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✓ I

March 20, 1943  
9:57 a.m.

Daniel  
Bell:

Yes, sir.

HMJr:

Good morning.

B:

Morning.

HMJr:

Does the name, Phillip Gibson, who used to be  
Director of Finance at California, ring a bell  
with you at all?

B:

No.

HMJr:

Didn't we once consider him?

B:

Phillip Gibson?

HMJr:

No? He's not....

B:

For - you haven't - you know what it's for?

HMJr:

We just - we just wanted him as an assistant,  
you know?

B:

Yeah.

HMJr:

He now happens to be Chief Justice of Cali-  
fornia.

B:

It doesn't ring a bell. I don't know.

HMJr:

Do you know what the tasks are of the Director  
of Finance at California?

B:

Well, I don't know, but I suppose it's some-  
thing like the Secretary of the Treasury.

HMJr:

Could you find out?

B:

Yeah, I could.

HMJr:

Would you let me know today?

B:

Yes, sir.

HMJr:

All right.

B: I'll let you know today, right away.

HMJr: I thank you.

B: Right.

March 20, 1943  
10:11 a.m.

HMJr: Hello.

Miss Watters  
(Douglas' Secy): Hello.

HMJr: This is Mr. Morgenthau.

W: Good morning, sir.

HMJr: You - good morning to you. Do you expect  
the Justice in?

W: I think he'll be in before eleven o'clock.  
He's at the dentist, Mr. Secretary.

HMJr: Oh. Well, if he's in a good humor when he  
comes back - the dentist hasn't hurt him  
too much....

W: No, I don't think so.

HMJr: He recommended two people to me, one,  
Phillip Gibson, Chief Justice of California.

W: Yes.

HMJr: Got a pencil?

W: Yes.

HMJr: And the other, Max Radin - R-a-d-i-n,  
University of California....

W: Yes.

HMJr: And he kindly consented that he would try  
to find out whether either of them would  
be available to come to - as advisor to  
me at the Treasury, and I'm going to take  
advantage of his good nature and ask him  
whether he could either get off an air  
mail letter or a telegram to them or some-  
thing today.

- 2 -

W: Now do you want him to wire both of them?  
HMJr: Yeah.  
W: Or just one?  
HMJr: Both.  
W: Both of them.  
HMJr: Yeah.  
W: Yes, well, I'm sure he'll be very happy to do that, Mr. Secretary.  
HMJr: Will you guarantee that he does it?  
W: I certainly will. I'll see to it myself.  
HMJr: Wonderful.  
W: All right, sir.  
HMJr: Thank you.  
W: Goodbye.

March 20, 1943  
10:17 a.m.

HMJr: Hello.

Operator: Secretary Hull.

HMJr: Hello.

Hull's Secretary: Just one moment, please, Mr. Secretary.

HMJr: I see.

Cordell Hull: Hello, Henry.

HMJr: Hello, Cordell.

H: What's going on?

HMJr: Well, that's the trouble? I don't know, and I thought maybe you could help me out.

H: Yeah.

HMJr: About the middle of the week Halifax called me up and said that he had a cable in from Churchill in regards to - some negotiations in regards to the franc and the dollar and the pound, you see?

H: Yeah.

HMJr: And should Eden take it up with me or should he take it up with the President?

H: Yes.

HMJr: Well, knowing nothing about it....

H: I haven't heard anything about it myself.

HMJr: ....I said, "You better take it up with the President."

H: Uh huh.

- 2 -

HMJr: Because I didn't know what he was talking about.

H: Yeah.

HMJr: Because he said that - I gathered that the French had turned down either the suggestion that the President made or Churchill had made and Churchill would seem to be appealing to the President.

H: Now is that in the Africas?

HMJr: Yeah.

H: Yeah.

HMJr: So I gather.

H: Yeah.

HMJr: And I just thought if something like that was going on and you knew about it, you might tell me about it.

H: Oh, yes, I - all I have noticed was that that fifty-cent proposition went through and is in operation.

HMJr: Well, evidently there must be in some other part of Africa....

H: I guess so.

HMJr: Would you mind inquiring around, and sort of....

H: No.

HMJr: ....tell your boys if there's....

H: No. I tell you what you do too.

HMJr: Yeah.

H: You tell some suitable person over there to always keep in touch with Fels....

HMJr: Yeah.

