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TREASURY DEPARTMENT

1

INTER OFFICE COMMUNICATION

DATE JAN 6 - 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The milk price situation in New York City, submitted in response to your request of January 4.

Earlier developments: On October 10, 1942, the Department of Agriculture announced a subsidy program on sales of fluid milk in the New York Metropolitan Marketing Area, designed to maintain dairy farm income without raising price ceilings to consumers.

Under this program, which was financed by the Commodity Credit Corporation, the Department of Agriculture bought milk from dealers at the prices they were required to pay farmers in the current month under Federal Milk Marketing Order No. 27, and resold it to dealers at the lower prices specified in that order as effective for August 1942.

The subsidy amounted to 40 cents per hundredweight of milk in December, with the price to farmers \$3.50 and the cost to dealers \$3.10. The subsidy has cost the Government recently between \$800,000 and \$900,000 a month.

Recent developments: The subsidy on fluid milk in the New York area was discontinued December 31 by the Department of Agriculture, at the direction of Stabilization Director Byrnes. In its place, certain retail price increases were authorized during the three-month period ending April 1. At that time it is intended that the price increases will be rescinded, and a program effecting economies in milk distribution is to be worked out as a substitute for the higher prices.

Director Byrnes explained the withdrawal of subsidies in New York (and in two other areas) on the ground that it would be administratively impossible to extend the subsidy to all areas likely to be affected by the squeeze between farm prices and retail ceilings.

The action increasing retail milk prices in New York is also designed to replace previous individual March ceilings (which in some cases were abnormally low) with uniform ceiling

prices for specified types of sales. The ceiling price for home delivery is to remain unchanged at 17 cents a quart, and ceiling increases of 1 cent to 2 cents a quart will apply to sales in retail stores and at wholesale. The maximum price in retail stores will be 14 cents a quart in bottles and 15 cents in cardboard containers.

Secretary Wickard announced on January 4 that a program is being worked out as rapidly as possible to reduce costs of marketing milk, with a view toward rescinding the recent price increases, and stated that it should be possible to announce a number of specific milk marketing economies by mid-January. Commenting on Secretary Wickard's statement, the President of the Dairymen's League of New York State has cited the need for an overhauling of New York City's "extravagant" delivery system.

Men in the Dairy and Poultry Branch of the Agricultural Marketing Administration, who are working on the program for reducing distribution costs, are somewhat dubious about the possibility of effecting sufficient economies in milk distribution during the next three months to replace the recent price increase. They point out that some saving will be made by eliminating certain low-profit products and un-essential services, and probably by reducing the number of deliveries, by insisting on full loads for each delivery truck, and by allowing only one man per truck. Any changes effecting a reduction in labor costs will be opposed by the unions, but it is here that the field for reducing costs is largest. The use of cardboard containers is not a solution, since they cost more than glass bottles, except in the case of new plants in which the entire processing, handling, and distribution system is built around the use of this type of package.

The increase in milk prices, in place of the subsidy, is criticized by milk distributors in the New York area on the ground that it seriously curtails their operating margins. An over-all increase of about 1 cent a quart would be required to replace the subsidy of 40 cents per hundredweight. While the authorized price increases will amount to 1 cent a quart for most stores (and more for some stores) the distributors contend that 40 percent of their sales are for home delivery, for which no increase is permitted. (The Department of Agriculture says 21 percent is sold for home delivery in New York City.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 5, 1943.

TO Secretary Morgenthau

FROM Mr. Hoge

Allen note

Attached is a report on the Johnson Milk Company of Detroit. The report is based upon information which was obtained in Washington, mostly from the Department of Agriculture. You will note that the employment of non-union labor is one of the features of the plan, and at the present time the Johnson Milk Company is in difficulty.

In view of these circumstances, I hesitated to send a man to Detroit without first checking with you. In having a Treasury man go out now to look into the situation, you might be taking some risk of being involved in the controversy.

*Dear George
Gag...
H.M.A.*

TREASURY DEPARTMENT

4

INTER OFFICE COMMUNICATION

DATE

JAN 6 - 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Operating methods of the Johnson Milk Company of Detroit.

In response to your request of January 4 for information on the merchandising methods of a chain store retailer of milk in Detroit who sells milk at reduced prices, I have ascertained that the organization in question is the Johnson Milk Company. I have obtained information about the company from the Department of Agriculture and from testimony on Mr. Johnson at TNEC hearings. This company was started on January 1, 1936 by a Mr. George A. Johnson, who had previously been in business for 13 years in Grand Rapids, Michigan. At present the Johnson Milk Company is said to account for about 12 percent of the milk business in the city of Detroit.

The merchandising methods used by this company are practically identical with those used by High's in Washington, D. C. The lower prices at which the company sells its milk are due very largely to the following policies:

1. Milk is sold only at its own stores, hence there is no delivery cost and no credit risk.
2. A 4-cent bottle deposit is required, which transfers a large part of the bottle loss to the consumer.
3. Non-union labor is employed.
4. Milk is bought directly from unorganized farmers at a flat rate, rather than through the producers' association on a blended rate basis.

As a result of his buying policies, Johnson pays a flat price per hundredweight for his milk irrespective of its final use, whereas purchasers from producers in the association are charged on the basis of the percentage being sold as fluid milk, butter, etc., with the highest charge being placed on fluid milk and lower charges on other uses. Since Johnson sells principally fluid milk, his possible profit margin is wider than if he were buying through the producers' association and paying the higher fluid-milk price.

- 2 -

If Johnson's buying practice were projected on an industry-wide basis, however, it would result in the breakdown of the present milk price structure designed to stabilize seasonally the price of fluid milk, which is supported by the Department of Agriculture. His system is possible only in a limited way, because he takes advantage of the pricing system of the producers' association.

The Johnson Milk Company recently had its license to do business revoked by the Agricultural Commissioner of the State of Michigan, allegedly because of being in arrears on payments to producers, such arrears reportedly running up to 2 months. However, attorneys for the company succeeded in getting a stay of execution on the license revocation and the company is still operating.

The Johnson Milk Company has been the center of numerous controversies since its organization in 1936, and his methods have been investigated by various Government agencies. Mr. Johnson testified at length regarding his business during the TNEC hearings in 1939. He has been at odds with the Michigan Milk Producers' Association, and is not well regarded by organized labor in view of his employment of non-union labor.

Since the success of the company in reducing retail milk prices is due in large degree to the fact that, in handling a relatively small proportion of the total milk sales in Detroit, it can exploit the pricing system of the Milk Producers' Association, and to the fact that non-union labor is employed, the system does not appear practicable for operating on a substantial scale. However, a company of this type provides an economic service to the consumer in checking monopolistic pricing practices of milk distributors. The Johnson Milk Company has doubtless kept retail prices of milk in Detroit lower than they would otherwise have been.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 6,
1943

to Secretary Morgenthau

FROM Mr. Haas

Subject: Recent Developments in the High-grade Security
MarketsSUMMARY

- (1) Since the close of the campaign, prices of Treasury securities have risen moderately (Charts I and II). Changes in the prices of high-grade corporate and municipal bonds during December were quite small (Charts II and III).
- (2) Excess reserves of member banks were maintained around \$2.5 billions during the first two weeks of the December financing campaign. In the two weeks December 16-30, however, they were allowed to decline by almost \$1.0 billion (Chart IV). It would be desirable if excess reserves were restored to and maintained at or above \$2.5 billions.
- (3) Transfers of funds in payment for securities issued by the Treasury in December were facilitated by increased use of War Loan deposits. The geographical distribution of the use of such accounts is rather uneven.
- (4) In the past four months, the Federal Reserve System has given considerable open-market support to partially tax-exempt Treasury bonds, thereby tending to "freeze" the spread between the yields of taxable and tax-exempt issues. It might be better if open-market operations were concentrated on giving all-out support to taxable securities while allowing tax-exempts to find their own level.
- (5) The Dominion of Canada is preparing to refund a 5 percent bond issue of \$100 millions which was originally floated in the United States in 1922. The refunding issue will be in three parts of \$30 millions each, including a 2-1/2 percent, 5-year bond; a 3 percent, 10-year bond; and a 3 percent, 15-year bond. The yields of outstanding Canadian bonds payable in this country are shown in Chart V.

Secretary Morgenthau - 2

I. Recent Movements in the Prices of High-grade Securities

After remaining unchanged, on the average, during the December financing, the prices of taxable Treasury securities rallied following the close of the campaign. Price movements from the close on December 23 are shown by maturity classes and tax status in the table below and by maturity classes in Chart I.

	Average price change		
	December 23, 1942-January 4, 1943		
	Taxable	Tax-exempt	Total
	(In thirty-seconds)		
<u>Notes</u>			
1 - 3 years	+3	+1	+2
3 - 5 years	+2	-	+2
<u>Bonds</u>			
5 - 15 years to call	+7	+2	+4
15 years and over to call	+13	+5	+11

Changes in the prices of high-grade corporate and municipal bonds during December were small (Charts II and III).

II. Excess Reserves

During the first two weeks of the December financing campaign, the excess reserves of member banks were maintained at about \$2.5 billions. In the two week period, December 16-30, however, they were allowed to decline by almost \$1.0 billion to \$1,656 millions (Chart IV). On the latter date, excess reserves of banks in New York City totalled \$235 millions, while reserves in Chicago were deficient by \$5 millions. The reduction in the week ended December 23 may be attributed

Secretary Morgenthau - 3

principally to the small volume of open-market purchases by the Federal Reserve System (only \$90 millions) in the face of an increase of \$482 millions in Treasury cash and balances with the Federal Reserve Banks, and an outflow of \$237 millions of currency into circulation. In the week ended December 30, Federal Reserve purchases amounted to \$362 millions, but they were considerably more than offset by a combination of other factors, including a further increase of \$326 millions in the Treasury's cash and deposits in the Federal Reserve Banks, and an increase of \$197 millions in required reserves partly attributable to payments for subscriptions to Treasury securities which were made in the form of War Loan deposits.

In our opinion, the amount of excess reserves should be restored to \$2.5 billions as soon as possible and held at around that level indefinitely, or until experience shows that a lower level is adequate for financing the war.

The measure of the amount of excess reserves necessary for the efficient financing of the war must be derived from the two factors of (1) the largest amount of new securities which the Treasury expects to sell to the commercial banks in a single "bite", and (2) the ratio, as determined by past experience, of the probable amount of commercial bank subscriptions to such new securities to aggregate excess reserves.

Both the Treasury and the Federal Reserve people are generally agreed that \$2.0 billions is about the right size for a single "bite". It may well be, as a result of the educational efforts currently being made by the Federal Reserve System, that at some time in the future less than \$2.5 billions of excess reserves will be adequate to insure full subscription to such a "bite". This does not appear on the record to date, however, and until it does, the maintenance of \$2.5 billions of excess reserves would seem to be the part of prudence.

Secretary Morgenthau - 4

III. Special Depositories

Transfers of funds in payment for subscriptions to new Treasury securities, offered in December, were facilitated by increased use of War Loan deposits. By this device banks can make payment for securities purchased for their own or customers' accounts by crediting the Treasury on their own books. For example, the increase of \$197 millions in required reserves, referred to above, in the week during which payment was made for the certificates of indebtedness, was occasioned by an increase in deposits by about \$1 billion, presumably credited to the Treasury. Had the banks been required to pay by drawing on their reserves with the Federal Reserve Banks, the effect of a transaction of that magnitude would have been to draw down excess reserves by the full billion.

Between October 31 and December 19, 1942, the number of banks qualified as Special Depositories for War Loan deposits increased from 3,253 to 5,260. The aggregate amount of War Loan deposits for which they are qualified is \$9,355 millions or a little more than 10 percent of the total assets of all active banks. The distribution of Special Depositories about the country is not uniform. In terms of the amounts of deposits for which the banks are qualified, the New York Federal Reserve District leads with about 18 percent of total assets. The Dallas District shows quite a high percentage as compared with other areas away from the eastern financial centers. Details are shown in the table below:

Federal Reserve District	:Amount of Government : deposits for which : qualified :(Millions of dollars)	: Percent of : total assets : of all : member banks
Boston	461	11.9
New York	4,317	17.6
Philadelphia	408	9.9
Cleveland	558	9.9
Richmond	321	10.7
Atlanta	282	10.7
Chicago	1,059	10.3
St. Louis	242	9.8
Minneapolis	*	*
Kansas City	233	8.9
Dallas	310	13.5
San Francisco	416	6.0

* Figures not available.

Secretary Morgenthau - 5

IV. Yield Differentials Between Taxable and
Partially Tax-exempt Treasury Bonds

In the last 4 months, the Federal Reserve System in its open-market operations designed to maintain the pattern of rates in the Government security market, has found it necessary to give increasing attention to the purchase of partially tax-exempt bonds. This may be seen in the following table, which compares the average price changes of partially tax-exempt Treasury bonds with Federal Reserve Bank net acquisitions of such bonds.

Month	: Average : price change :(Thirty-seconds):	: Net acquisitions by : Federal Reserve Banks :(Millions of dollars)
April	-10	-
May	+5	-
June	-7	-1
July	-4	-7
August	-4	-4
September	-6	+43
October	-1	+103
November	-9	+216
December	-2	+246

There was no Federal Reserve support in the partially tax-exempt field during the 5 months, April - August; during that period, Federal Reserve holdings of partially tax-exempts were reduced by \$12 millions. Since the beginning of September, however, Reserve holdings of partially tax-exempts have increased considerably.

To some extent, these price changes may have been occasioned by adjustments of the spreads between taxable and partially tax-exempt bonds to changes in the tax law. Under the Revenue Act of 1942, the tax on income from bonds is computed on the yield instead of on the coupon as formerly.

In the shorter maturity ranges, the spread between the yields of taxable and partially tax-exempt bonds is just

Secretary Morgenthau - 6

about equal to the 24 percent normal corporation income tax on the yield, as the table below indicates, suggesting that issues in this area are largely held by investors who are in a position to take full advantage of the tax-exemption feature. (Quotations in the tables below are as of the close on December 31, 1942.)

Issues	Yield (Percent)
2 percent taxable bond 3/15/48-50	1.75
2-3/4 percent partially tax-exempt bond 3/15/48-51	1.31
Spread	.44
Normal tax on 1.75 percent yield	.42

In the longer maturity ranges, the spread between the yields of taxable bonds and those of partially tax-exempt bonds of similar term tend to be smaller than the amounts of the tax on the yield of the taxable issues, suggesting more extensive holdings in this area by investors to whom the tax-exemption feature is of little or no value. This is shown in the table below:

Issues	Yield (Percent)
2-1/2 percent taxable bond 3/15/56-58	2.22
2-3/4 percent partially tax-exempt bond 9/15/56-59	2.05
Spread	.17
Normal tax on 2.22 percent yield	.53

Secretary Morgenthau - 7

It should be noted, however, that the foregoing figures do not necessarily represent the current view of the market with respect to the proper spread in yield between taxable and tax-exempt securities. They represent merely the opinion of the market some months ago, as modified by such subsequent changes in the relative prices of taxable and tax-exempt securities as the open-market operations of the Federal Reserve System have allowed to take place. The character of Federal Reserve operations during the past four months, moreover, would seem to indicate that, had the market been left to its own devices, the spread would have narrowed during this period. This likelihood raises the broad question of whether it might not be more desirable if Federal Reserve open-market operations were concentrated on giving all-out support to taxable securities, while merely maintaining an orderly market for tax-exempt securities and allowing them to find their own level.

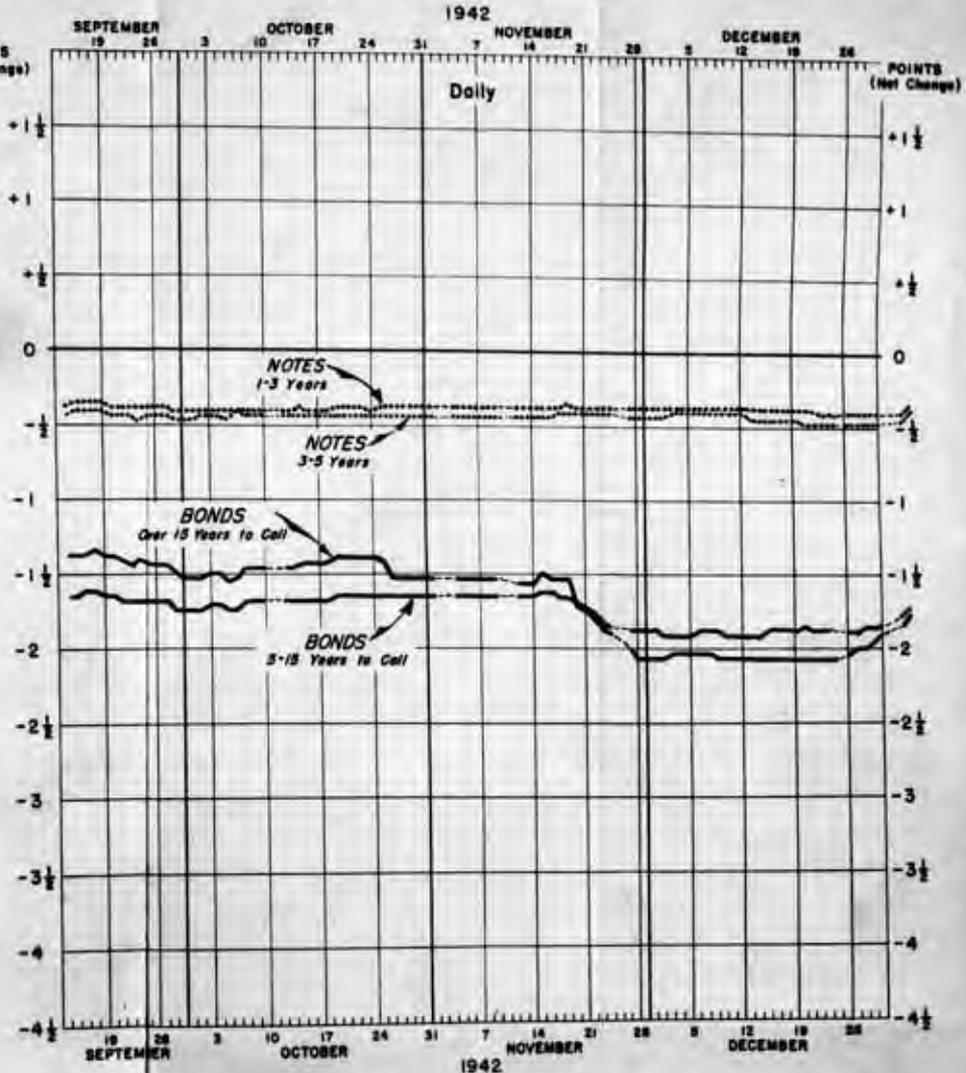
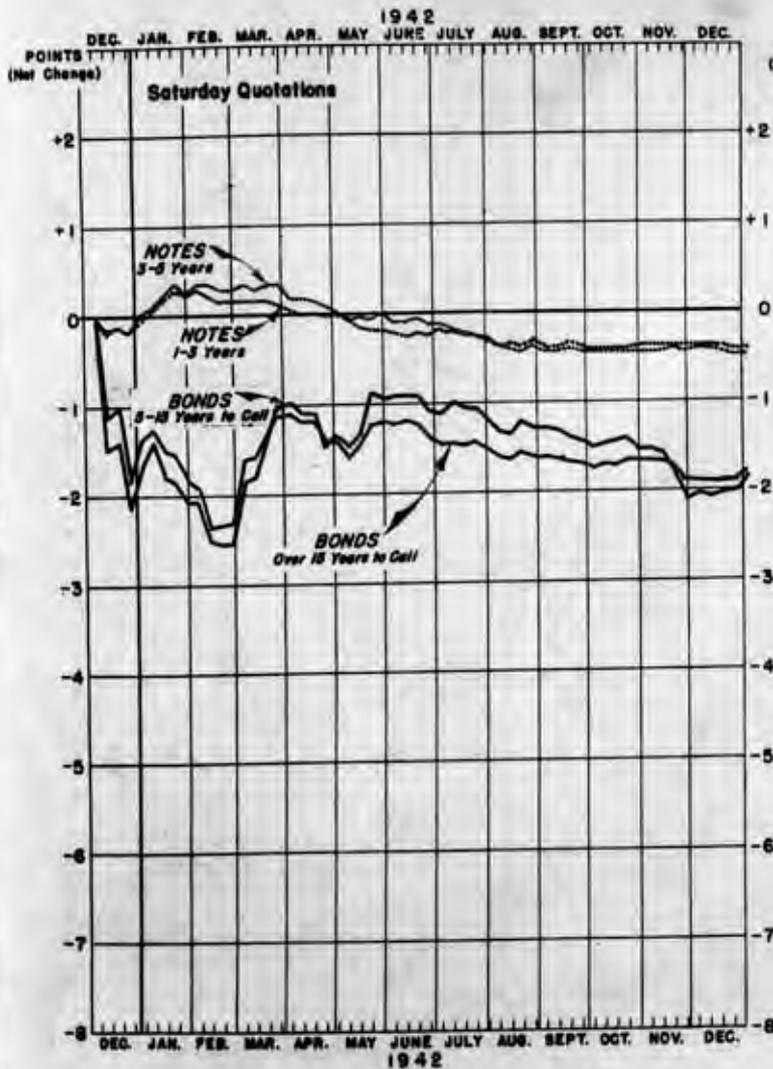
V. Dominion of Canada Refunding

The Dominion of Canada has filed a registration statement with the SEC for \$90 millions of bonds to be sold in the United States for the purpose of refunding the Dominion's 5 percent bonds of 1942-52. The issue to be refunded was floated in this country in 1922 and first became callable on May 1, 1942.

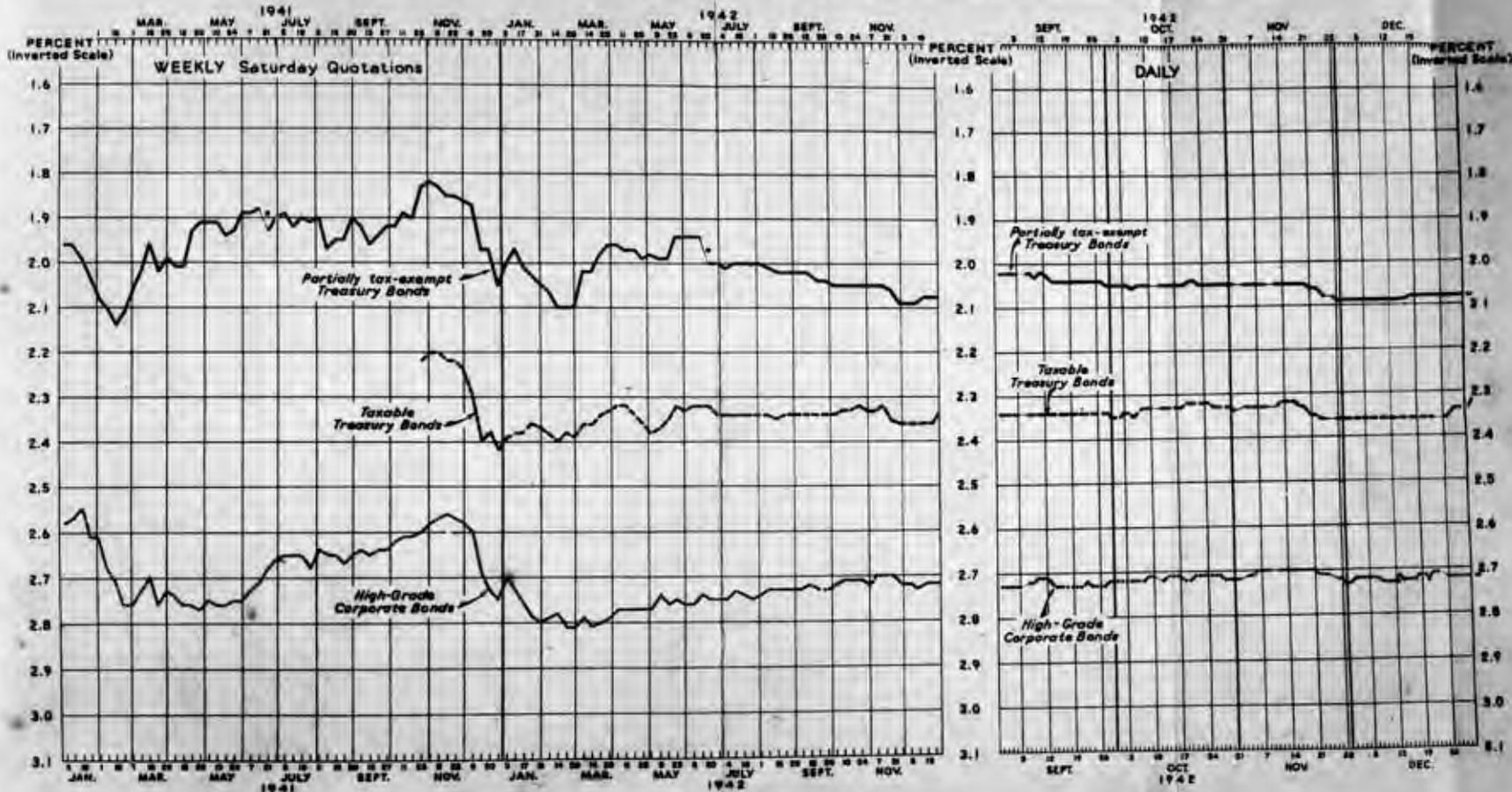
The new securities will be divided into three groups of \$30 millions each, and will include a 2-1/2 percent bond due January 15, 1948, but callable January 15, 1947; a 3 percent bond due January 15, 1953, but callable at any time at a price which decreases from 104 at the outset to par after January 15, 1951; and a 3 percent bond due January 15, 1958, but callable at any time at a price which decreases from 104 at the outset to par after January 15, 1955. The yields of outstanding Canadian Government securities payable in United States dollars are shown in Chart V.

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from December 6, 1941 Price of Each Maturity Class



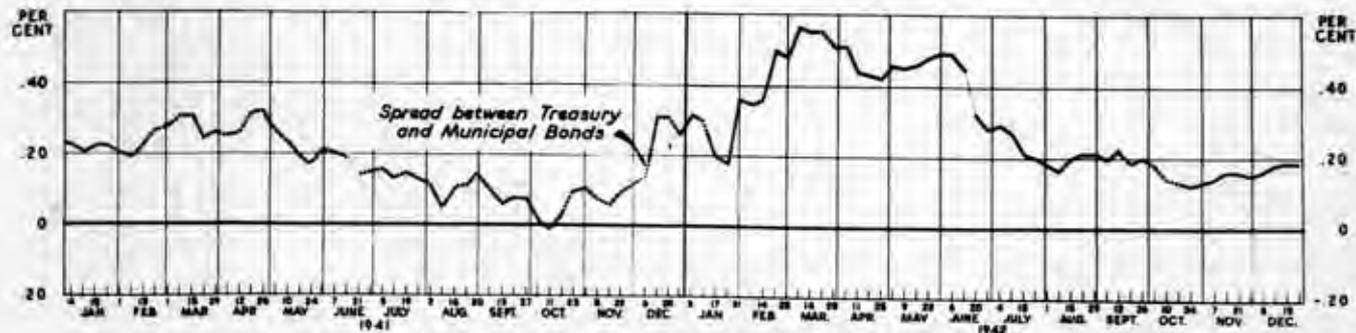
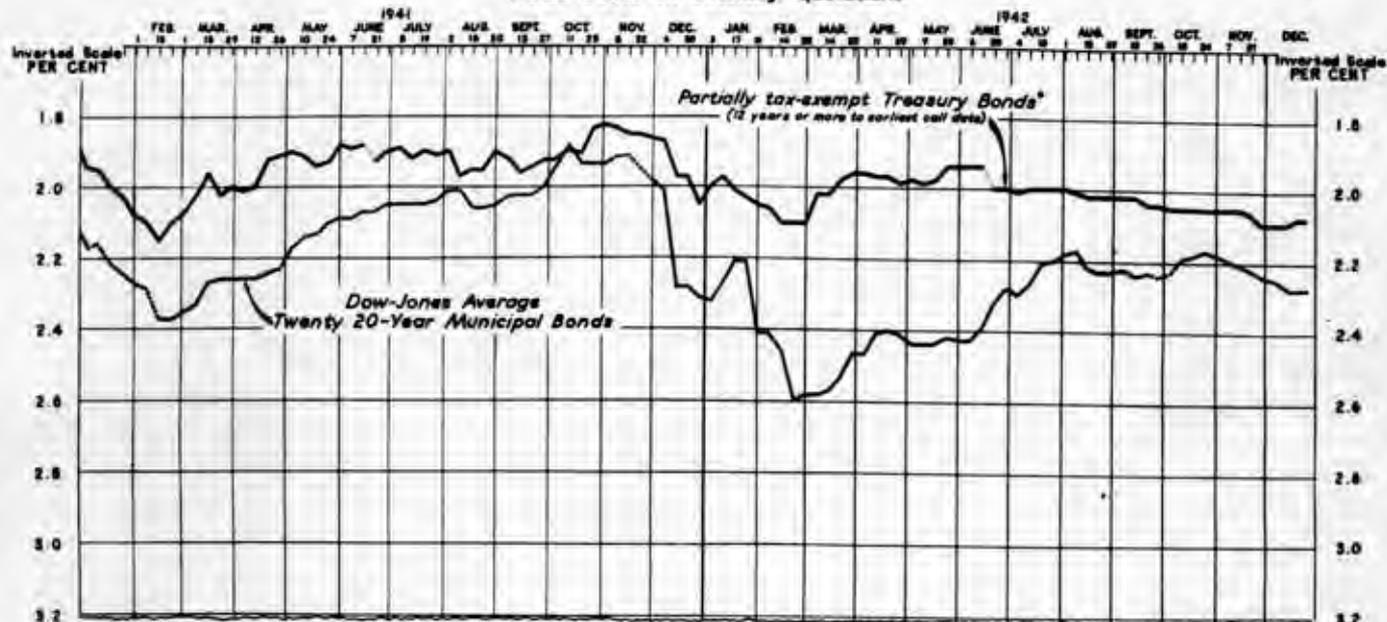
AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS



^aChange in composition of Long-Term Treasury average

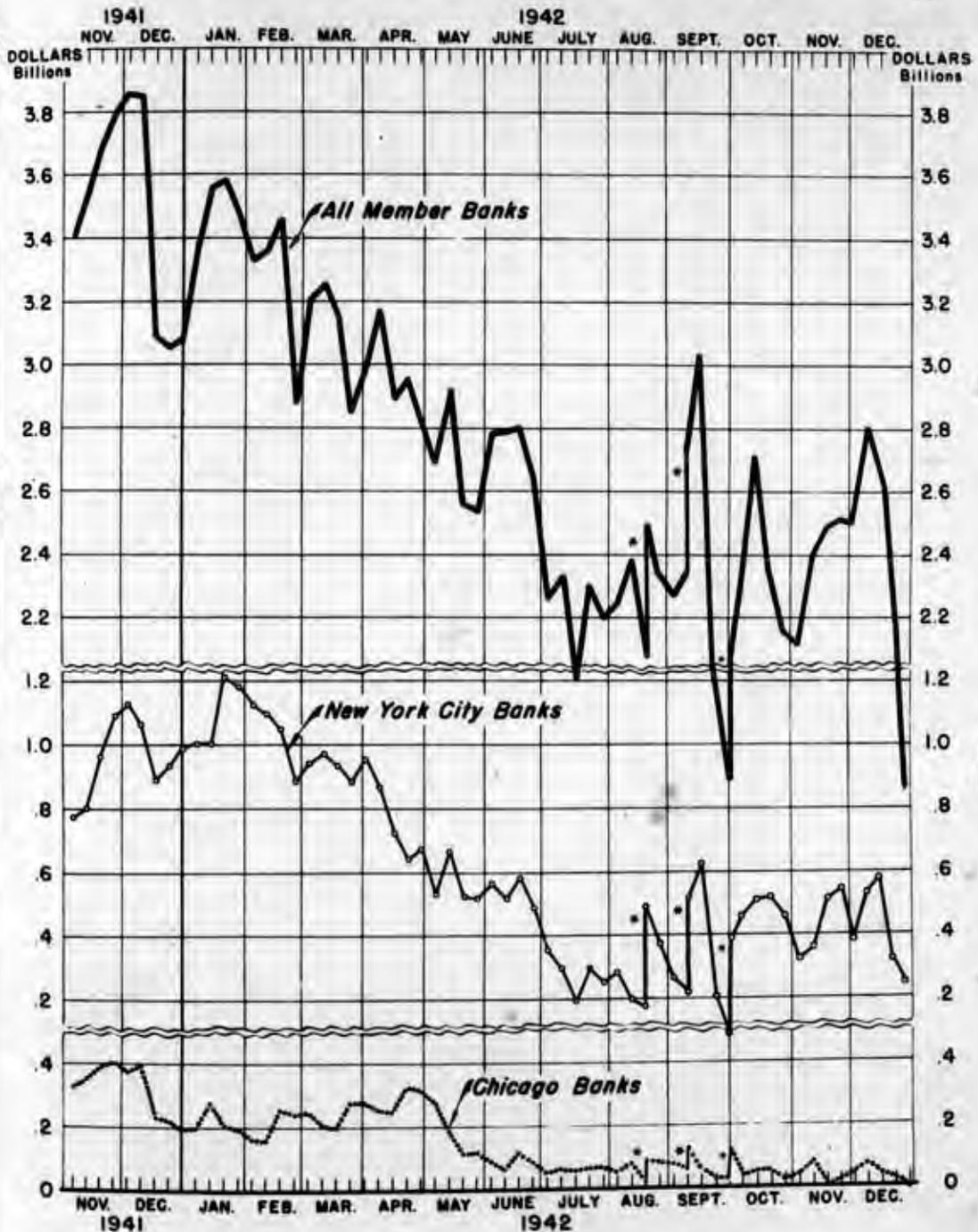
AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average

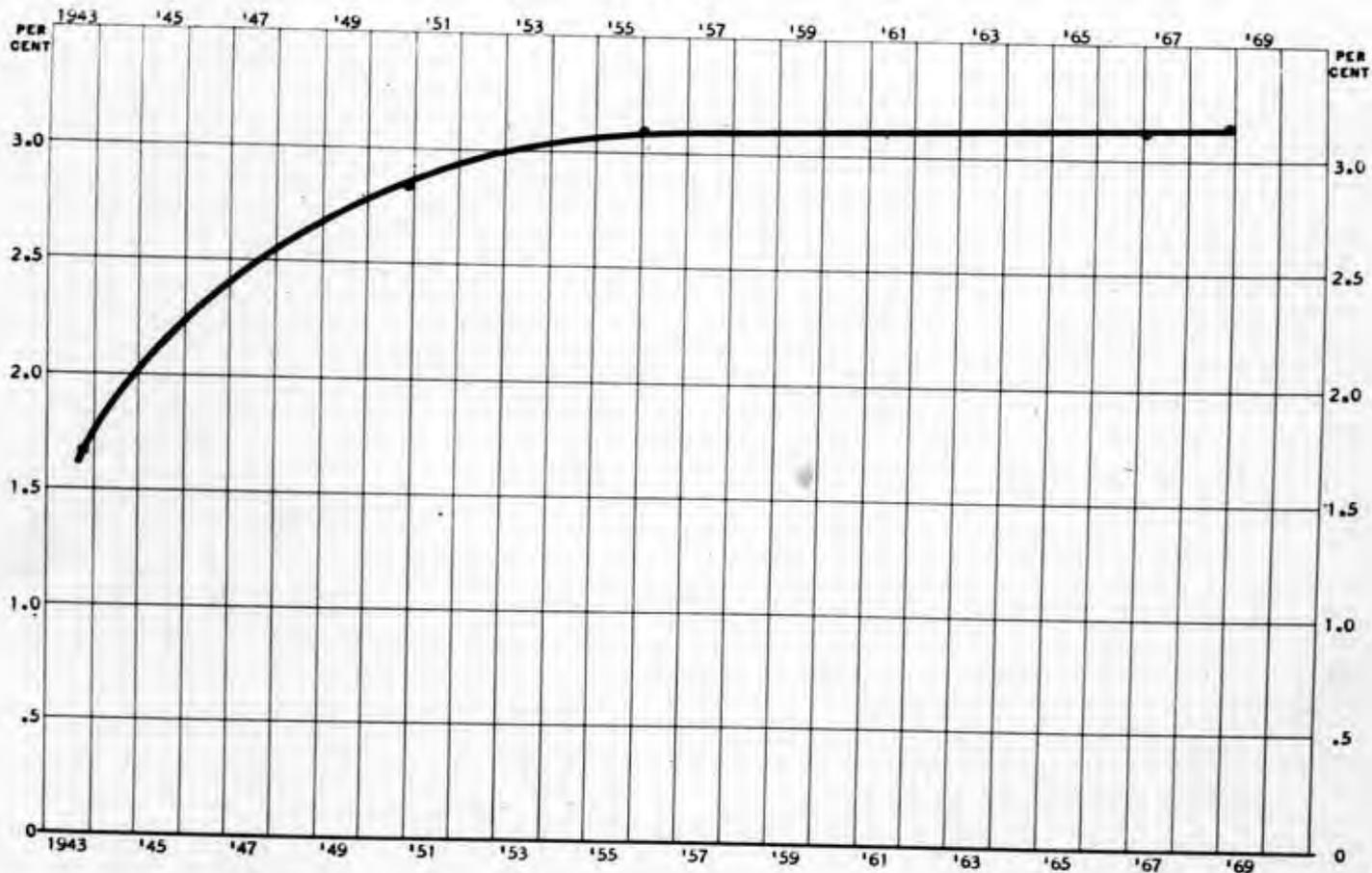
CHART IV MEMBER BANK EXCESS RESERVES



*Change in reserve requirements

YIELDS OF CANADIAN GOVERNMENT SECURITIES, JAN. 2, 1943

Payable in United States Dollars



January 6, 1943.

Dear Chester:

On behalf of the Secretary I am writing you in regard to the matter described in your telegram of December 19. Secretary Morgenthau, who is away for a few days, was very glad to take this up with Secretary Wickard, of the Department of Agriculture, and has now heard from him.

Secretary Wickard also had heard from Mr. Heringway, whom you mentioned in your telegram as communicating with that Department. Mr. Morgenthau has been assured that the Department of Agriculture has no intention of overlooking or appearing to overlook country banks as sources of credit. Their operations were assumed to exist, so that instructions issued by Agriculture dealt only with those of their own credit agencies. In order to clarify the matter, Mr. Wickard assures Mr. Morgenthau that further editions of the book you criticized will draw attention explicitly to the credit obtainable from country banks.

Although you may have already seen it, I am sending you a copy of Mr. Wickard's letter to Mr. Heringway.

Sincerely yours,

f DAN

Mr. Chester Davis
President
Federal Reserve Bank
St. Louis, Missouri.

Enclosure.

