but covering the entire problem of financial assistance to Allies, had been suggested by Mr. White in a memorandum submitted to the Secretary on December 4, 1942.

The Secretary stated that Mr. Stettinius had called him to say that the British gold and dollar holdings were getting so high he was afraid they would prejudice Congressional attitude toward the next Lend-Lease appropriation.

The Secretary asked Mr. Currie and Mr. Wilson to submit a memorandum to him setting forth the proposal. Mr. Currie promised to do so.

Mr. Wilson and Mr. Currie stayed on to discuss informally the situation of airplane production in this country.

T. M. Kistler

December 8, 1942
12:09 p.m.

HMJr: Yes.

Peter
Odegard: Mr. Secretary, I just wanted to ask you a question that I'd forgotten this morning.

HMJr: Yes.

O: You remember I spoke to you the other day about Barry Wood and this record?

HMJr: Oh, yes.

O: Frank Walker, the vice president of the RCA Victory Company....

HMJr: Yeah.

O:will be down here with Barry Wood and....

HMJr: Yeah.

O:would like to come in with him.

HMJr: That's all right.

O: And would it be possible for them to take a picture at that time?

HMJr: Sure, sure.

O: All right, fine.

HMJr: Sure.

O: Thank you.

HMJr: All right.

December 8, 1942
12:10 p.m.

PRODUCTION OF COINS

Present: Mr. Bell
Mrs. Klotz

(Memorandum dated December 5, 1942, addressed to Mr. Bell from Mr. Howard, handed to the Secretary, copy attached.) 2-158

MR. BELL: If we get, tomorrow, a release of twelve tons of zinc and two hundred and twenty-three tons of copper, he thinks we can make fifty-six million pennies by around the 22nd, and we deliver them each day and keep them going.

H.M.JR: Do we need them?

MR. BELL: I think it would be a help. Yes, we need one-cent pieces, but if we don't get them, we will have to get by with what we have got.

What we have got is some copper on hand that we are using to manufacture the nickel. If we get the promise of this copper, we will go ahead and use the nickel copper for the penny, and then replace the nickel copper when this is delivered.

H.M.JR: I think the thing to do is to call up Nelson on the phone. I don't want to put it in writing.

I like this fellow Wilson, of G.E. He is the new chairman of this new Board - this committee on American business - so from now on they are going to go ahead and do business, and we can bring it to their attention any time - too much or too little dollars.

MR. BELL: I wonder if anything is working over there.

- 2 -

H.M.JR: He said, "I had a hard time," this, that, and the other - that everything you read about in the papers is just the bunk.

MR. BELL: Including the production of airplanes?

H.M.JR: He says, "I am Chairman of the Board, but everybody under me is Army and Navy and I have to rely on them." Well, we are feeding our people. Let me tell you what I told Nelson the week he went in. I told him, but he is again compromising - but it is the same thing - nothing clean-cut, nothing clear, just for the hope--

(The Secretary held a telephone conversation with Mr. Nelson, as follows:)

December 8, 1942
12:15 p.m.

HMJr: Hello.

Operator: Mr. Nelson.

HMJr: Hello.

Donald
Nelson: Hello.

HMJr: Don?

N: Yes, sir.

HMJr: How are you?

N: Fine, thank you.

HMJr: Don, I didn't want to put this in writing,
because if you thought after hearing it was
unwise, we'd forget about it. But if we could
get twelve tons of zinc and 223 tons of copper,
why, between now and the 21st of this month we
could make fifty-six million pennies and take
care of the shortage - some of the shortage which
exists in pennies.

N: Yes, I think we can do that.

HMJr: Now there is a real shortage, and it - it's
hurting all along the line, and it's an earache
which I'd like to remove unless you tell me....

N: No, I think we can do that. Will you repeat that
again?

HMJr: Twelve tons of zinc....

N: Yes.

HMJr:and 223 tons of copper.

N: The copper will be awfully hard this month.

HMJr: Yeah, and....

- 2 -

N: We'll see what we can do. The copper will be darn tough because it'll - it'll come right out of ammunition.

HMJr: Well, that's just why I didn't want to put it in writing, because if it's going to come out of ammunition I don't want it.

N: Well, it - it'll have to come directly out of small arms ammunition.

HMJr: Well, I'd forget it. I don't want....

N: But there's just - now we may be able to - supposing we could do this, do you have to have pure copper?

HMJr: Let me ask Bell. He's sitting here.

N: If you could - we might be able to get some scrap for you, that can't be used directly for ammunition without refining which we could - we could use.

HMJr: Let me...(talks aside) Do you mind if - Bell's sitting across the desk. Let him talk to you.

N: Okay.

Daniel
Bell: Hello.

N: Hello, Danny.

B: Hello, Donald.

N: I....

B: I think we can take the scrap and put it in shape for the pennies, but that'll take a little longer but I think we can take some of our nickel copper - the copper we have for the nickel....

N: Yes.

B:and use that for the penny, and then replace it with the scrap copper that you'd give us....

- 3 -

N: Say, why don't I have somebody that knows that whole situation - knows what scrap we've got and that we can't directly use for ammunition get in touch with some of your experts.

B: Will you do it this afternoon?

N: I'll do it, Danny.

B: See me.

N: Okay.

B: Thanks.

N: I'll do that.

B: All right.

HMJr: Thank you very much.

- 3 -

MR. BELL: We can't take it out of ammunition.

H.M.JR: It is the funniest thing. You talk to this fellow and it is always like this; he gives you the answers, but the things don't click.

MR. BELL: Down the line, yes.



OFFICE OF
DIRECTOR OF THE MINT

TREASURY DEPARTMENT
WASHINGTON

December 5, 1942.

MEMORANDUM

TO: Mr. D. W. Bell.

FROM: Mr. Howard.

Re your phone call about cents: The next day after we receive word that we can get copper and zinc, we can manufacture 1,250,000 one-cent pieces. Within two or three days, production can be stepped up to approximately 4,000,000 pieces daily. Copper for the five-cent piece and subsidiary coins can be used until copper is received. I think we have enough zinc on hand and, if not, I believe we can pick up some in an emergency, with W. P. B.'s approval. (They would have to cooperate on both metals to meet the schedule.)

If we were to get word to the Mint Monday to start Tuesday, the 8th, and were to continue production through the 21st, a total of 14 days, (approximately 56,000,000 pieces), it would require approximately 12 tons of zinc and 223 tons of copper. Of this amount, approximately 40 tons of copper and $1\frac{1}{2}$ tons of zinc would remain in the form of punched-out strips (clips). We could either use this to make more coins or turn it back to the war effort.

LH

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS

LH/eh

December 8, 1942
3:01 p.m.

HMJr: How are you?

Sumner
Welles: Fine, thanks.

HMJr: Sumner, on Thursday night I have a command
appearance from across the street - hello....

W: Why, (laughs) you mean about dinner.

HMJr: Yeah.

W: Well, I see.

HMJr: Yeah.

W: Of course.

HMJr: It's sort of off-the-record.....

W: Of course.

HMJr:dinner with the President.

W: Why, sure, Henry.

HMJr: And I just wanted - rather than write you I
wanted to explain it personally.

W: Thank you so much. I'm only sorry that I won't
have the chance of seeing you.

HMJr: Well, I am too, and I - I'm sure you'll under-
stand.

W: Why, of course I do, Henry.

HMJr: All right.

W: Thanks for calling.

HMJr: Thank you.

W: Goodbye.

December 8, 1942
5:08 p.m.

HMJr: Harold.

Harold Graves: Yes, sir.

HMJr: I'd like you to do something for me tonight.

G: Yes, sir.

HMJr: I'd like a telegram to go to every one of your forty-eight administrators....

G: Yes.

HMJr:telling them that I'd like to know - have them send me a telegram Saturday night....

G: Yes.

HMJr:how many of these Christmas posters have they actually put up by Saturday night....

G: Yes.

HMJr:that's the twelfth.

G: How many by Saturday night.

HMJr: Yeah.

G: Yes, sir. We'll do it.

HMJr: And to make a special effort....

G: Yes.

HMJr:to get them up in prominent places.

G: All right, sir, we'll do it.

HMJr: And they should send you a telegram back - or report to you on the night - send you a telegram on the night of the twelfth.

G: By Saturday night again, yes.

- 2 -

HMJr: Yeah - how many they - they've put up in each of the forty-eight states.

G: Yes, sir. As a matter of fact, I'm not sure that - that the - that the posters have had a chance to get out.

HMJr: What?

G: I say I'm not sure that the posters have yet had a chance to get out.

HMJr: Well, if they haven't they're not going to much - do much good for Christmas.

G: The shipment was begun on this poster on the 25th of November....

HMJr: Well....

G:and was just completed Monday.

HMJr: Okay. Well, one way to find out is to send a telegram....

G: Yeah, well, we'll send....

HMJr:out from here.

G: Yeah, we'll send....

HMJr: Try to put the heat on you.

G: Yes, sir, we'll send the wire.

HMJr: Will you, please?

G: Yes, sir.

HMJr: Now another thing....

G: Yes.

HMJr: Just hold the wire one..... - I wish that you could find out for me - well, one thing I'd like to get - income tax of this fellow Lemmon, the advertising man?

G: Yes.

HMJr: I wish you'd go back a couple years for he and his wife. I'd like to know more about him.

G: Very good, sir.

HMJr: I like the man. I'd....

G: I do too.

HMJr:like to know more about him.

G: I'll find out right away.

HMJr: And also something about - some more about Harold Thomas.

G: All right.

HMJr: You see, with Ferdie leaving we've got to do something.

G: That's right.

HMJr: And after we have that information on hand, then I want to sit down and have a talk with you.

G: Fine. Well, I'll get that right away.

HMJr: But I've got to have somebody that's here - doing liaison on advertising....

G: Sure.

HMJr:between Sullivan and you and Odegard and Buffington, you see?

G: Yes.

HMJr: And...

G: Yes.

HMJr:I don't know whether it will be Thomas or Lemmon or somebody else, but we....

G: Yes.

HMJr:got to have somebody.

G: Well, I'll get the....

HMJr: I mean every day there's something comes across my desk which bumps into some other part of the Treasury.

G: Sure.

HMJr: I - for instance, I've stopped signing any more letters to governors or to school teachers.

G: (Laughs) Yeah.

HMJr: Because we've just got to have a meeting here because I'm not going to do it.

G: Yes, yes.

HMJr: We can't ask the school teachers to do about ten different things.

G: Yes.

HMJr: But you - you do the telegram tonight, Harold.

G: I'll do it right away.

HMJr: You sound very peppy.

G: Yes, sir, I'll....

HMJr: Are you feeling all right?

G: You bet. Everything's fine, thank you.

HMJr: I see you figured on the sales pretty good this December.

G: Well, they've got to be good, you know, to - we've set a pretty high goal for ourselves.

HMJr: Well, get this telegram out on this Christmas poster....

G: Yes.

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HMJr:and I'd like to have a copy of it in the morning.

G: All right, I'll see that you have it.

HMJr: Thank you.

G: You're welcome. Goodbye.

December 8, 1942
5:15 p.m.

HMJr: Yeah.

Marvin
McIntyre: You got a minute for a personal matter?

HMJr: Sure.

M: Your little party of Thursday night....

HMJr: Yeah.

M: The Boss had forgotten that that was the night
of the - of the dinner for old Senator Norris.

HMJr: He'd forgotten what?

M: He'd forgotten, apparently, that was the night
of the dinner for old Senator Norris. He's
not going, see?

HMJr: Yeah.

M: But he's very insistent that he's represented.

HMJr: Yeah.

M: I've wondered - what time are you having dinner?

HMJr: Seven o'clock, I think.

M: Uh huh. I was wondering - this is at seven-
thirty.

HMJr: Yeah.

M: I was wondering if it would be all right with
you if I went to the dinner....

HMJr: Yeah.

M:and showed up, and then come right on out
about eight-thirty. You won't be ready for
anything before then, you know, will you?

HMJr: Sure.

M: Huh?

HMJr: It's all right with me.

M: Uh huh.

HMJr: Sure.

M: I think the Boss would want me to go to - show up at that dinner, you know.

HMJr: I see. Sure.

M: That'll be fine, if it's not going to put you out.

HMJr: No, no, I'm just disappointed, but I - I think that the old Senator Norris - that the White House should be represented.

M: Well, I do too and Pa can't go.

HMJr: Yeah.

M: And....

HMJr: How....

M:I thought if I'd just go there - Joe Duffy said if I'll just show up....

HMJr: Yeah.

M:and be there when they sit down at the table.

HMJr: Yeah.

M: But I can quietly slip out.

HMJr: Well, that's all right. Now I understand, and I - I think it's....

M: Well, I don't believe I'll even bother the Boss about it then, Henry.

HMJr: All right, we'll just leave it like that.

M: Okay.

- 3 -

HMJr: I'll be looking - you'll be there in plenty of time to have your money taken away from you.

M: (Laughs) I'll be there no later than a quarter of nine at the very latest.

HMJr: (Laughs) Okay.

M: I hope to make it quicker.

HMJr: All right. (Laughs)

M: All right, Henry.

HMJr: I'm sorry you - no, it was last time - it was....
(Remainder of conversation not recorded.)

December 8, 1942
5:20 p.m.

WAR BONDS

Re: North Carolina Speech

Present: Mr. White
Mr. Gaston
Mr. Kuhn
Mr. Gamble
Mr. Mager
Mr. Odegard
Mrs. Morgenthau
Mrs. Klotz

H.M.JR: I have a confession to make. They say that confession is good for the soul. I heard Peter Odegard had an idea, so I told him to put it down and to talk to nobody. I didn't want him contaminated. (Laughter) So, he has done one, too.

MR. ODEGARD: And he has followed instructions. I have no carbons of this, Mr. Secretary; this is very rough.

H.M.JR: All right, I tell you what we will do - have you fellows got one or two speeches?

MR. KUHN: We have one for ten minutes.

H.M.JR: Professor Odegard, being a professor, we will give him the right of way. Would you read yours first?

MR. ODEGARD: I have not put into this, Mr. Secretary, the preliminaries about Mr. Doughton, and so on, so you would have to add a sentence or two at the beginning.

(Mr. Odegard read speech, copy attached.)

(Mrs. Morgenthau entered the conference during the reading of the speech.)

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H.M.JR: Well, let me say this, Peter, that I think the first part before you go into War Bonds is one of the finest things - I mean, it is very, very inspiring. I am terribly sorry you (Mrs. Morgenthau) didn't get it. I think there was a little too much on War Bonds, but I can't say too much about the beginning. I think the beginning is magnificent.

MR. KUHN: That is what you ought to say.

H.M.JR: I think the beginning was simply magnificent.

MRS. MORGENTHAU: I liked the end very much; I didn't hear the beginning.

H.M.JR: I think the beginning was very inspiring, and I liked the religious tone; and, of course, that will go down in the - I mean, I don't know what the others have, and I hope they won't misunderstand what I have done, but I received word that Odegard felt inspired, so--

MR. ODEGARD: No, I didn't feel inspired.

H.M.JR: Well, Gamble--

MR. ODEGARD: Gamble pushed me into it.

H.M.JR: I certainly think the beginning is--

MR. KUHN: It is excellent, and I think there is a point about half way through that is a perfect conclusion for the radio, and the rest of it that you have there is all right for North Carolina, where you talk about keeping faith with them. That is the point where you could finish on the radio, just about in ten minutes.

MR. GASTON: I don't believe I agree with that. I think the whole thought is fifty percent too long. It is a good fifteen-minute speech. In other words, it should be cut to ten minutes. I think the whole thought

- 3 -

can be cut to ten minutes - compressed into ten minutes. Then I think you will have an excellent speech.

H.M.JR: Maybe this isn't fair, and so forth, and so on, but will someone read--

MR. MAGER: I think Peter Odegard ought to read it. Anything that I might say now would be an anti-climax, a terrible anti-climax.

MR. ODEGARD: Mr. Secretary, I think you ought to - if it hasn't been read, you ought to hear it. I would like to hear it.

H.M.JR: Would one of you read it?

MR. MAGER: I will read it if you want me to.

H.M.JR: No, I have done something which is in a sense unfair.

MR. MAGER: It attempts to do a different thing, of course.

H.M.JR: But this is the result of last night's conference. I kept Peter away from them and asked him to do something different, which is unfair to you, maybe, but fair to Morgenthau. If you (Mrs. Morgenthau) want to stay long enough to hear this--

MRS. MORGENTHAU: Yes, I will.

MR. MAGER: I am ready to sacrifice, Mr. Secretary.

(Mr. Mager read draft number two, copy attached.)

H.M.JR: I think that that is very good, too.

Now, what I would like to suggest is this - then we will talk some more. I think, Herbert, you ought to get Kuhn and Mager and Odegard together the very first thing tomorrow morning, and as my managing editor see whether you can't meld the speeches, taking the part Odegard did on England, you see. I think that was

- 4 -

good. Then, they have both done something on war bonds - take the best of the two. I like what Mager had, the part on management-labor.

MR. GASTON: Yes, management-labor relations as a forecast of the future, that is good.

H.M.JR: That should definitely be in there. I think an audience, not knowing the difference between War Bonds and Victory Fund, might be a little bit confused.

MR. ODEGARD: Mr. Secretary, if I might say so, I would rather strongly advise against the long discussion of the Victory Fund Committees, because this is a War Bond meeting. It is not a Victory Fund meeting.

H.M.JR: That is right, but we have to say something about the nine billion.

MR. ODEGARD: Yes, I tried to cover it by referring to the financing.

MR. KUHN: I think Peter did it very well, and it was difficult to do. He made it just the right length.

H.M.JR: But, I think - I shouldn't think, Herbert, it would be too difficult to take those two and meld them and get something pretty good.

MR. GASTON: No, it won't be difficult.

H.M.JR: Did you want to say something?

MRS. MORGENTHAU: No, I haven't heard all of the other.

H.M.JR: I am going to talk a while. Do you want to stay?

MRS. MORGENTHAU: No, I will go since your father is at the house.

(Mrs. Morgenthau left the conference.)

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H.M.JR: I think this - we control that program, don't we?

MR. ODEGARD: Yes.

H.M.JR: It is our program, so if I want to go fifteen minutes and Mr. Doughton wants to go three, it is all right.

MR. ODEGARD: Yes, I think so. Fifteen minutes is a long time on the air.

H.M.JR: Well, I don't know - it is eighteen hundred words.

MR. GASTON: I would rather take ten minutes if I were doing it. I think the speech can be put into ten minutes very nicely.

H.M.JR: The only thing is that I talked with Doughton, and Doughton was very insistent that I give them a long speech.

MR. ODEGARD: Well, that is all right, Mr. Secretary, it doesn't make any difference.

H.M.JR: I don't want to give a long speech. I never want to speak more than eighteen hundred words on the air. After all, the Governor of North Carolina can do it.

MR. ODEGARD: I want to say this, that I could have cut this, but--

(Mr. Gamble entered the conference.)

H.M.JR: Ted, as long as we are doing this thing, so you get it, how many minutes did you have in mind that I would go on the air?

MR. GAMBLE: From ten to twelve.

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H.M.JR: And how many for Doughton?

MR. GAMBLE: From three to five.

H.M.JR: And limit the speaking to fifteen minutes?

MR. GAMBLE: To fifteen minutes, yes, sir.

H.M.JR: White, do you want to say something?

MR. WHITE: No, I don't get quite the same reactions as, apparently, the others do from the speech. I gather that he wrote that today, and I certainly would have been proud to have written the speech, particularly in one day, but I confess I was bored listening - except the last part. The first part, as an individual, I don't - I mean, I don't quite see the relevance of this discussion of the English people in a speech of that kind. It doesn't seem to belong with the latter part. A little bit borders on sentimentality - some of the parts; I liked some of the phrases, certainly, and I liked some of the sentences; and I would have been very, very proud to have been able to write that in much longer than one day. But I do not know how good a judge I am. I think, in a case of that kind, it is much wiser to take a larger number, because it is a question of personal reaction.

MR. ODEGARD: Harry, one thing on this program, that I think might help to explain that English approach, this program, you know, is called "Over Here," and after it is broadcast here, it is recorded and is rebroadcast to the men overseas.

MR. WHITE: I see.

MR. KUHN: Of course, Doughton, in his introduction, can make clear that you have recently come back from a trip to England, and that you want to share some of your impressions with the people at home, and he can lead into that perfectly well, because we are writing Doughton's introduction.

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H.M.JR: Well, quite frankly, I haven't done anything like it; I like the religious and sentimental tone of Odegard's. You did one for me once a long time ago, on the pioneers of Ohio - the spirit of pioneers, didn't you?

MR. ODEGARD: Oregon.

H.M.JR: I thought it was Ohio.