- 3 -

H: ....because he's more apt to know about these rumors and reports first than anybody we've got.

HMJr: I'll do it, and if you wouldn't mind telling Feis, if he's the man....

H: Yeah.

HMJr: ....if something comes through that is financial ....

H: Oh, yes, I'll - to get it over to your folks.

HMJr: Promptly.

H: Yes, I'll be glad to.

HMJr: I'd appreciate that very much.

H: All right, Henry.

HMJr: Thank you.

March 20, 1943  
11:00 a.m.

HMJr: Bob?

Robert  
Patterson: Yup.

HMJr: I hope you didn't mind my needling you yesterday.

P: Not a bit, not a bit.

HMJr: Bob, while you look into the bond thing -- whoever you have doing that -- would you mind, for your own sake, having him also look into the soldiers' allotment?

P: Dependency allowance, you mean.

HMJr: Well, whatever you call it.

P: For families.

HMJr: Yeah.

P: Well, that - that - yes, I will, but that - I know a good deal about that already.

HMJr: Well, isn't that way behind too. -

P: Well, that's picking up a lot. We sent that office up to Newark....

HMJr: Oh.

P: ....and it's being run now out of Newark.

HMJr: I see.

P: The bond business is being sent up to Chicago.

HMJr: That's right.

P: April 1st.

HMJr: Yeah.

P: Of course, it's been in bad, no doubt of that.

- 2 -

HMJr: Yeah.

P: The deliveries have been slow.

HMJr: Yeah.

P: Our problem is far harder than the Navy, because we have such a - a much larger volume of - of business.

HMJr: Yeah.

P: And we take amounts as low as \$1.50....

HMJr: Yeah.

P: ....and things like that, which they don't do. However, we've got to straighten it out. There's no doubt of that.

HMJr: I - I - I think it's running three to four months behind.

P: I think it is.

HMJr: Yeah.

P: That's what....

HMJr: Well, I wouldn't have brought it up if I hadn't tried every other way to - to get something.

P: I know. It's all right, Henry.

HMJr: It's okay?

P: Sure.

HMJr: All right.

P: Quite all right.

HMJr: Thank you.

P: Goodbye.

March 20, 1943  
2:57 p.m.

HMJr: Hello.

Operator: Robbins. Go ahead.

William  
Robbins: Yes, sir.

HMJr: Robbins?

R: Yes.

HMJr: I just called up Harold Graves, and from what he said I'm afraid he's going to be out for some time.

R: Oh, that's too bad. I was making inquiry this morning through his office, and they said he wasn't feeling at all well.

HMJr: And I wish you'd look to Ted Gamble as Acting Head of the War Bond crowd.

R: Well, I have been doing that and....

HMJr: And recognize him as such.

R: I - that's exactly the way we've been working....

HMJr: Good.

R: ...right up to the moment. Ted, you see, was with us all morning and at the lunch, and I would naturally do that. It's a fine thing that he's here to jump in.

HMJr: Good. Yeah, we're lucky to have him.

R: Yes, yes. All right, sir.

HMJr: Thank you.

R: Right.

March 20, 1943

TO: Mr. Bell  
FROM: The Secretary

I want to know how many Army camps have banking facilities and how many do not. *See memo from Bell.*

SUGGESTIONS FOR SECRETARY'S USE WHEN HE GREETES THE PUBLISHERS  
MARCH 20, 1943

1.

Thank the group for coming.

Regret that 2 or 3 who were invited could not attend.

We picked this group to come to Washington because we wanted a small group of influential people in this industry.

2.

Comment on importance of group — representing newspaper industry — composed of influential private citizens.

3.

Point up importance of Second War Loan campaign.

5.

Thank the group for past help on Stamps,  
War Savings Bonds - last Victory Fund, etc.

Newsboys

4.

Develop unique position of newspaper industry in this drive:

- a) Newspaper is vital part of American community life.
- b) Newspaper editor is important citizen in each community - he knows the home front - has respect and following in his community.
- c) We want to take our campaign to the people - this is the people's war - we need newspaper support.

6.

Praise group for outstanding job on scrap drive.  
They made the scrap drive their own - it was a  
great success.

7.

Outline plans for day:

- a) Economic charts - official.
- b) Brief outline of promotional plans.
- c) Brief description of our selling setup.
- d) Lunch with General Marshall. Perhaps you will have some suggestions for me at that time.