GEF:DWB:ew
1-6-43



DEPARTMENT OF AGRICULTURE
WASHINGTON

December 31, 1942

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

Dear Henry:

I am sending attached copy of my correspondence with Mr. Hemingway of the American Bankers Association. As you will see, this Department had no intention of overlooking or appearing to overlook the country banks as sources of credit. Their operations were simply assumed, and in our instructions to our people we dealt only with the operations that the credit agencies associated with this Department would have to carry on in the coming year. In future editions of the campaign book referred to by Chester Davis, and in other materials we will correct the oversight and draw attention explicitly to the credit obtainable from country banks.

Sincerely,

Claude

Secretary

Enclosure

DEPARTMENT OF AGRICULTURE
WASHINGTON

December 29, 1942

Mr. W. L. Hemingway, President
American Bankers Association
St. Louis Missouri

Dear Mr. Hemingway:

All of us ⁱⁿ the Department of Agriculture depend upon and welcome the support of the nation's banks in the 1943 Food for Freedom program pledged in your telegram of December 19. The 1942 record was meritorious. We count on equally strong support in 1943 as farmers face up to a very difficult task.

I am advised by the Director of Information that the omission of mention of commercial bank credit in the information campaign handbook was purely an oversight. The book was prepared to guide the Department agencies in handling information issued in connection with their operations. Naturally the copy was directed toward the part to be played by credit from Department agencies. The idea was not, however, to imply that these are the only sources of credit.

In future materials to be issued concerning the Farm Mobilization, the credit sections will draw attention to the Food for Freedom committees which stand ready to assist in procuring adequate financing, and the financing support for the 1943 production available from the commercial banks.

Sincerely,

/s/ Claude R. Wickard

Secretary

January 6, 1943.

Dear Mr. Hemingway:

The Secretary received your letter of December 26, and had dictated a reply, but because of his absence from the office on account of illness, he was not able to sign the letter.

I knew that you have already arrived in the city and have seen Mr. Bell and others in the Treasury. I just wanted to let you know that your letter had reached Mr. Morgenthau, and that he would have been very glad to see you and the Committee during the course of your meetings in Washington if he had not been away from his office.

He would also wish me to thank you for your Season's Greetings and to send you his best wishes for the coming year.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. W. L. Hemingway,
President, The American Bankers
Association,
Room 678, The Willard,
Washington, D. C.

GMP/dbe

By Mess. Bundy 3:00 1/6

File in Diary

Thank you letter to Mr. Hemingway,
President of ABA, for his congratulations
on your successful financing.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 30, 1942.

Dear Mr. Hemingway:

Thank you very much for the message of congratulations contained in your letter of December 26, 1942. I am indeed gratified at the splendid response received from all sources to the Victory Fund Drive. I appreciate the work which your Committee performed in getting the banks of the country to cooperate so fully in this drive.

I shall of course be glad to see the Committee on either January 5th or 6th when you meet in Washington. If you care to, you are at liberty to use the room in the Treasury Building which you used the last time you were here.

With best wishes for the coming year, I am

Sincerely yours,

Secretary of the Treasury.

Mr. W. L. Hemingway
President
The American Bankers Association
Mercantile-Commerce Bank & Trust Company
St. Louis, Missouri.

g. Bell 24

THE AMERICAN BANKERS ASSOCIATION
OFFICE OF THE PRESIDENT

MERCANTILE-COMMERCE BANK AND TRUST CO.
ST. LOUIS, MISSOURI

W. L. HEMINGWAY
PRESIDENT

December 26, 1942

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

Dear Mr. Secretary:

Now that the returns are in from the recent drive I want to extend my congratulations to you on the splendid results. It must, indeed, be gratifying to you to see how splendidly the people have responded to your call.

Our Committee, which met with you last month, will meet again in Washington on the 5th and 6th of January, as those dates appear to be the only ones on which we can get a full attendance for some time. We intend to review our experiences of this last drive for the purpose of making what improvements we can in our method of assistance. If you should care to meet with us, we will, of course, be very glad to call at an hour most convenient to you.

With my kindest regards and the Compliments of the Season, I am,

Sincerely yours,

W. L. Hemingway
President

January 6, 1943.

Dear Mr. Trounstein:

In the absence of the Secretary, I am acknowledging your personal letter of December 29. Both the letter and its enclosure will be brought to Mr. Mergenthau's attention just as soon as he is back at his desk.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Phillip J. Trounstein,
Chairman, Ohio War Savings Committee,
Cleveland, Ohio.

GEF/abs



TREASURY DEPARTMENT

WAR SAVINGS STAFF

December 29, 1942

OFFICE OF
OHIO WAR SAVINGS COMMITTEE
PHILLIP J. TROUSTINE, Chairman

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

Dear Henry:

Now that the Victory Fund Drive has been successfully concluded, I offer my hearty congratulations. I know how you must have felt the weight of this responsibility. I would like however, at this time, to call your personal attention to certain matters relating to that drive and the way in which it was conducted. I need not tell you that my reasons for thus reporting direct to you are impelling or I should not presume to do so.

As Chairman of the War Savings Committee for Ohio, at which job I am spending all of my time, my first interest is naturally the continued success of the War Bond effort. However, I am not so biased in that interest that I cannot see the tremendous importance of the work of the Victory Fund Committee. It seems to me that both of these programs are of the utmost importance to the success of the war effort. It has therefore been most distressing to me to see this December drive launched and conducted with a seemingly deliberate attempt by the Victory Fund Committee in Ohio to dominate the entire War Bond program and to compete directly with our well set up and functioning organization. Money has been spent and the impression given that this Committee is well financed by the Treasury, while of course our County Committees must finance themselves.

All of this has caused much confusion in the minds of our volunteer workers and, if continued, will adversely affect our progress to an immeasurable extent.

I have seen your telegraphic instructions as to selling and organization policies either ignored or misinterpreted. I have seen a definitely determined attempt to discredit the E Bond and to compete with it so as to eventually force its replacement with a negotiable coupon bearing bond.

In fact, this prediction has been made and repeated.



- 2 -

Honorable Henry Morgenthau, Jr.

The Fourth Federal Reserve Bank at Cleveland is at present employing sixty people to take care of redemption of E Bonds. That statement has been too freely used and has caused widespread rumors in our State as to the tremendous amount of redemptions. Reports that the E Bond must eventually be discontinued are traceable directly to this Bank. The Victory Fund Committees in Ohio practically adopted the slogan of "beat the bushes" for sales. Two districts, to my knowledge, have conducted house-to-house canvasses. Publicity has stressed the small buyer from \$18.50 up, and \$300.00 per month income earners. This you definitely asked them not to do. There have been deliberate attempts in parts of our State to raid our personnel. In one instance an important volunteer was taken by being given a paid job. Many other workers were taken away from us, our people believing the War Bond organization was being absorbed. Publicity has been generally misleading.

I do not want to bother you with too many of the details. I have, however, collected a sampling of publicity in our State which I am sending, with a copy of this letter, to Harold Graves. If you wish to see it, he will have it for you.

I have no doubt that much of this has already been brought to your attention and that you yourself have felt deep concern about it. However, I hope I may presume to suggest to you that regardless of the relative importance of the two operations, the Treasury Department as a whole can ill afford, in my opinion, to permit one branch to practically sabotage another, and it is my considered judgment that the Victory Fund leaders deliberately and willingly superimposed their organization upon ours to the very serious and definite detriment of the War Bond program. If I am correct in this, then the cause is equally as disturbing as the effect.

To assure you that Roy Moore and I as Administrator and Chairman are in accord in these matters, I am enclosing copy of his letter dated November 23rd to Mr. Graves. My only justification for addressing you personally in this manner is my very deep interest in the whole Treasury situation and a mutual interest in the clarification of its disturbing elements. Naturally, I have no objection to whatever use you may wish to make of this letter.

Sincerely,

Phil

November 23, 1942

Hon. Harold N. Graves,
Assistant to the Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Graves:

The central war bond organization in Ohio is not one, I submit, to be cantankerous about the sanctity of its toes in the matter of being stepped on. We have tried to accept and adjust ourselves to the inescapable complexities rising out of the immensity of the national job, and the Washington viewpoint generally.

However, we should feel remiss indeed if we failed to point out to you that the intensity and seriousness of our state-wide attitude in regarding the war bond job as an extremely important one are at the moment strained to the point of breaking. We have had the feeling that even before, but particularly since, the Kansas City meeting we could see more definite and enduring progress than at any time since we began to organize the State. You will remember we took our newly appointed dollar a year chairman of the State F & G Committee to Kansas City for inspiration and guidance of which he brought back an amazing quantity. We had set about and had extremely gratifying progress to measure in the F & G phase of organization after having been on again and off again, with and without the Victory Fund Committees since June. That work of course was completely discarded, the time wasted, and our patience still further strained by the announcement that we would no longer have to do with anything but the E War Bond. And we have no quarrel with this since it is the judgment of the Treasury Department and since we are interested primarily in the whole Treasury problem rather than our own particular corner of it. I mean this very seriously and I am sure I speak for at least the central staff of Ohio.

But regardless of the imperative need for the stupendous nine billion dollar financing program in December, we doubt very much that proper protective steps have been taken to prevent the crumbling and disintegration of the volunteer organization for war bonds as the result of the kind of announcements that have come from Washington or at least attributed to the Treasury Department and from local Victory Fund Committee chairmen. For example, the Cleveland Plain Dealer last week printed the story of the drive for Ohio's quota and Cuyahoga County's share of it by the Victory Fund Committee under the leadership of the President of the Fourth Federal Reserve District with area and local chairmen named in the story and with the definite impression that this huge financing undertaking would embrace and absorb the entire War Bond organization throughout the state. Similar stories have been printed elsewhere in

- 2 -

Hon. Harold N. Graves

local papers with local application as in the case of the Canton Repository yesterday which left no doubt in the minds of our workers that they are now a subordinate part of the Victory Fund Committee in Stark County and will be expected to contribute their comparatively small share of the nine billion dollar total as a part of the newly super-imposed Victory Fund group.

I am writing at this length and in this manner not only to urge upon you a bold and courageous clarification of this confused set-up, regardless of inter-departmental ideas and personalities in the Treasury Department, but to help us, insofar as possible, to hold together our own war bond volunteer personnel so that after the great nine billion dollar push is over we will have as much as possible left of a continuing war bond group as the injurious moves thus far taken will permit.

I must reiterate and urge you to believe this plea comes from no prejudices or personal sensitivity in the premises. We do have a very deep sense of the frustration already apparent which will render us as a state war bond organization practically impotent when the heat and smoke from the big fire have blown away, unless something can be done quickly and effectively to indicate to the local volunteers whether they are to be Victory Fund or War Bond.

I hope you will see in this an effort to be of assistance in solving the problems rather than to impede your own efforts to bring order out of the welter of confusion that seems to have us practically stopped in our tracks. Mr. Trownstine is familiar with the contents of this letter and he and I are in full accord.

Very sincerely,

State Administrator
War Savings Staff for Ohio

January 6, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

As the result of a request made by the Office of Strategic Services through Harry Anslinger, I recommended to the State Department in a letter yesterday that Erwin May be designated as Financial Attache of the United States Legation at Stockholm, Sweden. I sent this letter along after discussing it with Dan Bell and with Harry White.

Harry White was in some doubt whether May would have the initiative and resourcefulness to get out of Stockholm all of the types of information that would be desirable. We considered the possible substitution for May of a man from Harry White's organization, or one whom he would select, but finally came to the conclusion that the best course would be to designate May as the Financial Attache and to give him the assistance of an economist to be approved by White. Harry Anslinger, who with Bill Johnson discussed the matter with Harry White and me, feels sure that he can get approval from the O.S.S. and the State Department to sending a second man along.

WJ

THE JOINT CHIEFS OF STAFF
WASHINGTON

W 31 ✓

January 6, 1943.

SECRET

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

My dear Mr. Secretary:

Attached hereto is a memorandum prepared by General Gross, Chief of Transportation, Services of Supply. It has been prepared with reference to Mr. Mack's memorandum to you of December 30th, which you asked me to have investigated.

Sincerely yours,

John R. Deane
JOHN R. DEANE,
Brigadier General, U. S. Army,
Secretary.

Encl.



SECRET

SECRET

WAR DEPARTMENT
OFFICE OF THE CHIEF OF TRANSPORTATION
WASHINGTON, D. C.

SECRET 32	
Auth. Ch/Trans.	
Initials	<i>g/p</i>
Date	1-2-43

In reply refer to:
SPTOW 565,2 T

January 2, 1943.

A 1519

MEMORANDUM FOR BRIGADIER GENERAL J. R. DEANE
Secretary Combined Chiefs of Staff

SUBJECT: French Lend-Lease Cargoes.

1. Reference is made to the attached memorandum addressed to the Secretary of Treasury regarding French Lend-Lease cargo on hand at the Port of New York.

2. The items summarized in Mr. Mack's memorandum represent the unshipped balance of the so-called Vichy cargo which was acquired by Treasury Procurement after consultation with the Office of the Lend-Lease Administration, the State Department and the War Department to provide an immediate supply of consumers' goods for shipment to North Africa. An aggregate of approximately 12,000 tons of these materials were procured during the latter part of November and December. Approximately 6,800 of the 12,000 tons of material was shipped on UGS-3. A detailed breakdown of materials shipped is as follows: 922 tons soap; 2320 tons of sugar; 1219 tons evaporated milk; 149 tons clothing; 135 tons cotton piece goods; 119 powdered milk; 1621 tons copper sulphate; 161 tons tea; 88 tons matches; 9 tons Chambray; 55 tons tobacco; 10 tons drapery; in addition to this figure there were 1,800 tons loaded aboard vessels at the same time but which returned as they could not keep up with the convoy.

3. In addition to the quantities shipped on UGS-3, it is estimated that at least 12,000 tons of these materials will be shipped on UGS-4. The material carried on UGS-4 should cover the entire list given in Mr. Mack's memorandum except that the quantity of matches has been reduced to 100 tons. Arrangements have been made with the Lend-Lease Administration to accumulate a stock pile of from 40-50,000 tons of these civilian materials in the New York area. These materials are to be shipped as filler cargo aboard the vessels assigned to the Army. It is anticipated that the quantity of these materials carried on subsequent convoys will be materially increased, and every effort will be made to carry 30,000 tons per month as requested in the recent radio received from General Eisenhower. The exact quantity to be carried on any convoy is of course governed by the amount of urgently needed war materials which are available for shipment at the time.

1 Incl:
Memo 12/30/42

C. P. Gross
C. P. GROSS,
Major General,
Chief of Transportation.



SECRET

33 10
A 1520



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

December 30, 1942

MEMORANDUM TO THE SECRETARY:

Supplementing my memorandum on December 29, which shows various tonnages on hand at New York City waiting vessels - these tonnages have been on hand since the following dates:-

Used Clothing	408 Tons ✓	December 10
Cotton Piece Goods	1710 Tons ✓	December 10
Refined Sugar	3071 Tons ✓	November 27 ✓
Raw Sugar	245 Tons ✓	November 27 ✓
Powdered Whole Milk	8 Tons ✓	December 27
X Matches	310 Tons 100	December 22
Copper Sulphate	675 Tons ✓	November 27

6427

Cliffon E. Mack
Cliffon E. Mack
Director of Procurement

JUGASA 534 JACS/5 (12-30-42)



Sub #1

<u>Commodity</u>	<u>Amount Purchased</u>	<u>Shipped From USA</u>	<u>On Hand At NYC Waiting Vessels</u>	<u>En Route To Port</u>
Used Clothing	1208 tons	300 tons	408 tons	500 tons
Cotton Piece Goods	2970 "	260 "	1710 "	1000 "
Shoes	200,000 pair	0	0	200,000 pair
Cotton and Knitted Wear	180,000 dozen	0	0	180,000 dozen
Refined Sugar	3947 tons	876 tons	3071 tons	0
Raw Sugar	2160 "	1915 "	245 "	0
Powdered Whole Milk	178 "	170 "	8 "	0
Condensed Milk	234 "	234 "	0	0
Tea	173 "	173 "	0	0
Matches	410 "	0	310 "	100 tons
Nails	4.3 "	4.3 "	0	0
Pharmaceuticals	10.4 "	10.4 "	0	0
Copper Sulphate	2632 "	1957 "	675 "	0
Books	5000 each	5000 each	0	0
Lamp Chimneys	80,000 each	0	0	80,000 each
Phonograph Records	1,000 each	0	0	1,000 each
Newsprint	30 tons	0	0	30 tons
Printer's Ink	200 lbs.	0	0	200 lbs.
Machine Finished Book Paper	2 tons	0	0	2 tons
Cordage and Twine	300 tons	0	0	300 tons
Thread	100 tons	0	0	100 tons
Totals		* 5899.7 tons	6427 tons	

*Total tonnage "Shipped From USA" does not include weight of 5000 Books.

original to Mr. Mack

35

Photostats in President's folder.

CONFIDENTIAL

36

THE WHITE HOUSE
WASHINGTON

January 6, 1943.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I understand both the Army and Navy are definitely of the opinion that Russian continuance as a major factor in the war is of cardinal importance, and therefore it must be a basic factor in our strategy to provide her with the maximum amount of supplies that can be delivered to her ports. I fully indorse this concept.

The present Second Protocol agreement with the Union of Soviet Socialist Republics terminates in large part by the end of this fiscal year. I have therefore taken steps to ascertain Soviet needs for a Third Protocol covering the period July 1, 1943, to June 30, 1944. As soon as these needs have been received, I intend to ask the various interested agencies as to the degree to which they may be met.

In the meantime, in executing the Second Protocol and in planning the overall program to the end of the fiscal year 1944, the necessity of meeting Soviet needs in accordance with the above strategical viewpoint must be regarded as a matter of paramount importance.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 6, 1943

TO Secretary Morgenthau

FROM Mr. White *HDW*

This is a comparative statement of the earnings and expenses of the Stabilization Fund for the months of November and December, 1942.

<u>Earnings</u>	<u>November 1942</u>	<u>December 1942</u>
Interest earned on investments	\$ 19,461.48	\$ 20,167.21
Interest earned on yuan	---	8,630.14
Total	\$ 19,461.48	\$ 28,797.35
Profits on foreign exchange-- Swiss francs	--	13.82
Profits on handling charges on gold	33,727.45	86,507.81
Grand Total	\$ 53,188.93	\$ 115,318.98
 <u>Expenses</u>		
Salaries	\$ 19,800.03	\$ 18,866.26
Travel	148.06	1,233.30
Subsistence	42.00	36.00
Telephone and Telegraph	1,388.95	2,005.68
Stationery	487.01	96.01
All Others	403.24	321.28
Total	\$ 22,269.29	\$ 22,558.53
Net earnings	\$ 30,919.64	\$ 92,760.45

Earnings increased in December, as compared with November, as a result of increased sales of gold to foreign countries for earmark with the Federal Reserve Bank of New York and of interest earned on yuan purchased from China under the agreement of April 1, 1941, during December.

This report was completed from figures supplied by Mr. O'Daniel.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 5, 1943

TO Secretary Morgenthau

FROM Mr. White *HDW*

Subject: Status of Stabilization and Gold Agreements on Dec. 31

1. Stabilization Agreements in Operation

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
Brazil ^{1/}	7/15/37	7/15/47	\$100,000,000	None	None gold
China	7/14/37	6/30/43	50,000,000	None	None gold
China	4/1/41	6/30/43	50,000,000	\$10,000,000	None required
Ecuador	3/1/42	6/30/43	5,000,000	None	None required
Iceland	5/1/42	6/30/43	2,000,000	None	None required

2. Stabilization Agreements Concluded but not yet Effective

Mexico	11/1/41	6/30/43	\$ 40,000,000	None	None required
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3. Gold Sale Agreement

Country	Dated	Expires	Commitment	Outstanding	Payment due within:
Cuba	7/6/42	6/30/43	\$ 5,000,000	None	120 days from each sale

4. British Coin Purchase Agreement

Country	Dated	Expires	Commitment	Purchases
Liberia	9/26/42	6/30/43	\$ 2,000,000	None

This agreement, as amended, also provides for sale to Brazil of up to \$100,000,000 in gold, of which \$49,415,080 has been sold.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 6, 1943

TO Secretary Morgenthau

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

During December, 1942, the Stabilization Fund sold about \$32.1 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	6.0
Bolivia	2.1
Ecuador	2.5
Guatemala	2.8
Haiti	.2
Portugal	10.0
Switzerland	5.0
Venezuela	3.5
Total	32.1

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

In order to maintain its gold balance, the Stabilization Fund purchased \$22.8 million in gold from the Treasury General Fund.

As a result of the above transactions, there was a net decrease of about \$6.7 million in the Stabilization Fund's gold holdings to about \$12.3 million as of December 31.

2. Treasury Gold Stock

During December, the Treasury's gold stock decreased by \$17.2 million to \$22,726.2 million as of December 31. Known and estimated acquisitions were as follows:

	<u>Millions of dollars</u>
Newly-mined domestic	1.8
Imports sold directly to mints and assay offices	3.3
Miscellaneous (coin and scrap)	<u>0.5</u>
Total	5.6

The Treasury sold \$22.8 million to the Stabilization Fund, making a net decrease of \$17.2 million.

3. Total Gold Holdings of the United States

	<u>November 30, 1942</u>	<u>December 31, 1942</u>
Treasury Gold Stock	\$ 22,743,411,716	\$ 22,726,242,881
Stabilization Fund Gold	<u>19,090,888</u>	<u>12,313,103</u>
Total	\$ 22,762,502,604	\$ 22,738,555,984

The decrease in the gold holdings of the Treasury and the Stabilization Fund during December was \$23.9 million.

JAN 6 - 1943

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending December 19, 1942.

Faithfully,

1st/ D. H. Bell

Acting Secretary of the Treasury.

The President,
The White House.

Enclosure

By Mess. Sturgis 3:50 1/6/43
Extra copies to White's office
File in Diary

HDW HDW/efe
1/4/43

FILE COPY

January 5, 1943

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the nine-day period ending December 19, 1942

1. Exports to Russia

Exports to Russia as reported during the nine-day period ending December 19, 1942 amounted to \$33,140,000. Military equipment accounted for \$11,781,000 and included 6 light bombers, 24 one-engine P-40 fighters and 21 tanks.

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to only \$2,000.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Portugal amounting to \$172,000.

ISV/efs
1/5/43

APPENDIX A

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

(In thousands of dollars)

	9-day Period ended Dec. 19, 1942	10-day Period ended Dec. 10, 1942	Total Domestic Exports Aug. 1, 1942 to Dec. 19, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 33,140	\$30,635	\$ 617,056	\$ 742,941
Free China	2	822	110,641	97,720
Spain	1	—	771	2,858
Switzerland	1	1,290	6,920	11,537
Japan	-	2	2,628	18,056
Portugal	172	590	2,158	9,743
French North Africa 2/	-	—	2,088	6,305

Treasury Department, Division of Monetary Research

January 4, 1943

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

74/ots 1/4/43

APPENDIX B

SECRET

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - December 19, 1942 1/
(Thousands of Dollars)

44

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
1942		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,855	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	5,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31	3,066	55,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	-	45,701
Nov. 1 - Nov. 10	233	53,144
Nov. 11 - Nov. 20	2,052	45,867
Nov. 21 - Nov. 30	296	88,415
Dec. 1 - Dec. 10	822	30,635
Dec. 11 - Dec. 19 6/	2	33,140
Total	\$110,641	\$1,360,816

- 1/ These figures are in part taken from copies of shipping manifests.
2/ Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3/ 8-day period.
4/ 11-day period.
5/ Due to changes in reporting procedure for the Department of Commerce, this report is incomplete for the period indicated.
6/ 9-day period.

Treasury Department, Division of Monetary Research January 4, 1943

ISF/efs 1/4/43

SECRET

45

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the nine-day period ending
December 19, 1942

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
TOTAL EXPORTS			\$ 35,140
<u>Military Equipment (\$11,781)</u>			
Ammunition	-	-	3,566
Aircraft			2,374
Light bombers (2 eng. A-20)	No.	6	
Fighters (1 eng. P-40)			
Pursuit and Interceptor	No.	24	
Aircraft parts and accessories	-	-	1,797
Military tanks			1,691
Medium tanks (M4A-2)	No.	16	
Medium tanks, n.e.s.	No.	5	
Firearms			798
Anti-aircraft artillery 90 mm. guns	No.	4	
37 mm. M4 aircraft guns	No.	16	
20 mm. Oerlikon naval artillery guns anti-aircraft	No.	40	
Explosives	Lb.	1,659,330	534
Ordnance combat vehicles			458
Scout cars	No.	502	
All other			563
<u>Non-military goods (\$21,359)</u>			
Motor trucks, motorcycles, auto replacement parts and marine engines	-	-	3,971
Industrial electrical and agricultural machinery and parts	-	-	2,838

APPENDIX G (Continued)

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
Meat products	-	-	\$ 4,139
Food products, n.e.s.	-	-	1,794
Iron and steel manufactures and semimanufactures	-	-	2,956
Metals and manufactures, n.e.s.	-	-	2,055
Rubber and leather manufactures	-	-	1,371
Wool and cotton	•	-	999
All other			1,236

Treasury Department, Division of Monetary Research January 4, 1943

KPM/cfs 1/4/43

JAN 6 - 1943

My dear Mr. Secretary:

I am enclosing report on our exports
to some selected countries for the period
ending December 19, 1942.

Sincerely yours,

1st L. K. Bell
Acting Secretary of the Treasury.

The Honorable,
The Secretary of State.

Enclosure

By Mess. Sturgis 3:50 1/6/43
Extra copies to White's office
File in Diary

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HDW

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January 5, 1943

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the nine-day period ending December 19, 1942

1. Exports to Russia

Exports to Russia as reported during the nine-day period ending December 19, 1942 amounted to \$53,140,000. Military equipment accounted for \$11,781,000 of the total.

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to only \$2,000.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Portugal amounting to \$172,000.

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APPENDIX A

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

(In thousands of dollars)

	9-day Period ended Dec. 19, 1942	10-day Period ended Dec. 10, 1942	Total Domestic Exports Aug. 1, 1942 to Dec. 19, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 33,140	\$ 30,635	\$ 617,056	\$ 742,941
Free China	2	822	110,641	97,720
India	1	-	771	2,858
Switzerland	1	1,290	6,920	11,537
Sweden	-	2	2,628	18,056
Portugal	172	590	2,158	9,743
French North Africa 2/	-	-	2,088	6,305

Treasury Department, Division of Monetary Research

January 4, 1943

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

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APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - December 19, 1942 ^{1/}
(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 ^{2/}	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 ^{3/}	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 ^{4/}	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 ^{5/}	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 ^{4/}	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 ^{4/}	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 ^{4/}	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 ^{4/}	-	45,701
Nov. 1 - Nov. 10	233	53,144
Nov. 11 - Nov. 20	2,032	45,867
Nov. 21 - Nov. 30	296	88,415
Dec. 1 - Dec. 10	822	30,635
Dec. 11 - Dec. 19 ^{6/}	2	33,140
Total	\$110,641	\$1,360,816

- ^{1/} These figures are in part taken from copies of shipping manifests.
^{2/} Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
^{3/} 8-day period.
^{4/} 11-day period.
^{5/} Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.
^{6/} 9-day period.

Treasury Department, Division of Monetary Research January 4, 1943

ISF/efe 1/4/43

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the nine-day period ending
December 19, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 33,140
Principal Items:	
Military equipment	11,781
Motor trucks, motorcycles, and replacement parts and marine engines	3,971
Iron and steel bars, rods, sheets, wire, tools, etc.	2,956
Meat products, n.e.s.	1,599
Canned sausage	1,550
Copper, brass and bronze	1,335
Industrial machinery and parts	1,291
Food products, n.e.s.	1,141
Electrical machinery and apparatus	1,088
Canned pork	990
Rubber and manufactures	804
Aluminum, zinc, nickel and other non-ferrous metals and alloys	720
Wool and manufactures	646
Leather and manufactures	567
Relief supplies	471
Dried egg products	460
Agricultural machinery and parts	459
Chemicals and related products	453
Cotton and manufactures	353
Tallow and lard	193

Treasury Department, Division of Monetary Research January 4, 1943

RPM/efs 1/4/43

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 7

Information received up to 7 A.M., 6th January, 1943.

1. NAVAL

Although all ships of second part of the latest Russian convoy have not yet reached port owing to weather conditions it seems that none has been lost by enemy action.

MEDITERRANEAN. One of H.M. Submarines has not repeat not replied to signals and must be presumed lost. Another of H.M. Submarines shelled a small schooner laden with petrol and took 2 prisoners on the 27th. Two days later she twice torpedoed a 1500 ton ship off the east coast of TUNISIA.

2. MILITARY

TUNISIA. 2nd. Our tanks made a reconnaissance with artillery support to the east of BOU ARADA. Little opposition was met. Four of our tanks were bogged and lost. 3rd. Now reported that French withdrew from FONDOUK after inflicting casualties.

RUSSIA. German attacks at VELIKI LUKI have been repulsed with heavy loss to the enemy. Partisans in the MINSKI Area have destroyed two German garrisons. On the Middle Don the Russians have captured MOPOZOVSKAYA on the STALINGRAD-PLIKHAYA railway and TSIMLYANSKAYA on the DON. In the CAUCASUS they have captured NALCHIK and the towns of PROKHLADNEVSKI and KOTLYARNEVSKAYA and taken much booty.

3. AIR OPERATIONS

FRENCH NORTH AFRICA. 4th. United States light and medium bombers attacked KAIROUAN Railway Yards and a locality 82 miles south-southwest of TUNIS. At night MALTA Wellingtons effectively bombed the docks and railway centre.

BURMA. Between the 1st and 4th Allied aircraft bombed MONYWA airfield, a railway bridge near MANDALAY and at night the railway yards at MANDALAY.

January 7, 1943

Meeting in Vice President's Office
January 7, 1943
2:30 P.M.

Present: Vice President Wallace
Secretary of Agriculture, Wickard
Mr. Hendrickson and Mr. Cassels of Agriculture
Mr. Stettinius and Mr. Cox of Lend-Lease
Mr. Acheson of State Department
Mr. Gaumnitz of B.E.W.
Mr. Byrnes of Stabilization Board arrived late
Mr. White of Treasury Department

Mr. Cassels submitted a report on Principles and Procedures for the Allocation of United States Food Supplies, a copy of which is appended.

Much of the ensuing discussion was taken up with the problem as to how Secretary Wickard was going to answer questions that were going to be put to him by the Appropriations Committee as to (a) why we were sending foodstuffs to England under Lend-Lease when England had sufficient money to pay for some of it, and (b) why send food to England on Lend-Lease when England in turn sells it to her own citizens, and (c) why shouldn't England get beans from Canada instead of the United States if Canada had a surplus supply.

It was pointed out that the decision to keep British balances within \$600 to \$1,000 million would make it possible for Secretary Wickard to base his decisions on whether or not to send food on criteria other than British dollar position. Mr. Byrnes and Secretary Wickard were skeptical whether that answer would be adequate for the Committee. Mr. Acheson suggested that one effective answer might be that England was giving us a good deal of reciprocal Lend-Lease supplying our troops in U.K. and Australia with food and services at no cost to the United States. Mr. Byrnes thought that would be an excellent answer.

It was agreed that the answer to the question of sale by Britain of food in England could be answered somewhat along the lines that the British themselves had answered it in the British White Paper.

It was agreed that Secretary Wickard was correct in feeling that if Canada had any surplus beans, U.K. ought to get them in Canada rather than get them on Lend-Lease in the United States.

The question was raised whether at the Committee hearings the Committee should be informed of the policy established by the

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Administration keeping British balances within \$600 to a billion dollars. Mr. Byrnes felt that if it were so stated Congress would incorporate it in legislation and might say that Secretary Wickard could not send any food on Lend-Lease so long as U.K. had a billion dollars of gold and dollar assets. Mr. Byrnes wanted to know if we would object to the inclusion of that in legislation. Mr. Cox and Mr. Acheson both felt it would be very unwise to place any such strict limitations in any legislation. Mr. Byrnes thought it would be difficult to avoid having the limitations added to the Appropriation bill if we were to say what the Administration policy was to keep U.K. within that range. Mr. Stettinius thought that we better find out before the Lend-Lease hearing whether he could make that statement with respect to the \$600 to \$1 billion figure. It was decided that Treasury and State would talk the matter over and let them know.

Mr. Hendrickson wondered whether it was appropriate to submit a memorandum by this group to the President touching on food policy inasmuch as there was a food Advisory Committee already set up. It was agreed that it would be appropriate to send the Committee report to this food Advisory Committee for their information and that the report would not be submitted to the President.

The report of the other subcommittee concerned with the expanding of the production of food was then submitted. The report is appended and it was decided to treat that part in the same manner as the one on Allocation of United States Food Supplies.

Mr. White left the meeting at 4:15 P.M. but the meeting did not adjourn until a quarter to five.

H. D. White

1/6/43

For Administrative Use OnlyPrinciples and Procedures for the Allocation of U.S. Food Supplies
(Submitted to Mr. Stettinius' committee on food distribution policy
January 7 by the subcommittee* appointed January 5.)A. Principles

The following principles have been implicit in food policy decisions that have been made, although the total supply situation and the limitations on shipping available to date have meant that, to a large extent, they have not been brought into play as the immediate determining considerations. From now on, the circumstances will be different and many of the most important allocation decisions will have to be guided directly by the application of basic principles. These same basic principles should be applicable to the allocation of shipping available for the transportation of food (as far as shipping is transferable and port capacity is available) as well as to the food itself. The principles, if properly established, should also be valid as a guide to policy in relation to post-war food relief programs.

1. The allocation of food to all claimants should be based on the consideration of their relation to our central objective, the most effective use in the war of the total food and shipping resources available to the United Nations. Each decision will involve the consideration of many inter-related elements and the balancing of many factors which will have to be given different weighting in each case according to the circumstances bearing on it.

* Members of subcommittee: J. Cassels, Dept. of Agri. (Chairman); H. White, Treasury; A. Feller, OWI; E. Rostow, State Dept.; O. Cox and Byron Spence, OLLA; E. Gaumnitz

Present as liaison representatives: Capt. L. Morrill, Army; Lt. C. Becker, Navy.

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2. The needs for food and for the resources used in producing food are so great that it must be used with the greatest possible economy. Allocations to all claimants should be conditional on the most strenuous possible efforts being made to eliminate waste, to confine the use of food supplies to the meeting of essential needs, and to exhaust all possibilities of securing food from other practicable sources.

3. Allocations on Lend-Lease account should not be modified or influenced by any concern with the dollar balances or other foreign exchange resources of the claimant countries since other means are available for maintaining such resources to the extent necessary to insure the vigorous prosecution of the war.

4. (Requirements for the armed forces of this country the armed forces of the United Nations have a preferred claim on U. S. food supplies.)* As in the case of all other allocations, these should be conditional on the greatest possible economy in the acquisition, handling and use of food. If it becomes necessary to reduce civilian consumption below the levels in prospect for 1943, the stringency thus evidenced in the total food situation should lead to a reconsideration of the consumption patterns and levels in the armed forces. In regard to quantities of specific commodities supplied to the armed forces, their claim to the types required in military operations will be given the highest priority. With respect to other commodities, substitutions should be made, as far as possible, to avoid accentuating particular shortages in other uses.

* The subcommittee was not in full agreement on the inclusion of this statement; nor on whether, if included, it should relate to our own armed forces or to the armed forces of the United Nations.

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5. Requirements for the armed forces of our Allies; Food necessary in order to provide for their fighting forces should also be given a preferred claim on available food supplies. If, however, the food for the armed forces of any other country could be supplied by diversion from its own civilian consumption, the claim on our supplies should be treated as the equivalent of a claim for civilian consumption in the foreign country.

6. Essential civilian requirements should receive positive, not residual, protection. Public assurance of this should be given (the form of that assurance being carefully considered from the public relations point of view). Minimum nutritional standards may serve as a basic benchmark and should be developed for this purpose, but other considerations must be taken fully into account. Nutritional needs can be most economically met by the consumption of products that yield the highest nutrient returns for the resources used in producing them (as for example, through a general shift from feed to food crops) and adjustments in that direction should be promoted, but there is a limit to the distance we can go in this and the progress in making the transition must proceed step by step. Minimum civilian requirements will vary according to the consumption patterns that become accepted as time goes on. To take many familiar foods away from consumers too suddenly results, not only in an adverse psychological reaction, but also in an injury to the nutritional status of the people since many of them will fail, through ignorance or dislike, to make appropriate substitutions.

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The minimum per capita levels (national averages) necessary to protect civilian health and welfare will also vary according to the distribution of food among consumers. Only when we have taken steps to get more nearly equal distribution of essential food among our own people will we be in a position to go to the limit in sharing with the peoples of other countries. It should be part of our basic policy that we do not take food from any of our own people who are worse off in respect to the meeting of their essential food needs than civilians to whom the food is sent. This means that we must extend rationing and introduce whatever supplementary food programs are necessary to insure that people are not prevented by the inadequacy of their incomes from securing the minimum quantities of food they need. In order that individual food consumption may be related as closely as possible to the actual urgency of the needs to be met, differential rationing should be adopted wherever appropriate and practicable. For example, the quantities of high calorie foods provided for those engaged in heavy labor should be greater than for those doing office work. (The application of this principle should be extended as far as possible to the armed forces as well as to civilians.)

7. As long as civilian consumption in this country is above the level necessary to meet the minimum nutritional needs of U. S. consumers, allocations to civilians in other countries should be based on comparisons of the actual relative levels of consumption in the countries concerned with relative levels that would be appropriate in respect to historic relationships as modified by special circumstances. As between this country

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and Canada for example, the appropriate level should probably be one of parity. Approximately the same is true for the United Kingdom where historic consumption levels were about the same as our own. In the case of other countries, more analysis is needed to determine appropriate relative levels.

Provision for war workers should be given a high preference rating. In comparing the needs of civilians in other countries, the same qualifications with regard to established consumption patterns and levels as were referred to in connection with the essential needs of our own population should be taken into account. In the choice of commodities to be exported, the most suitable types for shipping (or for particular purposes such as air raid reserves) should be provided so far as practicable.

6. Requirements for Reoccupied Areas: Certain minimum requirements will be justified on the basis of strategic considerations which will put them on a par with the claims of the armed forces. These should be determined in consultation with military authorities. Further requirements may be justified on political grounds and will have to be determined in consultation with the State Department. Additional amounts contributed for humanitarian relief consideration should receive favorable, but realistic consideration. Advance promises made on a scale so generous that they cannot be fulfilled may be expected to bring reactions of a kind the very opposite of what is desired. The advisability of limiting advance commitments of this sort to assurances that relief will be provided for children and nursing or expectant mothers should be considered. Even within these limitations, the needs may be expected to exceed the supplies we can make available. The time when they are greatest will

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probably coincide with the time when a substantial amount of shipping can be released for this type of cargo. In anticipation of the magnitude and the urgency of these needs, it is necessary that vigorous steps be taken at once to make advance provision for them.