MR. KUHN: I don't think you have said anything publicly since you got back from England about your trip, and I think that it is a great opportunity to get this over.

H.M.JR: I know my audience there. Certainly, for North Carolina, the religious, sentimental tone is the right tone to strike.

MR. WHITE: It was a good sentence - the Biblical reference - it was a good sentence.

H.M.JR: Well, anyway, it struck a warm spot.

MR. WHITE: I think that is the test.

H.M.JR: With me, it struck the warm spot up to the time he went into the War Bonds.

MR. WHITE: Well, with me, I would never have gotten that far if I had been listening on the radio, because I would have turned it off. But I thought the part about the War Bonds - there were several paragraphs that were good - but again I say, I think the test on this is how it hits most of the hearers. It is not a question of analysis; it is a question of what one's personal reaction is.

MR. ODEGARD: We can get some fairly expert judgment on what would happen to our audience.

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MR. WHITE: As Herbert says, you will gain by probably shortening that.

MR. ODEGARD: Yes, there is no question about that.

H.M.JR: Look, I have got an impossible day--

Herbert, you couldn't get your supper and do something tonight? How are you feeling?

MR. GASTON: I am feeling all right. I am feeling fine.

H.M.JR: Because I am free up to eleven o'clock tomorrow, and then I just go into an impossible day.

MR. GASTON: Sure. Have you any social engagements tonight?

H.M.JR: No, I haven't any. Couldn't you have your supper and--

MR. GASTON: Yes.

H.M.JR: Have you (Odegard) any social engagements?

MR. ODEGARD: None that I can't get out of.

MR. MAGER: No.

MR. KUHN: I have one, but I think I can certainly get out of it for part of the time.

H.M.JR: I am free, I mean, let's put it - I can start in from ten to eleven tomorrow and give you fellows an hour.

MR. GASTON: Ten o'clock tomorrow morning.

MR. ODEGARD: I have a suggestion to make.

H.M.JR: But then I go into an impossible day.

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MR. ODEGARD: Herbert won't like this, but my suggestion would be that Herbert take these two manuscripts and cut them, coalesce them, so far as he can, tonight at home. I think you could do it more effectively without us being there.

MR. GASTON: Well, I could do that, and then we could get them together at nine o'clock and see if there are any suggestions to be made, and get a new draft by ten.

MR. KUHN: There is one point, Mr. Secretary, that figured so prominently last night. How far do you want to go in this radio talk in soft-soaping Doughton? It is going to be something extraneous to your subject matter, and I don't think that it ought to be too long and too fullsome.

MR. GASTON: That can be handled without soft soap; that is, if Lux is sponsoring it, we can work it in on the announcer. (Laughter)

MR. KUHN: I like it better without.

H.M.JR: I forget what we did for Cliff Woodrum; we didn't do an awful lot, but it was plenty. It was only twenty-five or fifty words.

MR. ODEGARD: We can do something with the announcer on the program. He can say something about Doughton.

H.M.JR: He will want to hear it from me - twenty-five or fifty words.

MR. GASTON: We can get that in in one sentence.

H.M.JR: If I am going to go ten minutes, that is twelve hundred words, and certainly I can do fifty words for Mr. Doughton without choking. (Laughter)

- 10 -

MR. GASTON: All that Doughton wants to hear is that he is going to write the tax bill, and if we say that in spite of all that the venerable and distinguished Mr. Doughton can do in the tax field, we still have this problem of borrowing - that will take care of Doughton. (Laughter)

MR. KUHN: Harry had a better one yesterday.

MR. WHITE: No, I think you could say something a little more than that, without making anything quite as erroneous as that statement, because he is against that.

MR. GASTON: Which part?

MR. WHITE: The one that is in there. I think you could say something about the fact that you feel at home in the community - in the same hall, with a man whom you regard as one of the greatest authorities on taxes in the country, and a man who has spent more time - something like that.

MR. GASTON: I understand this is not his home - not even in his district.

H.M.JR: He picked it. This is my thought; I think you can say, "I am glad to be here in the community of my old friend" - this is the President of the United States - "my old friend" Robert Doughton, and I want to say here, to the people in this room, to his audience, who are all his friends, that there is not a harder-working man on the Hill than Robert Doughton. He works from six in the morning until six at night, and whenever I was in trouble or in doubt, I could always call on him to assist me in the difficult task I had to perform as Secretary of the Treasury" - period!

MR. WHITE: Something like that.

H.M.JR: That will satisfy him.

- 11 -

MR. GASTON: We will go as far as our conscience will permit.

H.M.JR: Herbert, is this being unfair to Herbert Gaston?

MR. GASTON: No, this is fine; I will take this home and mangle it, and then--

H.M.JR: Then, if you see me at ten - I can give you from ten to eleven - then I go into all these other fruitless meetings. I think you had better do it.

MR. WHITE: First you mangle it and then you iron it. Those are the processes.

H.M.JR: You know, this trip to England has made quite a difference in Harry. Before Harry went to England, he would have said, "The speech bores me." But now, since he has been to England, he says, "I couldn't have done half as well in the same time, but the speech bores me." (Laughter)

MR. WHITE: I don't know - both things were very true. (Laughter)

H.M.JR: He has got this touch of Montague Norman. (Laughter)

MR. WHITE: Oh, Gawd!

MR. GAMBLE: Have you heard about the fellow that doesn't like music? Would you like to hear it?

H.M.JR: Yes.

MR. GAMBLE: It takes about a minute and a half.

This fellow had applied for a job and Toscanini gave him a job. He had been out of work for some time. On the first night they rehearsed - he was a violinist - Toscanini happened to look over at the first violin section and the man had a terrible scowl on his face,

- 12 -

playing the violin. Toscanini looked over several times and the man always had the same scowl on his face.

Toscanini walked around to him when it was over and said, "My good man, aren't you happy?"

The man said, "Maestro, all my life I have dreamed of the day when I might play for the great Toscanini. I am very happy."

Then Toscanini said, "Aren't the boys in the orchestra treating you right?" And he replied, "They are treating me like a brother."

"Don't you feel well?" Toscanini asked. "I never felt better," was the reply. "Well, what is the matter with you?" The man said, "I just don't like music." (Laughter)

I don't think Mr. White likes speeches. (Laughter) This is much better than I have heard Mr. Wallace or Mr. McNutt or anybody else deal with for some time.

MR. GASTON: You don't know how pat that is to a newspaperman; there is nothing he hates to do worse than to write.

H.M.JR: Well, I think we will adjourn, and we will meet again at ten o'clock tomorrow. I appreciate the time and effort everybody has put into it. I think that by ten tomorrow we ought to have something pretty good. As we go along, Gamble and Peter, I want to know what the rest of those forty-five minutes are going to be, and I don't want to hear that just because the girl gets twelve hundred that she is an "artiste." I want a performance. (Laughter)

MR. ODEGARD: She sings for us for nothing.

H.M.JR: I know.

MR. ODEGARD: Harry says that she gets what she is worth - to us. (Laughter)

- 13 -

MR. GAMBLE: They do a good job. Ronald Coleman introduces them.

H.M.JR: Durante is off?

MR. ODEGARD: Yes.

H.M.JR: I want to know what else.

MR. ODEGARD: Igor Gorin is on.

H.M.JR: I want to know what the music is going to be for the first seven minutes.

MR. GAMBLE: I might leave this one thought for Mr. Gaston, that you might want to do something about, in paying respects to Doughton - you can elaborate on that at the close of your speech, if you want to, when you are off the air.

H.M.JR: Let me tell you something - I get all worked up when I do these things. I can't work myself up to a pitch in whatever it is - ten or twelve minutes - and go off the air and say, "Now I am going to--" It is not much of a compliment to Doughton to make a compliment there which I am not willing to say on the air.

MR. WHITE: No.

H.M.JR: I think we had better do it, and then if they want more speeches, I figure the Governor of North Carolina can tell the story on the Governor of South Carolina. You have got plenty of professional speakers there.

Doughton is all right. You saw him again today?

MR. GAMBLE: I talked to him.

H.M.JR: Who is doing his speech?

MR. GAMBLE: Mr. Kuhn.

MR. KUHN: I couldn't do it until now. I am going to do Doughton's tribute to the Secretary, now.

H.M.JR: O.K.

I am happy to take part in the^d program OVER HERE because I have only recently returned from OVER THERE. I wish it were possible to tell you in detail about my weeks in England. Everywhere I saw English men and women - yes - and English children, going about their work of war production, civilian defense and military preparedness with cheerful enthusiasm and unmatched zeal. There was no pessimism and no grumbling, but always and everywhere the quiet confidence that comes from participation in a cause worth working, fighting and, if necessary, dying for.

The English people have seen war at close quarters. They have seen their homes destroyed, their factories in flames, and their cities razed by the most ruthless enemy of all times. Blood, sweat and tears have been their lot. But never once has their spirit faltered nor have they ever given way to despair. For always they have been sustained by the knowledge and the faith that their cause was just and that in the end victory would come. They have never believed, nor do they believe now, that might is right - but always that right makes might. They have been and are convinced not so much that God is on their side but that

they are on God's side. This is not mere rhetoric. For they know that God is just, and that His justice cannot sleep forever.

In a very real sense it can be said that the English people have had a rebirth. They have had a spiritual awakening that not only gives them every assurance of victory, but will make possible a better future when the war is won. A future in which poverty and oppression, fear and insecurity will no longer be regarded as inevitable but as diseases to be cured and banished from their lives. A future insured by a lasting peace based on freedom and justice for all men and all nations.

I saw signs of this rebirth not alone among the civilian population, but also among the armed forces. I found in the English soldiers and sailors with whom I talked a new courage and a new resolution. They are not over-confident, but they are sure, as their behavior in Africa and Asia demonstrates, that there will be no turning back until the Nazi tyrants and their allies are destroyed finally and forever.

What I have said of the English is also true of the American soldiers and sailors I saw in England. It would be hard to put into words the emotions one feels at the sight of these boys on friendly foreign soil. That we are

-3-

proud of them goes without saying. Physically fit, upright and clear eyed, courteous and considerate of other, they are in every sense of the word magnificent crusaders for democracy and all that democracy means. As ambassadors of good will, they have no equals since they are living representatives of everything this country has been, is and hopes to be. Make no mistake about it. They are not soft or spoiled. On Bataan, Wake Island, Guadalcanal, in North Africa and China, at Midway and in the Coral Sea, they have proved themselves fighting men of the finest quality, tough, well-disciplined and self-reliant. If we "over here" are to be worthy of them, we have a high mark indeed at which to aim.

Since my return I am more than ever convinced that we "over here" will prove worthy of them. On the production lines, in mines and fields and factories we are giving an increasingly good account of ourselves. But there is another aspect of this war on the home front that I want especially to emphasize tonight. And that is the manner in which the American people are meeting the financial obligations which total war entails - obligations which are unprecedented in the history of this or any other country.

-4-

During the month of November war expenditures rose to six billion dollars and that rate will almost certainly be exceeded during the coming year. Much of this money will come from taxes provided for in the revenue acts upon which Chairman Doughton and his colleagues in the Congress have labored so long and faithfully. We shall almost certainly have to increase these taxes in the months ahead. But whatever billions Americans pay in taxes will have to be supplemented by other billions which they will be asked to lend. I have full confidence that they will respond to these appeals in the same spirit that our fighting men and their gallant allies respond to the call of battle. Why am I confident? Let me tell you.

On the first of December the Treasury launched a program to borrow nine billion dollars, which with revenue from taxes, will carry us through until February. Nearly half of this vast sum, over 4 billion dollars, was raised during the first week of December. I am happy to announce that as of today, this total has reached

Credit for this record must go to tens of thousands of willing volunteers throughout the nation who have given their time and energy to sell these bonds and to the millions of Americans who have enlisted their money in the service

of their country.

But special drives of this kind do not begin to tell the story of the financial mobilization of the American people. When the Defense Savings program was started on May 1, 1941, we set as our goal the sale of about \$300,000,000 worth of defense bonds a month and up to December of that year, we were moving along at about that rate. The attack on Pearl Harbor and our direct involvement in the war sent a shock and a thrill through the country. There was a quickening and an upsurge of fighting spirit among the people. Nowhere was this more vividly reflected than in the increased purchase of Defense, or as they are now called War Savings Bonds. In December sales mounted to over 500 billion dollars and in January they went over the billion dollar mark. Prior to Pearl Harbor, the normal output of the Bureau of Printing & Engraving had been 200,000 bonds a day. Within two weeks of that savage attack, the Bureau was turning out 800,000 a day, and the demand still outran the supply which had to be stepped up to a million bonds every day. Since January nearly nine billion dollars worth of War Bonds have been purchased. Remember, too, that these bonds have not been purchased by banks nor in the main by wealthy individuals and corporations. They have been purchased by millions of working men and women. A year ago it would have seemed fantastic to think of

-6-

50 million people as owners of U. S. government bonds. Yet that is the number who today have bought and are buying War Savings Bonds. Think of what it means to our fighting men, women and children "over here" are going without comforts and in many cases even what they have regarded as necessities to provide them with the tools of war upon which their safety and success depend.

Think of what this means for the future of our country; 50 million people as shareholders in their government. Shareholders not only in a sentimental but in a real and tangible sense as well. Think of what it means for the future when these billions now being saved are available for the purchase of the goods and services which American industry will be prepared to provide when the war is won.

Even more significant than these things is the fact that here and now - today - tens of millions of working men and women have placed the purchase of War Savings Bonds first on their family budgets. They have done this by enrolling in payroll savings plans under which regularly every payday they set aside a percentage of their earnings for this purpose. Think of what it must mean to our soldiers and sailors in the far corners of the earth to know that these millions of Americans over here are giving this tangible proof that winning the war is item number one on their list

of things to be done. Think too of what it will mean to these millions at home when this dark night of war is passed and our sons return to us again - to be able to say that we have kept faith with them.

The story of this payroll savings program is a success story of the first magnitude. More than that it is the story of our progress in patriotism and devotion to our country in its time of trial and travail. Less than a year ago the Payroll Savings Plan was an experiment. It was an experiment filled with immense difficulties. It involved the voluntary cooperation of labor and management with government in installing the machinery for systematic savings in persuading workers to sign authorization cards, in issuing registered bonds and in keep the record of each transaction. Today not all but most of those difficulties have been surmounted. Labor and management working together on them have discovered a new sense of partnership which has been reflected not only in increased sales of war bonds but also in better understanding and increased efficiency on the production line. Let me then sketch briefly this story of partnership and progress.

In December a year ago a total of approximately 700,000 workers were participating in payroll savings

plans in some 9,000 establishments. They were investing about 4 percent of their pay in War Savings Bonds or a total of 5 million dollars a month. Since that time the number of payroll savings plans in operation has increased from 9,000 to 160,000 and the number of workers participating in these plans has increased from 700,000 to over 25,000,000. From an average of 4 percent of their pay amounting to 5 million dollars a month, these workers have increased their rate of payroll savings to nearly 9 percent of their pay amounting to nearly \$400,000,000 a month.

I cite this as a success story, although the story is by no means finished. Within the next few months we hope to enlist an average of at least 10% of the pay of not less than 30,000,000 men and women with monthly savings amounting to \$450,000,000. I am confident that we shall reach and surpass that goal - as we must before this war is won. Even then the job will not be done - for the demands of war will continue to rise and our savings must rise with them. We shall have to enlist more effectively than we have the savings of those other millions not on payrolls - farmers, professional people, and the self-employed.

Let me emphasize the fact that we civilians over here can show our appreciation and gratitude to our boys over

there only as we sacrifice our own comforts for their needs, and even some of our needs for their comfort. I have said many times that this is not a token war nor can it be won by token pledges of support.

We are here tonight to award Treasury T Flags to the employees and management of firms in North Carolina in recognition of the fine job they have done. These flags are awarded to those concerns in which at least 90% of the men and women employed are setting aside a minimum of 10% of their gross pay for the purchase of War Savings Bonds. In other cities tonight similar awards are being made. To them and to you here in North Carolina and to the millions of others who have joined this saving's crusade, I offer my heartiest congratulations and from the bottom of my heart I want to say thank you.

When the news of what we are doing over here reaches our soldiers and sailors over there, let's make it good news. Let's make it the kind of news that will show that we are with them all the way. I know that the hundreds of thousands of war bond workers in every state and in every town and county will ask for no better reward for the magnificent work they are doing than the satisfaction that comes from a job well done.

draft #2
190 (Mager)

The Spirit Over Here

I am happy at the opportunity of addressing the nation from the City of Winston-Salem. It is not often that nationwide broadcasts originate in one of our smaller cities. Yet it is here that the vital, throbbing heart of America is to be found.

I am happy to speak from Winston-Salem for another reason. This is the home of one of America's distinguished legislators -- my friend Robert Doughton, Chairman of the House Ways and Means Committee. Congressman Doughton understands well the necessity for increased tax revenues in the dangerous times through which we are living. As long as we have men in Congress like Robert Doughton we need not tremble in fear of taxation by inflation -- the most arbitrary, unfair, and inequitable taxation we could possibly have.

- 2 -

* If I were asked to boil down into one brief sentence the difference between our methods of war financing "over here" and our enemies' methods "over there," I would say: We have placed our faith for survival in the voluntary action of a free, enlightened, and democratic people; the enemies, on the other hand, have placed their hope for survival in the ability to cajole, then to brow-beat, and then to administer the whip-lash to the unfortunate peoples who fall under their cruel charge.

I wish it were possible to convey to you the spirit "over here." I receive letters from thousands of people every year in all walks of life and in all parts of the country -- from workers in the field and workers at the forge, from big businessmen in the large cities and small businessmen in the towns, from farmers and professionals,

from Americans by birth and Americans by adoption.

Some of these letters are written in the King's English and others in the broken, untutored scrawl of the unlettered.

While many of these letters bear some complaint or grievance -- some legitimate, I confess -- the overwhelming majority are keyed to a different pitch entirely. The writers want to know what more they can do to aid the government in the prosecution of the war. If they are poor, they apologize for not being able to buy more War Bonds than they are buying or to pay more taxes than they are paying. If they are rich, they want to know whether there isn't some contribution they can make in addition to investing large sums in War Bonds and paying steep taxes. This is the spirit of free men to whom wartime sacrifice is not a burden but a privilege.

4.

In this community and in every community the first year of war has brought miracles in some field of patriotic effort. And not the least of these is the War Bond campaign which brings us together tonight.

Take, for example, the payroll savings program in which you in North Carolina have made such an enviable record. You will not find it in the headlines, you do not get medals for your part in it, you get nothing but a little blue and white flag as a symbol of achievement. Yet in North Carolina every big company now has a payroll savings plan, and 99 percent of all the workers in those companies are investing in War Bonds week in and week out.

We can better appreciate the truly magnificent achievement of this democratic, voluntary program by examining what has been accomplished during the past year.

5.

Just a year ago there were only 700,000 workers in the entire country on the payroll savings plan, and these workers were investing only 4 percent of their pay in bonds. Today, 24 million workers are setting aside an average of eight and one-half percent of their pay every pay day. And soon we have reason to believe 30 million workers will be investing at least 10 percent of their pay in War Bonds. This is indeed a tribute to the patriotism and intelligence of the American people.

For the measure of success we have achieved, however, we must not thank only the American people. We could never have achieved this success without the self-sacrifice and devotion of thousands of volunteer workers who have been the unsung heroes in a noble enterprise. Day in and day out our labor-management committees, of which there are

some many thousands in the nation today, have contributed immeasurably to the success of the effort. The result is just one example of what can be done with labor and management in harmony. I like to feel that this new labor-management partnership sets a pattern for the future when labor and industry will work side by side for their country's and their own good.

Important though the payroll savings plan is, it represents but one phase of our over-all bond campaign. Millions of farmers, self-employed artisans, and businessmen have contributed generously to the success we have achieved. All in all 50 million Americans invested in War Bonds during the past year. More than 50 million Americans now have a direct and personal stake in the finances of their government. To my mind the significance of this can hardly be overestimated.

7.

Not only should the wartime sacrifices of today emerge as the new homes, new comforts, and new standards of living for the morrow, but the piling up of a nest egg of savings to fall back upon if need be will be a source of comfort and reassurance.

This great achievement would have been impossible without the untiring and selfless labor of our 300,000 volunteer workers on the War Savings Staff who have marshaled the resources of every community in the land.

Finally, we can form no adequate picture of our financing program over here without taking into account the services of the more than 44,000 volunteer workers who comprise our Victory Fund Committees -- committees that are destined to play an increasingly important role as our war effort rolls into high gear.

8.