8.

Review pertinent points as follows:

- a) Importance of our coming campaign.
- b) Importance of newspaper help.
- c) We feel that if you know our problem, which is the problem of everybody in America, you will find ways to help us.

9.

Close.

See you later at lunch.

Those attending Publishers Meeting - March 20, 1943

(Chart Room of the Treasury)

Acceptances of Publishers

Roy D. Moore, President, Brush-Moore newspapers, State Administrator,  
War Savings Staff, Cleveland, Ohio

Linwood I. Noyes, Advertising Council, The Globe, Ironwood, Michigan

Walter M. Dear, President, American Newspaper Publishers Assn.,  
Jersey Journal, Jersey City, New Jersey

O. G. Andrews, President, New England Daily Newspaper Assn., New London,  
Connecticut

A. C. Hidnutt, President, Inland Daily Press, Chronicle-Telegram,  
Elyria, Ohio

Basil L. Walter, Managing Editor, The Star Journal, Minneapolis,  
Minnesota. (Alternate of Roy Roberts, ASNE)

E. H. Abels, National Editorial Association, The Outlook, Lawrence,  
Kansas

Cranston Williams, Gen. Mgr., American Newspaper Publishers, 370 Lexington  
Avenue, New York City

E. S. Friendly, Advertising Council, New York Sun, New York City

Charles P. Manship, President, Southern Newspaper Publishers, State-  
Times and Advocate, Baton Rouge, Louisiana

Frank E. Gannett, Rochester Times Union, Rochester, New York

John S. Knight, Vice President, American Society of Newspaper Editors,  
Miami Herald, Miami, Florida

W. M. Baskervill - Editor Baltimore News Post, Baltimore, Maryland

H. W. Stodghill, Philadelphia Bulletin - Philadelphia, Pennsylvania

Note: Last minute regrets from those who could not attend include:

Governor James M. Cox - Publisher, Miami Daily News and Dayton Daily News

George B. Parker - Editor in Chief, Scripps-Howard Newspaper Alliance

Thomas White- Hearst Publications - (Alternate will be Baskervill)

Others attending Publishers Meeting - March 20, 1943

General Marshall

General Surles

Secretary Morgenthau

Gardner Cowles, Jr., - Office of War Information

Jim Rogers - Office of War Information

Mr. Ransom (Alternate for Mr. Eccles)

Chester La Roche - Advertising Council

Daniel W. Bell

Herbert E. Gaston

Stuart Peabody

~~Harold Graves~~ T.R. GAMBLE

George Buffington

Wesley Lindow

William M. Robbins

Note: Don Sterling - Consultant on Publicity - WPB sent a last minute regret

March 20, 1943

My dear Harry:

I think you would like to know that General Marshall came over to the Treasury today, and talked off the record to a number of publishers from all over the country, who had come here to help us in our War Bond Drive.

General Marshall gave the most inspiring talk on the war that I have heard since I have been in Washington. I am sure that everybody in the room went away with a renewed confidence in the United States Army, and you ought to be very proud of the fact that you have as your Chief of Staff General Marshall.

With kind regards,<sup>1</sup>

Sincerely yours,

(Signed) Henry Morgenthau, Jr.

Honorable Henry L. Stimson,  
Secretary of War,  
Washington, D.C.

Copies in Diary

By Saunders 4:40 3/20/43



THE SECRETARY OF THE TREASURY  
WASHINGTON

March 20, 1943

My dear Harry:

I think you would like to know that General Marshall ~~kindly~~ came over to the Treasury today, and talked off the record to a number of publishers from all over the country, who had come here to help us in our War Bond Drive.

General Marshall gave the most inspiring talk *on the war* that ~~I think~~ I have heard since I have been in Washington. I am sure that everybody in the room went away with a renewed confidence in the United States Army, and you ought to be very proud of the fact that you have as your Chief of Staff General Marshall.

With kind regards,

Sincerely yours,

Honorable Henry L. Stimson,  
Secretary of War,  
Washington, D.C.





MARGARET MITCHELL

Atlanta, Georgia

March 20, 1943

My dear Mr. Morgenthau:

It was a disappointment to all of us that you were unable to be in Atlanta for our victory celebration. Up until the last moment we hoped that you could come. In this hope I took the Confederate bill to Mr. Conner's dinner to give to you for a souvenir. When my newspaper friends saw me give it to Mr. Gamble, they could not resist saying that I was trying to pay my income tax with Confederate money. After all, it was close to March 15th.