9. Stockpile Requirements: Appropriate policy in this regard can be stated only in general terms. It involves the anticipation of future requirements which are subject to many incalculable uncertainties. Some of these uncertainties (e.g. crop yields) are subject to analysis in the light of past experience while others can be guessed at only through the informed judgments of those most familiar with all the circumstances. Military and Naval authorities must be depended on for guidance on many of these questions. These requirements, like all others, should be subject to the condition that the supplies are managed with the greatest possible economy. Studies are now under way to determine the extent to which the great variety of risks involved can be pooled (in accordance with good insurance principles) through the development of coordinated general purpose contingency reserves. It is important that, as a nation, we exercise the foresight and social self-restraint to provide adequately for the needs that may be expected to arise in the future. The contingency reserve program of this country should be coordinated with those of all the United Nations and the most complete possible information should be obtained and examined with respect to the total current and prospective supplies available to the United Nations.

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B. Procedures

The following procedures, which have been developed and followed substantially in the allocation of food supplies among military, lend-lease, domestic, civilian and other claimants, are now being formally adopted by the Secretary of Agriculture in discharging the responsibilities placed on him by the Executive Order issued December 6.

1. Each claimant agency is asked to state its requirements for advance periods up to two years. These are collected by the Requirements and Allocations Branch of the Food Distribution Administration, Department of Agriculture, where they are brought together as preliminary data on over-all requirements. Revisions on requirements are obtained at least once every three months. The claimant agencies and the Departmental agencies operating for them are as follows:

Army Requirements - War Department

Navy and Marine Corps Requirements - Navy Department

Veterans Administration Requirements - Veterans Administration

United Nations under Lend-Lease Agreements or Protocol - Lend-Lease Administration and Food Missions of the respective nations

Caribbean, Alaska, Hawaiian and other United States territories and possessions requirements - The Food Distribution Administration of the Department of Agriculture and the Department of the Interior or the War Department where the area is under martial law.

Other exports - State Department and Board of Economic Warfare

Rubber workers in the Amazon Valley, South America Requirements - Rubber Reserve Company

Civilian Requirements - Civilian Requirements Branch of the Food Distribution Administration of the Department of Agriculture.

Lunches for School Children - Consumer Programs Branch of the Department of Agriculture.

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Considerations with regard to supplies, production possibilities and relative costs of different types of products in terms of labor, strategic materials and transportation are taken account of in the preparation of these original estimates and in the subsequent adjustments made in them.

2. When consolidated, these requirements are reviewed in the light of supply estimates (including periodic revisions of prospective supplies) and determination is made of the residual amounts that would be available to civilians if the stated requirements were met.

3. The civilian residual estimates are subject to examination by nutritional experts and economists to determine the relationship of such residual supplies to past consumption levels and to United States national standards of nutrition. This analytic work is pointed up in the Civilian Requirements Branch of the Food Distribution Administration of the Department of Agriculture, assisted by an Advisory Committee on Civilian Nutrition of which the Director of the Food Distribution Administration is Chairman.

4. If the analyses demonstrate that the amounts of related food groups remaining for civilians are less than the quantities necessary to provide adequate standards of consumption (a) the possibility of expanding production of these commodities is analyzed by the Food Production Administration and (b) the non-civilian claimant agencies are asked to reconsider and adjust their requirements.

5. If such adjustments in production and requirements do not bring supplies for civilians to an adequate standard, or if any developments take place to create continuous stringency in the market situation, (e.g., a reduction in production or supplies; or excessive consumer buying as a result of higher national income and employment) the commodity is declared a controlled commodity.

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6. When it is necessary to allocate a controlled commodity, the following procedure becomes effective:

a. The Director of the Food Distribution Administration, consulting with the Inter-Agency Allocation Committee of which he is Chairman, recommends to the Secretary over-all allocations of available supplies to:

(a) the claimant agencies of the United States, including the civilian population, War Department, Navy Department, Marine Corps, the Veterans Administration and other agencies requiring food for use in or by the United States; and (b) foreign claimants including Russia, United Kingdom and other countries receiving Defense Aid, and friendly nations.

When this allocation is made, two procedures are established: one with respect to allocation of food among claimant agencies of the food reserved for use in or by the United States; another for the allocation of export food supplies among foreign claimants:

(i) The Food Distribution Director, consulting with the Inter-Agency Allocation Committee of which he is chairman, will recommend to the Secretary allocations of supplies among the civilian population, the Army, the Navy, the Marine Corps, the Veterans Administration, territories and possessions and other agencies. On the basis of these recommendations, the Secretary allocates subject to policy direction of the President.

(ii) When food supplies are determined to be available for export to friendly nations or for Defense Aid, the availability report is transmitted to the Combined Food Board. (At present, the requirements for Russia are determined, subject to the protocol provisions, by direct negotiation with the USSR Food Mission). On

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the advice of its commodity committees, the Combined Food Board will recommend to the Secretary allocations as between foreign claimants including the United Kingdom, the Fighting French, China, the Poles, the Greeks, the Jugoslavs, reoccupied areas and friendly nations. (When provision can be made for the representation of Russia on the Combined Food Board, their requirements can be handled through the same international machinery). Taking into consideration these recommendations, the Secretary allocates the supply for export, after obtaining the advice of the Food Advisory Committee and (on reference) the combined Chiefs of Staff, subject to policy direction of the President.

C. Summary of General Recommendations

1. The whole food distribution program should be put immediately on a stringent War economy basis.
2. All requirement estimates should be systematically and critically re-examined on the basis of all known facts about the total supply situation and in the light of the basic principles established as a result of the conferences for which this memorandum has been prepared. More factual information and more explicit statements as a basis for establishing the relative urgency of needs should be required from all claimants.
3. Specific consideration should be given to the urgent needs of Russia and the extent to which the assistance we are giving in the form of food supplies could be increased. This should include an examination of limitations imposed by the shortage of shipping or the congestion of port facilities and a study of the possible means of overcoming such limitations. The Russian claims should be evaluated in relation to those of all other claimants including, not only the British and

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other foreign countries, but also those of our own civilian population.

4. A critical examination should be made of the relative levels of civilian consumption in this country, in the United Kingdom and in Canada with a view to maintaining them in the most equitable and appropriate relations to one another.
5. Nutritional studies and analyses basic to the establishment of appropriate standards of adequacy for civilians in this country under varying circumstances should be undertaken at once. Policies based on these should be formally established as soon as possible and programs instituted to bring about the consumption adjustments required.
6. Rigorous control techniques should be set up to insure that allocations are adhered to within as narrow limits of tolerance as are practicable.
7. Rationing plans, adjusted as far as possible to take account of variations in individual needs, together with supplementary food programs (school lunches, subsidies on necessities, stamp plan, etc.) should be developed and put into effect on the scale and with the speed required by the stringency of the current situation and the prospects ahead.
8. The building up of reserves should be pushed on with foresight and determination.
9. The procurement and stockpiling programs of various government agencies should be effectively coordinated.

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10. A strong, frank and comprehensive program of public education with regard to the food situation, the reasons for controlled distribution, and the vital importance of the objectives to be attained through this rigorous management of food supplies should be undertaken at once. This should include a vigorous campaign against all forms of food waste.
11. The urgency of the over-all need for food should be reflected in the production, processing, storage and transportation phases of the total program and should be made the basis for securing necessary materials, manpower and finances for carrying out the whole program effectively.

D. Considerations relating to the presentation of the request for Lend-Lease appropriations.

On this matter the subcommittee reached no final agreement. The general feeling seemed to be that Russia might have a legitimate claim to more food than is provided for in the present estimates. A conclusion on this fundamental issue could only be reached after a much more thorough factual investigation than we could give to the questions involved. Mr. Cox called attention to the omission of certain items (e.g., lemons, vitamins, seeds) from the list of commodities covered by the appropriations. Subsequent inquiry indicates that these were included under more general categories or, as in the case of seeds, were provided for in another appropriation. Question was also raised as to whether the funds requested for Russian shipments would be sufficient to pay for all that could be sent in the next six months if shipping were available at the rate of 165,000 tons per month (the estimated rate for January) and the cargoes were made up of products with the highest values per ton. Subsequent inquiry indicated that with commodities equal in value per ton to those being sent to the U. K. (\$495) the money needed would amount to \$490,000 as against the appropriation request of \$810,000.

It was also suggested that, regardless of the relative quantities that might actually be shipped to Russia and the United Kingdom, there might be an advantage in presenting the request for appropriations in terms of larger quantities for Russia and correspondingly reduced quantities for Britain. The subcommittee recognized that funds would probably be appropriated more readily for Russian requirements than for British, but had no basis for judging the consequences of such a change in the figures on the British Food Mission even if they were to be assured that the funds would be transferable in the actual carrying out of the program.

RECOMMENDATIONS OF INTERDEPARTMENTAL COMMITTEE TO CONSIDER
PROBLEMS RELATING TO 1943 FOOD PRODUCTION PROGRAM

January 11, 1943

Manpower

The committee recommends:

- (1) That the War Manpower Commission and the Department of Agriculture cooperate with the Office of Civilian Defense in developing a community by community program to mobilize for use in agriculture the labor resources now available in non-farm communities adjacent to farming areas.
- (2) That support be given to the Department of Agriculture's request for funds to be used for payment of transportation and subsistence of seasonal workers, those recruited within this country as well as those coming from foreign countries.
- (3) That existing labor on small farms where land resources are available for increased production be made effective through the extension of credit or other facilities needed for the increased production of crop or livestock products.
- (4) In order to clarify a number of issues in the labor supply situation it is recommended that farm manpower needs, potential labor supplies, and the effects which standardization of wages would have on the supply and mobility of labor be analyzed as quickly as possible and specific steps be taken to deal with the situation.

Farm Machinery and Fencing

The necessary farm machinery and fencing materials must be made available to handle the required increases in food production. Although the Department's recent request for an increase in the manufacture of new machinery from 23 percent of 1940 to 40 percent and in repairs from 135 percent to 167 percent may be on as high a level as can be manufactured for early season use, the need for further increases, especially of harvesting machinery, should be analyzed. The Department should make request for materials to manufacture additional machinery of the specific types that further analysis indicates will be necessary to meet the increased goals.

Production Programs

- (1) The committee recognizes the difficulties involved in making major changes in the AAA program for 1943 because of commitments already made and production plans now in the process of development. However,

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it is recommended that the program for 1944 be developed in terms of direct incentive payments for the commodities most needed in the war effort and to limit through marketing quotas or other devices commodities that are less essential in food and fiber production.

- (2) The committee is concerned about the legislative restrictions on the sale of farm products held by the Commodity Credit Corporation and recommends that attempts be made to lift these restrictions where they pertain either to the quantity or price at which a commodity is sold.
- (3) The committee questions whether the 1943 milk production goal will be attained under present price support and production programs. The Committee endorses the Department's intention to re-examine the dairy program for the purpose of devising effective means of maintaining dairy production. The G.P.A. representative on the committee wished to be recorded as stating that it was his understanding that the present dairy program would remain in operation for approximately six months.
- (4) In discussing the dairy program, the committee considered the need for adequate income incentives to obtain desired production of specific commodities. The committee recognized that in communities and areas where additional income incentives are needed to obtain more adequate production and where increased price supports are limited by price ceilings; the three following alternative lines of action can be followed:
 - (a) Try to obtain as large an output as possible under present prices but be prepared for the production of supplies under goal levels.
 - (b) Adjust price ceilings upward and accept the effect of these adjustments on cost of living.
 - (c) Provide funds for direct production payments to encourage the desired increases in production.

There are several farm commodities on which decisions must be made concerning which of these alternatives is to be followed. The milk problem seems to be the most important of the commodities affected and a policy decision should be reached as soon as possible.

- (5) It is recommended that the Department of Agriculture consider a program to apply the insurance principle to crops for which increases are requested, so that growers of new crops or farmers who incur financial risk by materially increasing output of any product will be assured of compensation at least equal to the out-of-pocket expenses incurred.

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- (6) To insure an adequate volume of vegetables for consumption, the committee endorses the Victory Garden and Farm Garden Programs and recommends that they be further expanded.

Committee Membership:

Office of Economic Stabilization	- Donald Russell and Edward F. Prichard
Board of Economic Warfare	- Edwin W. Gaumnitz
Office of War Information	- James Allen
War Manpower Commission	- William Haber and Arthur Stuart
Office of Price Administration	- A. C. Hoffman
Bureau of the Budget	- R. C. Patterson
State Department	- Dewey Anderson
Lend Lease	- John L. Pratt
Treasury Department	- George C. Haas and Edmund M. Daggit
Office of Civilian Defense	- James M. Landis
War Production Board	- M. Lee Marshall
Department of Agriculture	- E. D. White, H. B. Boyd, John O. Walker, Russell S. Kifer, and Sherman E. Johnson, Chairman.

January 7, 1945.

Dear Mr. Elms:

The Secretary much appreciated your letter of December 30, congratulating him upon the Treasury campaign in connection with the recent financing. He is away from the office because of illness, and I am therefore acknowledging your letter, and expressing his thanks for your courtesy in writing him as you did.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Abram I. Elms,
40 Wall Street,
New York, New York.

GHF/dbs

File in Diary

ABRAM I. ELKUS
40 WALL STREET

NEW YORK CITY

December 30, 1942

Personal and Private

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

Dear Henry:

I want to congratulate you on your overwhelming success in raising the \$9,000,000,000 loan for the Government. Before it ended it was \$12,000,000,000. Never was such a loan raised by any government at one time and certainly not at so low a rate of interest. I felicitate you again on the great success of your efforts.

My daughter, Katharine White, was Co-Chairman of the Victory Bond drive in Monmouth County. She lives in Red Bank where I have my Summer home and she has been very busy raising funds for the various bond issues.

With kindest regards to Mrs. Morgenthau and yourself, I remain

Yours faithfully,

Abram I. Elkus



TREASURY DEPARTMENT
WASHINGTON

January 7, 1943

MEMORANDUM FOR MRS. KLOTZ:

Herewith are two papers which the Secretary asked me to give you for transmittal to him at home, as follows:

- (1) A memorandum showing the present status of the Treasury Star Parade program; and
- (2) A draft of a letter to be signed by the Secretary, congratulating and thanking our field organization for the sales results achieved during the month of December.

GRIVES.



TREASURY DEPARTMENT

74

INTER OFFICE COMMUNICATION

DATE January 7,
1943

TO The Secretary
FROM Mr. Graves

The status of the Treasury Star Parade programs follows:

1. Recordings have been made for broadcasts through Friday, February 5th. The making of additional recordings has been suspended.
2. If the Treasury Star Parade is to be continued without interruption, it will be necessary to resume the recordings not later than Thursday, January 14th.

As I think you know, the Treasury Star Parade is now being broadcast by 840 radio stations and the recordings are broadcast approximately 2,520 times per week. They have been well received both by the radio stations and by the public. I am strongly of the opinion that we should arrange for the continuation of this feature without interruption.

January 7, 1943

TO THE WAR SAVINGS STAFF:

The sale of \$725,000,000 worth of E Bonds in December is a tribute to the War Savings Staff and to the patriotism and good sense of the American people.

December marked the culmination of a year of great achievement for the voluntary savings program. During that year \$6,000,000,000 of E Bonds were purchased as a result of your efforts.

In many ways, savings in E Bonds represent the most useful money that comes into the Treasury. They not only contribute to meeting the costs of war but because they come largely out of current income, they reduce the pressure on prices and thus help to keep down the cost of living and the cost of the war.

Moreover the sale of these securities to millions of individuals outside the usual investing public creates an important factor for stability in our economy and a priceless partnership between the people and their government.

Congratulations and my most sincere thanks for your splendid cooperation upon which I shall continue to rely in the year ahead.

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury

*Handed to Evans 1/11/43
File in diary*

January 7, 1943.

My dear Mr. Wakefield:

Since the Secretary is away from the office, I am acknowledging your note of November 27, which forwarded to him a copy of the pamphlet reprinting a broadcast in regard to Mrs. Roosevelt's visit in the Houses of Parliament while she was abroad.

I know that Mr. Morgenthau will much appreciate your courtesy in sending him this leaflet, and thank you for it on his behalf.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

His Excellency,
V. W. Wakefield,
House of Commons,
London, England.

GEF/dbs

File in Diary

27th November, 1942.

Dear Mr. Morgenthau,

You may have a few minutes to spare one day in which case you might care to read the enclosed leaflet of a broadcast which Elliot made to North America following our taking Mrs. Roosevelt round the Houses of Parliament.

With all good wishes,

J. Sincerely
W W Wakefield

*Mrs. Roosevelt's
Visit*

3rd November, 1942

“TRADITION AND CHANGE”

BY

THE RIGHT HON. WALTER ELLIOT, M.C., M.P.,
Chairman of the British-American Parliamentary Committee.

*North American Service: Broadcast on Thursday/Friday,
5th/6th November, 1942, 00.30 and 04.00 G.M.T.*

WHEN I had the privilege of showing Mrs. Roosevelt over the Houses of Parliament on Tuesday, as Chairman of the British-American Parliamentary Committee, there were two things which struck all of us who were present, and they stood out like street-signs. The one was, “You must have tradition.” The second was, “You must have change.” How to reconcile, how to marry these two great needs of our time, is going to prove one of the biggest tasks before our two peoples. Old nations and new nations—it’s in some ways a figure of speech, since a nation is the sum of the people in it, and the average age of the British is not notably different from the average age of the Americans. But it does correspond to a certain reality. That reality is the force of tradition.

You feel it everywhere here, but especially when going round the Houses of Parliament; and the more so when going round with someone from the New World, the keen, active, challenging, New World which has brought to birth a whole roaring civilisation on the other side of the ocean, from the grass-roots up, since the day before yesterday. The structure of much, and the tradition of all, of the Houses of Parliament is very old and very strong. Much of the structure of it has been burnt and blasted anew in the blitz—but much of it remains, stronger than ever. The tradition, in fact, is growing every twenty-four hours. Here men worked—representatives in a representative assembly—when Drake went out to meet the Spanish Armada coming up the Channel; here men worked when Marlborough, Churchill’s ancestor, launched his army in the great counter-attack that carried him right across Europe to the Danube; here men worked—and made an Expeditionary Force, and a Second Front—when Napoleon held all Europe, from Madrid to Smolensk. To all that can be added that here and hereabouts men worked, while Hitler also began to reach across Europe from the Bay

A Reception was given to
Mrs. Roosevelt by the
British-American Parliamen-
tary Committee at the
Houses of Parliament on
Tuesday, 3rd November,
1942.

of Biscay on his way to Smolensk—and men who can claim to be not behind their forefathers either in daring or in resolution, or in hazards undergone.

The danger of all that is, that traditions may grow too strong and choke change—for change in our era is going to be as essential as steadfastness itself.

But these traditions, many of which are now part of the inheritance of the whole world, are grand, are ennobling things. The first, and the greatest, is the blending of two peoples—of two cultures, Norman and English, with no rancour left behind. The history, the living history, of the buildings of Westminster, the Houses of Parliament, begins almost immediately after the Conquest—the Norman Conquest of William, the Conqueror. It comes into full swing with his son, who built the massive Norman walls of Westminster Hall—one of the greatest pieces of Norman architecture in Europe; still standing intact, still in active use. The courses of that masonry are older than the English language. Mrs. Roosevelt was able to walk across the floor and place her hand against the stones which were hewn and laid when the workmen spoke Anglo-Saxon, and the architects Norman French. Neither could even have common speech with the other; nor could either have understood the language which we speak to-day. It had not yet been born. The new language, English, testifies to the spirit of friendliness, of moderation, of toleration, of decency, which comes up, like a mist from the riversides, over the face of England, changing men's minds. All these qualities have their bad sides as well as their good, their perils as well as their safeties. But the liquidation of the Herrenvolk of that time, the absorption of their very speech, so that nobody considers for a moment whether to say "womanly" or "feminine," because of the Norman or English parentage of the two words (though those two words represent the whole two streams that made up the clash of the Conquest,—that is a very great achievement; begun, continued, and carried through, in these very halls through which we were walking.

There were other aspects of history too, which came alive as one moved. William Rufus, who planned and built these high heavy walls, was reproached by his Court because they were so large. "The only fault about this Hall, by God," he

said, "is that it is too small; and it is but an ante-chamber to the Hall which I am going to build." It was left for other centuries to fulfil that boast; yet when, for instance, all your great lawyers, the Bar of America, came here a few years ago, and were entertained in Westminster Hall by the English Bar, with the Lord Chancellor at its head, practitioners both in systems of law which drew so much from a common origin—one could not help recollecting the challenge of the Norman King, and feeling that a glint of prophecy, perhaps, illuminated the plans to which he had given sanction. You have to build big and plan bigger, to stand for a thousand years—and we have to build big and plan bigger, to-day.

Our visitor looked at these things but could not stay, for we had much to show her. She passed up the steps on which Charles the First stood trial for his life, and lost. She passed through the hall—now no longer used for debate or assembly—built over the site where a former fire had destroyed an older House of Commons. That was the one where all the long debates took place upon the American War of Independence—which had heard the eloquent, closely-argued speeches of Burke, in favour of the Colonists of the Thirteen States; and close by, had been Chatham's tremendous affirmation—"My Lords, you cannot—you cannot—you cannot conquer America." There was no time to spend, even on that—there is a great deal to see, in an hour at Westminster. But we are very proud of these things—the American case was nowhere put better, or more strongly, than it was put from the benches of the British Parliament. And we had proved able to learn from our mistakes—as the Dominions can testify; as indeed General Smuts had demonstrated a few days before, coming to teach; all of us anxious to sit at his feet.

We were racing on. Here, we freed all the slaves in the Empire—by argument, by the Division Lobby, by Act of Parliament—the Slavery Abolition Act, 1833. Seven years it took to operate, and twenty million pounds in compensation, twenty millions—twenty millions—you could do all that for twenty millions, if nobody boiled over, if nobody began to shoot. That was all past history. We had to get on. We were living in the present, working for the future. Mrs. Roosevelt still had to meet the Members of Parliament. After all, the Members of Parliament are Parliament, not the stones.

So we came to the burnt-out shell where Hitler had bombed and wrecked the House of Gladstone and Disraeli, Joseph Chamberlain, Lloyd George—and Winston Churchill. Here we had continued to reform the Franchise; here we had put through the Insurance Acts and the Social Services; here we had voted the building of eight battleships in a single year; here we had seen through the first World War from start to finish; here we had challenged the Nazis and all their works, over Poland, and had heard the first sirens as Britain went to war again. It was burnt out like an empty kiln—bare walls of brick and stone, open to the sky; ironwork of the heating system scattered forlornly about the shattered floor. Yet it did not matter at all—not in the least—not any more than an emptied kiln, or a fired gun. The House of Commons sits anew elsewhere; in its new quarters already we can say we heard news of Libya, the repulse in Libya, the reel back to El Alamein, and soon we shall say—of the attack in Egypt—the attack in Libya—begun again. Till the old Chamber was destroyed, there was still a line woven into the carpet on the floor beyond which nobody must put a foot because, in the past, that marked the limits of a man's lunge with a sword, when all men carried swords, and feelings in debate ran high. Downstairs in the cloakroom were, still, loops below the hat pegs, in which these same swords could be hung—though they only carried umbrellas. And still we value these symbols, just as we value the power to clash our doors in the face of the messenger from the House of Lords, and inspect him through a grating in the door, lest he bring gun-men with him, as once a visitor did, three hundred years ago. And all this we shall want to reproduce in any new Chamber that we build.

It was this that led Aneurin Bevin, and some of the other Labour Members, to argue, as we walked through Westminster Hall, that tradition here was too strong, resistance to change too great. All of us have felt that uneasiness; the uneasiness in its old skin that a crab must feel before it casts its shell; before it can bring off the miracle and renew its life again—when it still has to get through the soft-shell period ahead—without disaster.

We looked up at the great timbers of the roof. Six hundred years ago they had cut these oaks from the woods of

one Courthope, who grew good timber, no great distance away. In 1920, certain beams had to be renewed; they went back to the same woods, and cut the neighbour oaks which were seedlings then; and they bought them still from Courthope, the same family, in the same lands. Difficult to shift, yet it has advantages too; Sir George Courthope sits for the Rye Division of Sussex, where his lands are—Rye, on the sea coast. You want men—and families—difficult to shift on the South Coast just now, looking across to Hitler's aerodromes.

We looked down and at our feet was the tablet, which Mrs. Roosevelt bent over to read, stating that here, for seven years, from 1788 to 1795, Warren Hastings, back from his governorship of India, was impeached for bad governing and stood his trial, and after all that enquiry was at last acquitted. This is not the first time affairs in India have had repercussions on the course of events here. 1788—it is a long time ago.

Mrs. Roosevelt was shown round the House of Lords by Lord Simon, the Lord Chancellor, formerly head of the Simon Commission, who in his turn has given much thought to the subject. It is agreed by all that change is necessary; still remember, that there is a vast store of knowledge in and around this building which should no more be neglected than the statistics of rainfall, and deep borings into rocks, when a great hydro-electric enterprise is to be founded; however enthusiastic we may be to bring new light and power to millions.

So we went upstairs again and Members gathered round, who had come to greet Mrs. Roosevelt, and we asked our distinguished guest to accept a small gift, the fruits of some shopping by some of our ladies, when she had been too busy to shop for herself. Two small pieces of Georgian silver—silver from the time of George the Third—and if there could be anything more unlikely to George the Third than that the Parliament House should be burnt out by men flying through the air from Germany, it could only be that a President's wife from the United States should be treated as our honoured guest therein—and that the gift we should choose to make, and she should be glad to receive, to commemorate her visit, would be part of the work of his silversmiths in London.

Two silver George III pieces were presented to Mrs. Roosevelt in a case, in which was the following inscription on a silver plate underneath the crest of the Palace of Westminster:—

*Presented to Mrs. Franklin Delano Roosevelt
by the Members of the British-American Parliamentary Committee
on the occasion of her visit to the Houses of Parliament
on November 3rd, 1942.*

TREASURY DEPARTMENT

1010
1943 JAN 6 AM 7 50

OFFICE
SECRETARY OF TREASURY

Portoken Press, 2 Carmelite Street, E.C. 4.

1010

JAN 7 1943

My dear Mr. Secretary:

Reference is made to Cable No. 3222 of December 27, 1942 from General Eisenhower requesting additional Treasury personnel to work on property control and exchange, monetary and fiscal matters in North Africa.

For your information I am attaching a copy of a letter and enclosure I have sent to the Secretary of State advising that we are prepared to furnish additional personnel. In detailing these men to North Africa this Department is drawing heavily upon its available supply of technical men who are engaged in similar work here.

In our opinion, as the scope of our occupation operations expand into other areas the need for technical men will be very great. While we will continue to try to meet any further demands for the services of other men in this field, I strongly urge that steps be taken by the War Department to take advantage of Treasury experts already in the armed forces. In this connection I am enclosing a first list of men already in the armed forces who fall within the above category. It would appear that these men are needed now in North Africa and, in addition, they would be receiving valuable experience for the larger operations which are bound to follow.

Very truly yours,



Acting Secretary of the Treasury.

The Honorable

The Secretary of War.

Enc.

AFL:ard - 1/2/43

JAN 7 1943

My dear Mr. Secretary:

I refer to your letter of December 7, 1942 and my reply of December 17, 1942 relating to civilian personnel assigned to duty in North Africa in connection with the military occupation of territories in Europe and North Africa.

In Cable No. 3222, December 27, 1942 from General Eisenhower (copy furnished your Department by the War Department), it is stated that six additional Treasury representatives are needed immediately to work on property control and exchange, monetary, and fiscal matters with DuBois, Taylor, and Bernstein. In the same cable Murphy repeats this request to your Department.

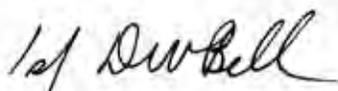
The Treasury Department is prepared to meet this request initially by sending the men whose names appear on the attached list. Mr. Harold Glasser whose name appears first on the list is Assistant Director of Monetary Research and is particularly qualified to handle the inflation and taxation problems and also is familiar with property controls and exchange, monetary and fiscal matters. Mr. H. L. Hoffman whose name appears second on the list is Assistant Director of Foreign Funds Control and is a specialist on this and related subjects. In accordance with your letter of December 7, 1942 and my reply of December 17, 1942, we expect that Messrs. Glasser and Hoffman will be given the same status as that accorded Mr. DuBois.

With reference to the other Treasury representatives named on the attached list, it is expected that they will retain in all respects their present status as employees of this Department and that they will work under the direction of, and be responsible to, Messrs. Glasser, DuBois and Hoffman. Under these circumstances there will be no need for their reporting directly to the Treasury Department and, of course,

- 2 -

they will be given diplomatic passports and their activities will be under the general supervision of Mr. Murphy, the Chief Civil Affairs Officer.

Very truly yours,



Acting Secretary of the Treasury.

The Honorable,

The Secretary of State.

ENC.
AFL:nrd:bbk - 1/4/43

LIST OF TREASURY MEN TO BE DETAILED TO NORTH AFRICA

1. Harold Glasser
2. Michel L. Hoffman
3. Joseph H. Murphy
4. Gardner Patterson
5. Edwin F. Rains
6. James J. Saxon

2-7-44 File 1115 P. 7-1 - Dec 5, 1943

LIST OF TREASURY PERSONNEL NOW IN THE ARMED FORCES OF THE UNITED STATES
WHO SHOULD BE CONSIDERED FOR THE SPECIAL WORK IN NORTH AFRICA

<u>Name</u>	<u>Address</u>
Timmons, Lt. B.E. Lane	Army (assigned to MEN), c/o American Embassy, London, England.
Clay, Lt. Eugene H.	Army Air Forces, All Coral Reef Hotel, Miami, Fla.
Hicks, Cadet James Earl	Reserve Training Class, Barracks 3 (Rev. Class Sect. 2 A4) Groton, Connecticut.
Towson, Major Norman E.	Military Intelligence, Washington, D. C.
Haiden, A/C Neil D.	Classification Sqdrn., San Antonio Aviation Cadet Center, San Antonio, Texas.
Edelman, Ensign Albert I.	U.S. Coast Guard (R), c/o Capt. of Port, San Francisco, Calif.
Oliver, Ensign Henry	U.S. Naval Reserve (now stationed in Norfolk, Va.)
Aiken, Lt. Richard P.	Naval Operations, Navy Dept., Constitution Ave., Washington, D. C.
Wolf, Ensign Robert	U. S. Coast Guard (R), c/o Capt. of the Port, Panama City, Fla.
Kotlar, Pvt. Harry	Army Air Forces, No. 32434077, 766th School Sqdrn., Buckley Field, Cole.
Carre, Lt. Chester M.	U. S. Naval Air Station, Quonset Point, R.I.
Rosen, Sergeant Martin	Fort Benjamin Harrison, Indiana.

January 4, 1943.

See to be sent to the 3-11-43

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Algiers
 TO: War Department
 DATED: December 27, 1942
 NUMBER: 3222

FOR STATE AND TREASURY SIGNED EISENHOWER ^{ham} MURPHY AND BERNSTEIN.

At least 6 more Treasury representatives, not counting the man for Tangiers, are needed right away in the division of Ojail affairs to work with Bernstein Taysor and Dubois in handling matters regarding monetary, fiscal, exchange and property control work. It is suggested that an economist who knows inflation and taxation problems and men such as Richards, Saxer, Hoffman and Raymond Murphy be sent.

It is further suggested that Spiegel be reassigned to Treasury and be sent to London in as much as he would like to make a change. Cables to Accra and Oren should be sent in order to arrange for proper transportation priorities so that through carriage may be assured and thereby enabling everyone to arrive at Algiers first. All phases of the American Staff, including Treasury functions, must be augmented immediately.

The Lend-Lease Administration and the Board of Economic Warfare are requesting men, preferably with a knowledge of French. It is requested that we be furnished with the names of the men by cablegram and the date of their departure.

(No signature)



(Dr. White's office has original)

Jan. 7, 1943

Dear Mr. Clayton:

This is to acknowledge receipt of your letter of December 30, 1942, setting forth the disbursements made by R.F.C. subsidiaries for purchases from British Empire sources during the year 1942.

The information is appreciated and should prove helpful.

Very truly yours,

(SGD) D. W. BELL

Acting Secretary of the Treasury.

Mr. W. L. Clayton,
The Assistant Secretary of Commerce,
Washington, D. C.

TDR:rl 1/5/43



THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON

December 30, 1942

Dear Mr. Secretary:

Complying with your recent request for information concerning purchases by the RFC subsidiaries from British Empire sources in 1942, I submit the following:

Metals Reserve Company	Actual to December 19, estimate thereafter	\$81,000,000.
Defense Supplies Corporation	Actual to November 30, estimate thereafter	85,000,000.
Rubber Reserve Company	Actual to November 30, estimate thereafter	39,000,000.
	Total	<u>\$205,000,000.</u>

The figures given represent actual disbursements for material received since January 1, 1942, to the dates indicated and estimates of receipts thereafter up to December 31, 1942.

In certain cases the values given are f.o.b. steamer or plane at port of export; in other cases, the figures include transportation charges to United States port of import where the contract is on a c.i.f. basis. Since in many of the latter cases, the goods are transported by British vessels, it is perhaps fair to assume that the figures given represent a true picture of exchange made available.

The principal items composing the above imports are: wool from Australia, \$74,000,000; aluminum from Canada, \$35,317,000; lead (Australia and Canada principally) \$18,000,000; manganese (South Africa and India, principally) \$14,000,000.

In addition, we paid dollars to Empire sellers for Turkish chrome (about \$2,500,000.); for New Caledonia nickel (about \$4,000,000.); and for Belgian Congo diamonds (about \$1,500,000.). These purchases are not



The Honorable

The Secretary of the Treasury

included in the total of \$205,000,000. given above.

If there are any further particulars you would like to have, please let me know and I will be glad to furnish them.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. L. Clayton". The signature is written in dark ink on a light background.

W. L. Clayton
Assistant Secretary

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

January 7, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended December 30, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(Encl.) G.M.B.

inc:1/8/43

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

January 6, 1943

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

I am enclosing our compilation for the week ended December 30, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoks

L. W. Knoks,
Vice President.

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

Enclosure

Copy:imc:1/8/43

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes \$6.0 million held for credit of U. S. armed forces abroad
2.2 million deposited by British Ministry of Supply
2.0 million transferred from the Commonwealth Bank of Australia.

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

Week Ended December 30, 1942

Statistical
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								Net Incr. (+) or Decr. (-) In \$ Funds	COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS				CREDITS					DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C		Other Credits	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits
First year of war*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	71.2	3.9	27.3	26.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war*** 1942	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	24.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.2
Oct. 29 - Dec. 2	37.7	-	37.7	65.2	11.0	-	-	54.2	+ 21.5	7.4	3.0	2.6	5.3	-	5.3	+ 1.9
Dec. 3 - Dec. 30	38.2	-	38.2	43.9	3.2	-	-	41.0	- 4.3	74.1	8.0	6.3	11.7	-	11.7	- 2.4
WEEK ENDED:																
Dec. 9	11.0	-	11.0	15.1	2.6	-	-	12.3	+ 4.3	0.5	-	0.5	2.3	-	2.3	+ 7.8
16	11.4	-	11.4	11.1	0.1	-	-	13.0	+ 1.7	8.2	8.0	0.2	0.1	-	0.1	- 8.1
23	12.1	-	12.1	3.3	-	-	-	3.3	- 8.8	1.1	-	1.1	1.0	-	1.0	- 0.4
30	13.7 (a)	-	13.7	16.7 (a)	-	-	-	12.4 (c) - 1.3	-	4.0	2.0	2.0 (d)	2.3	-	2.3 (e)	- 1.7

Weekly Average of Total Debits Since Outbreak of War

Through December 30, 1942 \$ 8.5 million

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

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

***for monthly breakdown see tabulations prior to October 14, 1942.

(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

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

(c) Includes \$11.8 million deposited by War Supplies, Ltd.

(d) Includes \$ 1.5 million cost of silver purchased to be minted into Australian coins.

(e) Includes \$ 2.0 million credited to Australia for account of U.S. War Relocation Authority applied against U.S. currency and Treasury checks negotiated.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

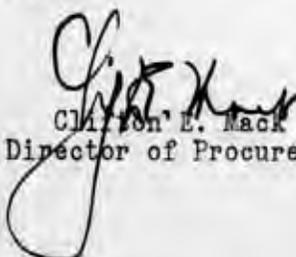
January 7, 1943

MEMORANDUM TO THE SECRETARY:

Representatives of the Procurement Division, the General Counsel's Office, and Bureau of Internal Revenue attended a conference sponsored by the War Department Price Adjustment Board and held in Cincinnati, Ohio, December 20-22, 1942, to clarify the objectives and unify the activities of the Departmental Renegotiation Boards.

It is estimated that there are approximately 175,000 war contracts subject to renegotiation. As of a recent date 4,170 contracts have been assigned to the various Boards on the basis of predominant interest but settlements with only 56 contractors have been reached by war procurement agencies. The machinery for renegotiation is now fairly well established and it was indicated at the meeting that in the near future agreements will be concluded at a steadily increasing rate.

It is our thought to give prompt and special attention to the review of certain contracts involving possible need for renegotiation.


Clayton E. Mack
Director of Procurement



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

Chungking

Dated January 7, 1943

Rec'd 11:44 a.m., 8th

Secretary of State,
 Washington.

35, January 7, 5 p.m.

Following for the Secretary of the Treasury from
 Adler.

Weekly economic TF 81 (SECTION ONE)

One. Prices. Chungking October and November:
 wholesale general 7,180 and 7,470, food 4,740 and
 4,940; retail general 6,540 and 6,760, food 4,760 and
 5,160

The November figures represent increases of 19, 22,
 13 and 14% respectively, on September.

In last few months Kunming prices have gotten way
 out of line with prices in the rest of the country, the
 retail general index for November being over 14,000
 (farmers Bank January-June 1937 equals 100) or just
 about double that for June. People in Kunming (which I
 visited last week for four days to clear up some out-
 standing board problems with the USAF)

are agreed that available price indexes
 exaggerate actual level of prices in Kunming which is
 nevertheless

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nevertheless substantially higher than elsewhere partly as a result of heavy Central Government military expenditures. Kunming has fair quantities of foreign luxury and semi-luxury goods for which fantastic prices are being asked. Unfortunately the problem of Central Government control is difficult especially as it is felt that a number of Provincial Government officials are implicated in the hoarding of and profiteering in foreign goods and Central Government is chary of offending Provincial Authorities at this juncture when Central Government troops in Yunnan are facing Japanese. Arithmetical average of retail price indices of 14 leading cities of free China (Farmers Bank January-June 1937 equals 100) for September, October and November; general 5,640, 6,210, and 6,640, food 4,890 5,310 and 5,710. November general index just about treble that for January.

Two. Note Issue; October CN dollars 31,226 million November CN dollars 33,361 million. Minister of Finance's corrected figure for September is CN dollars 28,737 million.