This is no time for men or money to be idle. That is exactly what the Victory Fund Committees wish to prevent. They seek to make our dollars fighting dollars -- to put them to work immediately in the service of the country. These committeemen are professional salesmen from the banking, securities, and insurance fields who have been trained all their lives to reach the people who have accumulated balances and idle funds -- millions of individual investors, corporations, custodians of trust funds and estates with idle money in the bank. As the President said in starting off the Victory Fund campaign on November 30th, "That money has got to go to work for our country."

I am happy to report tonight that billions of these dollars are already going to work for our country.

On December 1, we set out to raise in the coming weeks \$9 billion, the greatest borrowing operation in the history of this or any other government. How well we have succeeded -- with the invaluable assistance of the Victory Fund Committees -- can be gleaned from the following figures.

(Brief Summary)

A nation that can rely on such voluntary cooperation from its people cannot fail to win through to complete and ultimate victory.

DEC 8 - 1942

Dear Mr. Hanes:

Thank you for your thoughtful note of the 5th. We are more pleased than I can say at the prospect of our visit with the people of North Carolina on Saturday next.

I am grateful for the opportunity of appearing on the program with my good friend Bob Doughton and to pay tribute to the people of your state for the good work being done there in the promotion of War Bonds.

Our schedule of arrival and return to Washington is as yet not definite. If the weather permits, we will fly. I am sure you will appreciate the necessity for my being away from here as short a time as possible and still do justice to my visit there.

Consequently, I feel that it would be best for Mrs. Morgenthau and me not to avail ourselves of your gracious invitation to be guests of yourself and Mrs. Hanes.

Colonel Robertson has told me of the reception you have planned prior to the dinner. Mrs. Morgenthau and I will be delighted to attend.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. Robert M. Hanes
Winston-Salem, N. C.

TRG:cea

File to Gamble

Photo file in Diary

B. F. Station

ROBERT M. HANES
WINSTON-SALEM, N. C.

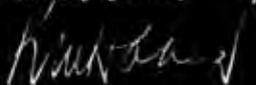
December 5
1942

Dear Mr. Morgenthau:

We in Winston-Salem, as well as all of North Carolina, are highly honored by and delighted at the prospect of your visit to us on the 12th. You are certainly doing a grand thing in complimenting Mr. Doughton in such a magnificent way for the outstanding service he has given the nation for forty or more years.

Mrs. Hanes and I would like very much for you, Mrs. Morgenthau and Miss Elliott to be our guests while you are in Winston-Salem. I thought we could probably make you more comfortable than you would be at the hotel, because of the crowds that would be milling around you there. I know, however, you will be perfectly free and frank in expressing your wishes about this, and I shall certainly understand. Mrs. Hanes will, of course, write Mrs. Morgenthau as soon as I have your decision.

Cordially yours,



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

December 8, 1942

MEMORANDUM:

At 4:30 Monday afternoon, December 7, Mr. Bell discussed with me the question of a further canvass of the country to determine the progress of the \$9,000,000,000 Victory Fund Drive. He had just come from the Secretary's office where it had been suggested that the following questions should be asked:

- (1) Is currency being accumulated or bank deposits being abnormally increased for other than business reasons? Why?
- (2) What specifically are banks doing to promote the sale to the public of issues offered in the Victory Fund Drive?
- (3) What specifically are Victory Fund Committees doing other than the activities carried on by banks to promote the securities?

I discussed the matter with Mr. Folger and Mr. Upham, and also with Mr. Crowley who happened

to be in the office on another matter. As a result of our examination of the questions it was decided that we would suggest to Mr. Bell that the first question outlined should be further discussed before being submitted to the chief examiners, it being our opinion that this question might defeat its own ends by causing some alarm in the minds of bank depositors and business men throughout the country.

A conference was held with Mr. Bell, Mr. Haas, Mr. Folger, Mr. Crowley and myself in which these views were presented. Mr. Crowley and Mr. Haas both were quite emphatic that the question was dangerous from the standpoint of repercussions which it might cause. Mr. Bell concurred in that viewpoint. His final instructions to the Office of the Comptroller were to contact immediately the chief examiners on the last two questions as follows:

- (2) What specifically are banks doing to promote the sale to the public of issues offered in the Victory Fund Drive?
- (3) What specifically are Victory Fund Committees doing other than the activities carried on by banks to promote the securities?

and that the examiners making the canvass were to be orally instructed that while they should not specifically ask the first question as follows:

- (1) Is currency being accumulated or bank deposits being abnormally increased for other than business reasons? Why?

they should be on the look-out for any information bearing on that question which might be volunteered by bankers during the course of their investigations. It was realized that inevitably there would be some discussion as a result of their inquiries and that out of such discussions might come information which could be forwarded here.

Mr. Bell requested that we call the Chief Examiners immediately, have the canvass made in three cities (large, medium and small) in each state and that the reports should reach the Comptroller's office not later than Friday morning, December 11, to be compiled during that day and be submitted to him not later than Saturday morning, December 12.

Preston Delano

Delano

DEC 8 - 1942

Mr. Karl Kohrs
Associate Editor
Look Magazine
511 Fifth Avenue
New York, New York

Dear Mr. Kohrs:

Thank you for sending me the tear sheets of the article in Look Magazine containing War Bond appeals by the wives of former Presidents. These statements reflect in a unique and moving way the united purpose of the American people to see that nothing is left undone that will contribute to the final triumph of our cause.

I am sure that no reader can resist the appeal made by these gracious and distinguished women to send their dollars to the fighting front through the purchase of War Savings Bonds.

May I also congratulate you upon your fine cooperation in helping to promote and sustain public interest in the job of financing the war.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

PHO:jrc

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File to Thompson

COPY

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TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM Washington, D. C.

BUREAU War Savings Staff

CHG. APPROPRIATION Expenses of Loans

December 8, 1942

U. S. GOVERNMENT PRINTING OFFICE 10-1728

(The following night letter to go
to all State Administrators or
Chairmen per attached list.)

We are anxious to obtain immediately the widest possible distribution of our Christmas posters. Stop Please give this your immediate attention and wire me close of business on Saturday the quantity of each size which you have received and the quantity which has been distributed. Stop Kindly follow this by written report to Coyne upon completion of distribution.

HAROLD N. GRAVES
ASSISTANT TO THE SECRETARY.

December 8, 1942.

Dear Mr. Gilchrest:

I am sorry to hear that you are about to leave the Treasury to become a Lieutenant in the Navy. We shall miss you here, but I know that the Navy needs you more.

This is just to tell you how much I appreciate all that you have done to promote the War Savings program. To my knowledge, every job that has been assigned to you has been done cheerfully and well, and I think that the War Bond campaign will feel the good effects of your work long after you have left this Department.

My best wishes will go with you wherever you may be serving.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Charles J. Gilchrest,
War Savings Staff,
Washington, D. C.

FK:cgk:eg

Copy in Diary

Copies to Thompson

207

THE WHITE HOUSE
WASHINGTON

December 8, 1942

Dear Henry:

Thank you for sending me the
song written by the two Army boys. I
like it and am sure it will be a help
in the War Bond campaign.

Affectionately,



THE WHITE HOUSE
WASHINGTON

December 8, 1942.

Dear Henry:

You were very thoughtful to send me the record of your Bond song written by the two Army boys. I have taken it home with me so that we can help out in the Bond campaign by playing it to our friends and neighbors.

Many thanks, and with warmest regards,
I am,

Very sincerely,


EDW. G. WATSON.

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



THE ASSISTANT SECRETARY OF WAR
WASHINGTON

December 8, 1942

Dear Mr. Secretary:

Many thanks for your
thoughtfulness in sending me the vic-
trola record.

Sincerely,

A handwritten signature in dark ink, appearing to be "J. J. [unclear]".

The Honorable
The Secretary of the Treasury

RECEIVED
3 20
BWS DEC 8 1942

RECEIVED
12/10/42

THE WHITE HOUSE
WASHINGTON

December 8, 1942

MEMORANDUM FOR

/The Secretary of the Treasury
The Director of Economic Stabilization

The Director of the Budget, who is responsible for the drafting of the Budget message, will discuss the forthcoming message with you. In view of the fact that there have been publicity leaks concerning several previous messages, I am requesting that the message not be referred to staff members or other persons without the specific approval of the Director of the Budget. *I want all leaks stopped.*

A.M. F.D.R.

TREASURY DEPARTMENT

211 ✓

INTER OFFICE COMMUNICATION

DATE

December 8, 1942

TO Secretary Morgenthau
FROM Randolph Paul

I am attaching a copy of a memorandum on taxes presented by the General Counsel, C.I.O., at their Vice Presidents' meeting.

REP
IK

Memorandum re Taxes

The 1942 tax measure actually will take away during the year 1943 from the low income group money which they need to buy the very necessities of life. On the other hand a number of loopholes were left untouched thereby preventing the nation's government from receiving revenue which could be used in financing the war. The program of the Treasury Department presented to both the House and the Senate was completely ignored.

The tax measure was inconsistent with the President's messages to Congress incorporating the seven-point economic program. The President expressed the need for stabilizing the cost of living for all the people as the best guarantee for winning the fight on our economic front. However, the President emphasized that this could not be accomplished except from the simultaneous attack on the issues of price control and an overall democratic rationing and equitable taxes and wage stabilization.

The directives which have been issued under the President's Executive Order of October 3d limiting net salaries after certain allowed deductions to \$25,000 a year does not meet the tax program at all. In addition, the President faces in Congress a revolt on the part of the reactionaries to even eliminate this slight inroad into the large salaried income.

The Treasury Department has indicated that more money will have to be obtained in the tax measure of 1943 through additional taxes. Low income groups are threatened with a sales tax to accomplish this end. This will only mean that the low income groups will have their standards further degraded and deprived of the wherewithall to buy the necessities of life.

At the meeting of November 13th of the Economic Stabilization Board, Director Byrnes expressed the opinion that the Board could, with the guidance of the Treasury, formulate a common fiscal program backed by the united support of all groups represented on the Board. He also proposed that this program could then be submitted to the President and after consultation with Congressional leaders, to the Congress. Secretary Morgenthau and other members of the Board endorsed that suggestion.

- 2 -

This tax program will obviously be one of the most important economic measures to which the attention of the country will be addressed in the next session of Congress. It is extremely important that all the forces of organized labor be coralled as they never has been before in supporting a program that will be addressed to the needs of the nation in terms of the war effort. Toward this end, I am suggesting the following program:

I. The CIO Tax Program

1) Any tax proposals must be viewed in the light that the workers should be protected in their money standards which will permit them to buy the necessities of life and maintain themselves and their families on a basis that will assure health and efficiency for maximum production. On this basis it is obvious that a sales tax is a blow against the war program in that it merely taxes away from those who can least afford to pay. A spending tax must afford sufficient exemptions for low income groups.

2) A system of compulsory savings would of course be a substitute for the voluntary savings program now in operation. It cannot be considered an addition to our present voluntary savings as far as the workers are concerned. Any compulsory savings program must make sufficient allowances for low income groups who now have not sufficient funds to buy the necessities of life. Also the principle of progressive compulsory savings should be incorporated, i.e., larger income groups should be compelled to save more than low income groups.

3) The loopholes covered by the program of the Treasury Department should be covered. Thus:

- a) Married couples should be compelled to submit joint returns
- b) Tax exempt securities should be completely taxed
- c) Normal and surtaxes on corporate income should be increased to at least 55 percent
- d) Gift and estate taxes should be increased and special privileges now afforded to mining and oil companies for depletion allowances should be eliminated.

- 3 -

4) Investigation should be made into the institution of further social security taxes with corresponding increasing social security benefits. Old age security should be broadened and its benefits increased. Unemployment compensation should be nationalized. A health program should be instituted.

5) Investigation should be made into the possibility of having taxes deducted currently from payrolls.

II. Steps To Be Taken

1) I am designating a committee which shall immediately contact representatives of the Treasury Department and work with them toward the formulation of a win-the-war program. This committee will consist of Lee Pressman, General Counsel, as Chairman, Raymond J. Walsh, Director of our Economic Department, and Nathan Cowan, our National Legislative Representative.

2) I am suggesting that our Publicity Department in cooperation with this committee get out as much publicity material as possible regarding the problem of taxes and how they affect our membership. It is my judgment that it is extremely important that the publicity representatives of all of our affiliated unions through union journals and otherwise give the widest possible coverage to this question of taxes. Our National Legislative Representative will of course also keep all the legislative representatives of our affiliated unions constantly advised of current developments on the Congressional picture regarding this all-important question.

3) I wish again to impress upon you that the membership of the CIO must be kept informed and their interests awakened regarding this problem. This is a task that the president of each international union must set before him because it runs right down into the welfare of every single member of the CIO and to the nation as a whole.

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON REDUCTION OF
NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in
Room 314 Senate Office Bldg., on Tuesday, Dec. 8,
at 10 a.m.

To W.P.A. hearing

*This meeting
Cancelled by
Byrd's Office 12/7/42
E.J.F.*

HARRY FLOOD BYRD,
Chairman.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

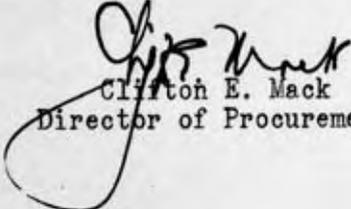
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December 8, 1942

~~MEMORANDUM~~ MEMORANDUM TO THE SECRETARY:

RE: Letter from Mr. Morgan H. Hoyt

With reference to Mr. Hoyt's letter returned herewith, I am arranging for the extension of the closing of the Albany office until February 1, 1943. Mr. Hoyt is being advised accordingly.


Clifton E. Mack
Director of Procurement



TREASURY DEPARTMENT

PROCUREMENT DIVISION

December 4, 1942

IN REPLY ADDRESS
STATE PROCUREMENT OFFICE
Old Post Office Building
Albany, New York

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

My dear Mr. Secretary:

I would not annoy you at this time were it not for the fact that a condition has arisen effecting the operation of the Procurement Office at Albany, N.Y. I am quite sure you know nothing of this situation and knowing how fair you are in all your dealings, I am quite sure you will not consider it improper of me in writing to inform you of the same.

Yesterday, Mr. F.W. Young, Regional Procurement Officer, of our division, came to Albany and informed us that the Albany Office was to be closed within eight (8) to ten (10) days, (on or about December 12th, 1942). In other words we were notified that our seven (7) years of faithful service is terminated and we have all of eight (8) to ten (10) days to find another job.

You may recall that some few months ago, I wrote you regarding the future status of the Albany Office, as I had an opportunity of making other connections at that time. I further stated that I was very happy and contented here at Albany in the job you so kindly gave me and would prefer to stay on here if the Office was to remain open. You turned the letter over to your Secretary, Mr. Thompson, who advised me that the Office in every probability would be kept open for this year at least and "I would suggest you arrange to stay in Albany". On the strength of this letter I therefore, have made arrangements to remain in Albany at least until the end of the present fiscal year.

There are but three persons employed in this Office, John J. Leonard who is Deputy Procurement Officer in charge and has been for about all of the seven (7) years that I have been here. I am sure if you check his record with the Department you will find he has conducted the affairs of this Office in a most capable and efficient manner.

continued -

Then there is one girl, Miss Ruth B. Fischer, employed as a Junior Stenographer, who has also been here since I first came to Albany. She is one of the unfortunate victims of "Polio" which has left her with a deformity. This does not in any way effect the quantity or quality of work she is able to accomplish. You will also find she has a very high efficiency rating with this Department. Miss Fischer was originally appointed in the old T.E.R.A. after corresponding with Mr. Roosevelt and in 1935 was placed in her present position.

On August 1st, 1942, our Office was moved to the Old Post Office Building which is Federally owned and operated by the Work Projects Administration. The space occupied is "Rent Free" and the only operating cost involved is a small maintenance charge of \$25.00 per month and the cost of one telephone \$4.17 per month.

Mr. Young advised that they would do their utmost to place both Mr. Leonard and Miss Fischer in other jobs. However, no consideration was given as to what I was to do. I feel this acutely.

Both Mr. Leonard and Miss Fischer are lifelong residents of Albany, N.Y. and undoubtedly any jobs offered them would be out of the City. For them to make up their minds within eight (8) or ten (10) days to arrange their affairs, particularly with the holiday season so close is next to impossible. My own affairs as I have previously stated have already been made to remain here.

I want to ask you therefore, if this order cannot be modified so as to keep this office open at least until February 1st, 1943, in order that we might spend the holidays as planned and enable us in the meantime to find other jobs.

You will appreciate that quick action must be taken due to the scheduled early closing.

Thanking you in advance for your many considerations, I remain,

Very sincerely,

Morgan H. Hoyt
Morgan H. Hoyt
Deputy Procurement Officer

Hotel Hampton,
State Street
Albany, N.Y.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
December 8, 1942TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Here are reports from Mr. Callahan and Mr. Barrett on what is being done on the radio and in the newspapers to get pennies and nickels back into circulation. The radio report looks especially good to me, and should do us the maximum good between now and Christmas.

You know that a letter from Mrs. Ross has gone to all heads of schools and colleges together with a message suitable for older children and a message suitable for youngsters. The press release on this letter got us very good publicity.

F.K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 7, 1942.

TO: Mr. Kuhn

FROM: Mr. Callahan

The following radio programs will stress the need of turning in coins.

	<u>Network</u>	<u>Time</u>		
Coca-Cola Spotlight Bands (see attached telegram)	Blue	9:45-10:00	Monday	December 7
			Tuesday	December 8
			Wednesday	December 9
			Thursday	December 10
			Friday	December 11
			Saturday	December 12
			Superman	Mutual
Tuesday	December 15			
Wednesday	December 16			
Thursday	December 17			
Friday	December 18			
Monday	December 21			
Tuesday	December 22			
Wednesday	December 23			
Thursday	December 24			
Henry Aldrich	NBC	8:30-9:00		
Fred Allen	CBS	9:30-10:00AM	Sunday	December 13 or January 20
Rainbow House	Mutual	10:00-10:45AM	Saturday	December 12
Victory Corps	Blue	2:30-3:00	Tuesday	December 8
American School of the Air	CBS	9:15-9:30AM	(OWI will advise us definite date)	

OWI has also tried to get us spots on Charlie McCarthy's, Maxwell House Coffee Time, This Nation At War, and the Moylan Sisters. They will advise definite dates when these spots are arranged.

OWI is releasing to all stations, through their News Letter, information pertinent to the keeping in circulation of coins. Radio Stations will be asked to use this as a guide in preparing local radio program material.

COPY

Dec. 7, 1942

Mr. Kuhn

Mr. Barrett

COPPER SAVINGS DRIVE

In connection with the Copper Savings Drive we have arranged for the following:

1. A special mailing to daily and weekly newspapers of 10 one-column sketches featuring some of the nation's leading comic characters, urging readers to "get out the pennies." Characters to be included are: Dick Tracy, Ella Cinders, Hap Hopper, Joe Jenks, Li'l Abner, Tarzan, Ruby Nebb, Dixie Dugan and Jane Arden.
2. An editorial cartoon by Dorman H. Smith to be released to more than 1000 member newspapers by the NEA SERVICE.
3. Several one-column sketches featuring NEA comic characters to be released by that service to all its clients.
4. A special article in "Uncle Ray's Corner," a childrens' feature syndicated nationally by the Publishers Syndicate.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
DEC 8 - 1942

TO Secretary Morgenthau

FROM Mr. Paul

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of October, 1942.

REP
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Attachment.

RECEIVED
DEC 8 1942

SUMMARY REPORT ON ACTIVITIES AND ACCOMPLISHMENTS
IN THE OFFICE OF THE GENERAL COUNSEL
OCTOBER, 1942.

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. William Bioff. Bioff is presently serving a ten-year sentence as a result of his conviction last year on charges of extortion from moving picture producers. An indictment is outstanding against him in Los Angeles charging evasion of income tax for the years 1936 and 1937. A deficiency letter for the year 1938 alleging additional income tax of \$9,200.56, together with a 50% fraud penalty, was sent to Bioff. He sent a petition to the Tax Court of the United States but failed to pay the \$10 filing fee. Although the Tax Court issued an order to show cause, Bioff never had anyone appear for him. The Tax Court on October 27, 1942, ruled that in dismissing the proceeding for failure to pay the filing fee, it had authority under section 1117(d) to sustain not only a deficiency of the principal amount of tax, but also a fraud penalty under section 293(b). The Tax Court was of the opinion that section 1112 imposing a burden of proof on the Commissioner did not apply. Judges Hill and Smith dissented.

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2. First Tax Evasion Conviction in South Dakota.

George W. Tappan, who owned several large apartment buildings in Sioux Falls, S. D., and Sioux City, Iowa, was indicted at Deadwood, S. D., on September 3, 1942, for evasion of his income taxes for the years 1939 and 1940. The investigating officers found that he had reported the rents received from long-term leases but failed to report income received from transients who stopped at his apartment houses. On October 9, 1942, Tappan pleaded guilty to both counts of the indictment and was fined \$1,000. The case is of particular interest because the investigating special agent stated that so far as he knows it is the first conviction obtained in the State of South Dakota on charges of evading income taxes.

3. Proposed Prosecution of Notorious Gambler for Tax Evasion. The case of William D. Frad was referred to the Department of Justice with the recommendation that he be prosecuted for wilfully attempting to evade and defeat a large part of his income taxes for 1936 and 1937. Frad is a notorious gambler and confidence man and is known to have won large amounts of money from elderly men. He operated exclusively in the Caribbean Sea area, gaining

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contacts with his victims on passenger liners operating in this area.

4. Recommendation for Prosecution of Certain Tax Evaders. The cases of W. T. Burton, et ux., and W. T. Burton Company, Inc., were referred to the Department of Justice with recommendations for prosecution of Burton and others for willful attempt to evade and defeat income and excess profits taxes of W. T. Burton Company, Inc., for the fiscal years ending July 31, 1936, 1937, and 1938, and the individual income taxes of Burton for the calendar years 1936 and 1937. On October 8, 1942, a Federal grand jury at New Orleans returned indictments against Burton, L. Brown and Victor C. Canfield in the individual case and against Burton, S. W. Maxwell, L. Brown and Victor C. Canfield in the corporation case. According to New Orleans newspaper accounts, it is the largest Federal income tax indictment ever brought in Louisiana, the amount involved being over \$2,000,000, taxes and penalties. During the years for which indictments have been returned, Burton was engaged in the oil and shell business. Formerly, he is said to have been

- 4 -

a leader of the political faction headed by the late Senator Huey P. Long. Senators Ellender and Bilbo have shown great interest in this case and urged the Chief Counsel not to prosecute.

5. Rev. Ernest R. Bromley, Bath, N. C., is Jailed for Failure to Pay His Auto Use Tax. The Department of Justice has advised that this taxpayer was prosecuted for refusal to buy an automobile use tax stamp, and found guilty on both counts of the indictment, receiving a sentence of 30 days plus a \$25.00 fine on each of the two counts. The first count was based on his refusal to buy the \$2.09 stamp for the period February to June, 1942, and the second count was based on his refusal to buy the \$5.00 stamp issued on July 1, 1942. Apparently, the court provided in its sentence that a payment of the fine would satisfy the jail sentence. Rev. Bromley, however, refused to pay the fine and is in the county jail.

6. Informer's Reward Paid to Anthony N. Kinch, Alpena, Michigan. In August 1937 Kinch furnished certain information to Bureau officers in Milwaukee, indicating that The Falk Corporation had erroneously entered on its time records relating to Navy contracts certain labor

performed on commercial contracts. As a result of an investigation which followed, The Falk Corporation agreed that for the years 1935 to 1938, inclusive, it was liable for excess profits under the Vinson-Trammell Act of a total amount of \$533,283.07, including penalties and interest to July 15, 1941. There was not sufficient basis, however, to prove fraud on the part of the taxpayer so as to justify instituting criminal proceedings. Kinch, as informant, has now been allowed \$12,715.30 on his reward claim; this represents 3% of \$423,843.24 (principal and penalty). This amount is slightly in excess of that recommended by the special agents.

7. Forfeiture of Refund Because of Fraudulent Evidence.

In a decision rendered by the Court of Claims October 5, 1942, claims by the Standard Oil Company of Kansas for refund of income taxes in excess of \$150,000 were "forfeited to the United States" under Section 279, Title 28, U.S. Code. That section provides that whoever corruptly practices or attempts to practice fraud against the United States in the proof, statement, establishment, or allowance of any claim against the United States shall "ipso facto" forfeit the same to the Government; and it

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shall be the duty of the Court of Claims to find specifically as to such fraud and thereupon to give judgment that such claim is forfeited to the Government and that the claimant be forever barred from prosecuting the same. The fraud alleged by the Government to invoke the forfeiture statute related to the presentation to the Chief Counsel's office of a false and forged resolution of the Board of Directors of the corporation in the prosecution of its claim for refund.

8. Request of Alien Property Custodian to Discharge Tax Lien Against Property of a Japanese. Tsukasa Kiyono, a subject of Japan, operated a nursery in Alabama. Prior to our entry into the war, assessments had been made against him and his wife, also a Japanese, aggregating \$163,755.47. In order to stay collection of the assessments, he deposited securities of the value of \$176,000 in a bank at Mobile. He and his wife then left for Japan, where presumably they are now. A Vesting Order was issued recently under which all right, title and interest of the Kiyonos to the nurseries was vested in the Alien Property Custodian who requested that the Government's lien for taxes be discharged so that an early sale of the properties

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might be made. He was advised that there was no objection to a sale by him of the property provided the proceeds of the sale were simultaneously applied to the satisfaction of the income tax liabilities, whereupon a discharge of the Government's lien would be executed, but not prior thereto. In the meantime, the Collector at Birmingham, Alabama, has been instructed to forthwith seize and sell the securities now in escrow in the bank at Mobile and to apply the proceeds to the outstanding tax liabilities which, with other assessments, now exceed, with interest, an amount of \$200,000.

9. Tax Status of Mexican Workers Imported for Farm Labor. This case involves the taxation of wages received in the United States by Mexican workers in the farm labor assembly and transportation program administered by the Farm Security Administration of the Department of Agriculture. The admission of such workers to the United States to serve in the production and harvest of crops essential to the war effort will not be upon a quota basis, but for temporary work periods at the end of which the workers will return to Mexico. It is understood that the basic periods of the work agreements will be 100 days and that the amount

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of salary will not be in excess of \$5 per day. Section 143(b) of the IRC requires that persons having the control, etc., or payment of wages and other fixed annual or periodical income of any non-resident alien individual shall withhold a tax from such income. However, that section provides that under regulations prescribed by the Commissioner, with the approval of the Secretary, exemption from withholding may be granted to such aliens who enter and leave the United States at frequent intervals. Regulations 103 provide that such exemption may be granted to residents of Canada or Mexico who enter and leave the United States frequently and if income tax has been withheld at the source in excess of the tax liability the excess will be refunded in due course. The Farm Security Administration has been advised accordingly.

10. Telephone and Telegraph Facilities Furnished to Government Operated Railroad Held to be Tax Exempt. Pursuant to an order of the President, the Director of the Office of Defense Transportation took possession of all of the properties of the Toledo, Peoria and Western Railroad Company on March 22, 1942, and since that date

has operated the railroad in such a manner as he deems necessary for the successful prosecution of the war. Thus, it appears that any profit or loss from the operation of the railroad will be that of the Government and that the Government will compensate the corporation for the use of its properties. Telephone or telegraph services are furnished by American Telephone and Telegraph Company to the Federal Manager of the properties of the railroad in connection with its operation. On October 6, 1942, the Chief Counsel's office rendered an opinion that such telephone or telegraph services are "furnished to the United States" within the meaning of the exemption provisions of section 3466 of the IRC. This conclusion is in harmony with Law Opinion No. 810, dated May 2, 1919, which related to the application of the telephone and telegraph tax to railroads under Federal control during the First World War.

11. League of Nations Association, Inc., Held Not to be Tax Exempt. This Association has amended its certificate of incorporation to eliminate therefrom the stated purpose of influencing the United States to enter the League of Nations. The amended certificate sets forth that among

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its purposes is that of studying the fundamental basis of permanent peace and the machinery necessary for the development of this peace and to carry on educational activities. However, it appears ~~that~~ these activities are merely a means of causing the United States to cooperate to the fullest extent practicable in the League of Nations, the International Labor Organization, and the World Court, a purpose which lies in the field of political aims in the larger sense and in the field of controversial political discussion. It was held that the Association is not organized and operated exclusively for educational purposes as contended, and that it is not entitled to exemption under section 101(6) of the Internal Revenue Code.

12. Certiorari Authorized in Chicago Stockyards Company Case. After a conference with the Solicitor General on October 2, 1942, relative to an application for certiorari in this case, he authorized the filing of a petition. Two principal grounds will be stated in the petition: (1) that the court erred in holding that the statutory presumption concerning the accumulation of earnings by holding and investment companies did not in

substance mean anything; and, (2) the court erred in substituting its judgment for that of the Board of Tax Appeals upon the ultimate facts found by the Board. Under the decision of the Board there is due from the taxpayer a deficiency, with interest, aggregating approximately \$7,000,000.

13. Proposed Change in Big Plant Facilities Contract to Vest Title in Government. The Glenn L. Martin Company has an emergency plant facilities contract under which it is constructing aircraft facilities, estimated to cost approximately \$27,000,000. A closing agreement has been requested to the effect that such amount shall be included in gross income with offsetting deductions for the cost of performing the work. The company has submitted a proposed amendment of its contract which will provide that title to the facilities shall be in the Government but which contains no provision for the Government to have title to the land except by subsequent purchase; and (1) the taxpayer may require the Government to remove the facilities including the buildings, (2) the Government may relieve itself of the obligation to remove by a transfer to the taxpayer or (3) the Government may lease the land

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underlying the buildings for a period of 25 years, at the end of which title thereto will pass to the contractor. There is now under consideration a proposal to allow the requested treatment, provided that the taxpayer agrees to an adjustment to income if and when title to the facilities passes to the taxpayer or the company appropriates them to its own use or requires the Government to tear down the buildings.

The following work was done under the supervision of Assistant General Counsel Cairns:

14. Proposed Legislation Relating to Suspension of Customs Barriers. The Army, Navy, Board of Economic Warfare and several other governmental agencies have been endeavoring to have a bill introduced in Congress authorizing the President to suspend laws or regulations, including those imposing customs duties, which are found to impede the free flow of merchandise, persons, or information into or out of the United States. After participation in an inter-departmental meeting held by the Bureau of the Budget and in the revision of a draft of a bill proposed by the Board of Economic Warfare, the Chief Counsel's Office,

Bureau of Customs, prepared a letter informing the Bureau of the Budget that the Department is in sympathy with the underlying purpose of the bill but, in the absence of more specific information regarding its intended practical application, is not in a position to express an opinion regarding the provisions of the bill itself.

15. Proposed Legislation to Accord Free Importation of Gifts by Armed Forces. The Chief Counsel's Office prepared a letter to the Chairman of the Senate Committee on Finance reporting at his request on S. 2825 "To accord privileges of free importation of articles consigned or addressed to an individual inside the United States as a gift by a member of its armed forces who is on duty outside of the United States". The report called attention to a number of administrative difficulties which would be encountered if the bill were enacted in its present form and suggested that the language of S. 2851, a similar bill, would overcome many of the difficulties. It was stated that if the bill were revised to clarify the points discussed in the report the Department would interpose no objection to its enactment.

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16. Claims of Government Against Collectors of Customs (For description see August 1942 report, item 17). The Chief Counsel's Office, Bureau of Customs, prepared a letter to the Chairman of the House Committee on Claims reporting at his request on H.R. 7518, a bill "For the relief of Bernice Pyke, Arthur P. Fenton, Carl E. Moore, and Clifford W. Pollock". Mrs. Pyke is at present collector of customs at Cleveland, Ohio, Messrs. Fenton and Moore are former collectors at that port and Mr. Pollock is assistant collector and former acting collector there. The bill would relieve those individuals from liability to the Government which arose as a result of the embezzlement of Government funds by their subordinate, Edwin M. McCarty, former deputy collector of customs at Akron, Ohio, provided they assign to the United States their rights of recovery under McCarty's bond. The report states that none of the individuals was in any way implicated in the embezzlement and, in view of the circumstances of this particular case, it is the view of the Department that the bill is meritorious.

17. S. B. Penick & Company Case (For description see September 1942 report, item 13). This company obtained

- 15 -

a contract to supply the Navy with 5,000 ounces of codeine sulphate. Supplies of codeine sulphate were available, but the company wished to manufacture the drug from crude opium, and insisted that its order for crude opium for this purpose was entitled to priority. The War Production Board, upon the advice of the Commissioner of Narcotics, refused to enforce compliance with Penick's order to purchase crude opium. S. B. Penick & Company then obtained a hearing before Assistant Secretary of the Treasury Gaston, alleging interference by the Commissioner of Narcotics with the asserted right of the Company to have its priority on the order for crude opium enforced. The hearing was held on October 23rd and full opportunity was granted the Penick Company to present evidence and argument, and the Commissioner presented a statement of his activities in the case and the reasons therefor. Mr. Gaston's decision was reserved pending receipt of a brief from the Penick Company to be filed after its attorneys had reviewed the typewritten record of the hearing including all exhibits.

18. War Production Board Directive No. 10 (For description see September, 1942 report, item 32). This

directive, dated October 6, 1942, empowers the Commissioner of Narcotics to exercise authority under Title 3 of the Second War Powers Act with respect to the allocation of narcotic drugs. An order is being prepared in the Bureau of Narcotics setting forth the manner in which the delegated power will be exercised.

19. Court Registry Money Deposited With The Treasurer of the United States. An opinion, addressed to Mr. Bartelt, which was prepared by Mr. Blakeman and Mr. Meyer and signed on October 6, 1942, concluded (1) that a minor claimant to money in the registry of court, deposited with the Treasurer, should follow the usual procedure for other claimants provided in section 996 of Rev. Stat. (U.S.C., title 28, sec. 852); and (2) that Federal courts must deposit with the Treasurer money held in its registry longer than five years, whether or not the claimant is a minor.

20. Stop Watch Used by Bureau of the Mint. An opinion, addressed to Mr. Thompson, which was prepared by Mr. Tobolowsky and signed on October 12, 1942, concluded that the use of a stop watch in mint operations to test certain new equipment, and not for use in establishing

"any price or piece work rate", is not forbidden by law, although Congress seems to have expressed a general policy against the use of stop watches.

21. Purchase of United States Savings Bonds by the Wife of the Secretary of the Treasury. An opinion, addressed to Secretary Morgenthau, which was prepared by Mr. Feidler and signed on October 20, 1942, advised that if the wife of the Secretary uses her own separate funds, and if she acts entirely on her own responsibility, the purchase of United States bonds by her would violate no Federal statute. The opinion points out, however, that the design and purpose of section 243 of Rev. Stat. (U.S.C., title 5, sec. 243) is such that the purchase might result in criticism because of ethical implications.

The following work was done under the supervision of Assistant General Counsel Tietjens:

22. Washington, Brandywine & Point Lookout Railroad. This railroad connects with the Pennsylvania Railroad at Brandywine, Maryland, and runs in a southeasterly direction to Mechanicsville, Maryland, a distance of about 22 miles. The road is indebted to the United States in the principal

amount of \$50,000, with interest in default thereon in the amount of approximately \$31,000. Negotiations have been under way for some time to compromise the indebtedness. Recently, the Navy Department has taken title to the road and is engaged in extensive rebuilding and improvements. Proceedings have been started in the Federal District Court at Baltimore to fix the value of the property taken. The Treasury Department has been approached by officers of the road, who also represented stockholders, in an effort to arrive at an amount which would satisfy the Treasury's indebtedness. Negotiations are being conducted in conjunction with the Navy Department. Nothing definite has yet been settled with reference to the value of the road's properties. Mr. Proctor and Mr. Tietjens are working on this.

23. Expedition of Issuance of Duplicates of Checks Lost by Members of the Armed Forces. Representatives of the Treasurer's office and of the Bureau of Accounts and Mr. Reeves attended a conference to consider a request by the War and Navy Departments that the issuance of duplicates of checks lost by members of the armed forces

be expedited. The War and Navy Departments had complained that too long a period of time elapsed between the receipt by the Treasury Department of requisitions for the issuance of duplicate checks and accompanying documents in the form of affidavits or bonds of indemnity and the final issuance of such checks. From a survey of the various steps involved, it appeared that any undue delay probably resulted from the time required by the Treasurer's Office to determine whether the original checks had been paid. Additional personnel are to be assigned to this job and it is believed that the cause of the complaint will be eliminated.

24. Voluntary Compliance by the President with Salary Regulations Issued by Economic Stabilization Director. In connection with the desire expressed by the President to comply with salary regulations recently issued by the Economic Stabilization Director, there was prepared a suggested form of endorsement to be placed on the checks which will be issued to cover that part of the President's salary which is to be returned to the Government. Messrs. Tietjens and Reeves worked on this.

25. Proposed Legislation Authorizing the Acceptance of a Permanent Loan to the United States by the Board of Trustees of the National Gallery of Art. Messrs. Tietjens and Reeves drafted a bill which would authorize the Secretary of the Treasury to receive into the Treasury as a permanent loan by the Board of Trustees of the National Gallery of Art to the United States a principal sum in cash of not to exceed five million dollars and to pay interest on the principal amount of such loan at the rate of four per cent per annum, payable semi-annually. This authority is very similar to that enjoyed by the Smithsonian Institution and the Library of Congress.

The following work was done under the supervision of Assistant General Counsel O'Connell:

26. War Communications Board (For description see November 1940 report, item 23). Mr. Shea attended a meeting of the Law Committee of the Board on October 19, 1942. On October 26 and 29, he attended joint meetings of the Law Committee and Coordinating Committee of the Board of War Communications.

27. Opium Poppy Control Bill (For description see

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March 1942 report, item 18). On October 1, 2 and 5, 1942, Mr. Shea appeared with Commissioner Anslinger before the Ways and Means Committee, and testified at executive session meetings in favor of our proposed legislation, H.R. 7568, "To discharge more effectively the obligations of the United States under certain treaties relating to the manufacture and distribution of narcotic drugs, by providing for domestic control of the production and distribution of the opium poppy and its products, and for other purposes". Supporting material and memorandum on this bill were prepared by Mr. Shea and Miss McDuff. The Committee voted to report the bill favorably. At the request of Chairman Doughton, a committee report was prepared and submitted to him.

28. Proposed Legislation Relating to Suspension of Customs Barriers. On October 15, Mr. Speck attended a conference with Bureau of Customs officials at the Bureau of the Budget on proposed legislation relating to the suspension of customs barriers for the duration of the war. The Treasury Department submitted a bill, in response to the President's direction, which was limited to customs barriers between the United States and Canada, and the

Board of Economic Warfare recommended that the bill be broadened to include other countries and to permit the suspension of other laws adversely affecting imports and ~~exports~~ exports in connection with the war effort. The conferees, which included representatives from the War, Navy, State, and Justice Departments, War Production Board, and Board of Economic Warfare, supported a bill along the lines of the Board of Economic Warfare proposal. A drafting committee, on which the Treasury Department was represented, was appointed to prepare a draft which is to be submitted to the President as being approved by, or not objectionable to, all the agencies involved.

29. Green Silver Bill. On October 14, Mr. Shea attended a hearing held by the Senate Banking and Currency Committee on S. 2768, "To authorize the use for war purposes of silver held or owned by the United States", introduced by Senator Green.

30. Federal Reporting Services Bill (For description see September 1942 report, item 31). Mr. Shea appeared on October 8, 1942, before the Senate Special Committee to Study Problems of Small Business and testified in favor of the exemption of the agencies of the Treasury Department

from the provisions of S. 1666, "To coordinate Federal reporting services, to eliminate duplication and reduce the cost of such services, and to minimize the burdens of furnishing reports and information to governmental agencies". At the request of that committee, a draft of an amendment was prepared by Miss McDuff, which would exclude from the provisions of the bill information pertaining to the collection of revenue, safeguarding of the public monies and securities of the United States, supervision of National banks, and the enforcement of penal laws. Mr. Shea conferred with the Senate Legislative Counsel on October 14 and attended a conference held by that committee on the bill. Subsequently, he assisted Mr. Charles Daughters, the Clerk of that committee, in the drafting of the Senate Committee on Education and Labor's report on S. 1666. A favorable report was made on the bill, which gives the Director of the Budget authority to control the collection of information by Government agencies and requires the transfer of information from one agency to another. At the request of this Department the committee recommended an amendment providing for the exemption of the Treasury Department from the provisions of the bill.

31. Proposed Executive Order Authorizing the Treasury Department to Contract for Architectural and Engineering Services. A conference was held with the Bureau of the Budget on October 31, 1942, with reference to the proposed Executive Order authorizing the Treasury Department to contract for architectural and engineering services and limiting the fees to be paid for such services. This order is necessary in connection with the Russian oil refinery program and the Russian power plant program. As a result of the conference, the Executive Order was redrafted so as to provide that it should apply only to lend-lease projects. There were no other substantial changes. Mr. Shea, with Mr. Davis and Mr. Harding of the Procurement Division, presented this matter and prepared the final draft of the order.