Three. Sale of United States dollar backed savings certificates to end of 1942 CN dollars 221.5 million. There has been a relatively substantial increase in sales

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in sales in last two months due partly to more active campaign by banks. Considerable public interest is being shown in proposal described in my TF 74 and I should appreciate reply to questions raised in TF 75.

Four. Central Bank over-sold position; November United States dollars 414,000 and sterling 69,000 December United States dollars 700,000 and sterling 122,000.

Five. Kunming black market rates at end of year: United States currency 4749; Indian rupees 16-16.50; Burma rupees 14.50 15.50.

SECTION TWO.

One. An ambitious program of price control endorsed by People's Political Council and Kuomintang Central Executive Committee is to go into effect January 15 under supervision and control of National Mobilization Council. Prices of 8 commodities, wages and transportation rates are to be fixed with November 30 of last year as standard and prices of food and salt to be chief elements in determining of prices. Headquarters are to be in Chungking with five branch offices in Chengtu, Szechwan, Kunming, Hengyang and Sian. Provincial and municipal government authorities are to be responsible for price control as it is extended elsewhere. Doubt exists in

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exists in informed quarters as to whether the new price control regulations will be more effective than previous experiments. The Commodity Administration previously chiefly responsible for the enforcement of price control was liquidated December 25 for failure to achieve results.

Two. 1943 budgetary new regulations not yet completed. It is expected that they will call for expenditures of Chinese dollars 35 to 36 billion and revenues of Chinese dollars 18 to 20 million. Dr. Kung admits he will be lucky if expenditures do not exceed above figure. Various government departments are strongly opposing retrenchment. On Generalissimo's order estimates of military expenditures are being based on an army of $4\frac{1}{2}$ million men and not 6 million as in 1942; this is not expected to entail any reduction in actual number of soldiers though it may adversely effect number of front line troops. Generalissimo has also ordered curtailment of number of Government officials which so far has been applied largely due to servants and minor Government officials.

GAUSS

MRM

CONF. NO. 13NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRET.OPTEL NO. 8.

Information received up to 7 a.m., 7th January, 1943.

1. NAVAL.

Convoy to North Russia has now arrived complete. No ships were sunk by enemy action. On the 2nd U.S. Motor Torpedo Boats attacked 8 Japanese Destroyers off Guadalcanal. They torpedoed one and possibly two others.

2. MILITARY.

LIBYA. 4th. Fezzan Area. Locality about 75 miles east of Mourzouk surrendered to Fighting French Forces, 110 Italians and about 100 native prisoners captured together with arms and war material. 5th. Heavy rain in several areas. Signs of enemy working on his positions south east of Gheddahia.

TUNISIA. 5th. Our troops captured some enemy positions on the high ground 15 miles west of Mateur. The enemy is reported to have withdrawn to the east of Fondouk.

RUSSIA. The Russians continue to advance in the Middle Don and Caucasus sectors.

3. AIR OPERATIONS.

WESTERN FRONT. 6th. 2 aircraft are missing from anti-submarine patrols in the Bay of Biscay.

FRENCH NORTH AFRICA. 5th. U.S. Heavy Bombers attacked Sfax two ships were hit, a Cruiser was probably hit and the power station set on fire. Allied heavy and medium bombers successfully attacked Sousse Harbour and Kairouan airfield. Spitfires carried out two sweeps inflicting casualties 5/1/2.

BURMA. 4th. 3 U.S. heavy bombers attacked Rangoon a 15,000 ton transport was hit and set on fire.

BRITISH MOST SECRETU.S. SECRETOPTEL No. 14

Following is supplementary resume of operational events covering the period 31st December to 7th January, 1943.

1. NAVAL

NORTHERN WATERS. A homeward convoy from RUSSIA has reached home waters, strong cover was provided by H.M. Ships. This convoy was not sighted by the enemy.

Pocket Battleship LUTZOW and Cruisers HIPPER, KOLN and NURNBERG are in ~~near~~ NORWAY. Repairs to TIRPITZ which have been proceeding at TRONDHEIM since October now believed complete. SCHAENHORST in the BALTIC also believed fit for service. New Cruiser SEYDLITZ at BREMEN being dismantled.

SUBMARINE WARFARE. Four promising attacks by aircraft in week ending 6th January, otherwise quieter though there has been U-boat activity in the MADRIRA-CANARIES Area.

TRADE. Imports in convoy to UNITED KINGDOM week ending 2nd, 351,000 tons of which 177,000 oil.

ITALIAN FLEET. Of 12 RESOLO Class Cruisers proposed construction of 5 only undertaken, 1 completed, 2 almost complete and 1 being converted to aircraft carrier. New type escort vessel resembling ORSA class torpedo-boat been developed of 36 laid down, 2 finished, 13 fitting out and 21 on slips. Of 35 effective fleet Destroyers, 12 repairing and 18 employed on North African convoys leaving only 5 for Fleet purposes.

2. MILITARY

LIBYA. Enemy positions in WADIZENZEM runs approximately Southwest from coast few miles north of BUERAT which enemy has evacuated crosses GREDDAHILA SOUND JEM Road (15 miles south of GREDDAHILA) and then turn westward. Our patrols have pushed forward to enemy line but observation limited by poor visibility due to severe dust storms. No major changes during period. Remaining 8th Army continues its concentration in the forward area.

FRENCH NORTH AFRICA. Activity on both sides still mainly confined to patrolling. Allied build up forward area continues. Extra mechanical transport landed from recent convoys greatly assisting transportation over long lines of communication. Northern Sector. 1st Army now being held mainly by Infantry formations with armoured division on right flank. Effect of rain and mud in this sector cannot be over-emphasized. Central and Southern Sectors. South of PONT DU FARS 3 weak French Divisions holding rough and hilly ground and United States light forces operating in area of GAFSA against increasing enemy patrol activity. French ability to withstand armoured attack is small owing to obsolete equipment, but Allied anti-tank detachments are being sent to join them. During past week strength of enemy local attacks in the central sector has increased.

FAR EAST. FUJIMA. CHIN HILLS. Japanese reported demolishing bridges and constructing road blocks on road KALEMYO-TAMU (55 miles north of KALEMYO).

3. AIR OPERATIONS

WESTERN FRONT. Day. 1 large scale raid on ST. NAZAIRES by United States heavy bombers which dropped 268 1,000 pound high explosive bombs. Night. Bad weather restricted operations to two small attacks on ESSEN and one on DUISBURG but 293 sea mines laid.

FRENCH NORTH AFRICA. Axis sorts on North and East Tunisian Coast frequently attacked in daylight and occasionally at night. Good results also against inland objectives and airfields especially in southern sector of front. Persistent determined efforts by enemy against our base at BONE against which a total of 275 aircraft sent. On 10 occasions formations of heavy fighters, fighter bombers or dive bombers tried to penetrate our fighter defences. 7 large scale raids dispersed or driven off and only 50 aircraft of total succeeded in slipping through. Even so damage to shipping was heavy.

- 2 -

RUSSIA. Russian aircraft operated by day and night against enemy in KOTELNIKOVO and ELISTA areas and in the area occupied by German 6th Army they also raided railways at SALSK, MAIKOP and KRAPITKIN.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

DUISBURG. Photographs 28th December show new damage items due to raid 20th/21st including foundry, rolling mills and 6 works engaged on heavy engineering, warehouses at docks, exchange theatre, county court and main Post Office all damaged.

ST. NAZAIRE. Daylight raid 3rd. Photographs show 16 hits on railway truck, U-boat pens hit at least once, large crater in roof floating dock containing ship, submerged one end, two small naval craft building have disappeared. Only debris left. Following buildings damaged - boiler plates shop, submarine stores, torpedo store, Customs House, goods station and several sheds.

5. HOME SECURITY

Estimated civilian casualties week ending 6 A.M., 6th - killed 53, missing 2, seriously wounded 83.

101-A

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

January 9, 1943

My dear Mr. Secretary:

By direction of the Joint Chiefs of Staff, The War This Week is being discontinued, and I am sending you herewith the final number.

Sincerely,


William J. Donovan
Director

Attachment

The Honorable

The Secretary of the Treasury
Washington, D. C.

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NUMBER 65

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

January 1-7, 1943

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

THE WAR THIS WEEK

On the Eastern Front the Russian Armies again made substantial advances this week. The capture of Velikie Luki exposes the flank of the German forces protecting Smolensk. The Russians have made fresh gains in the Caucasus, perhaps aided by voluntary German withdrawals. At the same time the Soviets are fanning out over the Kalmyk steppes and moving steadily forward in the area north of the Don.

With the rainy season extending through February, the stalemate in Tunisia may last another month or two and until such time as our air and mechanized forces can operate without serious handicap. The lull likewise continues in Tripolitania, where it may be several weeks before the British are in a position to resume the offensive. Meanwhile the Allied situation in North Africa is still complicated by the Giraud-DeGaulle issue, which bristles with difficulties.

In the Far East, only one small pocket of Japanese resistance remains in the Buna region. From the Vladivostok area come reports that the public fears a Japanese attack before spring.

The Russian Triple Advance Continues

Soviet gains on three fronts this week have again given evidence of solid offensive strength, but have made somewhat less progress than press reports would lead one to believe. The most important advances were on the central front, where the capture of Velikie Luki and the current drive against the nearby rail junction of Novo Sokolniki represent the farthest westward penetration in force of the Red Army

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since 1941. It is incorrect to say, however, that the fall of this latter place would seriously disrupt rail communications for the German forces before Leningrad. Should the Russians interdict the railroad (mostly single-track) from Vitebsk through Novo Sokolniki to Leningrad, the enemy could still use the single-track line from Tallinn and Narva east, and the railway (mostly double-track) from Vilna and Pskov north.

On the other hand, those who maintain that the Russians have breached no essential part of the Nazi winter line are perhaps being over-cautious. The Germans, it is true, have always held the sparsely-settled area between Smolensk and Staraya Russa comparatively lightly, and Velikie Luki was in no sense a key strong point like Rzhev. But, with its fall, the flank of the German forces guarding Smolensk is now exposed, and the invaders in this area are apparently in a more dangerous position than they were at any time last winter.

Second only to these gains in importance have been the Russian advances in the North Caucasus. By the capture of Malgobek, Mozdok, Nalchik, and Prokhladnaya, the Red Army has put pressure on both sides of the German salient. It appears probable that Soviet progress farther to the north has induced the Nazis to withdraw voluntarily from their more advanced positions. Since the Germans failed to reach Grozny and the Georgian Military Highway, their long salient east of Maikop has become simply an encumbrance. A shorter line protecting Maikop itself—perhaps running north from Armavir to Salsk and the Manych River—might well be preferable.

But with the victors of Kotelnikov fanning out across the steppes to Leninskii, Elista (capital of the Kalmyk A. S. R.), and Priyutnoye, the Russian drive south of the Don is beginning to threaten Salsk itself. This third Soviet advance has been moving faster against comparatively slight opposition than has the fourth advance on the northern front



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between Millerovo and the Volga. North of the Don, the capture of Chernyshkov and Tsimysylanskaya has indicated that the cautious advance and consolidation which form the necessary preliminary to the assault on the main centers of German resistance in the Donets Basin, are making satisfactory progress. Despite the adequate net of railways available to the Soviet forces in this area, observers from the front report that the Red Army must retrack many of these lines, and that supply problems remain the chief limitation on further advance.

From German reports of air attacks on Soviet concentrations around Gelendzhik on the Black Sea, the press has drawn the conclusion that a further Russian drive directed at the Kerch Peninsula is about to begin. Such an attack would be the logical completion of the encircling operations now in progress throughout the southern front. Should Rostov fall, the Kerch Strait would be the most practicable avenue of escape for the German divisions in the Caucasus. The Black Sea shore in this area has a mean temperature of about 33 degrees in January—an indication that the Strait is usually unfrozen. Evacuation operations in these waters would be under constant danger of attack from Soviet aircraft and advance units of the Black Sea fleet. On the other hand, an offensive north from Gelendzhik would face critical logistic difficulties, since the Russian forces in this area—practically isolated from the bulk of the Soviet Army of the Caucasus—could receive supplies and reinforcements only from the Trans-Caucasus, by way of the Black Sea railroad and coastal highway.

Moscow in Winter

The people of Moscow are now comparatively well-clothed, well-fed, and in good spirits, according to a confidential and very reliable report from the Soviet capital, dating from



just before Christmas. Food is more plentiful than it was early in the autumn, and ration norms are being fulfilled, although prices may have gone up slightly in the peasant bazaars where the inhabitants supplement their ration cards. Supplies of fur coats and caps and felt boots (issued against cards) are apparently plentiful. In fact, our report continues, the population seems better clothed than during the period 1934 to 1938. Stockpiles of wood and coal brought in from the neighborhood of the capital are much in evidence.

While in September many factories were idle, now almost every factory chimney is smoking. Although the curfew and blackout of buildings are still in force, dim lights are now permitted in the streets—which are more crowded than in September, but still much less crowded than before the war. The cheerfulness of the population sometimes rises almost to gaiety—in striking contrast to the period 1934–38. In this connection, our report concludes, it is of some importance that the Government does not permit refugees to go to Moscow, and evacuees can return only if they will engage in essential work. Hence, most people now in the capital possess ration cards and the right to purchase in closed shops. As a comparatively favored group of essential workers, the inhabitants of Moscow apparently do not feel the very real food shortage existing in the Soviet Union as a whole.

The Halt in Tunisia

The factors of weather and terrain that stalled operations in northern Tunisia in December may postpone decisive action for perhaps another month or two. Even after the Allied command has worked out its immediate problems of organization, supply, reinforcement, and air support, boggy ground will severely restrict operations. The recent torrential rains have apparently flooded the valleys leading into Tunis from the west, most important of which is the Medjerda Valley, the route of the Allied advance in November. Wet ground

conditions and mountains limit the use of Allied mechanized equipment and seriously hamper air operations. Thousands of tons of wire netting must be brought up, and even then forward air forces operate under great difficulties. Rainfall tables indicate that the rainy season will last through February and into March. The amount of rain indicated by press reports in the last few weeks, however, would appear to be abnormal.

Supported by aircraft operating from developed bases in Tunisia and Sicily, enemy forces hold a strong perimeter defence. From their positions at Mateur and in the hills east of Medjez el Bab (where the principal fighting is taking place), they control the few main roads available for attack on the Tunis area from the west; and the Allies are not yet in a position to attack this area from the south. To protect this southern flank the enemy is steadily working small forces west from Kairouan. French forces, increasingly active in the sector from Pont du Fahs south, have this week repulsed Axis attacks on Fondouk and Pichon, points west of Kairouan.

Allied air forces in Northwest Africa, Malta, and Libya have cooperated effectively to pound enemy ports and shipping in Sicily, Tunis, Sfax, Sousse, and Gabès. To move supplies to Tunis, Italian destroyers are being used as transports as well as for escorts, and the enemy has apparently laid mines to protect a channel for shipping to Tunisia. Enemy aircraft have repeatedly attacked the port of Bône and the Allied air base at Biskra.

Halt in Libya

In Libya, too, the front appears to be stabilized, with no expectation of a British attack in the near future. The enemy has dug in with mines and wire along a line running roughly from the salt marsh behind Bouerat el Soun toward Gheddabia and then southwest along the Wadi Zem Zem (see map, *The*



War This Week, December 17-24). This line is held by the depleted Afrika Korps, with two fresh Italian divisions and remnants of other Italian units believed to be in the rear. British armored patrols are in contact with the enemy, but it may be several weeks before the Allies have brought up forces and accumulated sufficient supplies in the forward area for another major offensive. In his distribution of forces and organization of communications, General Montgomery is apparently establishing centers of strength well to the rear as insurance against the debacle that has followed previous British drives into Libya.

In the eastern Mediterranean the Axis is reported to be strengthening the obstacles and wire around airfields in Crete, and reinforcing Rhodes with coastal artillery, new fortress walls, etc. Over the past several months pill boxes and defenses have also apparently been built in Bulgaria, along the Turkish border.

De Gaulle and Giraud

Amid a confusing variety of broadcasts and press reports of a projected meeting between De Gaulle and Giraud, and a series of pleas for unity emanating from all sides, the American public has remained bewildered as to the specific points at issue between two thoroughly admirable professional soldiers, both of whom have a long record of patriotism and opposition to the Axis.

De Gaulle has the advantage of a fairly close-knit organization and a clear program. The Fighting French apparently view their leader as the incarnation of their country, and one whom Giraud and all patriotic Frenchmen should recognize as their political chief. Fighting France, the De Gaullists feel, is the provisional government of the nation, which should logically have its seat in Algiers. Giraud can well lead its armed forces, but only under the orders of the Fighting French National Committee, and only after a purge of the

Vichy members of his Imperial Council—Chatel, Noguès, and Boisson. After the removal of these governors, the National Committee would be ready to enlarge its membership to include pro-Ally leaders from North Africa.

In other words, De Gaulle apparently believes that a political agreement must precede any military arrangement with Giraud. For this reason, according to advices from London, the Fighting French leader has not complied with Giraud's suggestion that the former send an emissary to North Africa, and has intimated that he wishes to see Giraud himself. A statement issued on New Year's day from De Gaulle's headquarters summarizes the whole position: "Complete military cooperation requires political and administrative unification under a provisional central organ. If not, we would have the paradoxical result that a great many Frenchmen would be fighting by the side of the Allies without any French interest being represented during the war or at its end. Such a state of affairs would represent a backward step from the present situation in which the French National Committee has concluded with the United Nations a series of specific agreements of which some have a political character. . . ."

That the British public is in general sympathy with this program is apparent in editorials printed in journals as far apart as the *Times* and the *Manchester Guardian*. The former, in commenting on the appointment of Harold MacMillan as Minister Resident in North Africa, has stressed the need of "Allied advice and Allied tact" in helping the French to reconcile their differences, and has suggested that a "fusion" between Giraud and De Gaulle would be preferable to a mere "friendly understanding." The *Manchester Guardian* has characterized the "complete eradication of Vichy influence in French North Africa" as a "question of principle" with the De Gaullists, while emphasizing that "specialized



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training in technical or administrative duties" has made Fighting France a far more significant governing body than the present Imperial Council in North Africa.

Giraud's position

Giraud's advantages lie in the practical cooperation already established with the Allied forces in the field, and in his "legal" position as heir of Vichy through Darlan. Since the latter's death, however, the Imperial Council has apparently decided to dispense with any further references to Marshal Pétain, and its constitutional position is now confused. In short, the key to Giraud's weakness and strength would appear to be the middle position he occupies between ex-collaborationists and the enthusiasts in the De Gaulle camp.

Each party to the current controversy, our reports conclude, is burdened with adherents whose attitude blocks cooperation with the other side. With Giraud, there are Noguès and Boisson, timeservers whose equivocations and indecision, even after the Allied landings, have disgusted pro-Ally elements. Around De Gaulle are grouped many politicians who have perhaps exaggerated the indispensability of their own organization and who hope to play an important role in a liberated France; the bitter attacks on Boisson broadcast by the Brazzaville radio, have, for example, proved a real embarrassment to the Fighting French National Committee. The removal of antagonistic elements on both sides may be a necessary preliminary to French unity.

Evidences of Unity

In Dakar, the death of Darlan seems to have significantly strengthened popular hope for unified action. Reports from local observers point out that the assassination aroused little comment, and that, aside from a few die-hards in the military, administrative, and business communities, there exists a general desire for cooperation among all Frenchmen in exile.

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Shortly after Darlan's death, General Barrau, the military chief at Dakar, handed in his resignation, and further changes in the administration and in the army are apparently in the offing.

Similarly at Alexandria, the Admiral's death occasioned a change of feeling among the officers and enlisted men of the French ships interned there, who now express a desire to serve with the United Nations. The chief remaining difficulty seems to be the legalistic one of effecting a transfer of allegiance.

Fortification of the French Mediterranean Coast

Press reports of the evacuation of civilians from a zone three to five miles deep along the whole French Mediterranean coast corroborate confidential despatches detailing German efforts to fortify this shore in depth. The protection of this vulnerable flank was obviously one of the chief reasons behind the occupation of the Vichy zone, and since that event, fortification activities have proceeded apace. Furthermore, faced with the resistance of French labor against Laval's program of "volunteering" for work in the Reich, and the danger of spreading sabotage and underground activity in Germany, the Nazis have apparently made a virtue of necessity: many of these workers they have rerouted to the Mediterranean. Observers point out, however, that similar fortification projects in Norway have met with widespread resistance, and forecast the same sort of situation in southern France.

Spanish Neutrality

Spain has indicated to Germany that she will maintain her sovereignty by force if necessary, according to diplomatic advices. This neutrality policy is reported to have the backing of all but certain elements of the Falange. It is to be publicized by a volume entitled *the Iberian Bloc*, which will consist of recent addresses by Salazar, Jordana, and others.



at Lisbon. Presumably as a result of this moderate reorientation of Spanish policy, Germany has shifted her Ambassador to Madrid, replacing Eberhard von Stohrer (whose ascendancy was great in the days of Suñer) with Hans Adolf von Moltke. The latter has recently served in the Foreign Office in Berlin. Earlier, as German Minister to Poland, he negotiated the German-Polish Agreement of 1934 and enjoys a reputation for strength and dexterity.

General Patton's arrangement to call on General Orgaz in Spanish Morocco was gratifying to the Spanish, and may help to shape a settlement with regard to the frontier. Confidence as to the security of Moroccan supply lines would enable the Allies to divert forces from this area into Tunisia. Orgaz has appeared anxious to avoid any difficulties, but officials in Spanish Morocco have shown nervousness as to the security of their regime. Arrests of Spanish Republicans and Allied sympathizers have increased lately, and numbers of Spanish and native soldiers have apparently been skipping across the border to the French Zone.

Shipping Concentration at Genoa

The transfer of substantial tonnage of French shipping from the Riviera to Genoa is believed to have been undertaken to remove it from ports where danger of sabotage was considerable. The shift coincided with the movements to La Spezia, Livorno, and La Maddalena of several heavy units of the Italian fleet; but observers feel the redistribution of fleet units was dictated by the Allied air offensive, rather than by any immediate major convoy movement from Genoa. Presumably an expedition against such an objective as the Balearics would be preceded by a similar concentration of cargo and warships; but no such operation appears to be planned.

Changes in Yugoslav Government in Exile

Last week's reorganization of the Yugoslav Government in Exile appears to have a double significance: General Michailovich has been strengthened and the Partisans rebuffed, while the other changes seem to foreshadow a shift in policy with regard to the United States. Up to last week the Cabinet of the Yugoslav Government in Exile consisted of Premier Slobodan Jovanovich, General Michailovich as Minister of War, and two representatives from each of seven Yugoslav political parties—sixteen in all. In the present reorganization one man apiece has been dropped from six of these seven parties, leaving a Cabinet of ten men.

The Navy and Air Force have been added to Michailovich's command—a gesture of no military importance, which nonetheless signifies the continuing confidence of the Government in Exile in Michailovich. It also implies a rebuff to the Partisan forces, with whom he is at odds, but who are now generally believed to be the most effective opponents of the Axis in Yugoslavia.

Momeilo Nincich, Minister of Foreign Affairs, Radical Party, has been dropped, and his duties taken over by the Premier. The Radicals are an authoritarian group, who strongly favor a Greater Serbia. The Yugoslav Minister in Washington, Constantin Fotich (who has intimate connections with the German-sponsored Nedich Government in Belgrade), has been one of the most extreme members of the Radical Party, and has been the target of unfavorable criticism from those who favor a restored United Yugoslavia. Nincich has been Fotich's strongest backer, and some observers see Nincich's departure as clearing the deck for the future removal of Fotich, and his replacement by a proponent of United Yugoslavia.

As if in compensation for the loss of the reactionary Nincich, the Government has in each case chosen for dismissal from the Cabinet the more liberal of the two representatives



from the other parties. The others to go are all pro-Yugoslavs of varying shades and include no fewer than three men now in the United States: Bogoljub Jeftich (Yugoslav National Party), Director of the Yugoslav Information Center in New York; Sava Kosanovich (Independent Democratic Party—Serbs living in Croatia), a liberal, who wants a democratic regime for the future Yugoslavia; and Frano Snoj (Slovenian Clerical Party), a Conservative, opposed to the Slovene Partisans. These changes, and notably the dropping of Ninich, lead some observers to guess that these men may also have been relieved of their duties in preparation for a change in Yugoslav policy in the United States.

Anti-Zionist Demonstrations in Damascus

The latent tensions aroused in the Arab world by the Zionist issue have caused demonstrations in Syria. Axis agents and the Axis radio, keynoted by the former Mufti of Jerusalem, have long exploited this problem; but the immediate cause of the present protest was the Proclamation (published in the *New York Times* December 7) signed by 62 Senators and 181 Congressmen petitioning for the establishment of the Jewish National Home. In Damascus, Arab groups gathered, fired a shot at the shield of the British consulate, and left a protest averring that the memorandum heightened Arab fears that the Allies may not uphold their announced principles. Shops were closed and large crowds attended political speeches. The Palestinian students at the American University were reported by authorities to be "terribly upset;" and the disturbances apparently spread to Homs and Hama.

Japanese Ships Move As Buna Falls

In New Guinea, Allied ground forces supported by tanks have completed destruction of organized Japanese resistance

in the Buna-Cape Endaiadere area. A small remaining pocket of Japanese resistance is being surrounded at Sanananda. On Guadalcanal the isolated Japanese land forces are under pressure from American forces in the vicinity of Mt. Aesten.

In addition to the considerable concentration of Japanese shipping at Rabaul (reported on January 2 to include some 18 warships, 53 merchant vessels, and 21 small vessels) there is reported a marked increase of shipping in the Buin-Faisi and in the New Georgia Island areas where 26 vessels, including 6 heavy cruisers or battleships, 5 light cruisers, 2 destroyers, and 6 cargo ships were sighted on January 3. Meanwhile, southwest of Munda and later north of Guadalcanal, 8 Japanese destroyers were attacked by Allied planes and effectively intercepted subsequently by United States torpedo boats which prevented troop landings on Guadalcanal and destroyed supplies cast offshore in watertight containers. Allied air activity continued over Lae and Salamaua, Vangunu Island, Wewak, Madang, Rekata Bay, Munda, Gasmata, and Rabaul, the most severe Allied air assault on Rabaul leaving some 50,000 tons of Japanese shipping ablaze and sinking. Intense enemy activity was observed on airfields at Kavieng, north of Rabaul, at Timor, and in general to the north of Australia.

Complications in the Advance on Burma

Operations in Burma have been inconclusive. Allied planes have attacked airdromes and Japanese rail, inland water and seagoing transport from Myitkyina to the Gulf of Martaban. Meanwhile, in their two pronged movement down the Mayu River towards Akyab, the British left column has advanced upon the Japanese who are again evacuating the Rathedaung area. At Akyab, some twenty miles south of Rathedaung, a Japanese garrison of some 3,300 is constructing beach defenses and increasing its air activity. The Japanese in the Mayu



Peninsula and along the entire west coast have disappeared, and the British have advanced there to within some thirteen miles north of Akyab. In addition to supply difficulties, the British have encountered the complication of developing communal strife between Burmese Moslems and Buddhists, the latter having attacked British light craft in the Mayu River.

Morale of the Indian civilian population at Calcutta appears to have deteriorated under impact of nuisance Japanese air attacks. It is reported that great numbers including skilled industrial workers, have quit the city, and that the rate of operation for the port, the jute, engineering, and munitions industries has fallen respectively to 60 percent, 80 percent, 50 percent, and 50 percent.

Chinese Military Mission

Despite British warnings as to the limited significance of their activity in Burma, the Chinese look there with anxiety and expectation. Airborne freight into China has increased, and opening of regular traffic through the northwest and Soviet Central Asia is under negotiation, but the Chinese believe that fulfillment of China's exacerbated supply requirements can come only by the reconquest of northern Burma. Some Chinese dissatisfaction with their share in the planning and scheduling of this enterprise was indicated in the announcement that the Chinese Military Mission to the United States would be withdrawn. Headed by General Hsiung Shih-hui, who is a member of China's National Military Council and highly regarded in Chungking military circles, the Mission arrived in Washington on April 13, 1942. Chungking has explained that the Mission would visit London and may be called home to report, but has not been withdrawn permanently. Colonel W. T. Tsai will remain to represent China in ways called for by war councils in Washington. Before leaving the United States, the Mission will visit production plants. Asked whether or not the

Mission was satisfied with its treatment in Washington, General Hsiung Shih-hui stated to the press that his country "should never be satisfied unless our enemy is completely defeated."

Defense Preparations at Vladivostok

The Chinese, while not counting upon it, have expressed hopes that expansion of hostilities into the Soviet Far East would accelerate plans for activizing the Asiatic continental war fronts as a base for offensive operations which they feel unprepared to initiate alone. In this connection, it is reported that there is considerable precautionary military activity in the Vladivostok area, and popular discussion there indicates that development of hostilities before the advent of spring is freely anticipated. Nevertheless, sea-borne transport from North America to the Asiatic mainland continued during November in Russian bottoms which passed unmolested through the Strait of Laperouse. Fourteen freighters cleared and thirteen entered Vladivostok alone.

Appointment of Stahmer to Tokyo

Japanese activity in the southwest Pacific serves the strategic interests of her European Axis partners less directly, at the moment, than would development of an active, or potentially active, front in the Soviet Far East. General Eugen Ott, in Tokyo since Hitler's advent to power in 1933 and Ambassador there since 1938, has been replaced by Heinrich Georg Stahmer, who was in Japan when the Tripartite Alliance negotiations were concluded. Stahmer, a trusted Nazi and close associate of Ribbentrop, moved without publicity in Tokyo, but was known to have been particularly active within the Department of Home Affairs, where he offered advice upon Nazi techniques of social repression and established contacts with the younger officers and Japanese youth organizations, notably those of Nakano and Hashimoto



whose activist influence upon Japanese foreign policy is established. Japan's acceptance of Stahmer's appointment may foreshadow intensification of political and economic mobilization at the expense of moderate elements inclined towards a defensive mentality within Japan and possibly closer coordination of anti-Soviet elements in both countries. Germany's dissatisfaction with Japanese inactivity has been evident.

Toledano and the Tin Strikes

Responsibility for securing better wages and working conditions for Bolivia's striking tin miners was publicly placed upon the United States this week by Lombardo Toledano, President of the Latin American Confederation of Labor. In telegrams to Vice-President Wallace and to President Peñaranda of Bolivia, Toledano denied that fifth column activities lay behind the strikes and ascribed them instead to abominable conditions at the mines and to the owners' intransigence.

Since the United States is Bolivia's sole customer for tin, Toledano argued, and since Mr. Wallace, as head of the Board of Economic Warfare, can determine contract conditions for such purchases, why should not the Vice-President compel Bolivian producers to earmark for improvement of the workers' lot a definite part of the price paid for tin? Toledano's telegrams carry somewhat more weight in view of his recent visit to Bolivia, and his successful collaboration at that time in averting a strike at the Potosí workings.

APPENDIX I

THE GERMAN COMBAT PLANE POSITION ¹

The year just past has seen a notable deterioration in Germany's supply of combat planes. Production has fallen slightly; losses have, on the whole, run well ahead of output; and the number of planes tied up in the factory repair pool has remained high. As a result, the *Luftwaffe's* total combat strength has been reduced from 10,060 in January, 1942 to 8,585 in November, and the number of planes currently available for service at the front has dropped from 7,060 to 6,210.² Moreover, Germany's ability to recover is now open to serious question: this winter there will be no lull in aerial warfare allowing her production to regain a comfortable lead over wastage.

The Question of Quality

In terms of quality the *Luftwaffe* faces a problem almost as grave. Germany's last major change-over in plane models occurred in the winter of 1940-41. Now it confronts the necessity of developing new and more powerful aircraft capable of meeting at any height the challenge of an increasing number of Allied fighters specialized to excel within definite altitude ranges. These Allied planes will have the tactical advantage of being able largely to choose or to refuse battle—to their own liking. In answer, the performance of the Focke-Wulf-190 and the production of the Messerschmidt-109-G will have to be stepped up.

Unfortunately for the *Luftwaffe*, one of its most important engines, the Bayrische-Motorenwerke-801, is reportedly still plagued with "bugs" limiting the use of its maximum power; output of the new Daimler-Benz-605 engine is apparently only just past the experimental stage; and the Me109-G itself may yet have some structural weaknesses. Further, although Germany has undoubtedly undertaken a vast amount of the experimental work necessary for the development of more modern planes equipped with more powerful

¹ Based on statistical studies by the Research and Analysis Branch of the Office of Strategic Services.
² "Total strength" is considered as the sum of first-line planes (including initial equipment, plus immediate reserves), planes in Reserve Training Units, planes stored and in transit, planes allocated to Operational Training Units, and planes under repair at the factory. The "total available for combat" are first-line planes, plus RTU's and reserves stored and in transit.



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engines, it is doubtful whether present shortages of skilled labor will permit these to be produced outside of existing plane factories. And if produced *inside* existing factories, output of the new models could only be obtained at the cost of old-model production during the period of re-tooling.

Figures

The accompanying table presents an estimate of the *Luftwaffe's* total combat strength and its distribution among various categories of availability.

TABLE I.—Distribution of German combat-type planes

Date (end of month)	Grand total	Total available for combat	First line	Initial equipment	Immediate reserve	Reserve training units	Stored reserves and in transit	Operational training units	Factory repair pool
1939									
August	5,900	4,600	4,300	3,200	1,070		280	1,000	
September	5,845	4,745	4,400	3,320	1,080		345	1,000	100
October	6,285	5,195	4,480	3,300	1,000		715	1,040	100
November	6,274	5,150	4,500	3,480	1,110		1,200	1,080	75
December	7,585	6,390	4,640	3,510	1,180		1,780	1,120	75
1940									
January	8,240	6,960	4,720	3,570	1,180		2,260	1,100	100
February	8,945	7,645	4,800	3,630	1,170		2,845	1,200	100
March	9,585	8,345	4,900	3,710	1,190		3,445	1,240	100
April	10,300	8,900	5,400	4,210	1,190		3,500	1,280	100
May	9,405	7,435	5,600	4,400	1,200		1,835	1,320	100
June	8,905	6,635	5,600	4,400	1,200		1,035	1,340	1,000
July	9,470	7,485	5,500	4,430	1,370	300	1,385	1,110	875
August	8,905	6,680	5,200	4,430	770	330	1,100	1,120	1,120
September	8,280	5,630	4,600	4,400	200	360	870	1,200	1,400
October	8,635	6,003	4,600	4,400	200	390	1,015	1,220	1,400
November	9,090	6,440	4,800	4,400	400	420	1,220	1,300	1,250
December	9,530	6,935	5,000	4,400	600	450	1,465	1,350	1,275
1941									
January	10,215	7,715	5,280	4,400	850	480	2,005	1,400	1,100
February	10,970	8,020	5,470	4,400	1,070	510	2,040	1,400	900
March	11,720	8,520	5,780	4,420	1,310	540	2,220	1,500	950
April	11,795	8,858	5,790	4,420	1,340	570	2,265	1,550	950
May	12,035	9,590	5,800	4,420	1,380	600	2,400	1,600	875
June	11,870	9,670	5,800	4,540	1,350	600	2,180	1,600	800
July	11,200	8,800	5,800	4,540	1,200	600	2,400	1,600	800
August	10,570	8,020	5,380	4,540	810	600	2,070	1,600	800
September	9,500	6,750	4,580	4,540	10	600	1,600	1,600	1,100
October	9,165	6,390	4,400	4,500	-100	600	1,380	1,600	1,175
November	9,315	6,690	4,250	4,250	-100	600	1,815	1,600	1,075
December	9,535	6,935	4,050	4,150	-100	600	2,285	1,600	1,000

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TABLE I.—Distribution of German combat-type planes—Continued

Date (end of month)	Grand total	Total available for combat	First line	Initial equipment	Immediate reserve	Reserve training units	Stored reserves and in transit	Operational training units	Factory repair pool
1942									
January	10,080	7,600	4,100	4,100		600	2,900	1,000	800
February	10,520	8,305	4,200	4,200		600	3,505	1,000	825
March	10,735	8,628	4,220	4,220		600	3,708	1,000	850
April	10,800	8,765	4,450	4,370	90	600	3,785	1,000	825
May	10,455	8,185	4,800	4,260	240	600	2,735	1,000	700
June	10,120	7,695	4,800	4,270	230	600	2,365	1,000	625
July	9,560	7,080	4,800	4,700	70	600	1,600	1,500	500
August	8,790	6,280	4,700	4,700		550	1,040	1,500	1,000
September	8,255	5,705	4,425	4,700	-275	500	790	1,500	1,050
October	8,065	5,505	4,200	4,500	-300	530	615	1,500	1,000
November	8,285	6,210	4,460	4,510	-30	600	1,100	1,500	875

Method

The tabulated estimates, it will be noted, differ in greater or less degree from those drawn up by either the Air Ministry or the Ministry of Economic Warfare. Since these variations result primarily from the methods of computation respectively employed, rather than from any discrepancies in information, a word may be necessary on the procedure adopted by the Office of Strategic Services. In general, it can be said that our study has emphasized the over-all schematic pattern of a monthly time-series, rather than disparate, though well-supported, estimates for isolated dates or periods of time. It will be best to discuss this in relation to specific problems.

Production

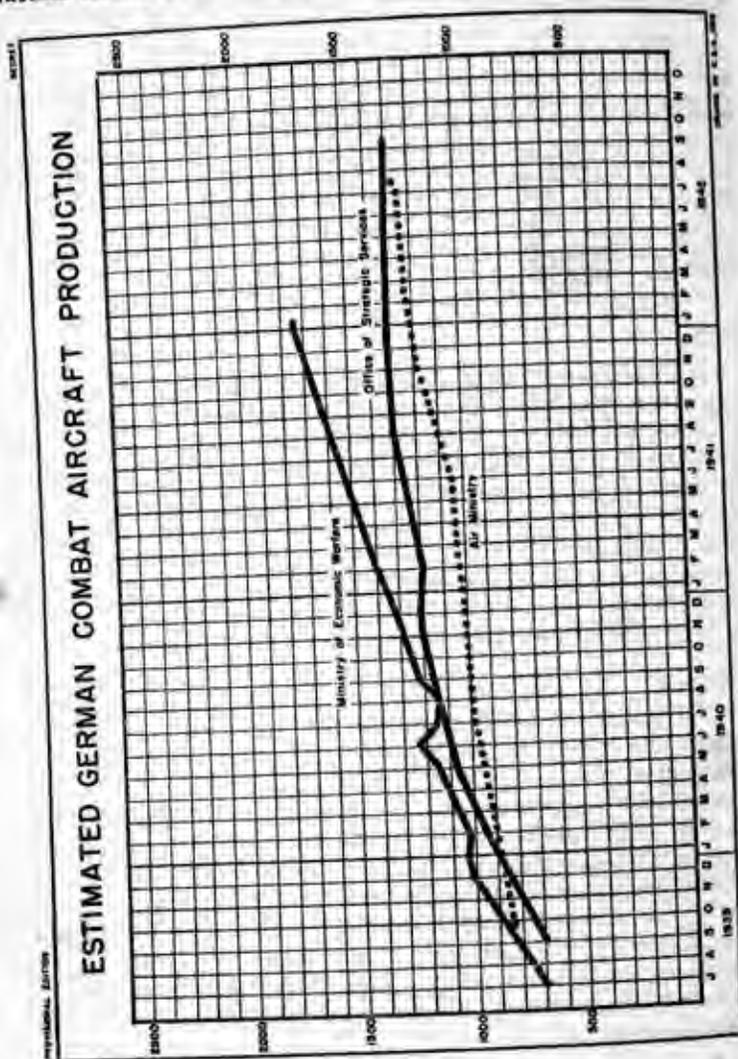
OSS estimates of German aircraft production rest neither upon research into factory capacity, as do those of the MEW, nor upon tabulation of planes identified as having been produced at certain factories, which appears to be the core of the Air Ministry's calculations. The first method is believed here, on the basis of OSS estimates of wastage and other requirements, to credit Germany with too many planes, whereas the Air Ministry's system seems to award them too few. Instead of relying upon these techniques, the OSS puts its trust in a deductive production curve constructed on statistical foundations, which, while not specifically related to either operational or engineering intelligence, fits somewhat better the available data on wastage and strength.