32. Proposed Executive Order Authorizing the Treasury Department to Acquire and Dispose of Property. At the request of Mr. Charles Bell, a proposed Executive Order was prepared by Miss McDuff to authorize the Secretary of the Treasury to exercise, through such officials of the Department as he may designate, the power contained in Title II of the Second War Powers Act, 1942, to acquire, use, or dispose of any real property, temporary use thereof,

or other interest therein, that shall be deemed necessary for war purposes. In connection with this proposed Order, Miss McDuff prepared a memorandum concluding that it is doubtful whether the taking of space by the Treasury Department in commercial buildings in those instances when space is vacated by this Department to accommodate the expanding needs of the War and Navy Departments would be a condemnation of space for a war purpose within the meaning of the Second War Powers Act.

33. Directive of the War Production Board (For description see September 1942 report, item 32). War Production Board Directive No. X issued on October 6 (Federal Register, Vol. 7, page 7938) delegates to the Bureau of Narcotics, subject to the supervision of the Secretary of the Treasury, authority with respect to the allocation of narcotic drugs. The Directive reserves power in agencies of the War Production Board to issue future orders regulating transactions in narcotic drugs; but further provides that no preference rating heretofore or hereafter assigned, applied or extended by any person shall have any binding effect with respect to any transaction in narcotic drugs unless the Bureau of Narcotics

shall expressly so order. Mr. Speck handled this matter.

34. Counterfeiting of Ration Books and Cards. After attending a conference, at which representatives of the Secret Service Division and the Office of Price Administration were present, Mr. Ranta prepared a draft of an executive order transferring to the Secret Service Division the jurisdiction to investigate counterfeiting of ration books and cards. The Office of Price Administration desires the Secret Service Division to investigate such counterfeiting and will sponsor the promulgation of the order.

35. Photostating of Postage Stamps. A letter was prepared by Mr. Ranta for Mr. Bell's signature authorizing the Office of Censorship to photostat canceled and uncanceled postage stamps on covers and communications in connection with the censorship work of that agency.

36. Compromise Offers. The offers made by B. J. Harrell, Eastman, Georgia; Frank Grasso, Oakland, California; and Augusta A. Fitch, Coeurs d'Alene, Idaho, in settlement of claims in favor of the United States were duly accepted by the Acting Secretary of the Treasury. Miss McDuff handled these cases.

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37. Dismissal of Indictments. Letters were prepared by Mr. Ranta to Assistant Attorney General Berge advising that this Department had no objection to the dismissal of the following indictments for forgery of Government checks: Jesse Kennedy and Clyde Reed, provided that leave be obtained to restore the cases at a future date; and Steven Pocos.

38. Congressional Action on Treasury-sponsored Legislation. (a) White House Police Force Recruitment. On October 2, 1942, the House considered and passed by unanimous consent S. 2584, our bill to permit the appointment of White House police, in accordance with the civil service laws, from sources outside the Metropolitan and United States Park Police forces. The President approved this legislation on October 9 and it became Public Law No. 733.

(b) G. F. Allen Relief. H.R. 6990, our bill for the relief of G. F. Allen, Chief Disbursing Officer, Treasury Department, and for other purposes was passed by the House on October 6, 1942. The bill was referred to the Senate Committee on Claims.

(c) Opium Poppy Control Bill. H.R. 7568, "To discharge

more effectively the obligations of the United States under certain treaties relating to the manufacture and distribution of narcotic drugs, by providing for domestic control of the production and distribution of the opium poppy and its products, and for other purposes," was reported with minor amendments by Representative Doughton, from the Committee on Ways and Means on October 12, 1942 (Report No. 2528). It was passed by the House on October 21, 1942, and referred on October 22 to the Senate Committee on Finance.

The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

39. Investigation of Tax-Exempt Subversive Organizations (For description see July 1942 report, item 31). Considerable time was devoted to the project begun in the latter part of September of investigating tax-exempt subversive organizations. This investigation was launched with the following thoughts in mind: (1) a subversive organization is not entitled to tax exemption; (2) regardless of the amount of tax involved, it is desirable that the Treasury remove any Government approval that might be implied

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by tax exemption; and (3) such an investigation within the Treasury or by agents of the Treasury would incidentally provide background information leading to cases upon which the proper Governmental investigative authorities could afford to concentrate. Cooperation and liaison in this work have been effected with FBI and with the Special War Policies Unit of the Department of Justice.

Acting on evidence produced as a result of this investigation, Mr. Wenchel, Chief Counsel of the Bureau of Internal Revenue, revoked the tax-exempt status of the German-American School Association of New York City. The evidence proved that the School Association, dominated by the Nazi Volksbund fuer das Deutschtum im Ausland, was training German-American youth in Nazi doctrine. Investigations into other activities of the V.D.A. in the United States are being made.

40. Espionage and Sabotage Possibilities in Ocean Shipping (For description see August 1942 report, item 54). A supplemental investigation (following a Foreign Funds Control investigation) was undertaken of the Draeger Shipping Company. The purpose of this investigation was to read all German correspondence and records (which had

not been done) with a view to determining the role of the Draeger Shipping Company in Nazi activities, and to ascertain the pattern of Nazi subversive activities in other, similar, Axis-controlled waterfront enterprises. Because of certain difficulties, and pursuant to instructions, this investigation was dropped.

41. Enemy Propaganda. At the request of Mr. Gaston, the magazine VOICI was investigated. An opinion, which was written by Mr. Klaus, set forth evidence demonstrating that the magazine is a publication devoted to propaganda for Vichy and the Axis-collaborationists.

42. Studies. (a) Examination of the records taken from the Board of Trade for German-American Commerce, the Italian National Institute of Exchange and the German-American Bund continued, and pertinent information was sent to the proper Governmental agencies.

(b) Cables, seized from the records of Chemnyco, Inc., and decoded, were translated and copies sent to interested agencies. These cables have contained interesting information on the rubber situation.

The following work was done under the supervision of Assistant General Counsel Bernstein:

43. Estates (For description see September 1942 report, item 47). General License No. 30A and Public Circular No. 21, relating to the administration of blocked decedents' estates, were issued on October 23, 1942. General License No. 30A authorizes transactions incident to the administration of United States assets of blocked estates in which the decedent was not a blocked national. Any property paid or distributed to a blocked national is subject to the provisions of the Order. The general license also authorizes limited acts of administration of the United States assets of any other blocked estate. Public Circular No. 20 pointed up the pertinent provisions of General License No. 30A and indicated the manner in which the Treasury Department would administer the blocked estate program. Messrs. Luxford, Aarons, DuBois and Alk worked on these matters.

In connection with the completion of other aspects of a comprehensive legal-administrative program, consideration is being given to a proposed general authorization to extend the principles of General Licenses Nos. 30 and 30A to individuals who are trustees

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of trusts or guardians of minors and incompetents. A study is presently being made by Messrs. Luxford, Aarons, Golding and Alk.

44. Remittances (For description see September 1942 report, item 49). Public interpretation No. 7 was issued October 17, 1942. This interpretation pointed out that General Licenses Nos. 32 and 33 were limited to remittances to individuals only for the purpose of defraying the expenses of such individuals and their households, any other remittances to be effected only pursuant to special Treasury Department license. Messrs. Luxford and Golding worked on this.

45. Retroactive Cases - General Ruling No. 12 (For description see September 1942 report, item 50). In conjunction with the administration of General Ruling No. 12, a confidential circular instructing the Federal Reserve Banks with respect to the treatment to be given retroactive cases, in so far as the technique and manner of licensing is concerned, has already been issued.

46. Latin America. (For description see September 1942 report, item 63). (a) Argentine Program. The following action was taken to implement certain specific

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measures, suggested by this Department and approved by the State Department, which are designed to implement to some extent an ad hoc program in Argentina:

(1) The names of 64 firms and persons ⁱⁿ Argentina having unsatisfactory ratings according to the records of the World Trade Intelligence Division, together with summaries of certain information concerning the undesirable activities of such persons and firms, were forwarded to the State Department. It was proposed in the letter that these persons and firms be subjected to ad hoc freezing action immediately and be given immediate consideration for inclusion in The Proclaimed List. These cases were discussed at meetings attended by representatives of the State and Treasury Departments. The State Department approved the immediate application of ad hoc freezing action to 44 of these persons and firms. Appropriate instructions have been issued to the Federal Reserve Banks ordering that such persons and firms be ad hoc blocked.

(2) The names of over 180 individuals in Argentina who are closely connected with firms on The Proclaimed List were forwarded to the State Department. It was, also, proposed that such individuals be subjected to ad hoc freezing action immediately.

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(3) A list of exchange houses in Argentina which have continued to deal in dollar currency transactions in the black market was forwarded to the State Department, with the suggestion that these firms be subjected to ad hoc freezing action immediately.

(4) The application of ad hoc freezing action to Banco de la Provincia, Banco de la Nacion, Pasqual Hermanos, and action with respect to Shaw, Strupp & Company were suggested in order to enable this Department to supervise the transactions subject to our jurisdiction which are engaged in by such firm. Messrs. DuBois and Moskovitz worked on these matters.

(5) There was submitted for the consideration of the State Department a proposed general ruling which excludes transactions between persons in Europe and persons in the American Republics from outstanding general licenses and required that before any such transactions may be engaged in, they must receive the specific approval of the Treasury Department. Mr. DuBois handled this matter.

(b) In General. A number of problems involving the Latin American Republics were handled by Mr. DuBois, including problems arising in connection with transactions

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between this country and the Latin American Republics and problems arising in connection with the freezing control laws of the various Latin American Republics.

47. Neutral European Countries (For description see September 1942 report, item 64). A conference was held with representatives of the State Department on General Ruling No. 15 which this Department has proposed be issued, which would provide, with certain important exceptions, that assets held in the United States for persons within the European countries may not be withdrawn for any purpose until the identity of the true owner of such assets, on the date the freezing order was extended to such countries, was established and until it was established that no transfer of any interest in such assets has been made since that date, except transfers licensed by the Treasury Department. Subsequently, a letter, which was prepared by Mr. DuBois, was sent to the State Department advising that the adoption of this program is essential in order that this Department may carry out its responsibility to fully protect assets in this country belonging to persons in the occupied countries and to prevent the enemy from using looted assets in the furtherance of the enemy war effort.

48. United Nations Declaration (For description see August 1942 report, item 68). A revised text of the proposed declaration by the United Nations relating to the transfer in territories occupied or controlled by the Axis of property rights and interests was received from London and studied by this Department and the State Department. This Department advised the State Department by letter of its approval of the proposed declaration. Mr. DuBois prepared this letter.

49. Procedure for Ad Hoc Blocking Persons Outside of the United States. A detailed procedure was developed for the ad hoc blocking of persons outside of the United States by designating them as "specially blocked nationals". This procedure was embodied in Confidential Circular No. 158A which was sent to all of the Federal Reserve Banks. Under this procedure not only are all the accounts, safety deposit boxes, special accounts, etc. of specially blocked nationals frozen, but also all commercial and financial transactions in which any such person has an interest are effectively prohibited except pursuant to license. Provision is made so that wide distribution of the names of persons designated as specially blocked nationals will be

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given, including notifying banks, brokerage houses, shipping concerns, and other institutions handling a substantial volume of business for foreign accounts. The procedure developed in Confidential Circular No. 158A has already been used for the ad hoc blocking of persons in Argentina under the Argentine program. Mr. DuBois handled this.

50. Trading With the Enemy (For description see June 1942 report, item 63). A number of problems have arisen relating to transactions by branches of United States concerns in Europe with persons within enemy territory. Several conferences have been held by Mr. DuBois with representatives of the State Department on these matters. One of the most important of these cases involves dealings by I.T.&T. with Germany, including the manufacture of radio transmitters for the German army.

51. Certifications Under Section 25(b) of the Federal Reserve Act (For description see May 1942 report, item 57). A number of licenses, notifications and certifications pursuant to section 25(b) of the Federal Reserve Act, involving the accounts of friendly refugee governments, have been reviewed by Messrs. DuBois and Sommerfield.

52. Currency Program (For description see September 1942 report, item 65). (a) A press release was issued calling attention to the fact that after October 31, 1942, persons entering the United States from any place other than Mexico, Great Britain, Bermuda, Canada, and Newfoundland will be required to turn over to the Customs authorities all of their currency in excess of \$50. This ruling had the effect of superseding a previous requirement that all currency in excess of \$250 be turned over to Customs authorities. Messrs. Luxford, DuBois and Rains handled this matter.

(b) Big Money Program. Documents, which have been prepared by Messrs. Luxford, DuBois and Rains, provide for the calling in of all United States currency in bills of \$500 denomination and over, and provide that they must be deposited in domestic banks for exchange into bills of \$100 denomination or smaller on or before a deadline date. Under this program persons and banks outside of the United States may deposit the currency being held by them in local banking institutions, which will take such currency on a collection basis and which may forward such currency to a Federal Reserve Bank in the United States.

The purpose underlying this program is to accomplish a further step in the prevention of the introduction in the United States of looted currency, much of which is in bills of large denominations.

(c) A procedure was worked out by Miss Goode with respect to persons arriving in or departing from the United States where such persons have made false declarations concerning currency in their possession and affected by General Ruling No. 5 or General Ruling No. 14.

(d) General. A number of general problems have arisen in connection with our currency control plan, including drawing of general authorizations; further work on the seamen's currency program; drawing a notice to travelers to be posted generally throughout the United States; and endeavoring to secure stricter customs control over incoming currency at the border. Mr. Rains and Miss Goode are working on these problems.

53. Censorship (For description see September 1942 report, item 66). (a) New censorship regulations which the Office of Censorship proposes to issue in the near future have been reviewed by Mr. Rains and Miss Goode and several meetings have been held with representatives of the Office of Censorship.

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(b) Documents were drawn up by Mr. Rains in connection with the proposed censorship and other controls over the movement of checks and drafts between the United States and other countries.

(c) A conference relating to the handling of postage stamps was held by Mr. Rains and Miss Goode with representatives of the Office of Censorship.

54. Patents, Trademarks and Copyrights (For description see September 1942 report, item 45). In the field of patents, study is being given to a complete revision of the existing licensing procedure. In view of Executive Order No. 9095, as amended, a program is being worked out with the Alien Property Custodian by which most aspects of United States patent transactions involving blocked interests will be turned over to the Alien Property Custodian, while the Treasury Department will retain control of the patent activities in blocked countries. This program contemplates the amendment of General License No. 72, permitting transactions with respect to United States patents which are authorized by the Alien Property Custodian, the issuance of a general prohibitory order in the field by the Alien Property Custodian, and the issuance of a license covering aspects of

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these transactions. The Treasury Department would also issue, probably as General License No. 72A, a document relating to foreign patent transactions engaged in by American citizens. Messrs. Luxford, Aarons, Kehl and Murphy are working on this.

At the request of the Department of State a conference was called with respect to the overall Government policy to be followed on trademarks owned by German business enterprises both in this country and in the other American Republics. Messrs. DuBois and Lawler and representatives of Foreign Funds Control and of several interested Government agencies were present. Preliminary discussions were had and various facets of the problem explored.

55. Insurance Problems (For description see September 1942 report, item 46). Significant facets of a program dealing with insurance activities in which blocked interest exists are being considered. The problems presented in the insurance field range from the payment of premiums and claims under policies to the change of beneficiaries. Most of these matters are now handled on a specific license basis. At the present time there is being considered the issuance of a general license which would eliminate from

the specific license field minor matters and those which would ordinarily be approved. The license would also permit other insurance transactions subject to adequate control. Correspondence has been had with representatives of life and fire insurance groups as well as with various state and Federal agencies in the field. Messrs. Luxford, Aarons, Kehl and Murphy are working on this.

56. Securities Control (For description see September 1942 report, items 60 and 63(e)). (a) Mexican Securities Program. As indicated in previous reports, the Mexican securities plan envisages registration of all Mexican securities of certain named issues, regardless of by whom held. It is hoped that this program will be helpful in preventing the Axis from realizing any benefits from this property. In connection with its administration, conferences have been held with Senor Alva of the Mexican Embassy, and various aspects of the problem studied by Messrs. Luxford, DuBois, Rains and Minskoff.

(b) General. In the administration of the currency and securities control under General Ruling No. 5, further study was given by Messrs. Luxford, DuBois and Rains to the preparation of documents to permit the importation of

U.S. Government securities by United States employees returning from the Canal Zone.

Messrs. Luxford, DuBois and Daum are studying a program to deal with the importation into this country of coupons detached from bonds.

57. Litigation (For description see September 1942 report, item 48). (a) General. Briefs were prepared and trial techniques worked out with respect to lawsuits involving Foreign Funds Control, Executive Order No. 8389, as amended, or section 5(b) of the Trading with the Enemy Act, as amended by the First War Powers Act, either directly or indirectly. Some of these suits involve the Alien Property Custodian, some of them the Treasury Department, and some of them the Alien Property Custodian and the Treasury. All of them are significant because they involve section 5(b) of the Trading with the Enemy Act, as amended by the First War Powers Act, 1941.

(b) General Aniline and Film Corporation. Aickelin and Alexewicz, two employees of General Aniline & Film who were dismissed pursuant to instructions of the Treasury Department, brought suit against the Corporation for breach of employment contracts. The suit by Aickelin

was brought in New Jersey and the one by Alexewicz in New York state. In both cases motions for judgment on the pleadings have been made and briefs are being prepared to be filed either by the defendant or by the United States as amicus curiae. These cases involve the right of the Treasury Department under Executive Order No. 8389, as amended, or under section 5(b) of the Trading with the Enemy Act, as amended by the First War Powers Act, 1941, to direct the dismissal of employees of blocked corporations. They also involve the common law defenses of illegality, impossibility, and commercial frustration, against the background of governmental action. Messrs. Luxford, Aarons, Alk, Golding and Murphy are working on this case.

(c) Sumitomo Bank of Seattle et al v. J. S. Utterback.

The month of October saw the termination of this case in which the authority of the Comptroller of the Currency to liquidate a Japanese bank was challenged. A number of conferences were held with the Comptroller's office and the Alien Property Custodian. The Custodian vested the Sumitomo Bank, assumed full control over its affairs, and the suit was dismissed. Messrs. Luxford, Aarons, Alk, and Daum worked on this case.

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(d) Stern v. Hallgarten & Co., Alien Property Custodian, Intervenor. Drafts of briefs to be filed by the Department of Justice in this case were prepared. The Alien Property Custodian, acting pursuant to section 5(b) of the Trading with the Enemy Act, as amended by the First War Powers Act, 1941, vested certain shares of stock held by Hallgarten & Co. in the name of Stern et Cie. of Paris, France. These shares were the subject of replevin action commenced by Maurice Stern, a former member of the French firm. The draft of the Alien Property Custodian brief was also prepared. It was pointed out therein that a replevin action under these circumstances would not lie. The plaintiff in reply contended that, because Stern et Cie. had defaulted in answering, its rights to the stock in question were fixed by the default. Subsequently, a draft of a reply brief was prepared and submitted to the Alien Property Custodian, pointing out that under General Ruling No. 12 and the principles enunciated in the Polish Relief case the default in answering could create no additional rights against the United States. This brief was filed by the Custodian. Messrs. Luxford, Murphy and Golding worked on these briefs.

(e) Draeger et al. v. Alien Property Custodian (For description see August 1942 report, item 54). This is a case in which the Alien Property Custodian again acting under section 5(b) vested certain shares of stock issued by the Draeger Shipping Company, Inc., of New York and registered in the name of Frederick Draeger, an American citizen. The parties involved had been subject to strict Treasury Department control since June 1942 and the Alien Property Custodian had vested these shares in September, 1942. Investigation had revealed that, in view of the activities of Frederick Draeger and the Draeger Shipping Company, Inc., and in view of their connection with Schenker and Company, G.m.b.h., Berlin, the best interests of the United States would be served by a vesting of this stock, even though persons who were nominally Americans appeared to have the sole interest.

Frederick Draeger and the Draeger Shipping Company then sought to enjoin the Alien Property Custodian from liquidating the Company and holding its stock. Work has been completed on a brief which, it is expected, will be filed in support of a return to an order to show cause and in support of the Custodian's motion to dismiss.

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The case involves, among other things, the effect of other sections of the Trading with the Enemy Act upon section 5(b) as amended by the First War Powers Act, 1941, it being the position of the Treasury that section 5(b) stands alone and is independent of other sections of the Act. The case also involves the right of a person affected by action taken under section 5(b) to enjoin such action without exhausting all administrative remedies available. Messrs. Luxford, Aarons, Alk, Proctor, Golding, and Murphy worked on this matter.

(f) Chase National Bank of New York v. Manila Electric Co. (For description see August 1942 report, item 61). A pending action brought by the Chase National Bank of the City of New York against the Manila Electric Company and others brings into play various aspects of the Treasury's program by which a moratorium on Philippine obligations was set up. This program was announced by the issuance of General Ruling No. 10A a short time ago. Messrs. Luxford and Daum are working on this case.

58. Hawaiian Scorched Earth Program (For description see September 1942 report, item 51). Various aspects of the Hawaiian "scorched earth" program with respect to securities and currency physically located in Hawaii was

considered by Mr. Luxford and Mr. Murphy. These related to "loose ends" which still remain to be adjusted. Conferences were held with representatives of the Bureau of Public Debt and the Foreign Funds Control with respect to the safeguarding of securities reports filed as required by the Hawaiian securities program. In the event of destruction of Hawaiian securities as a "scorched earth" measure, the reports which are being sent to Washington will form the basis for the reissuance of approximately \$380 million in securities physically situated in the Territory of Hawaii. Consequently, it was necessary to take very cautious and carefully worked out measures with respect to the proper filing and indexing of these reports. A memorandum was presented instituting a system of filing these reports, which received the approval of the Under Secretary, and the program of filing is now under way.

59. Territories and Possessions (For description see September 1942 report, items 51 and 52). Conferences were held with Mr. Alfred E. Tree, agent in charge of Foreign Funds Control in the Territory of Hawaii, and various miscellaneous problems with respect to Hawaiian matters were

worked out. These problems involved administrative readjustments with respect to Mr. Tree's staff which has been quite seriously depleted in recent months as well as problems centering about the opening of safe deposit boxes as required by the safe deposit box regulations, and the relationship of the Alien Property Custodian, the Office of the Military Governor, and the Foreign Funds Control in the Territory of Hawaii. It is expected that an additional attorney and two representatives of the Foreign Funds Control will soon be stationed in Hawaii to assist Mr. Tree. Messrs. Luxford and Murphy worked on this problem.

Messrs. Luxford, Murphy and Rains prepared documents relating to the promulgation of programs with respect to other territories and possessions of the United States - principally Alaska, Panama, Puerto Rico, and the Virgin Islands - similar to the one in effect in Hawaii. In some of these areas, particularly Panama and Puerto Rico, the adoption of a "scorched earth" policy might well be integrated with measures pertaining to the availability of currency to the Axis. Mr. James J. Saxon of the Foreign Funds Control visited Puerto Rico to survey these problems. Further study of these matters is being given on the basis of this and other first-hand information.

A plan has been devised by which securities issued by or the obligations of either the Government of the Commonwealth of the Philippines, its political subdivisions, or corporations organized under its laws, and "frozen" in reputable banks in foreign countries within the generally licensed trade area, may be released. The program contemplated calls for reports of these securities to be filed by the New York agency of the Philippine National Bank, the transmission of Form TFEL-2 by the Federal Reserve Bank of New York to the bank holding the securities, and upon the attachment thereto, the release of the securities. The basic documents have been drafted, cleared in the Treasury Department, in the Department of State, and by the Philippine Government. At present they are being considered by the Department of the Interior and, if and when cleared, will be issued. Messrs. Luxford and Murphy worked on this matter.

60. Special Studies (For description see September 1942 report, item 61; August 1942 report, item 65). The study of German decrees vis-a-vis American property situated in Germany and in German-occupied territory has continued. Very interesting material has been secured with respect to German decrees generally, the currency control employed

by Germany within the Reich and conquered areas, and the methods used by the Germans in exploiting American and other property in the occupied areas. Also, study is being given by Messrs. Luxford and Minskoff to the problems arising out of the property decrees issued by the various governments in exile.

A study is also being made of the conflicting Allied exchange and enemy property controls. This problem involves the effect to be given to requests by Allied authorities for the release of frozen property to them, such as the transfer of blocked funds to the Canadian Alien Property Custodian or transfer of blocked balances of firms in invaded areas to the free accounts of English affiliates. Conferences on these matters have been held with representatives of the State Department and it is expected will be held with representatives of various foreign governments. Messrs. Luxford, Golding and Murphy are working on these problems.

Study is being given to the various methods by which blocked safe deposit boxes might be required to be opened and the contents inspected. The vastness of the problem within the United States, viewed in the light of present

economic conditions, makes it extremely desirable that as simple a procedure as possible be devised. However, in view of the possibility that valuable information as well as property may be contained in these safe deposit boxes, it is thought that some measures along these lines are eminently desirable. Messrs. Luxford and Daum are making this study.

61. Interned Aliens (For description see September 1942 report, item 53). The program for handling funds of interned aliens was formally agreed upon and an explanatory circular was issued to the Federal Reserve Banks. However, two decisions, dated October 19 and 20, rendered by the Comptroller General in response to a request from the War Department without prior consultation with the Treasury Department have caused a delay in putting this program into effect. These decisions relate to the manner in which Commanding Officers of internment camps must deposit and account for funds of interned aliens, and also to the question of the disposition of wages paid by the Army to internees. In collaboration with the War Department, the effect of these decisions is being studied by Messrs. Aarons, Lawler and Alk.

62. Reverse Census (For description see August 1942 report, item 57(a)). The Treasury Department announced in October that it is considering taking a census of American-owned property in foreign countries. It is contemplated that this census will require reports by persons and organizations subject to the jurisdiction of the United States with regard to property located outside the United States owned by such persons or in which they have an interest. The census would also require information concerning foreign property disposed of or lost during the past years. This census would complement the census of foreign-owned property required by the reports on Form TFR-300 and would probably prove of great value not only in our war effort but also the post-war adjustment. Forms upon which this report will be filed and instructions with respect to the filling out of these Forms and filing of the reports are being prepared by Messrs. Luxford, Reeves, and Arnold.

63. Census of Foreign Property (For description see September 1942 report, item 54(b)). Problems arising in connection with reports on Form TFR-300, Series L, under Public Circular No. 4C are being considered by Messrs.

Reeves, Lawler and Arnold. Interpretations, answers to inquiries, and miscellaneous legal and economic problems arising in connection with these requirements and with respect to those concerning other Series of Form TFR-300 have also been made.

64. Alien Property Custodian (For description see August 1942 report, item 59). A series of conferences were held with representatives of the office of the Alien Property Custodian to insure that policies undertaken by the Treasury Department and the Custodian, pursuant to the delineation of authority outlined in Executive Order No. 9095, as amended, would be consistent and effective. Information has been made available to the Alien Property Custodian with respect to various organizations, with recommendations as to action to be taken, and he has been consulted concerning all aspects of joint problems. Also, a memorandum on Treasury Department-Alien Property Custodian relationships has been prepared as the basis for the Department's negotiations with the Custodian. Messrs. Luxford, Lawler, and Miss Klein have been cooperating with members of Mr. Pehle's staff on the matter.

65. Investigations (For description see September 1942

report, item 57). A study of the relationship of marine insurance and foreign freight forwarding to the dissemination of information of ship movements which may have resulted in losses is being made. In this connection, some 10 or 12 freight forwarding companies have been investigated and memoranda for the Secretary and the President have been prepared. The memorandum to the Secretary has been circulated among other Government agencies. Investigations of various newspapers is being pushed. One investigation in Chicago has recently been completed and discussions have been held with representatives of the Department of Justice and the Federal Bureau of Investigation. Messrs. Lawler, Proctor and Moore are working on these matters.

Reports are in the process of preparation with respect to the investigation of the French Lines, the General Aniline & Film Corporation, Sterling Products, Inc., Swiss pharmaceutical companies, the Bata interests, the Viktor Bator case, the Val Peters case, the Metallgesellschaft matters, and the Sofina case. These matters involve extensive study of material available from Treasury Department files, additional field investigations, and cooperation

with various interested Government agencies. Messrs. Lawler, Lesser, Moore, Locker, Linville and Ackermann are preparing the reports.

Also a number of investigations into violations of the Order and the freezing regulations by various concerns have been conducted. Some 25 investigations were made, their subjects ranging from banking corporations to law firms. Some of them are being conducted with a view toward turning evidence over to the United States Attorney and toward assisting the Department of Justice in other prosecutions which are under way. Messrs. Lesser, Quint, Schwartz, Cook, King, Ewing, and Ackermann are working on these.

66. Ad Hoc Matters (For description see August 1942 report, item 56). Eight hearings and two preliminary conferences were held on applications to unblock, filed under General Ruling No. 13. Both the conferences and the hearings were conducted on an informal basis and operated quite satisfactorily. Messrs. Lawler, Proctor and Locker handled these matters.

At the meetings of the ad hoc committee and the Enforcement and Investigative Committee, consideration was given to the matters presented as the result of investigations,

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and recommendations made with respect to action to be taken. The committee on Enforcement and Investigation considered about 100 matters. Letters were written to nine persons requesting explanations of apparent violations of the Order. Three explanations were given orally at semi-formal hearings, three written explanations have been received, and three replies are yet forthcoming. Messrs. Lawler, Lesser, Locker and Proctor worked on these matters.

67. Public Relations (For description see July 1942 report, item 35(b)). Messrs. Luxford, DuBois, Lawler and Rains participated in the presentation of material at another Foreign Funds School held for one week during October. This school, which was conducted for the purpose of acquainting special representatives of the Department of State with various aspects of Foreign Funds problems, consisted of a series of lectures. Various techniques employed by the freezing control were explained with particular emphasis upon their utilization by persons attending the school.

The Handbook prepared for the Inter-American Conference on Systems of Economic and Financial Controls is

being revised. This revision is being made with a view toward publishing the pamphlet as an explanation of foreign property controls employed by the United States Government. Messrs. DuBois and Lawler have cooperated with representatives of the Foreign Funds Control.

68. Mexican Railways. In connection with the problem of expediting transportation of war materials from Mexico to the United States, a preliminary study was made with respect to the ownership of the Mexican railway debt, a proposed executive order was drafted granting immunity, by means of techniques similar to those used in freezing control, to Mexican railway property moving into the United States, and a draft of a press release was prepared showing the necessity and importance of action taken and explaining the operation and effect of the proposed executive order. Messrs. Luxford, DuBois and Minskoff handled this work.

69. United States Army Personnel in China. General Stilwell called to the attention of the War Department that, because the "black market" rate for the yuan is considerably less than the official rate at which United States soldiers stationed in China are paid, considerable inequities have

resulted. Messrs. Luxford, Minskoff and Daum studied methods of alleviating the hardship caused by the reduced purchasing power of the American dollar in China in the light of the Chinese yuan at the present official rate. Consideration was given to an Act of 1934 which granted exchange relief in certain cases where foreign currency appreciated in relation to the American dollar.

70. Silver (For description see September 1942 report, items 67 and 68) A report to the Senate Committee on Banking and Currency on Senator Green's Bill "To authorize the use for war purposes of silver held or owned by the United States" was prepared. The Treasury recommended the enactment of the bill and suggested a modification of the minimum price provision. It was also suggested that some use might be made of the standard silver dollars held in the Treasury. Messrs. DuBois and Brenner worked on this report.

Despite the elaborate arrangements made by the Treasury for the free flow of newly-mined domestic silver to industrial users, it was learned that some of the producers were contemplating making deposits at the coinage mints. Accordingly, the mints were instructed to communicate

with the Department prior to making settlement for any deposits. Arrangements were made with the War Production Board to attempt to cause such silver to be sold on the market. Messrs. DuBois and Brenner are handling this matter.

Upon the receipt of a request for a ruling by the Bank of Mexico, a study was made of the problem of the price to be paid for silver contained in future deposits of gold. The Treasury is presently paying 34 cents per fine troy ounce for such silver but the Bank of Mexico has requested that it be raised to 44 cents. This question has been discussed with the Mint Bureau, the Division of Monetary Research, and the War Production Board. Messrs. DuBois and Brenner are working on this.

A memorandum was prepared by Mr. Brenner for the General Counsel which briefly discussed the history of silver as a monetary metal, the silver laws enacted since 1933, the action taken by the Treasury Department pursuant to such legislation, the steps taken to put the silver stocks to work in the war effort, and the silver problems which exist at the present time.

71. Coinage (For description see September 1942 report, item 69). Messrs. DuBois and Brenner and Miss Hodel

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cooperated with the Legislative Section in the preparation of a final draft of a bill to provide for the substitution of other materials for strategic metals used in minor coinage. Memoranda were prepared explaining the provisions of the bill and letters of transmittal to the Congress were drafted.

72. Pershing Hall (For description see September 1942 report, item 70). Miss Hodel and Mr. Brenner assisted the office of the United States Attorney for the District of Columbia in the preparation of documents for use in the case of American Legion Building Paris Inc., et al. v. Henry Morgenthau, Jr., Treasury. This case arose out of the Treasury denial of certain claims which were alleged to be "indebtedness in connection with Pershing Hall", but which the Department found to be indebtedness of the corporation which formerly owned the building. The litigation had reached the stage where the United States Attorney had made a motion for a summary judgment and the documents referred to above were prepared in support of this motion.

73. Gold (For description see August 1942 report, item 73). Miss Hodel cooperated with the Bureau of the Mint, Secret Service, and the Customs Bureau in connection

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with prosecutions of certain persons accused of smuggling gold from Canada into the United States. An appeal in the case against Bernard Kushner of the firm of Kushner & Pines, New York City, is now pending in Buffalo. An indictment against C. Sterling Smith is being prepared in the United States Attorney's office in New York. Smith was recently apprehended on a trip from Canada to New York City and over 300 ounces of allegedly stolen gold were seized from him.

Problems arising out of the request of the National City Bank for the release to the United States Mint at San Francisco for sale to the United States of some of the gold brought from the Philippines by Commissioner Sayre were considered by Messrs. Aarons, Brenner and Miss Hodel.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

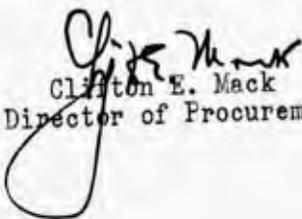
WASHINGTON

December 8, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended December 5, 1942.

Following a meeting with the Clothing Committee for the Relief and Rehabilitation Program yesterday afternoon, Mr. J. A. Vieg, Acting Chief, Relief and Rehabilitation Division, stated that he would request the Procurement Division to purchase clothing and miscellaneous supplies for 5 million persons in accordance with the basic list approved by the committee for such needs. Mr. Vieg also stated that he would approve the purchase of some 7,000,000 yards of piece goods which we had purchased for the WPA sewing projects inasmuch as this material, and possibly substantial additional quantities of piece goods, will not be used by WPA due to its liquidation.


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 DECEMBER 5, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U.K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$2719.2 (2539.3)	\$1248.3 (1247.5)	\$816.2 (778.1)	\$58.3 (58.2)	\$3.7 (3.7)	\$592.7 (451.8)
Purchase Authoriza- tions (Requisitions)	\$1960.5 (1883.7)	\$1147.1 (1090.0)	\$751.7 (732.7)	\$41.3 (41.1)	-	\$ 20.4 (19.9)
Requisitions Cleared for Purchase	\$1842.0 (1794.4)	\$1108.6 (1076.7)	\$672.5 (657.0)	\$41.3 (41.1)	-	\$ 19.6 (19.6)
Obligations (Purchases)	\$1754.8 (1731.4)	\$1054.6 (1047.1)	\$639.4 (624.2)	\$41.3 (41.1)	\$3.0 (2.9)	\$ 16.5 (16.1)
Deliveries to Foreign Governments at U. S. Ports*	\$ 766.6 (753.7)	\$ 606.4 (597.2)	\$134.1 (131.0)	\$20.3 (20.2)	-	\$ 5.8 (5.3)

*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 November 28, 1942.

December 8, 1942.

Dear Ed:

Thank you for your letter informing me that you have appointed Bernhard Knollenberg to your staff. I am glad to hear of this appointment and look forward to my contacts in the future with your Senior Deputy Administrator.

Sincerely,

(Signed) Henry

Honorable E. R. Stettinius, Jr.,
Administrator, Lend-Lease Administration,
Washington, D. C.

File in Diary

GEF/bs

LEND-LEASE ADMINISTRATION
WASHINGTON, D. C.

STETTINIUS, JR.
ADMINISTRATOR

December 7, 1942

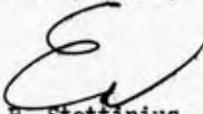
Dear Henry,

I am delighted to say that I am today appointing Bernhard Knollenberg as Senior Deputy Administrator of Lend-Lease.

I am sure you will agree that his character, ability, and knowledge eminently qualify him for an important role in the war program, and I hope that Knollie will have the pleasure of seeing you at an early date.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

The Honorable Henry Morgenthau
Secretary of the Treasury
Treasury Department
WASHINGTON, D. C. 9 68 28

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Joseph J. O'Connell, Jr.

December 8, 1942.

Mr. Paul has asked me to give you a brief summary of the situation referred to by Senator Ellender at the hearing before the Senate Small Business Committee last Friday. You will recall that Senator Ellender is reported in the newspapers as being determined to find out "what becomes of the money" paid for Lend-Lease civilian goods shipped to England and as having said that he would ask you "if our goods are sold at a profit, what becomes of the profit and the gross collections?"

Food and other civilian goods which are purchased for the British, under Lend-Lease, are turned over by this Government to the British Government, and as a general proposition are then disposed of through the ordinary channels of trade. The prices at which such goods are sold to consumers, especially food items, are fixed by the Government. Oscar Cox tells me the British Government sells Lend-Lease food items at prices substantially below their cost here. How much below I do not know.

A part of the price paid by the ultimate consumer would go to the wholesaler, retailer, processor, or other person in the distributive chain (probably including an amount representing a profit to each), and the balance would go into the British Treasury (in pounds sterling, of course, not in dollars).

The Lend-Lease Administration keeps a record of the cost to us of all such articles, and presumably a settlement will be made between the two Governments on some basis at a later date.

The British feel that there is no other practical way of handling the distribution of foods and other civilian goods than of through the usual trade channels. Oscar tells me that the Lend-Lease Administration and the State Department are presently studying the question and are getting some material together for Senator Ellender should he ask them for it.

Joseph J. O'Connell

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
December 7, 1942

TO Mr. Paul
FROM Secretary Morgenthau

Please look into this and get in touch with Oscar Cox so in case I am called, I will be prepared to answer.

The Journal of Commerce

DEC 7 - 1942

LEND-LEASE SALES IN BRITAIN PROBED

Ellender Asks British Chain Owner What Becomes of Money Paid for Goods

WASHINGTON, Dec. 6 (AP).—Senator Ellender (Dem., La.) told a British witness before the Senate Small Business Committee Friday he proposed to "find out what becomes of the money" paid for lend-lease civilian goods shipped to England.

The witness, I. M. Steff, executive of a British chain of 236 food and apparel stores, said the money "does not go into private hands," but that its handling was covered by an arrangement between the United States and British treasuries. He added he did not know what the "arrangement" was.

Intends to Find Out

"I intend to find out," Ellender told him.

In reply to Ellender's query, Steff said British exports of civilian goods were curtailed "very considerably" but he did not have figures available.

Steff said that if \$2,000,000 of canned goods and other supplies were shipped to England it became the property of the Ministry of Food, which transferred it to wholesalers for distribution under Government control.

"I want to know what becomes of the funds collected by the Ministry of Food," Ellender insisted.

The Senator told reporters he would ask Secretary of Treasury Morgenthau "if our goods are sold at a profit, what becomes of the profit and of the gross collections."

Earlier, Steff testified the "rugged individualistic English shopkeeper's dislike of Government interference" had prevented maximum utilization of the nation's resources for war.

Steff, managing-director of Marks & Spencer, London, asserted, however, that "more and more, Government control is being put into action."

A Board of Trade subcommittee's proposal for a percentage contribution toward a central fund to assist business casualties met, he said, "with divided opinion" among small retailers and was shelved.

Steff came to this country to stimulate British exports to increase his nation's dollar exchange

pool. He recently was loaned to the Office of Price Administration where he is a member of the Industry Council.

He said establishment of capacity clearing centers had enabled the British Government to use "an increasing amount of small business productive capacity," while in the retail field "little has as yet been done to help small companies withstand the strains and stresses."

"Very few factories in Great Britain possess completely balanced capacity for fulfilling any particular order and subcontracting has been used as a means for bringing about a balance by utilizing equipment and labor of other factories," Steff continued.

For Civilian Control

Growing sentiment in favor of forcing the Army to "stick to its guns" and leave war production to civilians was reported Friday by

Chairman Murray (Dem., Mont.), of the committee.

Testimony yesterday, he said, emphasized there was "no sound relationship between superiors and subordinates in the procurement organization of the services of supply" in the War Department.

"When orders are given," Murray asserted, "no questions must be asked—even if such orders are not based upon adequate knowledge of production facilities."

"This is another illustration of the argument that has been made again and again that the Army should stick to its guns and leave the problem of procurement and production to civilian agencies."