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This deductive curve leans heavily upon the principle that after departmental work in a new industry has been completed and production models have been agreed upon, expansion is rapid in the



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subsequent stage of mass-production, but that the rate of expansion thereafter tapers off sharply as production approaches its upper limits. The operation of this principle is easily discernible in the growth of the armament industry in Germany in 1939-40 and in the United States today.

The OSS curve reaches its high point in the fall of 1941 and declines slightly thereafter as the full effect of "comb-outs" for the Army on the Eastern Front begin to be felt in aircraft production. Up to that point, however, output is shown as having increased at its maximum absolute rate from the start of the war—a gain of 50 additional planes each month. The accompanying chart compares this OSS estimate with those of MEW and the Air Ministry.

Wastage: Combat Losses

Any estimate of the *Luftwaffe's* strength will naturally be drawn up in terms of a basic equation, in which production over time less wastage (and other deductible factors) over time equals strength at a terminal period of time $\left(\frac{\text{Production}}{\text{Time}} - \frac{\text{Wastage}}{\text{Time}} = \text{Strength} \right)$. One

component of "wastage" is combat losses. Consistent data on German combat losses has come primarily from two sources: the Air Ministry's Weekly Intelligence Summary, for losses in the West; and the Russian and German communiqués, for losses in the East.

OSS practice in handling AMWIS data is to assume that all planes listed as "destroyed" are indeed total losses, and that half of those listed as "probably destroyed" were actually destroyed. The other half of the "probables" and all those described as "damaged" are treated among "operational losses" or among planes under repair.

As for communiqués from the Eastern Front, the discrepancy between German admissions and Russian claims is so great as to render each type of information by itself valueless. It has been found, however, that Russian admissions of their own plane losses, adjusted to summaries covering several months each, fall about midway between Russian claims and German admissions. They provide in practice a fairly reliable measure of the *Luftwaffe's* losses in the Russian theater, because (a) at the very least, Russian loss-admissions indicate the scale of activity on the Eastern front; (b) those admissions are not likely to be greater than losses actually suffered, nor are they likely to be larger than those known to have been inflicted on the Germans; (c) there is no reason to believe, in any event, that actual

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Russian losses would be greater than German losses, for Russian aerial operations have not been so intense as those of the *Luftwaffe* nor are their planes considered seriously inferior to those of the Germans.

Operational Losses

Plane losses incurred in connection with combat missions are by no means completely covered by pilots' reports of craft shot down or "probably destroyed": planes crack up while taking off or landing at home fields, or when forced down at inaccessible points. Since these losses, while not directly of a combat character, result from operations against the enemy, they are a function of the intensity of air warfare and can be estimated accordingly as a proportion of actual combat losses.

OSS computations of these operational losses are based in part on RAF experience over England during recent months. The RAF found that the number of planes destroyed incidental to enemy action amounts to some 30 percent of combat losses, while planes badly damaged in action or incidental to action amount to an additional 27 percent of battle losses. Moreover, of these 27 percent, the RAF believes that some 30 percent returned by forward echelons for repairs at the factory are not, in fact, repaired at all, because of shortages of parts, labor, etc. If these unrepaired planes are added to those destroyed incidental to enemy action, then operational losses are equivalent to 38 percent of combat losses.

These operational losses, of course, vary according to the flying seasons and the front in question. The *Luftwaffe* is believed to have suffered as high as 60 percent of combat losses in winter and as low as 30 percent in summer. In Russia, however, where factory repair shops are remote, and in the Mediterranean theater, where sandstorms and other operational hazards are found, an all-year proportion of 50 rather than 38 percent seems probable.

In addition to these losses connected with enemy action, flying accidents take a certain toll of planes as they are moved behind the lines from base to base, or from factory to front, and as pilots are sent aloft on training flights. In lieu of any specific data, OSS has assumed that flying accidents subtract 2 percent of first-line strength each month.

Factory Repair Pool

Clearly, planes damaged badly enough to need repair in the rear areas will not be available for combat service for a lengthy period. Two months has been taken as the time consumed by sending planes damaged in Western Europe, the Balkans, Poland, etc., to factories in the rear, repairing them, testing them, and returning them to the front—three months for those damaged on the Eastern and Mediterranean fronts.

Allocations to Training

The necessity of using tactical planes in training represents a further drain on the supply of combat craft available for immediate service at the front. Although replacement pilots are instructed by means of basic, primary, and advanced training aircraft, they require a certain period in which to become familiar with the planes they will fly in first-line squadrons. These planes must, of course, be replaced when destroyed, damaged, or worn out, and additional units furnished whenever the size of the training group is enlarged.

Scarcely any data is available on the number of such planes engaged in this operational training in the *Luftwaffe* at the outbreak of the war. Some sources have asserted that the Germans allocated relatively few planes to this use, perhaps because they miscalculated the war's duration or perhaps because they shared that excessive optimism which possesses most airforces before entering a war. Nevertheless, the OSS has assumed that Operational Training Units (OTU's) began the war with a supply of 1,000 planes, raised that to a peak of 1,600 in May, 1941, and have maintained it at about 1,500 since then.

In addition, other planes are withheld from consistent duty at the front by their allocation to Reserve Training Units (RTU's), newly-formed combat squadrons stationed at advance airfields but ordinarily held in reserve. RTU's were first organized by the *Luftwaffe* in July, 1940, when the rate of pilot wastage incurred in the Battle of Flanders showed that a link was needed between the OTU's and the operating squadrons. Apparently, 300 planes were diverted from the OTU's to form these new units; by May, 1941, they had been increased to 600.

In estimating the number of planes that the *Luftwaffe* has had to allocate to the OTU's and RTU's each month, wastage has been broadly calculated at 6 percent of strength per month for the RTU's and 8 percent per month for the OTU's. It has been assumed, moreover, that after the initial transfer of planes from OTU's to RTU's,



growth in the latter force was provided by allocation of planes available for operating squadrons or of planes drawn from stored reserves.

Stored Reserves

OSS's figures on the *Luftwaffe's* stored reserves are arrived at by a process of elimination: from our estimate of Germany's total combat plane strength we subtract the number of first-line planes and their immediate reserves, RTU's, OTU's, and planes tied up in the factory repair pool. The resultant quantity is believed to be the number of planes stored and in transit. If, in turn, our month-to-month estimates of stored reserves correspond—as they do—to the whole body of available intelligence on that item, and to the "historical probabilities," the correlation will tend to prove the soundness of our basic calculations.

Stored reserves, if we consult Table I, are seen to grow from the outbreak of the war to a peak in April, 1940; nor has this been accomplished at any sacrifice of first-line strength or OTU's. With the Battle of Flanders, however, a rapid decline sets in, reaching a low point in September, 1940, after the "daylight phase" of the Battle of Britain. By the spring of 1941, a long period of relatively low wastage has brought total strength and stored reserves to a new high, but the succeeding attack upon the Soviets reduces stored reserves once more to a low level by the end of October, 1941. Though this depletion is partially made up by April, 1942, resumption of the Russian campaign and increased pressure by the RAF and USAAF drags the level of stored reserves down to a minimum by the end of September, 1942.

Thus, it would appear that OSS estimates for German stored reserves correspond closely with the fluctuating conditions of the war in the air. The exactness of this correlation stimulates further confidence in the reliability of the estimates on which those figures were based.

APPENDIX II

OTTO HABSBURG IN THE FOREIGN-LANGUAGE PRESS¹

Discussion which followed publication of the Secretary of War's letter of November 19, welcoming the aid of a Military Committee headed by "Otto of Austria" for the recruitment of an Austrian unit in the United States Army, has died down in the standard English-language press—partly as a result of Secretary Stimson's assurance that aid from other sources would be equally welcome. In the foreign-language press, however, comment on the subject continues to be voluminous and intense.

During the month which has just closed, the newspapers of nearly every Central European group in the United States have dealt repeatedly with the "Otto affair" and the filip presumably given to an eventual Habsburg restoration in Central Europe. Czech and Slovak newspapers were perhaps the most persistent; but the Carpatho-Russian, Hungarian, Rumanian, Ukrainian, Russian, and Greek papers maintained a running discussion, too. The Italian press was particularly agitated, not only because of national opposition to the Habsburgs on historical grounds, but also because plans for raising an Italian military legion, long discussed, gave Italian liberals a special interest in the matter.

Indifference in Some Quarters

Certain papers ignored the issue, possibly more because they considered the Habsburg issue unimportant than because they hesitated to make their true opinions clear. Thus, Hungarian-language papers—notably the Cleveland *Szabadsag* and the Pittsburgh *Magyarsag*—which previously had supported Tibor Eckhardt as representative of the Hungarian national interest, seemed unwilling to oppose Otto, though still not wishing openly to support him. The same reason may have accounted for silence on the part of the Russian Tsarist paper *Rossiya* and the formerly pro-Fascist Italian papers, such as the New York *Il Progresso* and the Philadelphia *Il Popolo Italiano*.

¹ Based on a memorandum prepared in the Foreign Nationalities Branch of the Office of Strategic Services.



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Several other papers dismissed the incident as unduly inflated. The nationalistic Polish *Nowy Swiat* declared that the letter to Otto of November 19 had been no more than a *faux pas*, and that there was no sense in magnifying the incident and broadcasting it as a menace to Europe and democracy. The Hungarian New York daily *Nepszava*, which is under the same ownership as the *Nowy Swiat*, took a comparable attitude, minimizing the significance of Otto's role. The *Nepszava* has been a strong supporter of Eckhardt and is thought to be pro-monarchist. The controversial Slovak weekly, *Slovak v Amerike*, which is said to be inspired by Magyar sympathies, also belittled the affair. This paper, however, almost automatically opposes every stand maintained by pro-Beneš organs.

In all the cases just mentioned, special reasons appear to have motivated the editors. A few instances may also be noted, such as that of the independent Polish daily published in Buffalo, *Dziennik Dla Wszystkich* (December 3) in which, with apparent disinterest, the importance of the incident was judged to have been exaggerated.

The Main Line

With these exceptions, however, the foreign language press has kept up an unbroken stream of discussion. Comments of foreign nationality writers have been reinforced by reprints of articles by Dorothy Thompson, Freda Kirchwey, and Representative Celler, as well as of material which has appeared in *PM* and the *Daily Worker*. Cross-fertilization has also been resorted to, one foreign-language group reprinting the arguments of another (cf. the article by Count Sforza reprinted in the Czech *New Yorkske Listy*, December 10). In these ways the heat and volume of the comment has not been allowed to diminish.

The substance of the discussion may be classified under three heads.

Arguments Favoring Otto's Ascendancy

In general, as has been pointed out above, the papers which might have been expected to support the Habsburg claims have tended either to remain silent or to cloak their approval under the assertion that anti-Habsburg elements were showing undue alarm. There has been little outright expression of support. Nevertheless, the Himmler chain of Associated Hungarian Weeklies, as well as the Chicago *Otthon* and the Cleveland *A Jo Pasztor*—all papers of the Hungarian extreme Right—have expressed some degree of approbation. Usually,

as in the case of the editorial printed in all Himmler papers for the week of December 10, it was said that the American Government, "whether right or wrong," had given Otto a definite role to play. Any protest, said *Otthon*, was bound to cause a "painful impression" at the State Department.

The Catholic press has not as a whole supported Otto. Although some non-Catholic papers (the Czech *Stornost*, December 10; the New York Yiddish-language *Day*, December 2) have been inclined to see a connection between the letter to Otto and Myron Taylor's visit to the Vatican, Catholic papers have looked unfavorably upon any suggestion that the Habsburg empire be restored (cf. the Polish *Nowiny Polskie*, November 25; the Czech *Narod*, November 29, December 6; and the Slovak *Katolicky Sokol*, December 2). However, some indications of Habsburg support are to be found in the Polish *Dziennik Chicagowski* (December 10) and the Hungarian *Magyarek Vasarnapja* (December 4). In the former case the journal seems more concerned with attacking the "Jews and socialists" who have protested against Otto than in supporting Otto himself.

Arguments Opposing Otto on Historical and Nationalistic Grounds

A large part of the foreign language press which speaks for Central European nationalities bases its opposition to Otto on traditional aversion to Habsburg domination. Occasionally, Otto's supposed assertion of leadership is taken to apply only to Austria (cf. the Slovak *Slovenska Obrana*, December 8); but in the vast majority of cases Otto's ambitions are believed to include the lands of the former Austro-Hungarian Empire. Czech-, Slovak-, and Ukrainian-language papers are perhaps the most violent in their denunciations. The Yugoslav press in the United States has been too preoccupied with internal Yugoslav matters to give to the Habsburg issue the attention which might have been anticipated. Yet through all papers speaking for the Central European nationalities runs an avowed determination not to submit again to the old imperial rule.

Arguments Opposing Otto on Ideological Grounds

Arguments objecting on ideological grounds to any trafficking with Otto are to be found in all sections of the foreign-language press. In these discussions the letter of November 19 to Otto is usually linked to arrangements with Darlan and other "figures of the Right," and it is asked whether such procedures are congruous with the Four Free-

doms and with democratic ideals. This type of argument is naturally most prevalent in papers of the Left, particularly in Communist papers—witness the articles in the Hungarian *Magyar Jovo*, the Rumanian *Romanul American*, the Ukrainian *Ukrainski Shehodenni Visti*, etc. Communist papers of nationalities not directly affected by a possible Habsburg restoration reveal a similar ideological pre-occupation. Thus the Lithuanian Communist *Vilnis* (December 14) and the Finnish *Tyomies* (December 3) significantly break the silence which the remainder of the press of these national groups have maintained respecting Otto.

APPENDIX III

THE FOOD SITUATION IN FRANCE¹

The increasingly grave shortage of food which confronts France today can be traced primarily to Vichy's mismanagement of supply and distribution and to requisitions imposed by Germany. Only secondarily can the problem be attributed to the British blockade or to deficiencies in fuel, labor, or agricultural machinery.

Domestic Supply

France's shortage, in other words, is not one inherited from the pre-war years: the French food economy was normally independent of any basic agricultural imports, with the exception of fodder and vegetable oils. Other items such as rice, tropical fruits, and coffee were secured from abroad; but, though useful, they were by no means indispensable.

Domestic production then—had it been distributed equitably, efficiently, and completely to the French population—would have sufficed to give the average citizen even after the invasion a passable diet, regardless of the blockade. For, aside from the year 1940, when military operations interfered rather severely with sowing and harvesting, French agricultural output has never fallen dangerously below pre-war levels. The fodder-deficit imposed by the blockade, it is true, brought a reduction in the number and weight of livestock and a corresponding drop in supplies of meat and dairy products available to the consumer. Shortages of labor, fuel, and farming machinery did not help matters, either. But none of these restrictions caused any disastrous fall in the supply of food products potentially available to Frenchmen.

Requisitions

Much more important than variations in domestic output or the effects of blockade were the requisitions imposed by the German authorities. During the crop-year of 1941-42, the Germans exacted from the French some 550,000 tons of wheat, and from the crop of 1942-43 they are expected to requisition about 850,000 tons—which may amount to nearly 15 percent of the French yield. German

¹ Based on memoranda prepared in the Research and Analysis Branch of the Office of Strategic Services.



requirements of meat are expected to reach in 1942-43 about 15 percent of French production, and—a fact even more important—some 20 percent of France's fats and oils will go this year to the invaders. These requisitions bear all the more heavily upon the French food economy because they are collected, not from the Black Market, but from supplies which would otherwise be available for rationing.

It should be pointed out, however, that these requisitions—crucial as they were—never assumed the proportions familiar to other countries conquered by the German armies. Remaining within the broad limits of "normal contributions" which the victor exacts from the vanquished, the German demands have not, at least until now, had the character of a systematic drive to undermine completely the economic life of France and to deprive its inhabitants of the minimum means of subsistence.

The reasons for this German decision to abstain in France from a "Polish" policy of extermination and spoilage are political, economic, and psychological. The idea of French collaboration loomed large in all concepts of the "New Order." Integrating the economic resources of France into the German war effort became, very shortly, part and parcel of the German blueprint of total European mobilization. Finally, the general German attitude towards the "cultured" French was always markedly different from the contempt and hatred which they felt for the lesser nations of eastern Europe.

Vichy

The appalling mismanagement of the French food economy by the Vichy government provides an essential background against which reductions of imports, declines in output, and requisitions by the German authorities assume their proper proportions.

A decline in the quantity of available consumer goods and the inflationary process set in motion by exaggerated payments to the German occupation authorities could not, perhaps, have been prevented by Vichy; but it was the almost complete breakdown of that government's price-fixing system which vastly aggravated the food-supply problem. Runaway prices for consumer goods made farmers balk at delivering their products at officially decreed prices. In fact, deliveries had to be enforced by police power and became virtual requisitions.

As a result, the volume of foodstuffs available for distribution through officially approved channels was not sufficient to fill even

the extremely meagre rations. Farmers who withheld their products began to increase their own consumption and dispose of the surplus on the Black Market. Consequently, instead of acting as an irregular supplement to the official distributive system as in Germany, the Black Market has developed in France into a major channel of supply. Since its prices are, however, exorbitant, only well-to-do persons can avail themselves of its supplies. Thus, inequalities of distribution, instead of being mitigated by governmental controls, as is usual in wartime, have been accentuated.

If injustice were the only result of this system, it would be bad enough. But the system tends as well to lower agricultural production still further. Profitable as selling on the Black Market may be, the handling of large quantities of goods in an illegal way—particularly when they are bulky—is extremely inconvenient, if not prohibitive. More and more producers, therefore, are inclined to grow only as much as they need themselves, plus whatever quantities can be sold without too much risk on the Black Market.

Additional dislocation of the food economy is provided by the failure of Vichy to secure an interregional equalization of the available food supplies. Division of France into two zones, obstructionism by the German authorities, and a shortage of transport facilities were, of course, mainly responsible for the breakdown of interdepartmental traffic; but the Vichy government certainly proved unable to use whatever freedom of action had been left to it. The consequence of its impotence was the creation of artificial surpluses in some departments and of acute shortages in others. The result of this was, in turn, to facilitate German requisitions and to help disorganize the internal distributive system.

What the Frenchman Gets

Under the impact of all these factors, the food position of France has deteriorated very considerably. In pre-war France an average citizen consumed about 3,100 calories daily, which were contained in some 99 grams of protein, 67 grams of fats, and 470 grams of carbohydrates. Instead of this undoubtedly high norm, French nutritional specialists have accepted as a subsistence minimum for an average consumer not involved in heavy labor, a figure of 2,000 calories, which should be composed of 66 grams of protein, 38 grams of fats, and 330 grams of carbohydrates. If we compare this minimum with the ration obtained on cards by "normal consumers" (category "A"), which consists of 1,100



calories daily, contained in 33 grams of protein, 19 grams of fats, and 220 grams of carbohydrates, we find that the daily caloric deficit amounts to 900 calories. Carbohydrates show a deficit of some 33 percent, while proteins and fats are short by 50 percent. More striking than any, however, is the deficit of animal protein: the consumer receives only a third of the theoretical minimum.

Even if we take into consideration that about 200 additional calories can be obtained in workers' canteens, restaurants, and similar places, the remaining deficit of 700 calories a day is critical enough. These 700 calories can usually be obtained on the Black Market—but only by the few who can afford it. For the rest, severe malnutrition and heavy loss of weight are inevitable.

The position of consumer groups whose physically-exacting occupations entitle them to higher rationing categories is hardly more favorable. Although their rations may permit a caloric intake of about 2,000 or even 2,400 calories daily, their physiological requirements lie between 3,500 and 4,000 calories daily. Their deficit is, therefore, proportionately about the same, and a sharp decline in their efficiency and productivity appears quite as probable.

APPENDIX IV "TWO ENEMIES"¹

One month ago, *The War This Week* published as an appendix a memorandum on "Polish Politics in the United States" (December 10-17, 1942). The following account of a lecture given by Wacław Spiewak in New York City on December 18 is presented as a vivid footnote to that article's discussion of rightist sentiments among Polish exiles. The substance of Mr. Spiewak's lecture, as reported from a reliable source, reveals how intense the feeling against both Germany and Russia has become in some Polish-American circles.

Wacław Spiewak is an American citizen who returned to this country in July, 1942, after taking part in the Polish underground movement. He told his audience, described as deeply sympathetic, that Poland's "two enemies" were Germany and Russia. Poles could never forgive Russia, he said: "no treaties will have any significance." Although this could not be said "before the Americans," it was ridiculous to argue about Poland's eastern boundaries. "Poland must get more. Russia must repay us."

For Germany Mr. Spiewak foresaw nothing but vengeance. "We do not care about public opinion. We are going to murder German children in their cradles . . . Every German is born a Hitler . . . Poland will do a lot of killing . . . No overseas tribunal will be able to interfere."

That this was an occasion of consequence and the speaker a man of some standing in Polish American circles is suggested by Peter Yolles' presence as chairman. Mr. Yolles, an editor of the New York *Nowy Swiat*, mouthpiece of the Matuszewski group, characterized Mr. Spiewak's address as "a voice from the heart." He warned the assembly that London and Washington were planning for Allied occupation of all liberated territories in order to forestall the possibility of a "bloody vengeance." The Polish underground, he urged, should be so organized as to be able to act "properly, rapidly, and effectively" before Allied occupation could interfere.

Mr. Spiewak introduced himself not as a politician but as a soldier preoccupied with Poland's struggle. He charged that Polish labor had

¹ Based on a memorandum prepared in the Foreign Nationalities Branch of the Office of Strategic Services.



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been indifferent to the German threat in 1939, but said that experience of life under the Nazis had welded all Poles together. Although post-war Poland would be a democracy, Mr. Spiewak was convinced that it could not afford "too much babbling and experimentation." The Ukraine, he said, would be "free" and would "line up with us. . . . This is already in the making." Lithuania would also be free and "in union with us."

Sikorski he respected as a soldier, Mr. Spiewak declared, but the exiled Government would have to give way to a "revolutionary government" in post-war Poland. He defended the pre-war Government, saying that "Minister Beck straightened out Polish politics * * * The Generals did everything in their power, but they were not allowed by the Allies to mobilize all their forces."



Jan. 8, 1943

Mr. Sullivan

Secretary Morgenthau

I do not want to wait to have my hand forced by Senator Vandenberg, and I think there should be a forgiveness of taxes for the widow of a soldier or sailor killed in action. I want an answer on Monday, and if it needs legislation I want the legislation ready by Monday.

I would also like to have a review on what happens to the taxes of a soldier or sailor.

See Sullivan's memo - 1/11/43 -



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

January 8, 1943.

MEMORANDUM ON THE CABINET MEETING

The President said he had nothing to report.

Mr. Hull said he had nothing other than the usual French complicated situation involving the DeGaulle and Giraud interests. The President said he would like to discuss that matter for a moment and give his opinion on the matter. He was quite well aware of the fact that the French and the British do not agree to this view. He said there is no constitutional representative of the French people in North Africa, and most people who view this situation do not seem to realize this as a military occupation. General Eisenhower is in fact the Governor of that territory. When he entered this territory he found Admiral Darlan in command. He was, of course, in effect made prisoner. He made certain overtures under which he said he would cooperate and do all in his power to get the Frenchmen to cease fighting if certain things were done. In order to save lives General Eisenhower agreed, but all Admiral Darlan was was an agent of General Eisenhower. He did not in any sense represent the French people. Under this scheme Darlan set up some sort of a governing council, but here again they were only aiding Eisenhower. General Giraud is in exactly the same boat, in his opinion.

The British feel that the Fighting French, headed by De Gaulle, have never left the French Government, as the representatives of Vichy did. They have continued on as part of the original constitutional Government of France and therefore they deserve to be recognized as representatives of the French people and should be placed in charge. The President does not agree with this view and cannot, he says, recognize De Gaulle as the head of this territory. Furthermore he does not want anyone of the character recognized as head of the French Government unless they are the constitutionally recognized representative of the French people.

There was quite a discussion between Biddle, Byrnes, Landis and Stinson as to the constitutionality of the President's position. I think they all agreed as a general principle that he was right, but there were some steps which should have been taken but which had not been taken to make this position clear. One of these is that it has not been made clear to the people of this territory that this



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is a military occupation and that General Eisenhower is in fact in charge of the territory and that whoever is appointed to govern is no more than an agent of him. I believe they were all in accord that all actions taken should be in line with these principles.

I had nothing to report.

Mr. Stinson said that at the last Cabinet Meeting someone raised the question as to who was to get title to the manufacturing plants that are being constructed throughout the country for the manufacture of war materials. It was indicated that the Secretary of the Treasury raised this question. He read quite a memorandum prepared by Bob Patterson which said that the Government plants were being financed by the Defense Plants Corporation and that title was in the Government in that case. In those cases where private capital is used, I believe he said the Government was paying for the plants through the price of the materials and there was some indication, although not clear to me, that the Government got the plants at the end of the period. All of the papers in the case were turned over to Francis Biddle for study.

Mr. Biddle said that the Byrd Committee was raising some questions about the acquisition of property by the Army, particularly the large hotels and large areas of land. One of his men had been called to testify but he instructed him to say that he was only carrying out what he was ordered to do by the War Department and he had nothing to do with the policies involved.

Then he said he wanted the Cabinet to know that Clarence Cannon, Chairman of the Appropriations Committee, had gone to Hoover, head of the F.B.I., to suggest that he provide the Appropriations Committee with a corps of investigators to go through the various Governmental Departments to see whether or not there was any waste. He said the Committee was determined to do it and thought the F.B.I. was the proper agency. Hoover said he could not make any commitment on it until he discussed the matter with the Attorney General. The Attorney General said he immediately turned it down. He thought it would be very bad having F.B.I. agents going through the departments investigating their procedures and methods of spending appropriated money. He said he did tell Mr. Cannon, after having discussed the matter with the President, that he would designate an F.B.I. man to set up such an organization for the Committee and after the organization was completed he would withdraw the F.B.I. man and somebody else could take charge.

Mr. Knox and Mr. Wickard had nothing.

The President said he had heard a great deal about a plan to spend \$100 million of Government funds to prevent a shortage of lumber.

There was quite a discussion of it and there seemed to be some misunderstanding and Mr. Donald Nelson said he had looked into it quite carefully and found it was absolutely necessary to build up a stockpile of lumber; that seasonal purchases of it drained the market and there are acute shortages of it at certain times of the year. He wanted to assure the producers that this lumber would be taken off their hands, and furthermore, by putting it in stockpiles it would get the necessary seasoning that is advisable for its use. The President said to work out some program, but he didn't want them to use his emergency fund for this purpose.

Mr. Jones, after he had heard the discussion on the question of purchasing or getting title to Government plants, went out of the room and telephoned to his office. He said he finds in the aluminum, magnesium and rubber plants which he is financing through RFC, there are no options on the part of private concerns to purchase these plants. In the case of the plant to produce octane gas, he said there is a form of option, but it is favorable to the Government. He said in connection with the construction of some of the steel plants there are options but they are of very little value and he doubts if they will ever be taken up after the war. In the case of the Kaiser plant which cost \$90 million and the case of the Provo, Utah, plant which cost \$125 million, there are no options whatever. He said after the question was raised last week he directed that a complete survey be made of the plants being constructed with Government money. He would have that within a few days and would furnish a copy of it to the President. He was convinced, however, after looking into it some, that the Government had not been "sold down the river."

Secretary Ickes, General Fleming, Mr. Blandford, Mr. Nelson, Mr. Byrnes and Mr. McNutt had nothing to report.

SWB

January 8, 1943.

Meeting in Mr. White's Office,
January 8, 1943,
10:00 A.M.

Present: Dr. Clark and Mr. Plumptre, for the
Canadian Treasury,
Mr. White and Miss Kistler, for the
United States Treasury.

Dr. Clark stated that the Canadian gift to the United Kingdom had run out about Christmas time and that the contemplated Lend-Lease arrangement cannot be put into effect until at least January 27, 1943, when the Canadian Parliament reconvenes and legislation can be introduced. The proposal now being considered is a Lend-Lease arrangement with all Sterling Area countries with no strings attached except perhaps such minor ones as a provision for the return of some articles like ships. Certain other conditions might be imposed, such as the transfer to Canada of British interests in war plants in that country, amounting to \$200-\$250 million, but Dr. Clark stated that the present plan was not to take over any more of U.K. investments in Canada. He replied, in answer to a question of Mr. White, that the United Kingdom still held about \$1.5 billion of investments in Canada. He explained that the proposal is still in the early stages of discussion and that modifications of present plans might be made before legislation is finally enacted.

Dr. Clark explained that the United Kingdom was now paying gold to Canada and would do so until legislation could be introduced or a statement of policy made by the Government to the Canadian Parliament; in either case he thought the arrangement would be made retroactive to January 27. He reported that Canada had already received \$25 million of gold out of an estimated \$150 million that U.K. will have to pay to Canada during the five-week period ending January 27. He said that it was estimated in December that the United Kingdom deficit with Canada during the first quarter of the year would be \$380-\$385 million.

Under questioning by Mr. White, Dr. Clark stated that the Canadian officials felt that since they had once gone to Parliament for legislation on Canadian financial arrangements with U.K. and gotten legislation for the gift arrangement, they did not feel that they could go back to the pre-gift situation of accumulating sterling without at least informing Parliament of their intentions, something, of course, which they could not do until it reconvenes at the end of this month.

Dr. Clark explained that although the billion dollar gift had been made to the United Kingdom it had been used to meet the deficit of all the Sterling Area countries with Canada with the net result that the other members of the Sterling Area paid sterling to the United Kingdom for the

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net surplus of goods they had received from Canada, and which Canada had paid for out of the gift appropriation. He said that at the time the gift was made, Canadian officials felt that they did not know enough concerning the financial arrangements between the United Kingdom and other Sterling Area countries to attempt to make separate arrangements with each of them. The plan now being contemplated by the Canadian Government is to generalise Lend-Lease arrangements fully and to make arrangements with any of the United Nations, with the intention of making Canadian production surpluses available to any of them to the extent Canada's capacity permits. He stated that the Canadian Government contemplates dealing directly with the various members of the British Empire and that to date Canadian war production has gone principally to the United Kingdom, Australia, India, New Zealand, Egypt (for U.K. account), Russia and South Africa.

Dr. Clark stated that the Canadian Government had no intention of entering into reciprocal Lend-Lease arrangements. He explained that they purchase sterling from the British Government to feed, shelter and purchase locally to the extent necessary the equipment needed by Canadian troops overseas. He said that this year sterling expenditures made for Canadian troops in the United Kingdom were running at a rate of \$175-\$200 million per year and that, on the assumption of active warfare in Europe, the Canadian Government estimates that they will spend \$640 million for this purpose during the fiscal year 1943-1944. He explained that Canada kept only a small working balance in sterling. He told Mr. White that the records of Canadian expenditures in the United Kingdom for Canadian Armed Forces were kept on a strict accounting basis, that it had always been considered wise on both sides to do so. He explained, however, that no attempt had been made to keep detailed and exhaustive records but rather the efforts had been directed toward working out a per capita rate for food, shelter, etc. Dr. Clark asked whether Mr. White thought there was any point in having Lend-Lease agreements which will be signed with various countries to include anything more than a commitment on the part of the second country to do the utmost possible to further the war and to take a liberal attitude toward post-war problems. Mr. White reviewed the attitude which Treasury officials had taken when they were working on a draft of the Agreement with the United Kingdom.

Dr. Clark inquired concerning the desirability of continuing Canex requisitions—that is, requisitions filed by the United Kingdom for U.S. material to be transferred to Canada for her own use in compensation for Canadian expenditures on U.K. account in the United States. He would prefer to drop them and indicated that they were of minor proportions. He said that together with the components made available to Canada under Lend-Lease for inclusion in goods being produced in that country for U.K. account, they totalled only \$53 million to date.

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Dr. Clark raised the question concerning the desirability of refunding the Canadian U.S. dollar obligation which is now callable as against retiring it. Mr. White then reviewed the manner in which the matter had come to our attention and stated that, in his opinion, there were three disadvantages to retiring the issue: First, there are the possible adverse political repercussions arising from the fact that we are aiding Canadian dollar position; secondly, there is the desirability of retaining foreign exchange resources in view of the uncertain conditions after the war; thirdly, there are advantages to be derived from once having successfully refunded an issue at a lower rate of interest in case further loans have to be raised. Mr. White suggested to Dr. Clark that he ought to talk with Mr. Bell about the bond issue. Dr. Clark said he would be glad to. Unfortunately he had to leave that afternoon and Mr. Bell was unable to see him that day.

Mr. White said that Mr. Berle had told him he was going to speak to the Canadian Government last week about a proposed International Stabilization Fund. Mr. White asked Dr. Clark if he would care to have any of his technical men examine the draft outline for the International Stabilization Fund and to give their reaction and make any suggestion they would care to do, at an informal level. Dr. Clark seemed pleased to do so.

Dr. Clark submitted the attached memorandum setting forth his proposal for the suggested range of Canadian gold and dollar balances.

T. M. Kistler

Suggestions as to a reasonable reserve of U.S. dollar exchange to be maintained by Canada.

1. It is believed that it would be desirable for the United States and Canada to reach an agreement as to what should be the magnitude of the reserve of gold and U.S. dollar balances which Canada should seek to maintain, having regard to the interests of both countries.

It is suggested that minimum and maximum figures might well be agreed upon. In that case it would be the understanding that if Canada's reserves tended to fall below the agreed minimum, the United States would be willing to increase her purchases of war supplies in Canada, in accordance with the principles of the Hyde Park Declaration. Conversely, if Canada's reserves tended to rise above the agreed maximum, Canada would be willing not only to accept reductions in U.S. orders for war supplies being placed in Canada but also to contribute free to the United States (either for her own use or for assignment to other United Nations through the Munitions Assignment Board) finished war supplies manufactured in Canada as a result of orders placed by the United States through War Supplies Limited.

2. In considering the appropriate magnitude of a U.S. dollar reserve to be maintained by Canada, the following general considerations are believed to be important:

- (a) The high degree of vulnerability of Canada's international trading position. (Her foreign trade is very large in relation to her size and national income. Her economy is geared to export markets to an extent that is matched by few other countries. To a very large extent also her exports consist of agricultural products and basic raw materials and, at the first blast of depression, are apt to fall off rapidly because

of declines in volume and more drastic declines in prices. In previous major depressions, drastic decreases in export receipts have immediately emerged, while the cost of imports based to a considerable extent on machinery and capital equipment has tended to keep up for a time, with a consequent serious strain on Canada's balance of payments).

(b) Canada's heavy external indebtedness, now owing largely to the United States. (In recent years Canada has had to find from \$200 to \$250 millions U.S. to meet interest and dividend payments payable to U.S. investors. In addition, it must be remembered that the investment markets of the countries are so closely interrelated that securities move back and forth across the boundary line with great freedom and in enormous volume - in 1937 the total of this trade was \$1000 millions. If confidence in Canada's currency or financial position is impaired, capital may flow out quickly in very large volume not only in the form of marketable securities but also in the form of withdrawal by U.S. parent companies of surplus funds held by their Canadian subsidiaries or branches).

(c) Canada's probable post-war reconstruction needs. (We hope to have post-war a much higher rate of general economic activity as compared with pre-war conditions. Even if the U.S. follows a policy of expansion, the character of the trade between the two countries is such that the balance of payments could be heavily against us in the early post-war years).

(d) The desirability of being able to restore parity of exchange, eliminate various restrictions and maintain a liberal commercial policy. (In addition to the normal problems of post-war reconstruction, Canada will desire, and it will be in the interest of the U.S. that she should be in a position, to return to the pre-war parity between the Canadian and U.S. dollars; to remove exchange control, the 10% War Exchange Tax, heavy excise taxes on certain commodities and other restrictions on imports from the U.S., and the prohibition on pleasure travel in the U.S., all of which Canada has had to impose during the war in order to conserve her scanty reserves of U.S. dollar exchange; and generally to resist successfully any internal, sectional pressures attempting to force the solution of an exchange problem by reactionary trade policy or by exchange control or depreciation).

In the light of these general considerations, we may approach the concrete problem of what should be a reasonable magnitude for Canada's exchange reserve by reviewing a number of historical situations:

(a) At September 15, 1939, Canada's official and available private reserves of gold and U.S. dollars were \$390 millions, made up as follows:

Official Spot/

<u>Official Spot Position</u>	<u>Millions of U.S. dollars</u>
Foreign Exchange Control Board and Bank of Canada gold	205
Foreign Exchange Control Board, Bank of Canada and Dominion Government U.S. balances	<u>56</u>
Total official spot position	261
 <u>Private Spot Position</u>	
Corporation balances (excluding minimum working balances <u>1/</u>)	85
Individuals' balances <u>2/</u>	23
Chartered banks' excess cash reserves <u>3/</u>	21
Life insurance companies excess cash <u>4/</u>	--
Total private spot position	<u>129</u>
Total spot position <u>5/</u>	<u>390</u>

(b) The size of the exchange reserve possessed by Canada just before the war, as shown above, was much smaller than that maintained by Canada in the years preceding the great depression. In this connection the following extract from Professor A.F.W. Plumptre's "Central Banking in the British Dominions" (published in 1939) is pertinent:

"Although/

-
- 1/ Data from tabulation of Form M (issued by Foreign Exchange Control Board) less estimated minimum working balances of \$20 millions (roughly 1941/42 average)
 - 2/ Data from tabulation of Form M.
 - 3/ Impossible to determine banks' minimum cash requirements accurately; amount shown represents sales by banks to F.E.C.B. during first month of control.
 - 4/ Canadian life insurance companies showed an excess of U.S. assets over U.S. liabilities at end of 1939 but no reliable estimate is available as to their excess cash reserves.
 - 5/ Does not include U.S. currency in the hands of individual residents - amount unknown.