The committee called Frederick Tomkins, co-ordinator of purchases for the New York Ordnance district, back to the witness chair today for further testimony concerning the asserted non-use of facilities of New York plants capable of manufacturing scores of ordnance items.

Arthur G. Silverman, committee attorney, asserted Washington ordnance officials were overloading big manufacturers with orders while ignoring potential capacity of smaller plants in the New York area which could supply many items "more quickly."

He said award of two contracts to the Eclipse Division of the Bendix Aviation Corporation, Bendix, N. J., which Bendix was "reluctant" to accept, was a typical example.

Even though Bendix could not promise to start delivery of one order for tank starters and parts for a year, Silver asserted, Washington insisted on earmarking the contract for them.

"It would have been feasible to have broken it into component parts for contracts in which many plants could have shared," he declared.

DEC 8 - 1942

My dear Senator:

I have received your letter of December 3, 1942, to which you attached original telegram from Mr. W. F. Andrews of Niles, Michigan.

I have had my department check on the matter and am pleased to advise you that the article Mr. Andrews referred to was without foundation.

The real facts are that the Free French Government purchased, some months ago, much needed food, medical supplies and some second hand clothing for French North Africa. These items were held from actual shipment. Recently Lend Lease negotiated a release and shipped these items to North Africa to meet in a small way the emergency needs. None of the items could possibly be considered, in any sense of the word, luxuries.

Sincerely,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur H. Vandenberg

United States Senate

File to Thompson

Photo file in Diary

United States Senate

COMMITTEE ON FINANCE

December 3, 1942.

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

My dear Mr. Secretary:

I enclose a self-explanatory telegram from Mr. W. F. Andrews of Niles, Michigan.

I wonder if it is possible for your Department - through its supervision of Lend-Lease expenditures - to give me a categorical answer to Mr. Andrew's question.

With warm personal regards and best wishes,

Cordially and faithfully,



WALTER F. GEORGE, GA., CHAIRMAN
AND L. THOMAS
LEWIS W. BROWN, ILL.
W. DUNHAM
TUDOR W. RICHMOND, N. C.
WYATT C. ANDERSON, MD.
BY FLAGSHIP
STEPHEN G. HAYWARD, CALIF.
WALTER P. REED, N. Y.
WALTER B. WEAVER, MICH.
LITE L. BROWN, IOWA
JOHN C. BRANNON, MISSOURI
JAMES L. EASTMAN, N. H.
WILLIAM H. CLARK, N. D.
ROBERT M. LA FOLLETTE, JR., WIS.
ARTHUR CAPPER, KANS.
ARTHUR H. VANDENBERG, MICH.
JAMES J. DAVIS, PA.
HENRY CABOT LODGE, JR., MASS.
JOHN A. DANAHY, CONN.
ROBERT A. TAFT, OHIO
CHRISTIE S. KENNEDY, CLERK

WESTERN

UNION

SOUTHBEND IND 1 LOOP

Dec. 1 PM 2 38

SENATOR ARTHUR H VANDENBERG
SENATE BLDG

TOLAYS CHICAGO TRIBUNE STATES LIND LEASE SENDING STOCKINGS AND
SWEATERS TO TROPICAL AFRICA. WIRE ME COLLECT IF TRUE. I AM
BUYING ONE FIFTY PER MONTH IN BONDS FOR BULLETS FOR OUR SOLDIERS
NOT FOR LUXURY'S FOR AFRICA. IF STATEMENT TRUE WILL STOP MY BOND
QUOTA.

W F ANDREWS 1324 Oak St., Niles Michigan

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Dec. 8, 1942

TO Secretary Morgenthau
FROM Joseph J. O'Connell, Jr.

Re: Col. Georges F. Doriot

Mr. Paul advised me that you inquired regarding the present status in the War Department of the Doriot matter. Mr. Pehle advises me that on December 7 he called Captain Towson of the War Department and was informed that the Doriot report was still on Secretary Stimson's desk and that no further information was available at this time concerning the status of Doriot.

Joseph J. O'Connell

DEC 8 - 1942

Dear General DeWitt:

I want to thank you for your kind letter of November 27, 1942, with respect to the protection of the property interests of the persons of Japanese ancestry evacuated from the Pacific Coast.

It was a pleasure for the Treasury Department to cooperate with your staff in the handling of this problem and I should like to congratulate you and your staff, particularly Colonel Karl Bendetsen, for the effective way in which the whole evacuation program was carried out.

I am sending copies of your letter to Harriner Eccles, Chairman of the Board of Governors, Federal Reserve System, and to William A. Day, President of the Federal Reserve Bank of San Francisco, and to the individuals in the Treasury Department who participated in the program.

Very truly yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Lt. Gen. J. L. DeWitt,
Commanding General,
Western Defense Command and Fourth Army,
Presidio of San Francisco, California.

File to Thompson

Photo file in
Diary

JWPehle:JJLawler:fiw 12/3/42

DEC 8 - 1942

My dear Mr. Eccles:

Enclosed is a copy of a letter which I have received from Lt. Gen. J. L. DeWitt, Commanding General of the Western Defense Command and Fourth Army, concerning the evacuation of persons of Japanese ancestry from the Pacific Coast.

I am also sending a copy of this letter to Mr. William A. Day, President of the Federal Reserve Bank of San Francisco, and I wish to add my appreciation to that of General DeWitt for the very effective participation of the Federal Reserve Bank of San Francisco, and the Honorable M. S. Szymczak, of the Board of Governors of the Federal Reserve System, in the successful completion of this operation.

Very truly yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

Copies to Thompson

Copy in Diary

Enclosure.

JJLawler:JWPehle:cwh 12-4-42

DEC 8 - 1942

My dear Mr. Day:

Enclosed is a copy of a letter which I have received from Lt. Gen. J. L. DeWitt, Commanding General of the Western Defense Command and Fourth Army, concerning the evacuation of persons of Japanese ancestry from the Pacific Coast.

I wish to add my appreciation to that of General DeWitt for the splendid work done by the Federal Reserve Bank of San Francisco in carrying out this work to a successful conclusion. I would appreciate it if you would express my appreciation to Mr. William Hale, Mr. Royal Everson, Mr. Herbert Armstrong, and to all of those persons in the bank who were responsible for the daily operations in handling this very difficult problem.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. William A. Day,
President, Federal Reserve Bank
of San Francisco,
San Francisco, California.

Copies to Thompson

Copy in Diary

Enclosure.

JJLawler:fiw 12/3/42

HEADQUARTERS WESTERN DEFENSE COMMAND AND FOURTH ARMY
OFFICE OF THE COMMANDING GENERAL
PRESIDIO OF SAN FRANCISCO, CALIFORNIA

November 27, 1942

My dear Mr. Secretary:

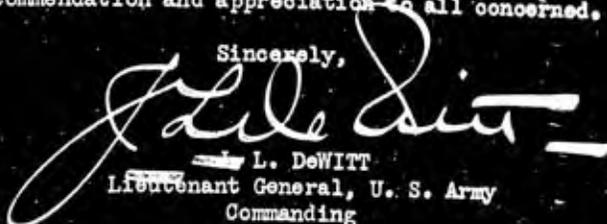
The evacuation of persons of Japanese ancestry from the Pacific Coast and their subsequent transfer from Army supervision to the jurisdiction of War Relocation Authority has now been completed.

You are familiar with the magnitude of this unprecedented task and I therefore need not here record in detail its many ramifications. An impelling military necessity demanded its accomplishment with forthright expedition and without cessation. To attain the objective with maximum protection for evacuee property interests and minimum general economic dislocation required firm, adequate and immediate measures. Acting under your direction and as fiscal agent of the Treasury Department the Board of Governors of the Federal Reserve System authorized the Federal Reserve Bank of San Francisco to accept the mission and responsibility of providing suitable evacuee property protection service. With a delegation of authority from you the Federal Reserve Bank of San Francisco functioning in coordination with the cooperating Federal agencies under the general supervision of the Wartime Civil Control Administration ably and effectively fulfilled its difficult assignment. The prompt action of the Treasury Department in responding to my request for assistance communicated to you by the Secretary of War, the intelligent treatment of the problem and the efficiency of execution contributed materially to the success of the program. The highest commendation is merited.

It is with deep gratification that I record this commendation and express my sincere appreciation. While many of those who so effectively participated are known to me by name, many of them are not. I should like to mention each but this is not feasible. However I wish particularly to commend Mr. John Pehle, Mr. John Lawlor, Mr. Ansel F. Luxford, the Honorable M. S. Szymosak, Governor of the Federal Reserve Board, Mr. William A. Day, President of the Federal Reserve Bank of San

Francisco and Mr. William Hale, Vice President of the Federal Reserve Bank of San Francisco. I would be grateful if you would extend my commendation and appreciation to all concerned.

Sincerely,

A large, cursive handwritten signature in dark ink, appearing to read "L. DeWitt". The signature is written over the typed name and title.

L. DeWITT
Lieutenant General, U. S. Army
Commanding

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

OFFICE OF THE
DEPUTY MINISTER



OTTAWA, December 8, 1942.

Dear Mr. Morgenthau:

Thanks very much for your letter of December 4th and for your willingness to have us proceed to arrange a refunding issue for some time in January. Mr. Ilsley and myself appreciate very keenly your understanding of our position.

With best wishes, I am,

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. C. C. C.", written in dark ink.

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

THE WHITE HOUSE
WASHINGTON

December 8, 1942.

Dear Mr. Secretary:

The following is my recollection of the understanding which you reached with Mr. C. E. Wilson, Chairman of the Joint War Production Committee, U. S. and Canada, this morning:

1. The Secretary of the Treasury and the Canadian Minister of Finance shall keep close watch upon Canada's United States dollar position.
2. Whenever the Canadian dollar position appears to be excessively drawn down or built up the Secretary shall, after consultation with the Canadian Minister of Finance, notify the Chairman of the American Committee that it would be desirable within a given period to have additional payments of a certain amount made to Canada or to have payments of a given amount withheld.
3. If more payments are indicated the Chairman could request the procurement agencies to make advance payments on contracts. If less are indicated, the Chairman could, in agreement with the Chairman of the Canadian Section, cancel certain orders on which delivery is currently being made. It is presumed that these orders would be for British-type equipment, destined for Britain and financed with lend-lease appropriations. In the case of such cancelled orders the Canadian Minister of Munitions could simply debit them to the gift to Britain.

You will note that these suggestions imply further consultation with the Canadians. I have already got the assent to the principle involved from Mr. C. D. Howe, Minister of Munitions. So far as I know, however, nobody in the office of Mr. Ilesky, the Minister of Finance, has been approached.

Sincerely yours,


Lauchlin Currie
Administrative Assistant
to the President.

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

DEC 8 - 1942

Dear Mr. Chen:

I was most happy to receive your letter of October 13, 1942 expressing your appreciation of the step taken by my Government to negotiate with China on the abolition of extraterritorial rights and the settlement of related questions.

It is a source of satisfaction to me to see how the ties of friendship between our two countries are being ever more strongly and firmly knit. It indeed augurs well for the future peace and well-being of the world that the peoples of China and of the United States are coming to such complete understanding and sympathy with regard to each other's aims and ideals.

It is needless for me to say that your admiration for our President is reciprocated by the admiration and respect which the American people feel for the Generalissimo who has so courageously led China's war for national independence.

With best wishes for your good health.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. K. P. Chen,
Chairman, Stabilization
Board of China,
Chungking, China.

(By Mess. Manus 4:03 12/8/42
to State Dept. - via Diplo-
matic Pouch)

Copy to White's office

File in Diary

IAF/efc
12/5/42

Return to Room 463

K. P. CHEN
PRIVATE OFFICE

Whit 304

Prep ans -

24

October 13, 1942
Chungking, China

Hon. Henry Morgenthau, Jr.
Department of Treasury
Washington, D. C.

Dear Mr. Morgenthau:

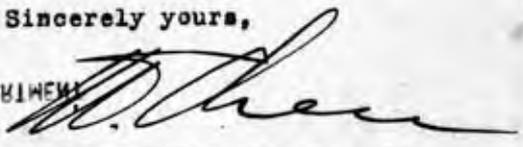
The news of the United States Government's readiness to negotiate with China on the immediate abolition of extraterritoriality and related rights was received here on the National Day with universal joy and jubilation. I cannot adequately tell you how profoundly our people were moved at this magnificent demonstration of America's comradeship, beautifully synchronized as it was with the thirty-one strikes of the Liberty Bell, the historic symbol of all that America cherishes.

The step represents the first concrete application of principles of the Atlantic Charter and, as such, will go a long way to heighten the morale and the faith of the United Nations at large. In view of the fact that preliminary discussions on the abolition of extraterritorial rights have been passing between Japan and the puppet government at Nanking, the present move from Washington, in concert with London, was truly expertly timed.

I beg to avail myself of this opportunity to express my sincere admiration for the seasoned statesmanship of President Roosevelt and his associates.

With best regards and wishes,

Sincerely yours,



RECEIVED DEPARTMENT OF TREASURY

NOV 8 1942

SECRETARY OF TREASURY OFFICE

RECEIVED
Treasury Department
DEC 3 1942
Division of
Monetary Research

Mr. Harry D. White,
United States Treasury.

305

With the compliments
of
Sir Frederick Phillips

Dec. 8, 1942.

Willard Hotel,
Washington, D. C.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

G
P
Y

Telephone: REpublic 7860

Box 680
Benjamin Franklin Station
Washington, D. C.SECRET

Dear General Carter:

(1) You asked me recently about the rate of exchange applicable to the lira in the occupied part of Libya. The position I find it as follows.

The rate of 480 to the pound was fixed at the time of the reconquest of Ethiopia. The rate has proved satisfactory in practice and the free market rate in Ethiopia has settled down at about the same figure. It was felt that it would be very embarrassing to have a rate in Libya which would materially differ from that in Ethiopia, and the same rate of 480 to the pound has been used in Libya since the early advances. Since this is the rate used in the other parts of what was the Italian Empire, it is felt that the same rate must be used in Tripolitania.

I understand that the British authorities are using Egyptian pounds in Libya for the pay of the troops, but intend to use special B.M.A. notes in Tripolitania. The B.M.A. notes would be proclaimed legal tender in the same way as in French North Africa, but the lira will also be freely used insofar as local supplies of lira notes are available. The considerations involved are, of course, very different from those affecting the North African franc, since there appear to be no political advantages, but indeed rather the reverse, in giving a favorable rate of exchange to an enemy currency. On the other hand, there is no advantage either to you or to us in unduly depreciating the franc.

In this connection you may like to know that the London authorities propose that if French Somaliland comes over to our side, the rate of exchange should be fixed at 176 to the pound. This appears to be the natural course since French Somaliland has no trade relations with North Africa, but has trade relations with Madagascar and East Africa generally.

(2) We should be very interested to learn what your views are as to the policy to be adopted in the event of the occupation of Italian territory. Frankly, it seems to us that it would be rather ridiculous that full value dollars should be paid out in Italy to cover the cost of conquering the country. Has not the time come when it would be desirable to reconsider the issue of a special dollar currency which can afterwards be called in so that it would always remain with the United Nations to decide what form any ultimate settlement should take?

Brigadier-General A.H. Carter,
Pentagon Building,
Arlington, Va.

continued -

* 2 -

Our own policy would be first to make available adequate stocks of special B.M.A. notes denominated in sterling and later to consider production of special notes denominated in local currencies (our resources for printing such local currency notes are so limited that we think they would have to be produced on this side). We feel however that the production of notes in dollars and sterling would have to come first as (1) adequate stocks of currency must be available in advance, (2) it seems impracticable to produce in advance local notes to suit every possible occupied or enemy country, (3) even if it were practicable there would be presumably objection on security grounds from the military authorities to the production of such notes in advance.

I am sending copies of this note to Dr. Harry White and Dr. Feis and should be glad to discuss the matter at any time.

Yours sincerely,

F. Phillips.

FROM: AMERICAN EMBASSY, CHUNGKING, CHINA
DATE: DECEMBER 8, 1942, 4 p.m.
NO. : 1456

This is message no. TF73 from Mr. Adler for the Secretary of the Treasury.

I. The Northwest economic situation is as follows:

a. In recent years considerable economic progress has been made in Sinkiang and Kansu which were heretofore two of the most backward provinces in China. The Central Government has started reforestation, animal husbandry projects and irrigation. Both private enterprise and the Government have opened several industrial plants in this section. The Yumen oil field which was opened by the Central Government this year is the most striking example of this type. Its monthly production is about 250,000 gallons of gasoline, the octane content of which is 40-45. The main problem confronting this field is lack of drums and refining equipment. The Provincial Government in Sinkiang, evidently in conjunction with the Soviet Government, has substantially improved the quality of cotton and wheat and breeds of livestock. With the assistance of private enterprise the Government has started the development of a few light industries. Production was started last year in the Tusan oil field and now the daily output is 150 tons of crude oil. Both provinces are suffering from an acute shortage of imported goods. Recently both Provincial Government authorities have tended toward government regulation and control of private industry and trade. This has been done to such an extent in Kansu that there have been unfavorable repercussions. Sinkiang may also experience a few.

II. The Lanchow area economic situation is as follows:

a. The population of Lanchow is 120,000. It is the commercial center for the wool output of Kansu and the center of the wheat producing area. There are a number of machine shops, match factories, flour and woolen textile mills, some of which are operated by private industry and some by the Government. There are also some coal mines in this area.

b. The Lanchow prices are less than two-thirds of Chungking prices. They are even less in rural areas since every large city is an "inflation pocket". In spite of this, the present prices in Lanchow are more than three times what they were in November 1941. With the Farmer's Bank from January to June equalling 100, the retail prices for October 1942 in Lanchow were food, 3400, and general 4300. From July to October the monthly rate of increase was between 15 and 20 per cent. The rise in price was greatest on imported goods and next on articles from territory which is now occupied.

c. There was a satisfactory wheat harvest this year.

d. Two years ago the Kansu Provincial Government started controlling prices. Its operation today presents a disheartening display of too many mercantilist regulations which discourage initiative on the part of individuals. There are

controls on nine commodities the official price of which is very often less than the production cost of the manufacturer and less than the purchase cost of the merchant. Large amounts of goods have been confiscated by the authorities, occasionally on technicalities of a minor degree, and they are not released for the market. Four months ago the Bank of China had \$70 million worth of goods confiscated from its go-downs. These goods were simply transferred to the go-downs of the Provincial Government. These controls are resulting in curtailed production by private factories, curtailed loans by banks, movement of capital to areas which are not so rigidly controlled, and the inevitable increase in wartime scarcities. Only in Lanchow is this control fully operative.

e. In Kansu the authority of the Central Government is completely effective.

III. The Sinkiang economic situation is as follows:

a. The total population of Sinkiang approximates four million of which about 10 per cent is Chinese and about 60 per cent Turkis. Around the cases are found large concentrated settlements of the people. The largest towns are Turfan, Kashgar, and Ili, but the capital is Tiwha which is also the political and communications center. A policy of no discrimination regarding the several racial groups which make up the population here, as followed by Governor Shen, has restored internal peace in the province. Governor Shen probably saved Sinkiang from a fate similar to that of Mongolia by this policy of non-discrimination.

b. There is still a local currency in Sinkiang which in 1938 for trading purposes with Russia was fixed at 3.20 to the United States dollar, although there was actually no use of United States currency. An agreement between Governor Shen and Dr. Kung at the end of October, 1942, fixed the rate at one customs gold unit note (which is equal to 20 fapi) equal to SK\$4. The SK dollar sign is undervalued by this rate. The customs gold unit notes was admitted into Sinkiang circulation for the first time. Dr. King and Governor Shen also agreed that in the near future a branch of the Central Bank would be opened in Tihua (Urumchi). The amount of SK dollars reported to be in circulation in Chungking is SK\$32 million. This, however, may be underestimated. According to the Provincial Bank, it keeps against its note issue a 60 per cent reserve of silver and gold. The price of silver is SK\$5 per ounce and that of gold SK\$400. There is no knowledge of the amount of production.

c. The Character of Sinkiang economy is varied. Agriculture predominates. There is a fairly large livestock industry and cultivation of cotton, rice, wheat and fruit. Government, private, and mixed organizations carry on trade and production. Found side by side are primitive nomadic barter and fairly well equipped factories with a modern credit institution (with the aid of Soviet experts and machinery). Approximately 60 per cent of these are owned by the Government and entirely operated by the Government and have 36 agencies or branches. The per annum commercial production is 2 million tons. Although some deposits of wolfram have been discovered, as yet they have not been worked.

d. The prices here are much less than those in the interior of China. There seem to be no inflationary signs in Sinkiang in spite of broad activities and

expenditures on the part of the Provincial Government. The main reason for this lack of inflation in Sinkiang's economic independence from the rest of China. This year there was a bumper harvest and foodstuffs are reasonably priced and there are adequate supplies.

The Soviet-German war has adversely affected the economic conditions in Sinkiang since the imports from Russia, which is the primary source of manufactured products, have been drastically curtailed. In November 1942 Government organization monopolized Russian trade which was nominally carried on in terms of U.S. dollars but actually on a barter basis. The shortages are worst in light industry, machinery, medicines, cotton piece goods, tires, tubes and batteries.

e. Despite Soviet influence not until recently has Government participation in economic life discouraged private enterprise, although there is considerable participation of the Government. Government control of prices shows signs of increasing, however, and this will tend to effect foreign and internal trade just as it has in Kansu.

f. In regard to transportation the main Sinkiang highway from the Kunes border to the Soviet is excellent in regard to both technical administration and physical layout. In a two and one-half day journey of 650 KM from Tihua to Ili which is near the Soviet border I make the following observations:

- (1) Large camel and donkey caravans and sixty 1-1/2 ton Soviet trucks a day moving toward the east carrying gasoline for the Central Government of China.
- (2) Inward traffic.
- (3) Well managed and well equipped rest houses about 150 KM apart.

g. The following show evidences of increased Chungking influence in Sinkiang:

- (1) Recently concluded arrangements for currency and banking discussed in the second paragraph.
- (2) Central Government experts on agricultural, military and engineering matters are here.
- (3) In Tihua headquarters are soon to be opened for the Kuomintang Provincial party.
- (4) Continued cooperation by the Provincial Government in shipping via Sinkiang imports for the Central Government.

IV. The economic situation in the Northwest would no doubt be eased by anything the Board can do to help imports into that section. The position of the Board would also be consolidated in that territory by such a move.

PARAPHRASE OF AN EXCERPT FROM
A TELEGRAM RECEIVED

311

FROM: AMEMBASSY, Chungking
TO: Secretary of State, Washington
DATED: December 11, 1942, 1 p.m.
NUMBER: 1481

Forty million dollar loan was reported by Kansu chairman to have been issued by National Government for conservancy of water for 1943 in Kansu province. The report that the number of officials and others who are migrating to Sinkiang is 10,000 was confirmed by a Chinese official. This migration has begun already. The proposal has been made by the Honan Government that landlords be caused to pay in advance the grain tax for 1943 for the purpose of raising sixteen million piculs of rice and twenty-two million dollars for famine relief. An allocation of \$5,000,000 was recently made by an executive of Yunnan for irrigation work and the promotion of agriculture besides an original appropriation for emergency relief in Honan of 4,000,000. The estimate by the Finance Ministry of revenue for 1942 from direct taxes was QUOTE nearly billion UNQUOTE dollars in Chinese money; four hundred million business tax, stamp tax forty million, excess profits tax 240,000,000 income tax 170,000,000 and twenty million inheritance tax. The following was stated by Kung, Minister of Finance, in a late issue of Central Bank's publication, Economic Bulletin: that the finances of China are on a safe solid basis for the future, the system of legal tender has each year shown growing strength, the Government in issuing bank notes exercises conservation and extreme care.

The Government will, in order to accomplish its aims, emphasize henceforth, in the first place, a strict retrenchment policy; second, a readjustment of the existing taxes; thirdly, the promotion of thrift and of savings and; as a fourth measure, the betterment of the system of finances in the war areas and the administration of local finances will have a stronger supervision.

After visiting the northwest part of China the Parliamentary Mission from Britain left.

GAUSS

DCA:LOR:MFB

er:copy
12/16/42

JMB

PLAIN

Chungking via Karachi

Dated December 11, 1942

Rec'd 10:13 a.m., 13th.

Secretary of State,
Washington.

1475, Eleventh.

TO SECRETARY OF TREASURY FROM ADLER

TF-74. Re your 1082, November 14.

One. The following is a translation of "Measures governing the issue of United States dollar saving certificates" issued by the Chinese Government on March 24, 1942.

(A) United States dollar savings certificates shall be issued by the Central Bank of China, Bank of China, the Central Trust and the Postal Savings Bank in accordance with these measures.

(B) Depositors shall pay Chinese national currency for the purchase of the United States dollar savings certificates at the rate of CN dollars one hundred to United States dollars five.

(C) The face value of each certificate is not fixed but the minimum value shall be United States dollars ten.

(D) United States dollar savings certificates
shall be

-2- #1475, December 11, from Chungking via Karachi

shall be in the form of three kinds of time deposits--one year, two years, and three year-- the annual interest being three, three and one-half, and four percent, respectively, to be calculated every six months at compound interest rates.

(E) The principal and interest when due shall be paid by the original bank from which the certificates were bought.

(F) (Revised) The payment of principal and interest when due shall be made in United States dollars according to the face value of the certificates or for the convenience of the depositors, in Chinese national currency at the original rate of purchase.

(G) The Ministry of Finance shall appropriate United States dollars one hundred million to be deposited with the Central Bank of China as a reserve fund against the issue of the United States dollar savings certificates by the various designated banks".

NB. On December 7, Ministry of Finance announced that in order to increase attractiveness of issue it intends to enable purchasers either to exchange certificates before date of maturity for post dated checks

-3- #1475, December 11, from Chungking via Kerechi

checks or drafts on bank of China, New York acting as agent of Central Government, or to acquire such post dated checks or drafts on New York at original time of purchase. Banks are preparing to print such checks or drafts which will have identification mark "savings certificate account" either printed or stamped on them.

GAUSS

WSB

MIR

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

Chungking via Karachi

Dated December 11, 1942

Rec'd 5:10 p.m., 12th.

Secretary of State,
Washington.

IMMEDIATE

1476, December 11, 10 a.m.

TO SECRETARY OF THE TREASURY FROM ADIER.

TF75 continuing TF74.

Two. There is some confusion here as to status both of savings certificates at time of maturity and of checks or drafts which it is intended to issue in lieu of or in exchange for savings certificates when they are presented in New York at due date. Some quarters in Chinese Government feel (it would appear to me mistakenly) that both certificates and checks or drafts would not be frozen in view of general license 60, (two). In view of subsequent telegram with respect to applicability of general license 60, (two), general ruling number five, and public circular number two and in view of fact that banks are holding up printing of checks and drafts pending clarification of their status, replies to following questions would be appreciated:

A. What is the status of savings certificates

issued.

-2- #1476, December 11, 10 a.m., from Chungking via Karachi

issued by; (one) Central Bank, (two) Bank of China, Bank of Communications and Farmers Bank, (three) Central and Postal Savings Bank?

B. What would be status of postdated checks or drafts issued in exchange for or in lieu of savings certificates by; (one) Central Bank, (two) Bank of China, Bank of Communications and Farmers Bank, (three) Central Trust and Postal Savings Bank?

C. Central Trust is a subsidiary of Central Bank while Postal Savings Bank is a Chinese Government Institution. Are they generally licensed nationals under general license 60 (one), and therefore in same position as Central Bank?

Three. Chinese Government shares your view that transactions described in number one of your 1082 are undesirable and would appreciate your assistance through use of general ruling number five. I am informed that Bank of China, Kunming, had sold \$100,000 of savings certificates to American nationals (presumably mostly soldiers) up to the beginning of November. From a number of inquiries it would appear that the scale on which American nationals outside Kunming have bought certificates is quite small, partly due to lack of confidence in their

-3- #1476, December 11, 10 a.m., from Chungking via Karachi.

their convertibility in New York.

I fully agree with you on undesirability of such transactions and suggest that the matter be taken up with the War Department in Washington. It should be noted that contemplated issue of checks or drafts in lieu of or in exchange for certificates might complicate problem of control.

Four. For your information a number of established foreign business houses have been purchasing saving certificates with fapi acquired in the normal course of business. It is felt that such purchases are different in character from purchases of certificates made by residents of the United States temporarily in China before their departure, but your opinion on their desirability would be appreciated.

GAUSS

LMS

DMM

PLAIN

Chungking via Karachi

Dated December 11, 1942

Rec'd 4:16 p.m., 12th

Secretary of State,
Washington.

1477, 11th

TO SECRETARY TREASURY FROM ADLER

TF 76 continuing TF 75.

Five. The following is a translation of "the thirty first year Allied victory United States dollar bonds" promulgated by the Chinese Government on April 25, 1942: "(A) With a view to balancing the budget, stabilizing prices, strengthening finance and absorbing floating capital, the National Government has issued the thirty first year Allied victory United States dollar bonds. (B) The amount of this issue shall be fixed at United States dollars 100,000,000 which shall be issued on May 1, 1942, at par. (C) This bond shall be purchased at par in Chinese national currency, the conversion rate of which shall be promulgated by the Ministry of Finance on the date of issue. (Conversion rate readjusted in July in accordance with change of official

-2- #1477, December 11, from Chungking via Karachi

official rate on July 10). (D) The payment of principle and interest when due shall be made in United States dollars according to the face value of the bond. The holder, however, may demand payment in Chinese national currency according to the rate of exchange announced by the Central Bank of China on the date of making such payment. (E) This bond shall bear interest at 4% per annum, which shall be paid every six months as from the date of issue. (F) The amortization of this issue shall be completed in ten years beginning from 1944, and drawings shall take place every six months in accordance with the prescribed amortization table. (G) The fund required for the payment of the principal and interest of this issue shall be appropriated from the United States loan of United States dollar 500,000,000 and deposited with the Central Bank of China for effecting payments on maturity. (H) The Central Bank of China and its appointment banks shall be designated as agents for making payments of principal and interest of this issue. (I) The bonds shall be issued in denominations of United States dollars 5,000 United States dollars 1,000 United States dollars 50 and United States dollars 20 all made to bearer. (J) Bonds may be bought and sold freely and may be used as mortgages, substitutes for cash deposits in official business, and also as bank reserves."

(END OF MESSAGE).

MRM

CAUSS

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

Chungking via Karachi
 Dated December 11, 1942
 Rec'd 10:21 a.m., 13th

Secretary of State,
 Washington.

1484, December 11, 4 p.m., (SECTION ONE)
 FOR THE SECRETARY OF THE TREASURY FROM ADLER
 TF 77

Re your 1125 of November 21, section one para-
 graph A re 1125 (A)

One. Foreign exchange control commission has no
 restrictions save that it acts only on applications
 from Chinese Government organizations which must receive
 its approval.

Two. Stabilization Board regulations. Paragraph
 (I) amount not to exceed United States dollars 200 or
 pounds 50 per month, save in special cases when amount
 remitted per annum is limited to United States dollars
 2,400 or pounds 600.

Paragraph II Following is a list of purposes
 for which remittances have been permitted; traveling
 and living expenses abroad, support and educational
 expenses of family living abroad, payment of insurance
 premiums and loans conversion of proceeds from sale of
 effects

-2-, #1484, December 11, 4 p.m., (SECTION ONE) from
Chungking via Karachi
effects of deceased individuals, cost of medical treat-
ment abroad for family, purchase of medicines for
household use, conversion of Chinese dollars holdings
of persons leaving and not returning to China up
to United States dollars 400 or pounds 100 (United
States dollars 500 and pounds 125 for members of armed
forces) and in special cases of excess over above sums
at rate of United States dollars 200 or pounds 50 per
month, payment of annual dues to societies abroad,
purchase of technical books for personal use, payment
of debts incurred abroad, purchase of supplies by
Embassies, et cetera, and personal unspecified expenses
of ministries.

GAUSS

WSB

ELP

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

Chunging

Dated December 11, 1942.

Rec'd 11:35 a.m., 13th.

Secretary of State,
Washington.

1484, December 11, 4 p.m. (SECTION TWO)

III Restriction as to persons or organizations permitted to make remittances:

Chinese Government departments or agencies are required to apply to Foreign Exchange Control Commission as are their employees with respect to personal requirements on Government business.

B. Employees of firms with offices abroad are not entitled to foreign exchange. In a few cases where such employees receive their salaries in national currency and have no other source of foreign exchange, this ruling has been waived.

C. All applicants are required to sign a statement that they undertake to sell such foreign exchange as comes into their possession in China to an appointed and/or approved bank at official rate of exchange.

All above self-explanatory.

B. Re 1125 (B).

Until outbreak of Pacific war, Chinese Government prohibited

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

Chungking via Karachi
 Dated December 11, 1942
 Rec'd 1:58 p.m., 13th

Secretary of State,
 Washington.

1484, December 11, 4 p.m. (SECTION THREE)
 C RE 100,125 (C).

(1) Main centers of black market Kunming, Chungking and Kweilin with Kunming by far the most important. Kunming has active market particularly in United States dollar notes and Indian rupees notes to a smaller extent in United States Treasury and Indian rupees checks to a still smaller extent in Burma rupee and Hong Kong dollar notes and in piasters. Kunming black market rates: United States dollar notes 50 to 1-rate has gone as high as 60 but only for a short time; United States Treasury checks 40 to 1; Indian rupees notes and checks 1619 to 1; Burma rupee notes 12 to 1; Hong Kong dollar notes 5 to 1 and piasters 20 to 1.

Chungking black market rates: United States dollar notes 50 to 1; United States Treasury checks 40 to 1; Indian rupee notes and checks 16 to 1; Burma rupee notes 6

-2- #1484, December 11, 4 p.m. (SECTION THREE), from
Chungking via Karachi

rupee notes 6 to 1 and Hong Kong dollar notes 5 to 1.
Kweilin black market confined to United States dollar
notes and checks.

(2) Magnitude of volume of transactions.

(A) It has been (*) that United States soldiers
in China will have sold at least United States dollar
250,000 in United States dollar notes into black market
by the end of 1942 and actual sum may well be greater.
It should be noted that the size of the USAF in China
is increasing and that amount of United States dollar
notes and Treasury checks going into black market will
tend to increase with it in absence of remedial measures.
In addition a small amount of United States dollar
notes may have trickled into black market from visitors
and journalists.

GAUSS

EMB

(*) Apparent omission

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

Chungking via Karachi
 Dated December 11, 1942
 Rec'd 11:39 a.m., 15th

Secretary of State,
 Washington.

1484, December 11, 4 p.m. (SECTION FOUR)

B. No estimates are available as to magnitude of transactions in United States Treasury checks and other currencies and checks. It is known, however, that sale of United States dollar notes and that trading in Indian rupee notes and checks is considerably more active than in Burma rupees, Hong Kong dollars and piasters.

C. According to a reliable source trading in all foreign currencies in Kunming black market at the beginning of November was averaging the equivalent of one lakh of Indian rupees per week.

Three. Sources of foreign currencies.

A. United States dollar notes and Treasury checks-- almost entirely United States soldiers the remainder coming from transient United States Government officials and other visitors. Each American soldier in China

receives United

-2- #1484, December 11, 4 p.m. (SECTION FOUR), from
Chungking via Karachi

receives United States dollars 40-50 in notes per month (USAF makes its official purchases of supplies, et cetera, with fapi obtained at official rate).

B. Indian and Burma rupee and Hong Kong dollar notes--Chinese refugees from Burma and Hong Kong who did not sell their foreign currency holdings to government banks.

GAUSS

JRL

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

Chungking via Karachi
 Dated December 11, 1942
 Rec'd 5:07 p.m., 13th

Secretary of State,
 Washington.

1484, December 11, 4 p.m. (SECTION FIVE)

C. Indian rupee checks -- travelers and persons
 who keep their bank accounts in India.

D. Piasters -- Yunnanese hoards.

Main beneficially: (a) Chinese buying United
 States dollars and Indian rupees to (one) hoard in
 China and (two) buy goods in India either for purpose
 of smuggling into China or to hoard packers against
 rising prices there.

(B) Chinese buying Burma rupee and Hong Kong
 dollar notes to hoard in China.

Chinese buying piasters in dry season for purchase
 of goods in Indochina to be smuggled into Yunnan.

D. Foreigners leaving China who wish to acquire
 United States dollars or Indian rupees against fapi
 they cannot convert into foreign exchange through
 legitimate channels.

Main category

-2- #1484, December 11, 4 p.m. (SECTION FIVE), from
Chungking via Karachi

Main category is probably (a). There is a rumor current which it has been impossible to check that some of United States dollar and Indian rupees notes sold into black markets have reached enemy hands.

(END OF MESSAGE).

GAUSS

BB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via Karachi

DATE: December 12, 1942, 9 a.m.

NO.: 1485

This is message TFVS from Mr. Adler for the Secretary of the Treasury.

Reference is made to the Embassy's telegram no. 1484 December 11, 1942.

Discussions with officials of the Ministry of Finance and Dr. Hsing indicate that on the whole it is their feeling that if the United States Air Force in China ceased their imports of United States dollars, the black market for U. S. dollars could and should be dried up. The Chinese themselves do not want to take the initiative since they recognize the existence of the black market as a safety valve for the vocal discontent of the U. S. Air Force with the official rate of exchange. I believe, however, that remedial action by United States authorities would be welcomed.

I believe personally that such action should be taken since recourse to the black market by the American soldiers is causing harmful rumors and bad feeling on the part of the English soldiers who receive their money in fapi only which has been converted at the official rate of exchange. The primary drawback to the prevention of U. S. dollar imports by the United States Air Force is that the safety valve for the Army's discontent with the official rate would be removed. The following, however, are reasons for such a move:

1. The adoption of reverse Lend-Lease for the United States Air Force is being considered by the Chinese Government and a decision on the part of the latter might be hurried by such prohibition.
2. If reverse Lend-Lease is not adopted by the Government of China, its present position regarding changing official exchange rate may be more difficult to maintain.

GAUSS

JMB

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

Chungking via Karachi

Dated December 13, 1942

Rec'd 12:46 a.m., 14th.

Secretary of State,
Washington.

1493, December 13, 9 a.m.

TO THE SECRETARY OF THE TREASURY FROM ADLER.

TF 79 confidential.

Reference pert two of your 1209, December 9.

One. In a conversation with me this morning Dr. Kung after some background discussion said he was willing to renew the 1937 arrangement unconditionally (repeat unconditionally) and to accept any decision you make as to the amount of gold China should purchase for the Treasury, whether it be 20, 30, 40 or 50 million dollars. The reason he had suggested 50 million was that as that was the amount purchased in 1937 on your advice he would like to retain the same sum on earmark primarily as a friendly gesture to you but also to have China's gold holdings on the same level as in 1937. Throughout the conversation it was apparent that he was most anxious to cooperate fully with the Treasury.

Two. Dr. Kung made no reference to possible need for importing

-2- #1493, December 13, 9 a.m. from Chungking via Karachi
for importing gold in conjuncting with the scheme for
establishing free gold market here, a question which
I understand is still pending.

Three. China still has ten million dollars
unobligated gold in New York. She could therefor bring
her gold holdings in New York up to 50 million by
purchasing forty million gold from the Treasury. This
purchase could be made entirely independently of
renewal of 1937 arrangement.

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U.S. SECRETOPTEL No. 425

Information received up to 7 A.M., 8th December, 1942.

1. NAVAL

On the 5th one of H.M. Submarines claimed three hits on a north-bound convoy of 2 ships escorted by 3 destroyers south of NAPLES. Early this morning a homeward bound convoy was attacked 300 miles southeast of GREENLAND and 2 ships torpedoed.

2. MILITARY

TUNISIA. Regrouping of our forces in the forward area was completed during 5th with forward troops holding positions overlooking TEBOURBA. Early 6th the enemy launched a strong tank and infantry attack in 2 columns against a U.S. infantry unit holding EL GUESSA 5 miles southwest of TEBOURBA. During confused and heavy fighting our positions were penetrated. A counter attack by a U.S. medium tank battalion and a further counter attack from north west across the MEDJERDA River did not restore the whole position. There were tank losses on both sides, infantry losses were considerable. During the night 6th/7th 11th Brigade was withdrawn slightly towards MEDJES EL BAB. Part of a U.K. unit which was cut off during the withdrawal on the 3rd has now rejoined our main forces. Further reinforcements reached the forward area yesterday. Special service units which have been operating to the west of BIZERTA for some days and have inflicted considerable losses on enemy M.T. have now rejoined our forward troops.

3. AIR OPERATIONS

WESTERN FRONT. 7th. Our aircraft on harrassing operations destroyed or damaged 11 locomotives, damaged 3 1,500 ton ships and 10 small craft. Enemy casualties 1, nil, nil. Ours 5, nil, nil. 7th/8th. 36 aircraft were sent sea-mining, all returned safely.

FRENCH NORTH AFRICA. On 5th and 5th/6th Allied bombers attacked the docks at TUNIS and BIZERTA, also airfields AKYRID ERTA and near FAID. From these operations and from offensive sweeps on 5th and 6th enemy losses 4, 3, 8. Ours 11 destroyed.

Regraded Unclassified