"Although Canada's long term foreign indebtedness has been greatly reduced in the years 1933-8, the short term international position of the financial system has by no means been restored to that of ten or twelve years ago. The change is shown in an accompanying table. At the end of 1938 the net short term international assets of the system were less than half the amount eleven years earlier. In the event of a new severe depression, entailing falling income from exports and difficulty in meeting foreign debts, it seems desirable to have at least as large a reserve of international assets as was available before the last one." (page 421).

Net Short Term Foreign Assets of Canadian Banking System, December 31, 1927.

Net foreign assets of chartered banks ^{1/}	\$ 000,000
Gold of chartered banks	293.4
In central gold reserves	21.2
In Canadian vaults ^{2/}	48.1
Elsewhere	28.5
Gold of Dominion Government (at \$20.67 per oz.)	127.7
	518.9

December 31, 1938.

Net foreign assets of chartered banks ^{1/}	8.7
Foreign exchange of Bank of Canada	28.4
Gold of Bank of Canada (at \$35 per oz.)	185.9
	223.0

^{1/} Without deducting liabilities on letters of credit.

^{2/} Includes also holdings of subsidiary coin which in Canada usually amount to some \$5 millions.

To Professor Plumtre's comment there might be added the further comment that in spite of what now seems like a large exchange reserve held in 1927 (and just prior to the end of the last major business boom), a falling trade position and an outflow of funds to the New York market brought weakness and some depreciation in the Canadian dollar during 1929, followed by acute weakness and substantial depreciation in 1931 and 1932 when the United Kingdom went off gold and Canada's balance of payments showed serious worsening.

(c) By the middle of 1941, Canada's reserve had dropped from \$390 millions at the outbreak of war to \$255 millions.

The following table shows the position at June 30, 1941:

	<u>June 30, 1941.</u> (millions of U.S. dollars)
Foreign Exchange Control Board gold	137
Foreign Exchange Control Board - U.S. balances	72
Dominion Government - U.S. balances	<u>46</u>
Total official spot position	<u>255</u>

(d) As a result primarily of the working of the Hyde Park agreement and of capital movements, the drain on Canada's reserve which had amounted to 142 millions (U.S.) in 1941 was checked and then reversed in 1942. Preliminary figures for the past year show a gain of approximately 133 millions, bringing the official reserve up to 313 millions as at December 31, 1942, made up as follows:

	<u>December 31, 1942.</u> (millions of U.S. dollars)
Gold held by Foreign Exchange Control Board and Dominion Government	154.9
^{U.S.} held by Foreign Exchange Control Board and Dominion Government	<u>163.6</u>
Total official spot position	318.5

(e) The following table shows the net impairment of Canada's U.S. position, the liquidation of U.S. assets and the increased purchases by U.S. investors of Canadian assets, by various periods since the outbreak of war up to December 31, 1942. (The table was prepared about the middle of December last and consequently the figures used for the year 1942 are estimates which may vary slightly from the figures as finally determined):

Net Impairment of Canada's U.S. dollar position and indebtedness

	Sept. 16, 1939 to Dec. 31, 1939	Year 1940	1st half 1941	Total Sept. 16, 1939 to June 30, 1941	2nd half 1941	Year 1942 (esti- mate)	Total July 1, 1941 to Dec. 31, 1942	Grand Total (estimate)
(millions of U.S. dollars)								
<u>1. Depletion of Liquid Reserves</u>								
(a) Official	-45	-24	75	6	68	-131	-63	-57
(b) Private	37	91	-	128	3	2	1	129
Total	- 8	67	75	134	71	-133	-62	72
<u>2. Liquidation of other U.S. assets.</u>								
(a) Sales and redemptions of U.S. securities	13	27	11	51	13	21	34	85
(b) Other liquidations ^{1/}	2	8	5	15	4	11	15	30
Total	15	35	16	66	17	32	49	115
<u>3. Total depletion of U.S. \$ assets (1/ and 2/)</u>	7	102	91	200	88	-101	-53	187
<u>4. New capital inflow</u>								
(a) Purchases of Canadian securities by U.S. investors	4	7	12	23	19	113	132	155
(b) Other investments ^{2/}	1	6	5	13	9	25	34	47
Total	5	13	18	36	28	138	166	202
<u>5. Total impairment of position and indebtedness</u>	12	115	109	236	116	37	146	388
<u>6. Capital payments^{3/}</u>	6	38	15	59	12	22	34	93
<u>7. Net impairment of position and indebtedness</u>	6	77	94	177	104	15	112	295

includes sales and redemptions of foreign U.S. dollar securities (more than U.S.), repayment of principal on mortgages, loans and sale of direct investments abroad. It also includes borrowings from non-residents, direct investment in Canada, and transfers of non-residents' bank accounts to Canada. It includes security redemptions, principal repayments and small amounts of capital outflow allowed on compassionate grounds.

It is important to note from the preceding table that in addition to losing \$72 millions of her liquid U.S. dollar reserves since the outbreak of war, Canada has also lost approximately \$115 millions of other U.S. dollar assets and in addition has increased her indebtedness to the U.S. by approximately \$109 millions net during the same period. In other words, there has been a total net impairment in her position and indebtedness vis-a-vis the U.S. of approximately \$296 millions.

With the above historical and statistical background, we are now in a position to make concrete suggestions as to the magnitude of an appropriate U.S. dollar reserve for Canada, having in mind the best interest of the two countries.

One alternative might be that Canada should be allowed to return to the position at September 15, 1939, when she had gold and U.S. dollar balances of \$390 millions, or about \$72 millions more than at December 31, 1942. It should be noted, however, that the present cash position has been attained only at the expense of our capital resources to a net extent of about \$224 millions. On the other hand it would be unrealistic to suggest that we should be allowed to recoup ourselves for this loss by building up our liquid resources to a corresponding extent; we must be prepared to accept some increase in our net debt to the U.S. as a result of the war.

A second alternative might be based on the argument that, as it was during the spring of 1941 that the Hyde Park discussions took place, Canada might be asked to accept a net impairment of position up to, say, mid-1941 on the ground that after that date it was the general intention that the U.S.

park arrangements should obviate any further substantial impairments of Canada's U.S. capital resources. On this basis, we would have to make up a net impairment in position and indebtedness of \$159 millions, which added to our actual liquid reserve of \$318 millions at December 31, 1942, would mean total liquid resources of \$437 millions.

The average of the two alternative approaches outlined above works out at \$414 millions. It is therefore respectfully suggested that consideration be given to agreeing upon a range of \$400 to \$430 millions. Bearing in mind that under certain circumstances an annual exchange loss of \$150 millions is by no means improbable and that one of \$200 millions or even more is quite conceivable, liquid reserves of the magnitude here suggested are no more than sufficient to give Canada a breathing spell of 1½ or 2 years if things do not go well in the post-war years. The reference to such a period assumes that desperate measures have to be taken before exchange reserves reach the vanishing point.

It is also suggested that consideration should be given in agreeing upon a suitable exchange reserve, to the desirability of leaving out of the calculations for operating purposes any cash which may later be accumulated through net sales of securities in the U.S. - either Canadian or U.S. securities. (By net sales is meant gross sales of securities minus redemptions or purchases, leaving other capital transactions out of account for the sake of simplicity). Behind this suggestion is a question as to the wisdom of Canada borrowing in order to maintain her liquid position. There is also behind it the conviction that a minimum cash reserve of \$400 millions does not fully take into account the vulnerability of Canada's international position and her probable post-war reconstruction needs. There is also the further fact that we will have to deal

with/

with a number of maturing Dominion bond issues in the near future, such for instance as the \$30 million issue due January 15, 1944, and callable on or after January 15, 1943, and the \$76 million issue due August 15, 1945, and callable on or after August 15, 1943. These issues might be retired in part with funds accumulated by the ordinary market sales by U.S. or Canadian securities to the U.S.

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Assigned to
Aurante 1/11/43

JOINT WAR PRODUCTION COMMITTEE
CANADA AND UNITED STATES
UNITED STATES SECTION
~~CONFIDENTIAL~~
WASHINGTON, D. C.
Social Security Building

January 8, 1943

Dear Mr. Secretary:

The Joint War Production Committee of Canada and the United States has secured estimates of payments to be made to Canada for munitions by the United States War Department, Navy Department and Maritime Commission during the third quarter of the fiscal year 1943. It is expected that these payments will amount to almost \$190,000,000.

Details of this estimate are presented in the table below:

Payments to be Made to Canada, January 1 to March 31, 1943

U. S. War Department	\$119,793,001.14
U. S. Navy Department	6,746,000.00
U. S. Maritime Commission	<u>61,500,000.00</u>
TOTAL	<u>\$188,069,001.14</u>

At an earlier date (November 1), the Economics and Statistics Branch of the Canadian Department of Munitions and Supply estimated the value of war production in Canada for the account of the United States at approximately \$151,500,000 (U.S.) for the same period. There is, of course, no reason to expect an exact correspondence between these estimates. Payments may not be made at exactly the time the munitions are delivered. Furthermore, additional contracts have been awarded to Canada by the War and Navy Departments in recent months.

Since Canadian munitions are now tentatively assigned for a period three months in advance of the date at which assignments are made, the schedules of deliveries of Canadian munitions to the United States are now less subject to wide error than was true at the time our last report to you was prepared. For that reason the above estimate is probably more accurate than the one made at the beginning of the second quarter.

Sincerely yours,

Gilbert Mackay
Gilbert Mackay
Captain, Army of the United States
Executive Director, J.W.P.C.

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

MINUTES OF BOARD MEETING

121-A

January 8, 1943, 11:00 A. M.

East Wing, White House

Present: The Director (Presiding)
Mr. Wickard
Mr. Jones
Miss Perkins
Mr. Bell (Acting Secretary of the Treasury)
Mr. Eccles
Mr. Smith
Mr. Henderson
Mr. McNutt
Mr. Patton
Mr. O'Neal
Mr. Green
Mr. Murray
Mr. Flanders
Mr. Gordon (Chairman, Canadian Wartime Trade
and Price Board)

Mr. Gordon, present at the invitation of the Director and Mr. Henderson, discussed the Canadian price control program.

The success of Canada in controlling the cost of living, says Mr. Gordon, has been demonstrated by the fact that since the institution of general maximum price ceilings in 1941, there has been only 2 percent increase.

The government's ability to hold down the cost of living, according to Mr. Gordon, has been due to a number of factors, but primarily to a willingness to pay subsidies in order to hold essential items in the cost of living index. In these essential items, the government has held rigidly to the 1941 price levels, resorting first to a profit "squeeze" at all levels of distribution. If this is inadequate, subsidies are used.

The government has also embarked upon an extensive program of simplification and standardization, which has reduced the necessity for subsidies. There has, Mr. Gordon stated, been some degradation in the quality of consumer goods, but this has not seriously affected the standard of living.

Subsidies have, said Mr. Gordon, been used in agricultural field, particularly with respect to milk and butter, thereby reconciling the need for increased agricultural products with the government's objective in stabilizing the cost of living.

Mr. Gordon also pointed out the important contribution made to the enforcement of price control by organizing consumer groups to police prices. All women's organizations and consumer organizations have been mobilized to support the government's program. Individual consumers are urged to keep record of prices paid for essential commodities and to compare these with the legally established price ceilings. Local rationing boards have been designated by the mayors of the various communities, and in many places the mayor is the chairman of the board. This has insured local control and local support in dealing with purely local problems.

In answer to questions from various members of the Board, Mr. Gordon stated that fiscal policy must also be relied upon to support the price control program. Substantial tax increases and compulsory savings have been imposed by the Canadian Parliament. Forty percent of the government's expenditures are covered by taxation, but there is still a substantial and dangerous inflationary gap.

Canada has experienced considerable difficulty in dealing with the distribution of manpower, especially agricultural labor. In order to release manpower for more essential work, the government has attempted to eliminate various non-essential civilian activities. This is now leading to the concentration of essential civilian production into a selected number of plants, further releasing manpower for more essential occupations.

Mr. Gordon's remarks were followed by a series of questions from many of the Board members, all dealing with various aspects of Canadian economic policy.

The meeting adjourned at 1:15 P.M. to meet again on January 22 at 11:00 A. M.

Mailed by Mrs. M.

January 8, 1943

My dear Dean Jackson:

I am delighted to learn from your letter that the Treasury can continue to have the services of Dean Harriet Elliott and it goes without saying that it is entirely agreeable to me that she visit the College for three or four days each month.

Miss Elliott has been rendering invaluable service to the War Bond Division of the Treasury. I have also called on her, from time to time, to advise us on other Treasury activities. I appreciate that by letting us have Miss Elliott, you and the College are making a real sacrifice and if we were not at war I would not ask you to do this.

With very kind regards, in which Mrs. Morgenthau joins me,

Sincerely yours,

(Signed) H. MORGENTHAU JR.

Dean W. C. Jackson,
The Woman's College of
The University of North Carolina,
Greensboro, North Carolina.

THE WOMAN'S COLLEGE
OF
THE UNIVERSITY OF NORTH CAROLINA
OFFICE OF DEAN OF ADMINISTRATION
GREENSBORO, NORTH CAROLINA
December 22, 1942

The Honorable Henry J. Morgenthau, Jr.
The Treasury
Washington, D. C.

My dear Mr. Secretary:

With reference to the services of Dean Harriet Elliott, let me say that I have written to Dr. Odegard in response to his letter what I wish to say to you directly, namely, that we are glad to continue Miss Elliott's leave for her services with you. Naturally, we are much gratified to know of the success that she has made. In agreeing to her continued leave I am not making any concession as to how greatly we miss her services here. The measure of her success with you is evidence of the loss we sustain when she is away from us.

As between these evident opportunities and responsibilities of hers there can be no choice, of course, and the Government has the right of way. We have made a tentative arrangement for Miss Elliott to visit the College for three or four days once a month and I hope that this arrangement will be acceptable to you.

Please permit me to extend my best wishes to Mrs. Morgenthau as well as to yourself.

With high regards, I am

Sincerely yours,

W. C. Jackson

W. C. Jackson
Dean of Administration

WCJ:ml

January 8, 1943.

Dear Mr. Harrison:

Since the Secretary is away from the office because of illness, I am acknowledging your letter of December 20, expressing your congratulations on the recent financing, and extending your New Year's greetings. Just as soon as Mr. Morgenthau is back at his desk, I shall be glad to bring your letter to his attention, and I want to thank you for it on his behalf.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. George Harrison,
51 Madison Avenue,
New York, New York.

GEF/ba

File in Diary

FIFTY ONE MADISON AVENUE
NEW YORK

Personal

December 30, 1942.

My dear Henry:

Just a line to congratulate you on the drive recently concluded. It was a grand job and a great record and I know you must be happy about it.

And to my congratulations may I add all sorts of good wishes for the New Year.

Faithfully yours,

George Harrison

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

THE
AMERICAN BANKERS
ASSOCIATION

22 East 40 Street, New York, N. Y.

January 8, 1943

Mr. Harold Thomas
Vice Chairman of the Board
Advertising Council, Inc.
Treasury Department
Washington, D. C.

Dear Mr. Thomas:

The members of our committee were glad to talk to you Wednesday regarding the survey which you are making for the Secretary of the Treasury on the respective functions and operations of the War Savings Staff and the Victory Fund Committee.

The banks of the country are tremendously pleased with the results of the December campaign and we extend our sincere congratulations to the entire Treasury organization for the outstanding success achieved in this drive.

We are now looking forward to the 1943 financing and are anxious to make it as successful as possible in every respect. For that reason we are glad to comply with your request for a memorandum reflecting our thoughts on the organizational procedure essential to a task of such magnitude.

We have found considerable confusion in the various parts of the country regarding the authority and responsibility of the War Savings and Victory Fund organizations. It is our opinion that each group has an important part to play in the financing program but we believe it is desirable and necessary that clearer lines of demarcation be drawn regarding the functions of each organization.

This comment is made solely in the interest of the war financing effort and does not in any way reflect on the qualifications or achievements of either group. Bankers, as you know, are very heavily represented on both committees. We want to see as much money as possible raised outside the field of commercial banks and we will give active support to all groups engaged in this undertaking.

We believe that the Victory Fund activities are most successful when they take the form of drives. These drives should not exceed four a year, with three weeks allotted each drive.

Too, we are convinced that the War Savings program is most effective when maintained as a continuous year-round educational and sales activity.

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Mr. Harold Thomas 1/8/43

Under such an arrangement the Victory Fund drives would occupy 12 weeks out of the year and the other 40 weeks would be allotted to the War Savings Staff. During the period of the Victory Fund drives, there should be a minimum of activity, publicity, and solicitation by the War Savings group. In this way the impact of conflicting activity would be eliminated. This was not true during the recent drive.

In December intensive efforts were put forth by some War Savings Committees while the Victory Fund group was making strenuous efforts to achieve its goal. The two groups working within the same area produced confusion in the public mind and contributed little to the primary objective of selling the maximum amount of Government securities to the public.

During the time the Victory Fund committees are not engaged in a direct drive, they should devote their attention to the constructive work of quietly strengthening their organization and educating their committeemen regarding the objectives and sales techniques involved in each campaign. In other words, when the Victory Fund group is engaged in an all-out drive, the War Savings organization should lend its support but not attempt to claim public attention for its own special sales activity. The same holds true for the Victory Fund group during the periods in which the War Savings staff is engaged in its particular efforts.

We as bankers are keenly aware that we are presently engaged in the greatest financial undertaking that has confronted the Government. It is therefore of the utmost importance that these two groups work as smoothly as possible not only in Washington but throughout the country. They should coordinate their efforts to a point of maximum efficiency. And by this we do not mean actual consolidation of the two groups for it does not appear that such a move at this time would be desirable.

In order to get the key men in both the War Savings and Victory Fund committees aware of the situation, we believe that the Secretary should have a meeting with them in Washington and outline a program such as we have indicated here.

It was the consensus of opinion of our committee that there should be some individual designated by the Secretary to have full charge of the sale of all Government securities. This person should have jurisdiction over both the War Savings and Victory Fund organizations, with authority to direct their activities in every respect and at all times. This is believed necessary in order to coordinate the two groups that their work will be complementary and not antagonistic.

We shall be glad to talk to you further about this problem if you desire. We appreciate the courtesy shown us not only by the Secretary and the Under Secretary but by the directing heads of both the War Savings Staff and the Victory Fund Committee.

Sincerely yours,
/s/ W. L. Hemingway
W. L. Hemingway
President

Analysis of Exposure to Payroll Savings Plans
January 2, 1943

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	470	473	99
(2) Firms with 500 to 4,999 employees.....	5,705	5,841	98
(3) Firms with 100 to 499 employees.....	<u>25,540</u>	<u>28,965</u>	<u>88</u>
(4) Subtotal - large firms.....	31,715	35,279	90
(5) Firms with less than 100 employees.....	<u>136,098</u>	*	*
(6) Total Business organizations.....	167,813	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>167,813</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	8,645,091	*	*
(2) Firms with 500 to 4,999 employees.....	7,976,317	*	*
(3) Firms with 100 to 499 employees.....	<u>5,771,051</u>	*	*
(4) Subtotal - large firms.....	22,392,459	*	*
(5) Firms with less than 100 employees.....	<u>3,288,589</u>	*	*
(6) Total business organizations.....	25,681,048	32,900,000 ^{1/}	78
II. Governmental organizations			
(1) Federal Government.....	2,376,067	2,800,000 ^{1/}	85
(2) State and local governments.....	<u>1,422,459</u>	<u>2,900,000</u>	<u>49</u>
(3) Total governmental organizations.....	<u>3,798,526</u>	<u>5,700,000</u>	<u>67</u>
III. Grand total.....	<u>29,479,574</u>	<u>38,600,000 ^{1/}</u>	<u>76</u>

Treasury Department

January 8, 1943

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

* Data not available.

Firms Employing 100 Persons or More Participating in Payroll Savings Plans

(As reported by the War Savings Staff's State Administrators)

January 2, 1943

Firms employing 100 - 499 persons			State	Firms employing 500 persons or more		
Total number of firms (estimated)	Number of firms with payroll savings plans	Percent of total with payroll savings plans		Total number of firms (estimated)	Number of firms with payroll savings plans	Percent of total with payroll savings plans
330	256*	78	Alabama	68	67*	99
72	72	100	Arizona	14	14	100
134	97	72	Arkansas	18	18	100
795	727	91	Northern California	152	131	99
1,246	1,124	90	Southern California	158	159	98
142	137	96	Colorado	31	31	100
692	582	84	Connecticut	165	155	94
63	59*	94	Delaware	23	23*	100
190	177	93	District of Columbia	52	52	100
355	217	61	Florida	49	44	90
418	392*	94	Georgia	126	126*	100
33	33	100	Idaho	11	11	100
2,182	2,101	96	Illinois	503	498	99
789	708	90	Indiana	165	148	90
214	178	83	Iowa	47	40	85
299	288	96	Kansas	25	25	100
296	242	82	Kentucky	52	50	96
350	300*	91	Louisiana	55	55*	100
168	160	95	Maine	55	55	100
405	350	86	Maryland	111	111	100
1,429	1,207	84	Massachusetts	336	327	97
1,317	1,021	78	Michigan	287	287	100
444	440	99	Minnesota	81	81	100
117	104	89	Mississippi	37	37	100
975	736	75	Missouri	142	140	99
49	49	100	Montana	4	4	100
144	139	97	Nebraska	29	29	100
27	21	78	Nevada	5	5	100
170	149	88	New Hampshire	32	32	100
1,189	994	84	New Jersey	199	198	99
42	41	98	New Mexico	5	5	100
4,257	3,983	94	New York	936	912	97
564	489	88	North Carolina	141	138	98
20	20	100	North Dakota	0	0	-
2,091	1,764	86	Ohio	505	487	96
325	303*	93	Oklahoma	56	56*	100
310	295	95	Oregon	55	55	100
2,311	2,311	100	Pennsylvania	638	625	98
352	305	87	Rhode Island	85	78	92
170	158*	93	South Carolina	99	99*	100
26	26	100	South Dakota	5	5	100
517	432	84	Tennessee	92	88	96
1,008	734*	73	Texas	125	124*	99
44	44	100	Utah	10	10	100
74	69	93	Vermont	12	12	100
367	346	94	Virginia	111	111	100
452	370	82	Washington	74	74	100
314	220*	70	West Virginia	77	77*	100
680	496	73	Wisconsin	154	154	100
23	23	100	Wyoming	4	4	100
2	2*	100	Alaska	3	3*	100
52	49	94	Railroads	115	109	95
28,965	25,540	88	Total	6,314	6,175	98

Treasury Department

January 8, 1943

* Data are for December 26, inasmuch as no January 2, report was received.

Regraded Unclassified

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 8,
1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Changes in Prices and Yields of Government Securities.

During the week ended last night, prices of Government securities were strong with advances ranging up to 13/32 in the case of the taxable 2-1/4's of 1952-55. All sectors of the market participated in the rise except the shorter-term partially tax-exempt bonds and the 1943 maturities of taxable and tax-exempt notes. Prices of issues in these categories were generally firm, however.

The regular weekly offering of bills was awarded at an average rate of 0.357 percent, slightly less than the average rate of a week ago. Yields of outstanding certificates either showed no change or declined.

The comparison of present prices and yields with those prevailing on September 1 in Table II shows that prices of practically all taxable notes and bonds are currently above their levels of that date, while prices of most tax-exempt securities are lower. Yields are generally lower now than on September 1 except in the case of the longest-term partially tax-exempt issues.

As explained in previous memoranda of this series, Table III, which compares yields on the basis of the September 1 pattern of rates -- i.e. allows for issues "rolling down" the curve -- gives the best comparison of the real change in the market since that date. Reference to the last column of this table will show that the taxable market is now slightly stronger and the tax-exempt market slightly weaker than on September 1.

Purchases of Government securities by the Federal Reserve System totaled \$355 millions during the week. This amount included \$341 millions of bills and \$14 millions of partially tax-exempt issues. Sales aggregated \$381 millions, and consisted of \$361 millions of bills, \$6 millions of the taxable 2-1/2's of 1967-72 and \$14 millions of partially tax-exempt bonds. Bill maturities totaled another \$44 millions so that the net decrease in the portfolio was \$70 millions.

Attachments

Table I
Price and Yield Changes of United States Securities
December 31, 1942 to January 7, 1943

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Dec. 31, 1942	Jan. 7, 1943	Change	Dec. 31, 1942	Jan. 7, 1943	Change
	(Decimals are thirty-seconds)			(Percent)		
TAXABLE SECURITIES						
Bills						
Average rate last issue	-	-	-	.36	.36	.00
Certificates						
5/8x 2/1/43	-	-	-	.36	.35	-.01
.65 5/1/43	-	-	-	.52	.50	-.02
7/8 8/1/43	-	-	-	.68	.68	.00
7/8 11/1/43	-	-	-	.78	.78	.00
7/8 12/1/43	-	-	-	.83	.80	-.03
Taxable Notes						
3/8x 3/15/43	100.02	100.02	.00	.43	.41	-.02
5/4 9/15/44	99.21	99.28	+07	.96	.83	-.13
1-1/4 3/15/45	100.04	100.10	+06	1.19	1.10	-.09
1/4 12/15/45	98.31	99.09	+78	1.31	1.00	-.31
1 3/15/46	99.03	99.12	+09	1.29	1.20	-.09
1-1/2 12/15/46	100.01	100.08	+07	1.49	1.43	-.06
Taxable Bonds						
2x 3/15/48-50	101.07	101.15	+08	1.75	1.70	-.05
1-3/4 6/15/48	100.07	100.12	+05	1.71	1.68	-.03
2 6/15/49-51	100.20	100.27	+07	1.90	1.86	-.04
2 9/15/49-51	100.16	100.23	+07	1.92	1.89	-.03
2 12/15/49-51	100.14	100.20	+06	1.93	1.90	-.03
2 3/15/50-52	100.10	100.18	+08	1.95	1.92	-.03
2 12/15/51-55	100.07	100.16	+09	1.97	1.94	-.03
2-1/2 3/15/52-54	103.20	103.30	+10	2.07	2.03	-.04
2-1/4 6/15/52-55	101.08	101.21	+13	2.10	2.06	-.04
2-1/2 3/15/56-58	103.05	103.17	+12	2.22	2.19	-.03
2-1/2 6/15/62-67	100.06	100.14	+08	2.49	2.47	-.02
2-1/2 12/15/63-68	100.15	100.18	+03	2.47	2.47	.00
2-1/2 9/15/67-72	100.24	100.30	+06	2.46	2.45	-.01
TAX-EXEMPT SECURITIES						
Wholly Tax-exempt Notes						
1-1/8x 6/15/43	100.11	100.10	-.01	.35	.40	+05
1 9/15/43	100.15	100.15	.00	.32	.31	-.01
1-1/8 12/15/43	100.24	100.24	.00	.33	.32	-.01
1 3/15/44	100.23	100.24	+01	.40	.36	-.04
3/4 6/15/44	100.13	100.16	+03	.47	.40	-.07
1 9/15/44	100.28	100.30	+02	.48	.44	-.04
3/4 3/15/45	100.16	100.20	+04	.52	.46	-.06
Partially Tax-exempt Bonds						
3-7/8x 6/15/43-47	101.10	101.08	-.02	.42	.49	+07
3-1/4 10/15/43-45	102.00	102.00	.00	.67	.63	-.04
3-1/4 4/15/44-46	103.06	103.06	.00	.74	.72	-.02
2 12/15/44-54	106.05	106.04	-.01	.80	.80	.00
2-3/4 9/15/45-47	104.25	104.25	.00	.95	.94	-.01
2-1/2 12/15/45	104.14	104.14	.00	.97	.96	-.01
3-3/4 3/15/46-56	108.17	108.17	.00	1.03	1.02	-.01
3 5/15/46-48	106.21	106.21	.00	1.03	1.02	-.01
3-1/8 6/15/46-49	107.01	107.01	.00	1.04	1.04	.00
3-1/4 10/15/47-52	113.29	114.00	+07	1.24	1.22	-.02
2 12/15/47	103.30	104.05	+07	1.18	1.13	-.05
2-3/4 3/15/48-51	107.06	107.09	+03	1.31	1.29	-.02
2-1/2 9/15/48	106.14	106.16	+02	1.32	1.31	-.01
2 12/15/48-50	103.20	103.28	+08	1.36	1.32	-.04
3-1/8 12/15/49-52	110.11	110.14	+03	1.55	1.53	-.02
2-1/2 12/15/49-53	105.30	106.04	+07	1.59	1.56	-.03
2-3/2 9/15/50-52	106.10	106.14	+04	1.62	1.61	-.01
2-3/4 6/15/51-54	107.30	108.04	+07	1.74	1.71	-.03
3 9/15/51-55	110.01	110.05	+04	1.75	1.74	-.01
3-1/4 12/15/51-53	104.19	104.30	+11	1.69	1.65	-.04
2 6/15/53-55	103.05	103.15	+10	1.67	1.64	-.03
2-1/4 6/15/54-56	104.25	105.00	+07	1.79	1.77	-.02
2-7/8 3/15/55-60	109.02	109.11	+09	2.03	2.01	-.02
2-3/4 9/15/56-59	108.10	108.18	+08	2.05	2.03	-.02
2-3/4 6/15/58-63	108.12	108.20	+08	2.11	2.09	-.02
2-3/4 12/15/60-65	108.31	109.07	+08	2.15	2.13	-.02

Table II
Price and Yield Changes of United States Securities
September 1, 1942 to January 7, 1943

Issues outstanding on both dates only

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Sept. 1, 1942	Jan. 7, 1943	Change	Sept. 1, 1942	Jan. 7, 1943	Change
	(Decimals are thirty-seconds)			(Percent)		
TAXABLE SECURITIES						
<u>Bliss</u>						
Average rate last issue	-	-	-	.37	.36	-0.01
<u>Certificates</u>						
5/8 2/1/43	-	-	-	.52	.35	-0.17
7/8 2/1/43	-	-	-	.76	.68	-0.08
<u>Insable Notes</u>						
1/4 3/15/43	100.03	100.02	-.01	.57	.41	-.16
1/4 9/15/44	99.17	99.28	+.11	.98	.63	-.35
3/4 12/15/40	99.01	99.09	+.08	1.05	1.00	-.05
1 3/15/46	99.05	99.12	+.07	1.24	1.20	-.04
1-1/2 12/15/46	100.05	100.08	+.03	1.46	1.43	-.03
<u>Taxable Bonds</u>						
1 7/15/40-50	101.05	101.15	+.10	1.78	1.70	-.08
1 6/15/49-51	100.11	100.27	+.16	1.95	1.86	-.09
1 9/15/49-51	100.08	100.23	+.15	1.95	1.89	-.07
1 12/15/49-51	100.06	100.20	+.14	1.97	1.90	-.07
1 12/15/51-55	100.02	100.16	+.14	1.99	1.94	-.05
1-1/2 3/15/52-54	103.23	103.30	+.07	2.07	2.03	-.04
1-1/4 6/15/52-55	101.06	101.21	+.15	2.12	2.06	-.06
1-1/2 3/15/55-58	103.03	103.17	+.14	2.23	2.19	-.04
1-1/2 6/15/52-57	100.13	100.14	+.01	2.87	2.47	-.40
2-1/2 9/15/57-72	101.06	100.30	-.08	2.44	2.45	+.01
TAX-EXEMPT SECURITIES						
<u>Wholly Tax-exempt Notes</u>						
1-1/2 6/15/43	100.20	100.10	-.10	.33	.40	+.07
1 9/15/43	100.22	100.15	-.07	.33	.31	-.02
1-1/4 12/15/43	100.30	100.24	-.06	.39	.32	-.07
1 3/15/44	100.25	100.24	-.01	.59	.36	-.23
1/4 6/15/44	100.14	100.16	+.02	.50	.40	-.10
1 9/15/44	101.01	100.30	-.07	.49	.44	-.05
1/4 3/15/45	100.16	100.20	+.04	.55	.46	-.09
<u>Partially Tax-exempt Bonds</u>						
1-1/2 6/15/43-47	102.02	101.08	-1.00	.50	.49	-.01
1-1/4 10/15/43-45	102.28	102.00	-.28	.66	.63	-.03
1-1/4 4/15/44-46	103.28	103.06	-.22	.83	.72	-.11
1 12/15/44-48	106.29	106.04	-.25	.94	.80	-.14
1-1/4 9/15/45-47	105.08	104.25	-.83	.99	.94	-.05
2-1/2 12/15/45	104.31	104.14	-.17	.96	.95	-.01
3-3/4 3/15/46-56	109.00	108.17	-.83	1.15	1.02	-.13
1 6/15/46-48	106.31	106.21	-.10	1.11	1.02	-.09
1-1/2 6/15/46-49	107.13	107.01	-.12	1.12	1.04	-.08
1-1/4 10/15/47-52	114.28	114.00	-.28	1.24	1.22	-.02
1 12/15/47	104.09	104.05	-.04	1.16	1.13	-.03
2-3/4 3/15/48-51	107.10	107.09	-.01	1.37	1.29	-.08
2-1/2 9/15/48	106.28	106.16	-.12	1.31	1.21	-.10
1 12/15/48-50	104.06	103.28	-.78	1.30	1.32	+.02
1-1/2 12/15/49-52	110.19	110.14	-.05	1.56	1.53	-.03
2-1/2 12/15/49-53	106.09	106.04	-.05	1.58	1.56	-.02
2-1/2 9/15/50-52	106.20	106.14	-.06	1.62	1.51	-.11
2-3/4 6/15/51-54	108.12	108.04	-.08	1.72	1.71	-.01
1 9/15/51-55	110.15	110.05	-.10	1.74	1.74	.00
2-1/4 12/15/51-53	105.01	104.30	-.71	1.66	1.65	-.01
1 6/15/53-55	103.15	103.15	.00	1.65	1.64	-.01
2-1/4 6/15/54-56	105.13	105.00	-.13	1.74	1.77	+.03
2-7/8 3/15/55-60	105.02	109.11	+.39	1.97	2.01	+.04
2-3/4 9/15/55-59	109.10	108.18	-.92	1.99	2.03	+.04
2-3/4 6/15/58-63	109.15	108.20	-.95	2.05	2.09	+.04
2-3/4 12/15/60-65	110.02	109.07	-.95	2.09	2.13	+.04

Yield Changes of Government Securities Relative to September 1, 1942 Pattern of Rates
September 1, 1942-January 7, 1943

Issues with 3 months or more to run outstanding on both dates

(Based on mean of closing bid and asked quotations)

Security	Actual yield as of Sept. 1	Actual yield as of Jan. 7	Change in actual yield	Estimated change in yield required to maintain Sept. 1 pattern of rates	Estimated change in yield relative to Sept. 1 pattern of rates
TAXABLE SECURITIES					
Bills					
Average rate last issue	.37	.36	-.01	.00	-.01
Certificates					
7/8% 8/1/43	.76	.68	-.08	-.14	+.06
Taxable Notes					
3/4% 9/15/44	.98	.83	-.15	-.08	-.07
3/4 12/15/45	1.05	1.00	-.05	-.07	+.02
1 3/15/46	1.24	1.20	-.04	-.07	+.03
1-1/2 12/15/46	1.46	1.43	-.03	-.06	+.03
Taxable Bonds					
2% 3/15/48-50	1.78	1.70	-.08	-.05	-.03
2 6/15/49-51	1.95	1.86	-.09	-.03	-.06
2 9/15/49-51	1.96	1.89	-.07	-.03	-.04
2 12/15/49-51	1.97	1.90	-.07	-.03	-.04
2 12/15/51-55	1.99	1.94	-.05	-.02	-.03
2-1/2 3/15/52-54	2.07	2.03	-.04	-.02	-.02
2-1/4 6/15/52-55	2.12	2.06	-.06	-.02	-.04
2-1/2 3/15/56-58	2.23	2.19	-.04	-.01	-.03
2-1/2 6/15/62-67	2.47	2.47	.00	-.01	+.01
2-1/2 9/15/67-72	2.44	2.45	+.01	-.01	+.02
TAX-EXEMPT SECURITIES					
Wholly Tax-exempt Notes					
1-1/8% 6/15/43	.33	.40	+.07	-.07	+.14
1 9/15/43	.33	.31	-.02	-.07	+.05
1-1/8 12/15/43	.39	.32	-.07	-.06	-.01
1 3/15/44	.49	.36	-.13	-.05	-.08
3/4 6/15/44	.50	.40	-.10	-.05	-.05
1 9/15/44	.49	.44	-.05	-.04	-.01
3/4 3/15/45	.55	.46	-.09	-.03	-.06
Partially Tax-exempt Bonds					
3-3/8% 6/15/43-47	.50	.49	-.01	-.10	+.09
3-1/4 10/15/43-45	.66	.63	-.03	-.09	+.06
3-1/4 4/15/44-46	.83	.72	-.11	-.08	-.03
4 12/15/44-54	.94	.80	-.14	-.07	-.07
2-3/4 9/15/45-47	.99	.94	-.05	-.06	+.01
2-1/2 12/15/45	.96	.96	.00	-.06	+.06
3-3/4 3/15/46-56	1.15	1.02	-.13	-.05	-.08
3 6/15/46-48	1.11	1.02	-.09	-.05	-.04
3-1/8 6/15/46-49	1.12	1.04	-.08	-.05	-.03
4-1/4 10/15/47-52	1.24	1.22	-.02	-.05	+.03
2 12/15/47	1.16	1.13	-.03	-.04	+.01
2-3/4 3/15/48-51	1.37	1.29	-.08	-.04	-.04
2-1/2 9/15/48	1.31	1.31	.00	-.04	+.04
2 12/15/48-50	1.30	1.32	+.02	-.04	+.06
3-1/8 12/15/49-52	1.58	1.53	-.05	-.03	-.02
2-1/2 12/15/49-53	1.58	1.56	-.02	-.03	+.01
2-1/2 9/15/50-52	1.62	1.61	-.01	-.03	+.02
2-3/4 6/15/51-54	1.72	1.71	-.01	-.03	+.02
3 9/15/51-55	1.74	1.74	.00	-.03	+.03
2-1/4 12/15/51-53	1.66	1.65	-.01	-.03	+.02
2 6/15/53-55	1.65	1.64	-.01	-.02	+.01
2-1/4 6/15/54-56	1.74	1.77	+.03	-.02	+.05
2-7/8 3/15/55-60	1.97	2.01	+.04	-.02	+.06
2-3/4 9/15/56-59	1.99	2.03	+.04	-.01	+.05
2-3/4 6/15/58-63	2.05	2.09	+.04	-.01	+.05
2-3/4 12/15/60-65	2.09	2.13	+.04	-.01	+.05

MEMORANDUM FOR THE SECRETARY.

January 8, 1943.

Mail Report

This week saw a great up-swing in fan mail, and the subject of taxes far out-balanced any other. In the same way, the Victory Tax dominated this section of the mail very nearly to the complete exclusion of general income tax.

There were many specific inquiries which required factual replies. These letters were more evenly divided between Victory Tax problems and general income tax cases. So far as comments went, however, the mail brought repeated protests against the Victory Tax, against methods of collection, and against specific examples of unfairness or apparent discrimination.

The last of the week brought reactions to the Westbrook Pegler article. There were so many comments that separate pages are given in the following abstracts to: Victory Tax Unfavorable, Including Support of Pegler; and Protests Against Pegler's Statement. Every mail brought copies of the clipping without any letter or the name of the sender. There were frequent marginal notes such as, "The Secretary should read this."; "Shame!" and so on. Including these anonymous mailings, the proportion of communications pro-Pegler was easily 10 to 1.

There were a number of letters protesting the collection of the Victory Tax on any part of the 1942 salary, forwarded by Senators, Members of Congress, and the White House.

Scattered through this mail were a number of protests from conscientious objectors, plaintive letters from small businessmen, etc.

There were 20 letters favoring a pay-as-you-go plan, about half specifically approving the Ruml Plan.

Memorandum for the Secretary.

January 8, 1943.

Six letters opposed this general idea. There were 51 communications containing questions regarding future tax measures, and a number of miscellaneous suggestions, both for collection and for modification of the law. Many taxpayers suggest a discount for payment in full on March 15. The spending tax and excess profits tax on individuals received scattered endorsements, while the sales tax is opposed 3 to 1.

The Bond mail brought out no new point of view. There were a number of warnings that exorbitant taxes would force the writers to sell their Bonds. 25 Bonds were submitted for redemption, 4 coming from Patchogue, New York. Only 3 correspondents reported instances of excessive cashing of Bonds, 2 of these coming from Philadelphia. Three letters approved the elimination of the Bond ownership certificate. A number of persons reported unintentional overpurchase of Series E Bonds. In several cases the trouble was brought about by the receipt of Bonds as Christmas gifts. Bond collecting has entered a new phase as a hobby, since a few persons have written of their plans to collect Bonds issued in each of the 48 States.

Complaints reached a new high -- 65 in all. The War Department still figures in more than 50% of these "kicks".

In the general mail the subjects of inflation and Government economy were rarely mentioned. Seven letters outlined plans for prepayment for post-war purchase of durable goods. There were scattered protests of charges for cashing Government checks; the usual lottery letters, frequent suggestions for penny seals; and many ideas about new coins.

During December, mail forwarded from the White House took a decided drop. There were 535 letters sent us, of which 264 could be taken care of in this Division. The mail in general reflected the same subjects -- the Victory Tax, requests for help in securing War Bonds, etc. The lowest December was that of 1939, with 346 letters, the highest, the December following Pearl Harbor -- 833.

Gabrielle E. Forbush

General Comments

A. K. Samelian, Rochester, Minn. This letter is being addressed to you because I believe you will comprehend its message better than any other official I could send it to. When in Robert College I had the pleasure of hearing your father speak in chapel. As a little boy, he had impressed me as a fine man and through all these years my opinion of him has not changed at all. I am an Armenian, born and raised in Bulgaria. Since 1919 I have lived in the United States. I became a citizen in 1926. I have taught in public high school three years. I have a Masters degree from Northwestern University, and have had fifteen years of retailing experience. * * * I have specialized in Economics and Sociology and have been an ardent student of politics. * * * If you need my services, I shall be glad to hear from you.

Bruno J. Antolini, Rutherford, N.J. I have followed with great interest your comments recently published in the newspapers on the question of "Post-War Installment Buying", as suggested by Mr. Nugent. Your objections to this plan seem to me to be very sound. Because of these objections, I am taking the liberty of enclosing herein a copy of a letter addressed to Senator Wagner, and dated February 11, 1942, -- incidentally, receipt of this letter has never been acknowledged. * * *

Irving D. Bernatein, N.Y.C. * * * It seems to me that there is one source of copper not yet touched and that is the untold quantity of foreign coinage now in possession of American citizens. This coinage is of the fractional variety and is seemingly practically valueless. I know that the few coins in my possession are of little monetary value. * * * I would be more than willing to donate these to our Government for whatever use could be found for the non-ferrous metals they contain. In addition, I am certain that thousands of

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other citizens would be glad to perform the same service. * * * Many of these foreign coins are triple the size of our smallest currency value. It is suggested that our Post Offices be used as the collection centers, and transmit these coins to the Treasury Department direct. Though small quantities have little or no value, the collection of large quantities should be safeguarded. The Post Offices would seem to be the logical candidate. * * *

J. A. Hamilton, Mannington, W. Va. Enclosed I am signing over to you a very small check from a small farmer in a small community in a small state, not in a spirit of a grouch, but I thought it was a better tire than that or I would have tossed it upon the village junk-pile. It would necessitate a 15-mile trip to the bank to get it cashed, which I cannot afford at this time of year. (Check for \$0.20) I enjoy farming when I can, but owing to my advanced years, low blood-pressure and lack of help, I am afraid I shall not be able to accomplish much this year.

Philip E. Hamilton, Attorney-at-Law, Beaver Falls, Pa. You may not realize it, but it would be much better to stop the O.P.A. before the O.P.A. stops the U.S.A. At the rate things are now progressing, it will not be long now until asinine administrators will have the affairs of this country in a state of absolute chaos. Possibly that is what seems desirable to official Washington.

R. H. Freeman, Cash Economy Wholesale Grocery Company, McKenzie, Tenn. We have your letter of December 28, postmarked from Chicago, wanting to know all about our Bond sales for December. We appreciate the enormous task you are faced with but, Mr. Morgenthau, you have no idea the work that is imposed upon us by the various Governmental Agencies, with all sizes of questionnaires and inventory information and almost everything else one can conceive of. We are good Americans and are not

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in particular bellyaching, but man alive, if this thing would be run some way or other without all of these questionnaires and inquiries, we sure would appreciate it. We are going to string along, though, and be a good soldier, and when we do not like our lot, we will simply have to kick up about it. You have got a big job and you have our sympathy, but, for Heaven's sake, don't ever get the idea that we fellows out in the field have any gravy train. Understand the Treasury Department is vital and essential, but looks to us like a lot of these other Bureaus and Agencies are just a plain hell of a come off. We are good Democrats and went straight down the line for Franklin D. three times, so if we had a hand in helping him in, we believe that we have the right of expressing an opinion.

Favorable Comments on Bonds

Mrs. Thomas A. Baggs, Washington, D. C. It has occurred to me that it might not be a bad idea to have some kind of a War Savings Stamp equal to the value of what it generally takes to finish up a book of stamps to purchase a Bond, viz: \$2.50. With that lump sum in a stamp, it might make the purchase more immediate. * * * Have had my brain at work on the name for the stamp along the idea of "finisher upper" or "now-a-bond" -- neither of which are of course suitable. But maybe one of your bright advertising young men could think of something. * * * Is this not in line with your campaign to make people finish up their books as announced in this morning's paper?

Oscar A. Bigler, Long Beach, Calif. It is self-evident that an income tax must be paid out of the income on which it is levied. Part of my 1942 income was paid to me in War Bonds. I therefore plan to pay my 1942 income tax with cash and Bonds, in proportion to the amount of each which I received as income. Since I understand that the Bonds will not be acceptable in payment of income taxes, I will be compelled to convert the requisite amount of them into cash. * * * I believe that most taxpayers would hold their Bonds if they did not have to report them as income until they were converted into cash. Another way to make the Bonds more attractive would be to permit the payment of income taxes in Bonds, in proportion to the extent to which the taxpayers' incomes had been received in, or converted into, such Bonds. The method used to make the plan operative could be similar to the one used in the case of the \$25,000 salary limitation. First, Mrs. Roosevelt would suggest the plan in her "My Day" column. Mr. Roosevelt would then express his approval of her judgment by ordering Mr. Byrnes to make it effective immediately. This would prevent the irritating delay which might retard constructive action if the plan were submitted for Congressional debate and approval. * *

Tom. C. Gooch, The Daily Times Herald, Dallas, Tex. I want to congratulate you on the great success of your Bond issue. I believe one of the reasons is that the people have great faith in you and your organization. * * * I believe that your understanding of the public mind and your organization, with men like Guy Helvering and scores of others, is the answer to your success in a very difficult post.

E. L. Winnett, Beverly Hills, Calif. Somewhere in your files you should have a record that the undersigned subscribed to purchase a certain amount of Stamps and Bonds. As one of the Minute Men, I entered my own subscription, but the purchases are far behind schedule. * * * Since Pearl Harbor I have spent at least one day a week on Air Raid duties. * * * My family doesn't hoard and they all saved rubber at the expense of shoe leather long before the gas rationing went into effect. * * * I practice law and devote no little time to gratuitous advice to men in the armed forces and defense workers. * * * For twenty years I worked in a large machine manufacturing plant, closely connected with transportation. * * * I entered the plant as a factory helper and left as general manager. This was five years ago when I decided to return to the law, which I had given up in order to join the Canadian Army in 1917. During my years in this plant I worked both in the office and in the plant itself. I became familiar with bench work, stockroom organization, salesmanship, estimating, drawing contracts and specifications, cost accounting and labor contacts and relations. With the war, my specialized practice of business law almost ceased to exist. Naturally, I made application for employment in the many new Government Departments. I filled out form after form. In addition, I have made application for work in various defense plants; also filling out the usual forms. To date, every one of these applications have been turned down. * * * They all contain the same vital question: "Have you ever been arrested?" Unfortunately, I am obliged to say, "Yes". Some years back, during the

height of my prosperity, I managed to be arrested a number of times. The hometown police, most of whom I knew by their first names, did not hesitate to "tag" me whenever I set out to paint the town red. * * * Today I found out for the nth time that another application form had been pigeon-holed. Hence, on my small law practice, I cannot buy Bonds. In the interim I have acquired another aptitude. I have become a form expert and am constantly filling out forms for those who, as they put it, "might as well take a fling at one of these Government jobs. It can't do any harm". * * * I note that nearly all of these applicants are successful. I have not had a drink for a number of years. I hold an honorary appointment as special coordinator of the County Inebriate Court. I conduct classes on alcoholism and have helped innumerable defense workers and Government employees of high and low rank to overcome the liquor habit. I have acquired prestige enough along this line to be asked to address medical societies. * * I am sincere in saying that I regret my inability to meet my pledge, but you may be assured that I consider that as an obligation to my country which will be fulfilled at the first opportunity. It is not an exaggeration to say that at the present time, rent and groceries are a decided issue in my household.

Unfavorable Comments on Bonds

Quinn Rhoads, Sacramento, Calif. On December 1, I went to work for Morrison-Knudsen Company, Inc., General Contractors, on contract #758, Sierra Ordnance Depot, Herlong, Calif. On December 12, I was called into the office, along with other workmen, and told that I could not work for Morrison-Knudsen "another minute" unless I bought a \$25 Bond every two weeks. I was told by a representative of the company that the Government was behind the "pressure" and Morrison-Knudsen was forced to discharge those who refused to buy Bonds, or the company could get no more contracts from the Government. I refused to buy Bonds under pressure and was discharged at once. Since your office is responsible for the sale of War Bonds, it is up to you to do some explaining. (Morrison-Knudsen address, P.O. Box 2468, Reno, Nevada.)

Mrs. Betty Knight, Empire Mutual Insurance Company, Phoenix, Arizona. * * * I am one of the millions who listened to the exhortation over the radio, in the press, by word of mouth to Buy Bonds -- Buy Until It Hurts. And why not? What better investment is there? And for those of us who are not fortunate enough to serve our country in a tangible fashion, by joining the armed forces, the purchase of Bonds offers a way to do our bit. * * * So I started to save my nickels and dimes, first through the purchase of Defense Stamps and then converting them into Victory Bonds. Finally, few days before Christmas, I had accumulated \$18.75 in Stamps and money, and started proudly forth to one of the local banks. * * * After standing in line for at least a half hour, when I finally inched my way to the cashier's window, I was greeted with the doleful news -- "We are all out of Bonds. Sorry". * * * I wasn't ready to quit. Surely, I said to myself, the Post Office, a branch of the United States Government, will be able to take care of me, but again I was mistaken. I was told by the clerk at the Post Office

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that because part of my purchase price consisted of \$5.00 in Defense Stamps, and the remainder in cash, they could not sell me a Bond. I wended my way back to my office, sadder and wiser. Then I decided to tell my story to you in hopes that steps would be taken to make a recurrence of my frustration impossible.

Miss Cora Campbell, Boulder, Colorado. A month ago I wrote to the U. S. Treasury, asking how our error in buying too many Series E Defense Bonds could be rectified. No answer received, up to this date. Are there not enough clerks in Washington to answer more promptly?

David W. Zwibel, McKeesport, Pa. Enclosed is the letter you sent me December 8, 1942. Almost a month has gone by now and I have heard nothing from the War Bond Division, War Department. They have not acknowledged my letter or communicated with me in any way. I am, of course, more interested in receiving my Bonds than their communications. Will you please bring my case to the attention of Mr. Morgenthau, or must I write the White House?

E. F. Hartley, Manager, The Greenfield Times, Greenfield, Ohio. We have donated more advertising space to the war cause than any paper in the State of Ohio, considering the size of the town. * * * We have backed and put over every Government drive, and are very proud of our Bond sales. With a population of 5,560 in the township, our sales are hovering around the million dollar mark. Do we get credit on our income tax report for these donations? Government agencies have not been fair to the smaller newspapers. Advertising and publicity are very essential to the war effort, and after all, it is the local papers and homefolks that put over the various drives in their communities. Due to the limited number of business houses, and the scarcity of merchandise local advertising has dropped off 70%. * * * We are unable to get sponsors for Government advertising. It is

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true that we have three factories employing approximately 1,500 people, but only one doing war work, and they are not sponsoring any advertising. The burden has fallen upon this paper, and so far we have done a good job. Can we continue? We don't know -- paper allotments are being cut, and we have sent three men to the Army and due to lose two more key men via the draft within next few weeks. Replacements cannot be made.

Anonymous (Connecticut), quoting the phrase, "As one American farmer writing to another", says, "There is only one farmer, and he is the one who depends on his farm for living and profit. You are not a farmer, Mr. Morgenthau. You hold a high Government, well-paid position, so don't try to tell someone who really knows farming the hard way. The United States took both my sons (draft), and large quantity of my crops of past season remain in ground, no help to harvest. Looks now as if I had better do as lots of other farmers are doing, go to work in a factory. I did not even break at par past year. My profits and some of costs are still in the ground -- rather expensive fertilizer."

Edith A. Catlow, Chatham, N.J. There is a rumor abroad in the land that War Bonds listed in the name of the purchaser only, cannot be included in one's estate and passed on to the beneficiary under the will, but will finally revert to the Government. I suspect that this is sabotage, as such a practice on the part of the Government would be decidedly dishonest. Will you kindly write me to the effect that this rumor is not true? * * *

Favorable Comments on Taxation

Mrs. Howard H. Welker, Ashland, Wisconsin. * * * Why not compel possessors of free railroad transportation to add the value thereof, when used, to their taxable income? The travelling many of these people do is disgraceful, and an imposition on those who have a legitimate reason for using our overburdened transportation system. For example, one person, employed in Chicago, takes a train almost every Saturday night, spends Sunday in northern Wisconsin, and returns in time for work on Monday morning, and that week-ender is only one of scores who do likewise. The fare in that one case is around \$20 for the roundtrip. At that figure, the annual expenditure for 20 trips is \$400 at least (and more than that are made by the employee I refer to) -- a not inconsiderable sum to be added to the taxable income if that could be done. Railroad employees bitterly resent any suggestion that they are no more entitled to free rides than a clerk is entitled to free groceries from his employer's shelves, or a hoister on the dock to free coal. They insist that their free transportation is a part of the "wage" which they earn. So be it! That merely proves my point. The travelling they are doing without paying fares is a thing of value, according to the mileage covered. Why should not such fare be computed and added to the wage-receipts and taxed as any other income earned? The tax thus derived by the Government would be quite a sizeable one, and I'll venture the guess that much congestion on the railroads would be relieved were such a ruling promulgated. * * *

E. E. Buchanan, Jr., Elmira, N. Y. I want to compliment you for eliminating Form 1000, Ownership Certificate. It is a pleasure to see action and not talk. It is a patriotic duty to cut red tape -- please keep the good work up -- don't stop here.

Unfavorable Comments on Taxation

C. W. Martin, Greencastle, Ind. * * * I travel considerably and during the last three weeks have had an opportunity to get a fair cross-section of the United States East of the Mississippi, and the impression I gain of the Treasury's certain difficulty in collecting the money to which the new income tax law entitles it, makes me sick. A vast number of people who are fairly well informed, and know what the law is, have no intention of filing a return, on the fairly sound theory that you can't put everybody in jail. Another large body of people who have a right to pay income tax under the new law are entirely ignorant of its provisions, have no record of their income, and have no way of raising the money to pay the tax, even if they knew the amount. I am a Republican, and would not be averse to seeing this Administration embarrassed, but on no account would I see it embarrassed at any cost to the Country, and though I have ample income tax notes, and to spare, to pay my own taxes due in 1943, I am morally certain that your financial house of cards is going to come down around your ears unless you can prevail upon Congress to immediately enact some form of legislation that will collect the money you have a right to, before it gets into the hands of the taxpayer himself.

William Ernest Hocking, Professor of Philosophy, Harvard University. The mounting income taxes are being met for the most part by people of mounting incomes. * * * There is, however, a class of people whose incomes are not mounting, and that class deserves a moment of your thought. I am referring to the class of teachers, scholars, religious leaders, to some extent artists -- in general, those who have given their lives to intellectual or artistic pursuits with the prospect of a bare living in ordinary times. It is their satisfaction to constitute a good part of the flame of a civilization while they are active, and to transmit the spark of genius to the young. When they are hit either by inflation or extraordinary taxes, they have no defense. * * * Some of them, especially

those about to retire, will face an old age of actual physical hardship. * * * There is no reason, however, why some one of them should not call attention to their plight, and raise with the administration the question whether it wishes the operation of a just general rule to bear so hard upon this class of public servant.

Winfield L. Shaw, Bradford Farm, New Boston, New Hampshire. About three years ago I took the liberty of writing you to express the hope that the Treasury would try to avoid "heads I win, tails you lose" characteristics in its tax legislation. At that time, I was concerned at the trend widened in the Capital Gains and Loss Sections. Now I am writing you again in an effort to help by reporting what seems a rather violent protest. You do not know of my past record as one of the earlier Labor managers in America, but I could show you evidence that I have been a pioneer in much of what the New Deal stands for. * * * I have just spent a week in Boston, have talked with many business leaders and men and women in various walks of life. * * * It was the unanimous opinion that the sections of the 1948 tax law relating to trusts, trustees, powers of appointment, were very badly drawn. There was utter confusion everywhere. No one could say whether Congress or the Treasury should be blamed for the unfairness of this legislation. * * * However, every one felt that even if Congress had drawn the law they had probably worked under the guidance of inexperienced lawyers from the Treasury Department. * * * Trusts and trusteeships are inherently long term -- run back for many years -- were often drafted in best of faith -- for purposes which even a radical would consider praiseworthy. * * * I found the best and most progressive legal firms frankly telling clients the law, as written, was badly drafted -- evidently by persons with little experience in trusts and trust law -- hence, lawyers frankly unable to interpret new law or its application, unable to secure help from the Treasury. Clients angry and jittery -- protesting advice to delay, pending clarification. Trustees resigning right and left. Lawyers admitting it unwise for any one to accept trusteeships. * * * One woman, aged 58, after being forced to resign as a possible future co-trustee with

Trust Company, and after learning that her entire estate might be wiped out at her death by two trusteeships * * * said, "If the new deal wants to create a socialistic economy, I don't object to trying it out. But why upset all the plans of our generation for Social Security under a different system -- and made in good faith. This legislation should have been drawn to cover trusts created after January 1, 1943". * * *

A. B. Guthrie, Jr., President, Lexington Public Forum, Lexington, Ky., in sending copy of letter to the Kentucky Internal Revenue Office, explaining that he cannot separate records of two months, because of form in which turned over to him, says: I am enclosing a copy of a letter sent to me by the Kentucky Internal Revenue Office, together with my reply to it. No further recital of the circumstances seems necessary, since the letters are self-explanatory. I do want to say, though, that this senseless insistence on red tape and the high-and-mighty attitude, herein reflected, of public servant toward the public must be offensive to all good Americans.

Fred E. Moore, Jr., First Vice President, Lenape Pressing and Forging Company, West Chester, Pa. During 1942 we were one of the many defense plants who said, "Let's win the War and stop talking about tax reserves". We took this attitude because the Army, the Navy, the Maritime Commission, Lend Lease, and other Government Agencies pleaded with us for greater and still greater production. But greater production meant more square feet of factory space and more machines. * * * Well, the increases in floor space and the machines took the lion's share of profits and the money that we should have set aside for tax payments. Please, do not think that we regret our actions. We feel proud of our accomplishments, but what bothers us now is how to pay the taxes. If a "pay-as-you-go" plan is to be incorporated, we simply couldn't stay in business and pay two years' taxes in one. In fact, we'll be down to pork and beans to pay the 1942 taxes. Isn't there some way to help the defense plants that gave their all for Victory? * * * Why not let us

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figure out our 1942 tax bill and if we are a defense plant, deduct the ratio between plant improvements and total profit? For example, if we made \$100,000 profit and our improvements were \$100,000, there would be no tax to pay. If our improvements were only \$25,000, we would have a 25% tax deduction, etc. This would have the effect of helping those who helped Uncle Sam, and it would help all companies in proportion to their all-out War effort. The concerns that sat tight and ignored the pleas for greater production would be without tax relief. * * *

Unfavorable Comments on Victory Tax,
Including Letters Agreeing With Westbrook Pegler.

Walter W. Baese, West Allis, Wisconsin. The attached article by Westbrook Pegler expresses my thoughts far more clearly than I could say them myself. If you have not already read this article, would you kindly read same, and tell me if this is Democracy at its best, and if it is, is it worth fighting for? The return to the Treasury from this petty larceny will be peanuts compared to the loss of respect and the tendency to recoup the steal by means fair or foul in future tax returns. I would greatly appreciate an explanation of the difference in principle of Hitler's methods of confiscation and your arbitrary ruling. I presume in times like this, that it is necessary for me to add that I am an American citizen, which in a way, gives me the somewhat doubtful privilege of asking embarrassing questions from public officials.

H. L. Adler, Fresno, Calif. I have been studying the provisions of the new Victory Tax law. * * * I am amazed that you are making the same mistake in regard to those remittances as you did in connection with the Social Security Act -- that is, employers to remit only quarterly. With several thousand small firms closing monthly (and several hundred thousand scheduled to, by July 1 next -- the Government's own estimate) you people have not considered how many of those never will remit the deductions they forced their employees to submit to. You will lose all such, and the fault will lie in Washington. * * * So long as each employer deducts these amounts each week, or each two weeks, he should also be compelled to remit promptly at the end of each such period. * * * Every such employer, knowing in advance that he must close within a short time, will pay on his most pressing obligations with whatever funds he has available, and if the Victory funds happen to be the only ones at the immediate moment, he will use them, and, at the end of that quarter, you will be "out of luck", and wholly to blame. * * *

Justus A. Deahl, Route 4, Tunnelton, W. Va. According to this evening's broadcast by Lowell Thomas, the 5% Victory Tax is to be taken from all payments of money received in January - even though some twenty million laborers in this country are taken advantage of. You realize that all laborers are paid twice monthly and that all money they earned since December 15th will be taxed 5% above the twelve dollars per week. Surely Congress never intended this procedure. The masses of us understand that we will have to pay the Victory Tax on all money earned after December 31, 1942. * * *

George Kimble, Jamaica, N. Y. * * * It would seem that any pay received after December 31, 1942, would be subject to 5% Victory Tax, regardless as to when, or for how long a period of time this was payment for. * * * Now, I happen to receive a pay check on or about January 15, 1943, for the whole month of work of December, 1942. Why must I pay for one whole month which is not assessed to those on a weekly pay schedule? * * * I do not believe that there are any persons who object to paying a tax, but they all insist on fair treatment. We are asked, and justly so, to buy Bonds, conserve, pay taxes, donate and sacrifice, and work long hours, but we insist on fair treatment.

A. W. Peterson, Comptroller, University of Wisconsin, Madison, Wis. I take the liberty of writing to you in the absence of President C. A. Dykstra, who would want you to know personally about the confusion that has been created by the ruling of the Treasury Department regarding the collection of the new Victory Tax on salaries earned in December, 1942, but not paid until January, 1943. * * * Practically all State of Wisconsin employees, except those employed at the University, will have received their December salaries prior to January 1, 1943. University employees receive their checks after the first of each month only because the mechanics of processing payrolls make it impossible for the State Treasury to issue all State checks before the end of the month. If the Victory Tax is collected from one

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group of employees on December earnings and not from others, only because the mechanics of processing pay-rolls happens to delay the delivery of checks, there is obvious unfair discrimination. * * *

The following comments are from a copy of a letter addressed to Congressman Leonard W. Hall by the West Hempstead Civic and Taxpayers Association, Franklin Square, Long Island: In view of the proposal of Secretary Morgenthau to undertake to collect, at the source as provided by law, the 5% tax on all wages earned during the closing days of the present year, if not actually paid until after December 31, we are today writing the Treasury Department to condemn this arbitrary interpretation of this law, and we hope the Congress will act at once to stop Mr. Morgenthau in his tracks. * * *

Herman Heintz, North Tonawanda, N.Y. I had served 36½ years with this city, Police Department, retiring in 1938 with a pension of \$990 per year. This so-called Victory Tax of 5% is grossly unjust in my case, and hundreds of other retired police officers in this state. We are only receiving one-half of our former salary, and our part of this Victory Tax should be only one-half of the 5%. During our last period of depression myself and others of our Police Department were forced to contribute back to our City Welfare Department, 15% to help those that were unemployed and on relief in our city. Today, men that were on city relief are drawing from \$70 to \$90 per week. To those men the Victory Tax is deemed a just tax, but for retired members, especially police officers whose sworn duty always was to enforce City, State and Federal laws, the 5% is unjust -- it should be only 2½%.

John H. Levering, Philadelphia, Pa. * * * I reside in Philadelphia and am a Pharmacist, doing a day's work in different stores. Some of the stores are located in Philadelphia, but to complicate matters, the other stores where I work are located in Camden, N.J. - - another Revenue District. The pay I receive is less than \$12 in any one store, but the total amount is more than \$12 per week. Where shall the Victory Tax be paid? When shall the Victory Tax be paid? Then once in awhile it is true for just one week, the total amount in one store may be more than \$12. No doubt each Collector will rule differently. May I have a definite ruling that will settle all difficulties that are bound to arise? My thought is for me to pay the Victory Tax myself, monthly, between the 1st and 10th, at the Philadelphia, Pa., Post Office. Let the New Jersey Collector of Revenue Keep Out. * * *

A. S. Hedigler, San Anselmo, Calif. The ruling on 1943 tax assessments on December, 1942, wages paid after December 31, is a wholly unwarranted and aggravating imposition on both taxpayers and collection agencies. I am expressing this opinion to our Senators.

Rembert Gilman Smith, Tulsa, Okla. Re: Westbrook Pegler. You should do one of three things: 1. Prosecute Pegler and the papers that carried this article for libel, and prove the falsity of his charge. Privilege to criticize public officials does not include the right to call them thieves if they are not. 2. Return to all taxpayers the amounts they paid on earnings in 1942, the law applying only to earnings beginning on January 1, 1943. 3. Resign your office. * * * It gives me great grief, and anxiety for my children and my grandchildren, to witness the moral sabotage now being perpetrated by officers of the present Administration.

Letters Attacking Westbrook Pegler

Copy of letter addressed to Westbrook Pegler by Nathan Burn, Brotherhood of Railway and Steamship Clerks, Jersey City, N. J. -- Before you turned from an anti-Axis to an anti-Administration fighter, I used to enjoy reading your columns. Then you found it profitable and enjoyable to become a leading Tory, and so you have used your talents to vilify, magnify out of proportion, and to distort the truth so as to destroy confidence in our leaders and institutions. Your column of Jan. 2 is an example. At a time when people must be educated to the need for sacrifices, you call the Victory Tax a plain case of larceny, because of a fancied error of judgment on part of the Treasury Department in taxing wages earned in 1942, but payable in 1943. Speaking from my own knowledge of the application of this tax, wages earned in the second half of December, 1942, which are payable on January 11, 1943, will not be subject to the Victory Tax. * * * I suggest that you cease sniping at the United States Government and declare war on the Axis instead.

Harry Geballe, San Francisco, Calif. I take the liberty of enclosing an article by columnist Westbrook Pegler. * * * As a self-respecting citizen of this Republic, and a supporter of its Government, I trust I am safe in assuming that neither you nor your Department will allow such assertions to go unchallenged. I would deem it a distinct favor if I could be advised of what action is taken. With my best wishes for the coming year and assurances of my highest regard.

W. L. Hand, President, Hand Products, Pell Lake, Wis. Will you please tell me how it is possible for a man to sign his name to an article such as the enclosed, at a time when the rest of the people all over the country are doing everything possible to try and keep our people

united? * * * Why is he not just as much of a saboteur as some of the ones being prosecuted for less? * * * If we have done wrong in taking this 5% Victory Tax the last week or so of 1942, let's show some reason why we have done it, if we are within our rights. Let's prosecute Pegler at once. Why do we have to stand for him causing so much idle talk? * * * Our F.B.I. certainly does not have to go very far in this case to find a man that scorns our Government. In all my life, this is the first time I have ever read anything in the daily press that was as brazen as this article. * * * If I were in any city in the United States and heard a man make a remark like this, I would at once call the F.B.I. headquarters and report him; at that, only one would hear it. However, this man makes it and probably seventy-five million people read it and believe me, it hurts. * * * Let's don't let him call our Government thieves when our soldiers, sailors and marines, and our citizens are all living in the best country on earth and we all seem to enjoy it, except him.

JAN 8 - 1943

Dear Dr. Kung:

I would like to express my appreciation for the kind invitation to visit China contained in your letter of November 11, 1942. I am looking forward to the time when a decrease in the pressure of duties and activities permits me to visit your country, in which I have always been deeply interested.

With regard to your request for suggestions which would better your efforts to maintain the soundness of your finances, the Treasury is prepared, as in the past, to cooperate fully with your Ministry.

As you know, the Treasury has been conferring with Mr. Hsi Te-mou on matters which you have raised.

With best wishes for the New Year.

Yours sincerely,

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

Dr. H. H. Kung,
Minister of Finance,
Chungking, China.

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FILE COPY

國民政府財政部
MINISTRY OF FINANCE.
NATIONAL GOVERNMENT.
CHINA.

PERSONAL

Chungking,
November 11, 1942.

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

Dear Mr. Secretary,

It has been a pleasure for me to receive your personal letters on various convenient occasions and I wish to thank you for your thoughtfulness.

I read the news with interest that you had made a trip to England recently in connection with Allied war efforts. I am wondering when it will be our good fortune to have you visit China, as you know it takes but a few days by plane to get here from America. Should you decide to have a little change of air or a personal investigation of the conditions here, I need not tell you how warmly you will be received by us.

We are appreciative of the sympathetic and generous assistance you have given to China. I shall welcome any advice or suggestions which

國民政府財政部
MINISTRY OF FINANCE.
NATIONAL GOVERNMENT.
CHINA.

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The Honorable Henry Morgenthau, Jr.

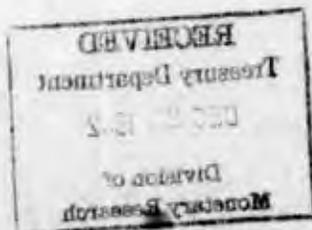
you think will further better our efforts to maintain the soundness of our finances.

I am taking this opportunity to mention to you that Mr. Hsi Te-mou, who is now in Washington, is a representative of both the Ministry of Finance and the Central Bank of China. I hope you will make use of his services because he is familiar with the present economic and financial conditions in China.

With best regards.

Yours sincerely,


H. H. Kun



NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPIEL No. 9

Information received up to 7 A.M., 8th January, 1943.

1. MILITARY

TUNISIA. 6th. Enemy counter attacks forced British units to withdraw to their former positions from the ground above JEFNA and from other positions on high ground west of MATEUR which had been captured on the 5th.

RUSSIA. In the Middle and Lower DON Sector the German forces contained in the salient in the great DON Bend are being increasingly threatened by Russian advance on their Northern flank near MOROZOVSKAYA which has reached a point on the railway 15 miles further westwards and on their Southern flank by an advance about 40 miles westward of TSIMLYANSKAYA. An early withdrawal of these forces is therefore probable.

2. AIR OPERATIONS

WESTERN FRONT. 7th/8th. 22 bombers were sent to ESSEN. Landing reports not yet received.

FRENCH NORTH AFRICA. 5th. 10 JU 88's bombed an airfield at YOKS LES BAINS. Some petrol and stores were destroyed. 5th/6th. Liberators bombed the harbours at TUNIS and SOUSSE. 6th. Escorted U.S. Bostons and Marauders made three attacks on a military camp and railway yards at KAIROUAN. Hurricane bombers effectively attacked gun batteries near MATEUR. At night Wellingtons bombed and started large fires at SOUSSE.

SICILY. 7th. Spitfires successfully bombed the Licata Sulphur Factory. Factory buildings, a railway and other buildings were hit.

LIBYA. 6th. 3 out of 30 M.E. 109's which attacked a landing ground near TAMET were destroyed by anti-aircraft fire.

Bureau of Intelligence
OFFICE OF WAR INFORMATION

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M-2600

Bulletin of Intelligence ProjectsNumber: 8
Date: Fortnight - January 8, 1943Studies completed December 24 - January 8

Subject	Description
1. Report from the Nation (Confidential)	A summary of findings of people's reactions to all phases of the war since Pearl Harbor.
2. The Public Looks at Manpower Problems. (Confidential)	A nationwide survey of public reactions to the manpower problem, covering attitudes toward labor shortages, employment of women and aliens in war production industries, government control in vital areas, and the general conception of the U. S. public as to the problems involved in effective prosecution of this phase of the war -- their satisfaction with or criticism of the present system.
3. War Information and the Changing Outlook toward Russia and England. (Confidential)	A study of changes in attitudes toward Russia and England with relation to their knowledge about the war and in terms of the changing tide of events during the past several months.
4. Public Opinion After Two Weeks of Nationwide Gasoline Rationing.	A measure of the change in attitude of people after initiation of the nationwide mileage rationing program to discover the degree of acceptance of it, with specialized interviews in critical areas where there had been considerable opposition before its institution. (Reported in Intelligence Report #56)
5. Manpower Stabilization Agreement in Detroit. (Confidential)	A survey of labor attitudes toward the new stabilization agreement established in Detroit. (Reported in Intelligence Report #56)

X-8461

6. An Experiment in Protecting. (Confidential)
7. Summary of Division's Intelligence Materials on Food Rationing. (Confidential)
8. Newspaper Comment on Gasoline Rationing in Cleveland, Detroit, Indianapolis, St. Louis (Confidential).
9. Editorial Reaction to Gasoline Rationing from October 1 to December 15. (Confidential)
10. Confidence in "Washington" (Confidential)
11. Rumors on Manpower. (Confidential)
12. Participation in the War-Savings Program. (Confidential)

A description of the techniques used in developing a set of instructions for War Ration Book No. 2 to meet the problem of obtaining maximum public understanding.

Compilation of people's reactions to the whole problem of food rationing, their satisfaction or dissatisfaction with its present handling, their general acceptance of the plan. (Reported in Intelligence Report #54)

Analysis of press treatment of the subject of gasoline rationing in four specific areas with a view to comparing reactions in two cities where opposition to the program was strong vs. two cities where there was general acceptance. (Reported in Intelligence Report #56.)

Media analysis of reactions to the whole program of gasoline rationing during this period. (Reported in Intelligence Report #55)

An analysis of the nature and extent of criticism directed at the Government's conduct of domestic affairs to determine the degree to which dissatisfaction constitutes general distrust.

A collection of recent rumors on the current manpower problem, the shortages which exist and attitudes toward its handling.

A study of people's buying habits in connection with the War-Savings Program, their reasons for purchase of war bonds and stamps, the motivations behind their purchases, along with a study of the untapped potential market for promulgation of future sales.

Studies Nearing Completion

1. A report on the shipbuilding industry, dealing with labor attitudes and the causes of absenteeism.
2. A study on public understanding of the Government's anti-inflation program.

Studies Nearing Completion (Cont'd)

3. An investigation of the degree to which the public feels surfeited with war-related radio programs.
4. A trend report on related attitudes toward the war.
5. A study designed to bring up to date previous information on public obstacles to the acceptance of the mileage rationing program.
6. Report on public reactions to the food rationing program.
7. Report on American attitudes about the United Nations.
8. Report on public reactions to the President's address to Congress.
9. Peace reaction and treatment of the Vice President's recent speeches, of the President's press conference on post-war plans, of the President's address to Congress.
10. Report from field representatives on reactions in their areas to the President's speech.
11. An analysis of the efficiency of the radio allocation program, based on the monitoring of Philadelphia radio stations.

Continuing Services

1. Intelligence Report (weekly - Confidential)
2. Weekly Media Report (Restricted)
3. United Nations Intelligence Digest (weekly - Confidential)
4. United States Official Statements (weekly - For Administrative Use)
5. Summary and Analysis of Feature Motion Pictures (weekly - Restricted)
6. Newsreels and OWI Campaigns and Programs (Monthly - Restricted)

Requests for these reports should be made in writing to Miss V. L. Shannon, Room 5427, Social Security Building, or by telephone to extension 71248 (National War Agencies). Where extra copies are not available, the master file copies may be referred to within the central offices, Bureau of Intelligence, Room 5427.

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INTELLIGENCE REPORT 57

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION

BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

C O N T E N T S

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A summary of investigation and analysis conducted for certain OWI officials, issued for OWI and the interest of other members of the Government.

The period covered by this report is the week of December 31 through January 6, except where otherwise specifically stated.

EDITORIAL ATTITUDES

PRESCRIPTION FOR CONGRESS

Editors have become somewhat uneasy about the intentions of the new Congress they helped to elect. They want the Legislature, rather than the Executive, at the helm of the ship of state. But they do not want to see the ship wrecked again on the rocks of isolationism.

As members of the 78th Congress gathered at Washington, news pages blossomed with think-pieces predicting that a coalition of Republicans and conservative southern Democrats would wrest control of national affairs from President Roosevelt. Congressional investigations of New Deal programs and policies were forecast. Leading New Dealers, it was prophesied, would be called up on the congressional carpet.

Within limits, this sort of heckling seems entirely agreeable to the press. Many newspapers reasoned, as did the Kansas City Star, that "This new Congress is going to Washington with the opportunity and duty of re-establishing a badly disturbed balance in national government. It will have the opportunity of re-establishing popular respect for the legislative branch of that government."

The phases of Government policy which commentators most frequently prescribed for congressional action were fiscal affairs and regulation of labor. The press, during the last week, vehemently renewed its demand for modified taxation. The Ruml plan, or some variation on the pay-as-you-go theme, came in for a fresh round of applause.

Governmental expenditures and the size of the federal bureaucracy were set forth by numerous commentators as fit subjects for congressional pruning. Senator Byrd's strictures on extravagance were roundly endorsed. The press looks forward rather gleefully to a stringent congressional audit of all Government outlays.

Much editorial comment also urged a congressional crack-down on labor and a general overthrow of the Administration's "pro-labor" policy. The Cleveland Plain Dealer charged that the Administration has "held out consistently against any legislation restricting the rights of organized labor... and despite the lip service it has paid to over-all wage ceilings its agencies find excuses almost daily for authorizing wage increases."

There was some fear, however, that the new Congress might go too far along these desired lines. The Scripps-Howard papers declared: "Some members will seek not merely to correct the errors and excesses of an executive branch too long and too strongly dominant, but to deprive the President of necessary powers. Others will want not merely to correct the errors and excesses of organized labor, but to hamstring unions; to destroy price controls and risk disastrous inflation in the name of helping the farmer; to make political capital out of public dissatisfaction with flaws in the administration of essential rationing programs; to encourage public resistance to necessary sacrifices."

There was even greater fear that the Congress might not confine its opposition to the domestic domain. Warning against congressional abridgement of the reciprocal trade agreements program, the Baltimore Sun pointed out that "We shall have need for instrumentalities of this kind in the post-war world, for when hostilities cease and the work of reconstruction begins, it will be necessary to provide for the fullest possible exchange of goods and services between the nations."

Considerable apprehension was aroused by rumors that "isolationists" in the new Congress might attempt to overthrow the President's lend-lease powers, which expire in June. "Lend-lease," warned the Philadelphia Record, "is one of the major weapons counted upon to fortify the peace, as well as win the war."

The prevailing feeling among editorial commentators appears to be a desire to have the President checked — but not to have him checkmated.

WHITE PAPER

The State Department's White Paper was received with a puzzled shaking of editorial heads. Almost all commentators agreed that it made the Pearl Harbor disaster seem more mysterious than ever. As the Christian Science Monitor put it, "The White Paper does not explain Pearl Harbor. If anything, it makes that disaster less comprehensible, especially for Americans who supposed that their leaders did not calculate on a Japanese attack so far from Japanese bases and at so strong a point as Pearl Harbor."

There was some division of opinion among the commentators over the extent to which the White Paper vindicated State Department policy. Some felt that the document proved that our diplomats had adequately warned our soldiers. Others argued, on the other hand, that it revealed only a clumsy inability to understand the plain implications of Axis behavior. Almost all were perplexed by American unpreparedness in the face of such abundant information about enemy intentions.

PROPHECIES

Commentators were inclined to chide Admiral Halsey for tempting fate by the outright prediction of victory in 1943 which he made last week. The Baltimore Sun observed, "All sorts of people have been making all sorts of predictions ever since the war began. Now and then one is justified by the event; but the characteristic feature of prophecy in general, with regard to this war, has been its prevailing inaccuracy."

The prevailing judgment was that the American public lacks the stamina to withstand good news. As the St. Louis Post-Dispatch put it, "With many citizens, such words will inevitably have an effect just the opposite of that on the distant fighting men, eager to get back to their homes. These confused citizens will ask themselves why, if the war will be won so soon, must they deprive themselves of things they have always had — why rationing, why discomforts, why war bonds, why the Victory tax. The entire war effort can be seriously jeopardized and

the war itself prolonged if any such attitude becomes widespread."

But though they derided official optimism as a tonic for the public, the commentators were patently optimistic themselves. They listened to the recent speeches by Germany's Hitler and Japan's Tojo and found them, on the whole, very good for our side. Edwin L. James, writing in the New York Times, said of Hitler that "his bombastic declaration of Friday was entirely lacking in dignity; it is an alibi, followed by a feeble promise of eventual victory made at a time when the Russian armies were inflicting a heavy defeat on his armies in the East and while an African second front was growing in power and potentiality."

General Tojo's address was treated somewhat more cautiously. Commentators took up the General's assertion that the "real war is starting from now on." Some said this indicated that the Japanese would henceforth be on the defensive. Such interpretations were frequently accompanied, however, by cautions similar to that expressed in the Louisville Courier Journal: "The Japs will not surrender... they must be exterminated... There is little reason for the hopeful view that the end of the conflict is in sight. It has hardly begun."

Although most newspapers expected 1943 to be a year of allied offensives and seemed extremely hopeful about their outcome, they were careful to avoid predicting victory within the year's span. They conscientiously cautioned their readers against overconfidence, while themselves exuding it in almost every paragraph.

POPULAR REACTIONS

SIZE OF THE ARMY

The public, as a whole, is not well informed either as to the current size of the United States Army or as to the rate at which its expansion is planned during the next year. These conclusions emerge from the

interviewing of a national sample in late October and early November within a fortnight after statements by Secretary Stimson and General Marshall outlining the Army's present and projected size.

The size of the Army on October 14, as announced by Secretary Stimson, was 4,250,000. Only about one-fifth of the public was able to estimate its numbers with any accuracy. Two-fifths were unwilling to hazard even a guess.

ABOUT HOW MANY MEN DO YOU THINK THERE ARE IN OUR ARMY NOW? JUST YOUR BEST GUESS.

Less than 3,000,000	10%
3,000,000 to less than 4,000,000	19
4,000,000 to 4,250,000	13
Over 4,250,000 and less than 5,000,000	8
5,000,000 and over	17
Don't know	42

There was equal uncertainty concerning the projected size of the Army for 1943. Secretary Stimson had announced a figure of 7,500,000 to be reached by the end of the year. One-fifth of the people interviewed anticipated an Army of 10,000,000 or more. And, again, nearly two-fifths were unable to offer any estimate.

FROM WHAT YOU HAVE HEARD, ABOUT HOW LARGE AN ARMY WOULD YOU SAY WE ARE NOW PLANNING TO BUILD BY THE END OF 1943?

Less than 7,000,000	11%
7,000,000 to less than 7,500,000	15
7,500,000 to less than 8,000,000	12
8,000,000 to less than 10,000,000	8
10,000,000 and over	19
Don't know	37

MANPOWER MOBILIZATION

The public appears to be thinking in terms of a large Army, but it is even more keenly aware of the need for maintaining a labor force adequate to America's role as the "arsenal of democracy." As previously reported in these pages, the public is more prone to favor expansion of the labor force than to favor expansion of the Army at this time.

GRANTING THAT BOTH OF THESE THINGS ARE IMPORTANT,
WHICH ONE IS MOST IMPORTANT FOR US TO DO RIGHT
NOW — INCREASE THE SIZE OF OUR ARMED FORCES OR
INCREASE THE NUMBER OF WORKERS IN WAR JOBS?

Increase size of armed forces	22%
Increase number of workers	40
Both equally important	25
Don't know	13

Sentiment for expanding the labor force, even at the expense of the armed services, was particularly strong among those who were dissatisfied with the progress of production. Among people who felt that our war production program was proceeding "only fairly well" or "poorly", 47 per cent considered it more important to increase the number of war workers than to build up the Army. Only 37 per cent of those who believed production to be proceeding "very well" made a similar choice.

A Gallup Poll conducted in December indicates that about two-fifths of the public now thinks "there is a shortage of workers in war plants in this country." More than half of the public seems disposed to support drastic governmental allocation of the available manpower supply:

DO YOU FAVOR OR OPPOSE GIVING THE GOVERNMENT THE
RIGHT TO TELL WORKERS WHERE TO WORK AND AT WHAT
JOBS? (Gallup Poll, December)

Favor	56%
Oppose	35
Don't know	9

About a third of the public, however, believes that the Government already has authority to undertake this sort of manpower allocation.

DO YOU THINK THE GOVERNMENT HAS THE RIGHT AT THE
PRESENT TIME TO REQUIRE A PERSON TO TAKE ANY JOB
ANY PLACE IN THE COUNTRY? (Gallup Poll, December)

Yes	32%
No	49
Don't know	19

Considered together, these findings suggest considerable popular

receptivity to some over-all plan for the federal mobilization of manpower. Any specific national service act would, of course, encounter opposition from the groups and individuals directly affected by it.

Manpower controls would have to be accompanied by clear explanations of their effectiveness in advancing the war effort and by firm assurances to labor that the customary freedoms and collective bargaining procedures would be fully restored after the emergency.

PRIME PROBLEM

Trial tabulations of a Gallup Poll, the results of which have not yet been released, indicate that the American public tends to approach present and future problems largely in economic terms. A national sample was asked to give free answers to the question, "Aside from winning the war, what do you think is the most important problem facing this country today?" The answers, grouped under general categories in the table below, show that people were much more prone to think in terms of economic, than in terms of political, readjustments.

To solve the economic situation, to prevent inflation, to prevent another bad depression, to get the war paid for without serious effect on our currency	14%
--	-----

To make a lasting peace — a permanent world peace	12
---	----

Food shortage here and abroad — problem of producing more food — stepping up agriculture	10
--	----

Preservation of our democracy, to have a more literal democracy, to maintain our present form of government during the readjustment period, to save our nation from bureaucracy, to prevent dictatorship, to avoid fascism	9
--	---

Conditions after the war, reconstruction of the world, etc.	8
---	---

The present labor problem — the manpower shortage — scarcity of farm labor — proper distribution of manpower 85

A job for everyone after the war, to prevent future unemployment, to be sure the men in the services get jobs after the war 7

To put through social reforms — improve situation of the poor — reduce racial discrimination 4

Winning the war is the only important problem, there is no other problem 5

Other answers 17

Don't know 12

DEVELOPING SITUATIONS

ENFORCEMENT OF NATIONWIDE MILEAGE RATIONING

The American public is still far from fully convinced either as to the need for nationwide mileage rationing or as to the efficacy with which the rationing program is being enforced. In the parts of the country which have had considerable experience with gasoline rationing, a fifth of the people are still unconvinced that it is necessary on a national scale. A third of the people in the newly rationed states doubt the need for such a program.

About half the population throughout the country, moreover, believe people are trying to get more gasoline than the mileage regulations allow them. Depending on their section of the country, from one-fifth to two-fifths of all persons even refused to say that people should not take advantage of a chance to get more gasoline than rationing allows them.

IF PEOPLE HAVE A CHANCE TO GET MORE GASOLINE THAN THEY'VE BEEN ALLOWED, DO YOU THINK THEY SHOULD?

	OLD RATIONED AREA		NEW RATIONED AREA			
			E.N. Central	W.N. Central	South	West
Should	18%		19%	22%	17%	33%
Should not	77		70	70	77	62
Don't know	5		11	8	6	5

That denial of the need for nationwide gasoline rationing is an important factor in influencing people to condone evasion is indicated by the fact that:

18 per cent of those who do consider nationwide gasoline rationing necessary, but

34 per cent of those who do not see the need for nationwide gas rationing... think people should take advantage of opportunities to get more gas than they have been allowed.

With large sections of the population in some areas unconvinced of the necessity for mileage rationing, and with both widespread anticipation of chiseling and a strong tendency to condone it, the difficulties facing enforcement are obvious. They can be overcome only by persistent informational efforts to clarify the purposes of the program and by firm assurances that enforcement will be effective and equitable.

THE FUEL OIL PROGRAM IN OPERATION

Now that winter and a fuel oil shortage are actually upon them, Americans are adjusting to the situation with considerable ingenuity. But recent letters from social workers and other regular correspondents of the Bureau indicate that they are not denying themselves the luxury of a certain amount of grumbling, and in some parts of the country there is real anxiety about the months ahead.

Shutting off rooms and using supplementary heating — wood, gas, coal, electricity — are the most common measures for beating the fuel oil shortage. Many people are also keeping temperatures lower and install-

ing insulation or weather stripping. Other expedients include: dressing more warmly, keeping shades and curtains drawn, turning off the heat when leaving the house or going to bed, leaving windows shut at night, providing less hot water in apartment houses.

Relatively few people have heeded the admonitions of Government spokesmen to convert oil stoves and furnaces to coal. Some who have wanted to do so have been balked by shortages of labor or equipment. For low income people the cost is prohibitive. If the gravity of the situation had been better appreciated, however, some correspondents believe that more people would have found a way to change over, in spite of obstacles.

The crisis is creating some new problems. The care of old people, invalids and children, in homes which are too cold some or all of the time, is perhaps the gravest. Low income groups are resorting to "parking the kids" with neighbors in some instances. A few communities have opened public buildings to take care of families without sufficient heat.

In some places, too, there is real discomfort, and even suffering, and considerable anxiety about the future. In New England the situation is especially acute. The people in low-income groups, who depend on range oil-burning stoves for their heat, are reported to be suffering most. New Englanders generally face the rigors of deep winter with apprehension. Throughout the nation there is widespread anxiety about the danger of colds and pulmonary infections.

There is some disposition to put the responsibility for this feared wave of illness upon the Government. In general, there is a good deal of grumbling. Many people have the feeling that wise anticipatory planning could have eased the present situation. The unfinished pipe line is frequently referred to. People maintain that the present crisis is partly the result of the Government's piecemeal attack on economic problems. "If fuel oil, gasoline, price control and transportation are all parts of the same problem," one person asks, "why do we deal

with them separately?"

Any aspect of the administration of fuel oil rationing which suggests ineptness or bungling is subject to bitter attack. Failure to revise population quotas since 1940 has perhaps caused greatest anger. In Norfolk, whose population has nearly doubled since 1940, it is reported that there was a near riot about a month ago when people were first told that there was a certain deadline for securing kerosene rationing cards and then informed that there was an inadequate supply of the cards.

The "highly theoretical nature of the formula which leaves no discretion to local boards" also gives rise to some criticism. One correspondent writes:

"There is considerable confusion as to how quotas were reached. Some people report little reduction in oil, others report large reductions. Nobody seems to know why they got what they got."

There are also some complaints that rationing is not administered in such a way as to assure equality of sacrifice. A few people maintain that "the big fellows" — Government buildings and the larger hotels and apartment houses — are still extravagant in their use of fuel.

There was recognition that people's complaints about rationing arise in part as a result of their natural irritation over the discomfort it entails. The Government, the correspondents felt, should issue more material emphasizing the fact that the present situation is regrettable, but unavoidable, and stressing the relation between compliance with regulations and winning the war.

- - - - -

Supreme Court of the United States
Washington, D. C.

9 Jan'y 1865

Dear Henry -

You are a devoted friend -
and I have long known. It
was kind of you to send word
the gutter press's reference being
brother and I thank you for letting
me about it. Ever yours
W. H.



NAVY DEPARTMENT
EXECUTIVE OFFICE OF THE SECRETARY
WASHINGTON

January 9, 1943

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

Dear Henry:

I am sorry you are still knocked out. We missed you at dinner the other evening.

I know you would be interested in talking with Lemaigre-Dubreuil who was Murphy's opposite number in making all the arrangements for the North African expedition. He is a curious fellow. A conservative business man of wealth who was the President of the French Tax Payers League. As such, he fought all our friends like Herriot, Daladier and Blum, but that has not prevented him from playing a most patriotic role. He is taking the plane back to North Africa on Monday or Tuesday and is, of course, eager to meet you before he leaves.

If you should be well enough to leave your house I would be delighted if you could have tea with him at my home either today or tomorrow, Sunday. Will you let me have a word? My private telephone number is ADams 1234.

Good luck to you.

Bill

WM C. BULLITT

Jan. 9, 1948

Mr. Paul

Secretary Morgenthau

Would you please let me have your reaction to the following suggestion: That the Government forgive any member of the armed forces for that amount of his net income tax for 1942 which exceeds one-third of his pay.

I would also like to suggest that if any member of the armed forces is killed in action during 1948 his family should not have to pay any income tax for 1942.

Please let me have a memorandum on these two suggestions promptly.

*Sullivan's memo of 1/11/43 referred to
Paul for consideration. 1/16/43-*

*Followed up with Hyman 2/25/43.
Paul talked to Hyman - is opposed to suggestion
Feb 4/1/43-*

January 9, 1943.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz *es*

SUBJECT: President's Budget Seminar, Saturday, January 9,
1943 - 10:30 A.M.

In his Budget Seminar today President Roosevelt said that his new objective was to pay for one-half of the war costs out of current Government receipts rather than one-third, as would be the case on the basis of present legislation. He called for taxes and savings, or both, to provide those receipts. Asked if he thought that additional taxes should come primarily from individuals rather than from corporations, the President replied he would not say that.

The President said he had wanted to be more specific on the matter of increased taxes and increased savings, but felt that these goals could be attained in a number of ways. He declared that the present system of voluntary savings was working well and, in answer to questions, said that a spendings tax might be another possibility for increased revenue and savings. He asserted that he could not go into that tax very fully because there were several forms of it and that Dan Bell the other day had reported that a brand new form of spendings tax was being discussed. The President said he is still opposed to a sales tax, but then added that he sometimes wonders in our present system of excises whether we don't have a general sales tax with exemptions.

The President agreed with the interpretation of his call for making taxes on large incomes fully effective as being directed at the loopholes provided by tax-exempts, depletion reserves and community property laws.

-oOo-

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of January 1943 sales to date with sales during the same number of business days in December and November 1942

(At issue price in thousands of dollars)

Date	January daily sales	Cumulative sales by business days				January as percent of December
		January	December	November	January as	
January 1943						
1	\$ 12,810	\$ 12,810	\$ 4,116	\$ 5,164		311.2%
2	2,812	15,621	8,605	9,272		181.5
3	15,400	31,021	13,647	20,460		166.4
4	16,107	47,128	58,337	31,309		80.8
5	22,045	69,173	74,984	53,076		92.3
6	32,523	101,696	121,408	62,326		83.8
7	35,518	137,214	133,295	96,366		102.9

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

January 9, 1943.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of January 1943 sales to date with sales during the same number of business days in December and November 1942

(At issue price in thousands of dollars)

Date	January	Cumulative sales by business days				January as percent of December
	daily sales	January	December	November	January as percent of December	
January 1943						
1	\$ 2,716	\$ 2,716	\$ 197	\$ 303		1,378.7%
2	319	3,036	527	1,115		576.1
4	3,101	6,137	3,214	7,846		190.9
5	8,683	14,820	17,161	14,720		86.4
6	3,608	18,428	29,464	31,425		62.5
7	11,298	29,726	46,986	34,030		63.3
8	17,886	47,612	49,858	43,940		95.5

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

January 9, 1943.

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

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

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.

With the compliments of British Air Commission
who enclose weekly Statement No. 85 covering
Aircraft Flight Delivery as at January 5, 1943.

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

January 9, 1943.

SECRET 172
 MOST SECRET
 U. S. BRITISH

REF. NO. D-55
 WEEKLY REPORT NO. 85

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT
 (Covering Movements through January 5, 1943)

January 6, 1943

	BAC	BAC	BAC	BAC	BAC	BAC-1/2	1/2	1/2	1/2	A.R.-1/2	A.R.	A.R.	A.R.	A.R.	1/2	TOTAL
	RTG	LIR	WRY	WY	WY	FL-Base	WY	WY	WY	WY	WY	WY	WY	WY	WY	
UNITED KINGDOM	20	96	174	258	199	260	278	53							47	1,489
MIDDLE EAST		5					94			91						368
SOUTH AFRICA					111				71							111
FRENCH INDIA							27									27
AUSTRALIA							9									9
SINGAPORE									165							230
INDIA			42	3			16									16
BANARAS																54
RAJAHMUNDRAM																15
POONA																19
FRANKFURT (assigned at Montreal)	7															21
LOST AT SEA (in flight)			1	5	2		1	8	1	1						3
GIBRALTAR																18
En route U.K. (via So. Atlantic)																3
Iceland or Greenland																32
En route Middle East																14
En route South Africa																10
En route French India																8
Gender or Gander																2
En route Gander																16
Summit (on route)																35
R.A.F.F.S. Establishment		2	1		15		4	13								73
Montreal (on route)		2	1		9			16	21	3	2	2	2	14	1	3
Ottawa					1			2								6
CRASHED AFTER REPORT			2	9	14		5	17	7	1						6
En route Montreal (in U.S.)								1	5							9
Wilton, Mo.																2
Wilton, Mo.																20
Wilton or West Palm Beach																8
En route Wilt or W.P.B.																84
Detroit																8
En route Detroit																83
Nashville or Memphis																3
En route Nashville or Memphis																1
Dallas																13
Long Beach or Newcastle																21
Kilnaboth City																26
Modification Centers																
En route Mod. Centers																
Special Duty		2			2		1	2		4						
Under repair		1	2					4								
CRASHED IN U.S.			2					18	1	4						
DIVERTED TO U.S.		50		20	280		10									
TOTALS	20	165	225	295	660		344	743	178	21	64					

*Including one transferred to U.S. after delivery to U.K. PLANNING & AIRFRAME SUPPLY, BRITISH AIR

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SECRET 172

U. S.

2

MOST SECRET

BRITISH

REF. NO. D-55
MONTHLY REPORT NO. 65LOCATION OF CURRENT FLIGHT DELIVERED AIRCRAFT
(Including Movements through January 5, 1943)

January 6, 1943

	BAC	BAC	BAC	BAC	BAC	BAC-1/L	1/L	1/L	1/L	A.R.	A.R.	A.R.	A.R.	A.R.	A.R.	1/L	TOTAL
	TYPE	LIN.	IND. V	IND. III	VEH.	FL. BOMB	IND.	BOAT	RAIF.	STOLEY	ROAD	ROSB	ROSG	ROGA	TRANS.		
UNITED KINGDOM	20	96	174	258	159	240	278	53		95	75	3	90	4		31	1,489
MIDDLE EAST		5					94		91						47	31	268
SOUTH AFRICA					111												111
FINLAND							71										71
AFRICA						27											27
ASIA/PACIFIC						9											9
INDIA			42	3			165										230
BALANCE						16											16
FINFIELD RIDGE					54												54
IRAN													11	4			15
PORT SERVICE (assigned at Montreal) 7											3						30
LOST AT SEA (in flight)			1	5	2	1	8	1	1		1						21
GIBRALTAR						3											3
En route U.K. (via So. Atlantic)									18								18
Iceland or Greenland					2				1								3
En route Middle East							2		27						2	1	32
En route South Africa					14												14
En route Freetown							18										18
Gander or Goose							5	1						1			6
En route Gander							1							1			2
Bombay (on route)						16											16
R.A.F.F.S. Establishment		2	1		15	4	13										35
Montreal (on route)		2	1		9		16	21	3	2	2	2	14	1			73
Other					1		2										3
CRASHED AFTER REPORT			2	9	14	5	17	7	1			2				6	63
En route Montreal (in U.S.)							1	5				3					9
Halton, Mo.					1						1						2
Miami or West Palm Beach					2			5	11							2	20
En route Miami or W.P.B.					1		1	2	4								8
Detroit					3		13	58		4				6			84
En route Detroit							4	4									8
Knoxville or Memphis					5		8		58				5	5	2		63
En route Knoxville or Memphis									3								3
Dallas								1									1
Long Beach or Newcastle							9	1	3								13
Kilmboth City						21											21
Modification Centers											24	1	1				26
En route Mod. Centers											1	1					2
Special Duty		2			2	1	2		4								11
Under repair		1	2				4										7
CRASHED IN U.S.			2		5		18	1	4						7		39
DIVERTED TO U.S.		50		20	280	10						2					131
TOTALS	20	165	225	295	660	344	743	178	21	64	113	25	122	71	32		3,265

*Including one transferred to U.S. after delivery to U.K. PLANNING & AIRFRAME SUPPLY, BRITISH AIR COMMISSION, WASHINGTON, D.C.

Regraded Unclassified

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 7860



Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

January 9, 1942.

Dear Dr. White,

I enclose copies of a statement of British gold and dollar exchange assets and of an estimated balance of payments of the sterling area for the next three months. They are generally on the lines of those presented to Congress in February, 1942, though with some changes of lay-out and comment. It is my understanding, which I will be glad if you will confirm, that while these statements may be communicated to Congressional Committees in executive session, they will not be published or receive any public use. This was the position as regards the previous tables.

The following are some comments which you may care to have.

AVAILABLE DOLLAR ASSETS

1. Gold. Previous tables excluded from the figure in the table
 - (a) gold in Paris and gold held in Ottawa as guarantee for insurance company liabilities;
 - (b) the Belgian gold; and
 - (c) "scattered gold", which was separately mentioned in a notation to the table.

It seems to us right to continue to exclude (a) and (b). But the conception of scattered gold is now rather obsolete. It dates from the days when the main use of our gold holdings was to ship them to the U.S. to buy dollars, so that we classed it as available or scattered according to the relative possibilities of shipment to this country. The term "scattered gold" therefore includes gold held in London, and dates from a time when we held hardly any gold there. Now we hold fairly large amounts; on December 31 we held \$42 millions in London and \$30 million in other places described as "scattered". It hardly seems justifiable to include these amounts in a separate notation.

J.R. White,
Room 2143,
United States Treasury,
Washington, D.C.

We therefore propose that the distinction should be abandoned and that scattered gold should be included in the figure in the main table. On the other hand, we would wish to include a notation of the direct gold liabilities which we have, particularly as some of the more distant ones will fall due at a time when the "scattered gold", which is not now all truly available (as is implied by the caption) will be available.

2. Official dollar balances. We wish to include a notation of the sight dollar liabilities represented by registered accounts, as this has in recent months become far more important. At January 31, their amount was only \$7 million; now it is \$53 million, mainly owing to the presence of United States forces in the United Kingdom.

I take this opportunity of reminding you of the following large items which have contributed to the increase in our dollar balances, apart from the normal incomings and outgoings:-

	(Millions of Dollars)
Sale of wool stockpile.....	70
Sale of aircraft taken off B.A.C. contracts for U.S. use.....	80
Sale of shipyards	14
Sale of other facilities.....	100
Sale of securities	17
Instalment of R.F.C. Loan	40
	<hr/>
	321

These items account for more than the whole increase in our dollar balances, and all but \$90 millions of the increase in our gold (including scattered gold) plus dollar balances, as is shown by the following table:-

	(in Millions of Dollars)		
	January 31 1942.	December 31 1942.	Increase
Gold (including scattered)	465	688	223
Official dollar balances	55	243	188
TOTAL	<u>520</u>	<u>931</u>	<u>411</u>

3. U. S. Securities. No fresh overall valuation has been made. \$17 million have been sold, as stated above. This would leave a figure of \$126, but we have increased the figure upwards to \$135 to allow for the recovery of markets which has taken place and to include some securities originally pledged against RFC Loan but not needed for this purpose.

OTHER DOLLAR ASSETS

1. Private dollar balances, The notation which I have inserted is, I think, self-explanatory. We had pushed down our authorized dealers' balances to a figure of \$47 million dollars on January 31, 1942. Since then we have gradually let them rise to \$73 million on December 31, 1942. This being so, it may not be thought fair to maintain the previous notation. On the other hand, the authorized dealers' balances were previously at an inconveniently low figure, and probably could not in any case have been held there with prudence, for a reason which is I think too technical to put in the table; the registered accounts (which as stated above increased over the period by \$46 million) are sight dollar liabilities of the authorized dealers, and they needed greater dollar reserves in their hands if they were to deal conveniently with these liabilities.

You will presumably, as on previous occasions, supply a figure for private balances from your own data. This is likely to show an increase over previous figures corresponding to the increase in authorized dealers' balances.

Note to the table. This is I think self-explanatory and takes the place of a corresponding note to the balance of payments table in the previous set. It is, I think, better placed here.

Balance of payments.

As last time, we do not think it prudent or useful to estimate more than three months ahead.

BALANCE OF PAYMENTS - EXPENDITURES

Item A.1. This is calculated as before, namely estimated payments during the quarter, \$53.7 million, less estimated receipts, \$21.7 million. The figure of \$113 million for payments falling due after March 31 includes \$78 million for French reimbursement.

Item C. This includes \$129 million to Canada; i.e., the \$150 million which we have undertaken to pay less the amount which we had already paid before the end of the year. The balance of \$46 million less the \$20 million shown under head C of "Dollar Receipts" as receipts from outside the United States comes to much the same as the net figure of \$25 million shown as Item C of dollar expenditures in the last table. If you prefer, for the sake of uniformity, to combine the two figures in this table into a single net expenditure figure of \$155 million, we shall have no objection.

BALANCE OF PAYMENTS - RECEIPTS

Items A.3 and B.2. The data which we have received from London are in a rather different form from those which we used in the last table. Last time we showed a heading C; "unidentifiable receipts of Empire countries" and added the following footnote; "This is a residual item. It may represent in part capital items, but probably reflects also such items as gifts." We now have a separate figure for U.K. unidentifiable receipts, but for the rest of the sterling area an "other items" heading, which we are told are largely unidentifiable. It would be possible, and this, to add the same footnote to Item A.1 (b), but it also applies to an unknown part of Item B.2. It is very much a question of preference how one presents this, on which we will be glad to be guided by your views.

FOOTNOTES TO THE BALANCE OF PAYMENTS TABLE

The footnote on gold is self-explanatory.

As regards the second footnote, we would prefer for obvious reasons of security not to disclose these figures. The same reasons which make us prefer to keep them secret - namely their dependence on operational movements - also make any estimate unreliable. But, for your own information, our estimate for receipts from requirements of U.S. Forces is \$35 million for the United Kingdom and \$60 million for the rest of the sterling area.

You may equally care to know for your own information that our receipts on account of the requirements of local currency of United States Forces during 1942 were about \$250 million. This was one of the main offsets to the loss of dollar-earning power which we have suffered through Japanese aggression (this loss was fully up to my estimate of a year ago). A second important offset was the striking reduction in the dollar expenditure of the sterling area, owing to shipping difficulties and increasingly stringent import restrictions and in part to the extension of lend-lease; the dollar expenditures of the whole area fell from \$775 million in 1941 to about \$475 million in 1942, which latter figure is very close to the rate of expenditure which we estimated for the period February through April, 1942. The third important offset consisted of the non-recurrent accruals of dollars to which I have referred above.

The overall picture, when compared with that last presented to Congress, is one of an improvement in our gold and dollar position. This makes it the more important to stress that this is only one side of the picture, and that in India, South Africa, Egypt, the Peninsula and South America we have been liquidating our assets and increasing our liabilities at a rate far greater than the improvement in our gold and dollar position. This position was, I believe, very fully explained to you when you were in London. A recent large liability which we have had to undertake, in addition to these more

deferred payments to which I have just referred, is the payment of \$150 million to Canada.

If you want any further elucidations, or if you wish to discuss the figures and their presentation, Playfair and Allen are at your disposition.

Yours sincerely,

F Phillips

Encls.

F. Phillips.

CONFIDENTIAL

Estimated Dollar Expenditures and Receipts of
British Empire, excluding Canada and Newfound-
land January 1, 1943 to March 31, 1943 (1)

(In millions of dollars)

Dollar Expenditures

A. Payments to the United States by the United Kingdom:		
1. On British Supply Missions commitments (including administrative expenses) - net.....	32	
(In addition \$113 will fall due after March 31, 1943 on B.S.M. commitments now outstanding)		
2. For shipping, interest, film remittances, etc.	40	
3. For other goods and services, urgent or ineligible for Lend-Lease	<u>50</u>	122
B. Payments to the United States by the rest of the Sterling Area (principally Empire countries).....		75
C. Payments to areas outside the United States.....		<u>175</u>
Total dollar requirements.....		372

Dollar Receipts

A. Receipts from the United States by the United Kingdom:			
1. From merchandise exports	20		
2. From shipping and interest	15		
3. From other items			
(a) Readily explicable	20		
(b) Unidentified	<u>50</u>	<u>70</u>	105
B. Receipts from the United States by rest of Sterling Area:			
1. From merchandise exports	70		
2. Other items	<u>25</u>		95
C. Dollar receipts from outside U.S.			<u>20</u>
Total dollar receipts.....			220
Total dollar deficit of Sterling Area (principally British Empire), January 1 to March 31, 1943.....			<u>152</u>
Total dollar requirements.....			372

Note:

- (a) In presenting these figures, the British Treasury made the following statement with respect to the acquisition of gold:

"No close estimate of our probable purchases of gold can be made even for the current quarter. The output of gold in the Sterling Area is likely to decline to an extent depending on the demand of man power and on the availability of mining plants and stores."

- (b) The foregoing estimates exclude receipts rising from purchases of local currency for the requirements of the U.S. Forces in the Sterling Area.

-
- (1) These figures also include the gold and dollar expenditures and receipts of non-British members of the Sterling Area - namely, Egypt, Anglo-Egyptian Sudan, Iraq, Belgian Congo and Ruandi-Urundi, Iceland, the Faroe Islands, and Fighting French territories in Africa and Oceania, Syria and Lebanon. The net dollar expenditures and receipts of these areas are small.

British Gold and Dollar Exchange Assets
as of December 31st, 1942

(except where noted, these are British Treasury figures)

(In million of dollars)

AVAILABLE GOLD AND DOLLAR ASSETS

1. <u>Gold</u>	688
(Foreign countries hold sterling funds carrying specific rights of conversion into gold amounting to approximately \$190 million)	
2. <u>Official dollar balances</u>	243
(United States registered Sterling accounts, carrying the right of conversion into dollars on demand, amounted at November 30, the latest available date, to \$53 million)	
3. <u>U.S. Securities</u>	135
(Of these securities the British estimate that only \$80 million are readily marketable)	
Total - available gold and dollar assets	<u>1066</u>

OTHER DOLLAR ASSETS

1. <u>Private dollar balances</u>	-
(This figure is taken from U.S. Treasury data. The British state that dollar balances in the hands of British banks acting as authorized dealers in foreign exchange increased by \$26 million between January 31, 1942, when they were reduced to an extremely low level owing to the stringency of the dollar position, and December 31, 1942).	
2. <u>Assets pledged against R.F.C. loan</u>	500
U.S. securities	\$ 205
Direct investments	295
3. <u>Branches of British insurance companies</u>	200
(The earnings of these companies are assigned to R.F.C. loan)	
4. <u>Trusts in U.S. held for U.K. beneficiaries</u>	290
(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan, including branches of British insurance companies whose earnings are assigned to R.F.C. loan, and with Viscose and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January, 1941. There are in addition some small investments in U.S. enterprises which, because of their size, the British regard as virtually unseizable).	

Note:

In connection with the foregoing data, the British state:
"British holdings of gold and United States dollars are not held specifically against our liabilities in the United States, but constitute a partial cover for obligations and responsibilities of great magnitude and worldwide character. Gold currently acquired differs from our original stocks in that it can be acquired only by further increasing our overseas indebtedness. Thus the recent increase in our holdings has been accompanied by a very much greater increase in our overseas liabilities."

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRETCOPY NO. 13OPTEL NO. 10.

Information received up to 7 a.m. 9th January, 1943.

1. NAVAL.

One of H.M. Anti-submarine trawlers was torpedoed off Algiers on the 7th. 20 survivors were picked up.

2. MILITARY.

RUSSIA. In the lower Don sector the Russians have penetrated 40 miles West South West of Tsimlyanskaya are making progress astride Stalingrad - Tikoretsk railway and have captured Zimovniki on the railway 65 miles North East of Salsk. In the Caucasus they are now within ten miles of the Railway junction of Georgiyevsk.

3. AIR OPERATIONS.

WESTERN FRONT. 8th. 9 F.W. 190's attacked Torquay. Three persons were killed.

8th/9th. 127 aircraft were sent out. Seaming 84 (3 missing), Duisburg 14 (3 missing) Leaflets 2.

FRENCH NORTH AFRICA. 6th/7th. Wellingtons dropped 17 tons of bombs on Bizerta harbour. Bombers also attacked Tunis and Sousse where a ship was hit. Enemy aircraft damaged four fighters on the ground at Maison Blanche.

7th. Escorted U.P. Marauders bombed the airfield and barracks at Gabes starting many fires and U.S. Bostons attacked enemy troop concentrations at Kajrouan. Enemy casualties 4 1 1, Allied 5 lost. U.S. Lightnings reported a general Westward movement of troops and M.T. the whole distance between Tripoli (L) and Medenine.

TRIPOLITANIA. 7th. Hurricanes attacked M.T. moving Westward between Zliten and Castelverde (33 miles ESE of Tripoli). M.E. 109's attacked our landing ground South of Tamet. Enemy casualties 1 3 1, ours 1 Spitfire.

SICILY. 7th. 10 U.S. Liberators bombed Palermo harbour.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 11

Information received up to 7 A.M., 10th January, 1943.

1. NAVAL

3 tankers in convoy to the MEDITERRANEAN were torpedoed 1200 miles southwest of GIBRALTAR yesterday. During the week ending 8th January 5 ships were torpedoed and sunk - 1 British tanker in the W. Atlantic, 1 British and 1 Polish ship in the Trinidad area, and 1 British and 1 U.S. ship in the South Atlantic. In air attacks on BONE Harbour 6 British ships were damaged, 2 of which are reported to be total losses. The British tanker reported torpedoed in attacks on outward bound convoy but proceeding, has returned damaged to ROTHSAÿ. 1 Dutch and 1 Greek ships were reported overdue at their destinations.

2. MILITARY

LIBYA. At midday 8th southwest of BOUERAT a considerable body of enemy M.T. with armoured cars and tanks began moving west-southwest and by 3 p.m. about 1,000 M.T. were reported moving in the direction of EL FASCHIA 35 miles southwest of GHEDDAHIA. At last light 600 M.T. were seen stationary 25 miles northeast of EL FASCHIA. In the FEZZAN Fighting French have occupied BRACH and GATRUN about 100 miles respectively north and south of MOURZOUK.

RUSSIA. The Russians have repulsed several counter attacks northwest and southwest of VELIKI LUKI. The German forces in the salient in the Great Don Bend have probably been withdrawn. The Russians have made considerable progress westward from ELISTA. In the CAUCASUS they are pursuing the Germans on a wide front and are approaching BUDENOVSK and GEORGIEVSK.

3. AIR OPERATIONS

WESTERN FRONT. 9th. Ventures effectively attacked the steel works at IJMUIDEN and Mosquitos bombed the railway centres at ROUEN and MONS. 7 enemy aircraft crossed the South coast.

9th/10th. 179 aircraft were sent out - sea mining 128 (4 missing), ESSEN 51 (3 missing). Weather at ESSEN was excellent and the attack is considered successful.

FRENCH NORTH AFRICA. 8th. Escorted U.S. heavy bombers attacked BIZERTA, FERRYVILLE and TUNIS, and medium bombers attacked objectives southwest of SFAX and in the SOUSSE and KAIROUAN areas.

At night Malta Mosquitos machine gunned M.T. on the SFAX-GABES Road. Enemy casualties 12 destroyed, ours 6, nil, 1.

LIBYA. 8th. Enemy fighter bombers attacked 1 of our landing grounds near TAMET. Casualties by Spitfires and anti-aircraft 4, 4, 2.

At night Malta Wallingtons dropped 24 tons of bombs on road junction south and east of TRIPOLI (L).