I cannot thank you enough for the citation from the Treasury Department which you sent me for my work in the new "Atlanta" cruiser bond campaign. I am framing it and putting it on the wall of my office, and my pride in it will increase as time goes on. It was good of you to do me this honor and I am truly grateful.

Cordially,

Margaret Mitchell March  
(Mrs. John R. March)

March 20, 1943

Dear Mr. Crull:

Please accept our thanks for the special message you broadcast to radio listeners concerning the Treasury's drive to get income tax returns filed before March 15.

Your prompt cooperation in complying with our request for announcements, with so little notice, was indeed gratifying.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. I. Williard Crull  
Campana Sales Company  
Batavia, Illinois

HEG:vm

Copy and list in Diary

Copies to Thompson

Letters sent to:

I. Williard Crull,  
Campana Sales Company,  
Batavia, Illinois

Charles T. Ayres,  
Ruthrauff and Ryan,  
405 Lexington Avenue,  
New York, New York.

Mr. P. C. Lund,  
Wade Advertising Agency,  
208 W. Washington St.,  
Chicago, Illinois.

Mr. S. James Andres,  
Lennen and Mitchell, Inc.,  
17 East 45th Street,  
New York, NY

Mr. D. B. Stetler,  
Standard Brands, Inc.,  
595 Madison Avenue,  
New York, NY

William Burke Miller,  
War Program Manager,  
National Broadcasting Co.,  
30 Rockefeller Plaza,  
New York, NY

Mr. Gerald Maulsby, War Program  
Manager,  
Columbia Broadcasting System  
485 Madison Avenue,  
New York, NY

George R. Bayard,  
Russel M. Seeds and Co.,  
Palmolive Building,  
Chicago, Illinois

Mr. Elliott McEldowney,  
Petroleum Advisers, Inc.,  
60 Wall Tower,  
New York, NY

James H. West,  
Proctor and Gamble Co.,  
Gwynn Building,  
Cincinnati, Ohio.

E. Hulshizer,  
Duane Jones Company,  
570 Lexington Avenue,  
New York, NY

Mr. Charles Barry,  
War Program Manager,  
Blue Network Company,  
30 Rockefeller Plaza,  
New York, NY

Mr. Ross D. Siragusa, President,  
Continental Radio and Television Corp.,  
3800 West Cortland Street,  
Chicago, Illinois.

Mr. John H. Platt,  
Director of Advertising,  
Kraft Cheese Company  
500 Peshtigo Court  
Chicago, Illinois

Paul Jonas,  
War Program Manager,  
Mutual Broadcasting System,  
1440 Broadway,  
New York, NY

J. H. Lide,  
Assistant General Advertising Mgr.,  
Westinghouse Electric and  
Manufacturing Company  
306 Fourth Avenue  
Pittsburgh, Pa.

Mr. Bernard J. Prockter  
The Biow Company, Inc.  
9 Rockefeller Plaza  
New York, NY

John R. Gilman  
Lever Brothers Company  
50 Memorial Drive  
Cambridge, Mass.

C. G. Mortimer,  
General Foods Sales Company,  
250 Park Avenue,  
New York, NY

March 20, 1943.

Dear Jakob:

Thank you for your letter of March 18, which enclosed copies of correspondence exchanged between you and the Editor of the New York Times. This material is very interesting indeed, and I shall be glad to pass it on to Randolph Paul and Roy Hough for their reading and information. Thank you for sending it to me.

With best regards,

Sincerely,

[Signed] Henry

Dr. Jacob Viner,  
Yale University,  
Institute of International Studies,  
New Haven, Connecticut.

GMF/abs

*Notes  
RB*

File in Diary

YALE UNIVERSITY  
INSTITUTE OF INTERNATIONAL STUDIES  
NEW HAVEN, CONNECTICUT

March 16, 1943

Secretary Henry J. Morgenthau, Jr.,  
Treasury Department,  
Washington, D. C.

Dear Henry;

Enclosed you will find a copy of my letter to the editor of the New York Times re the Ruml plan. If I get an interesting reply, I will send you on a copy of that also. Would you please let Paul and Blough see this correspondence after you are through with it?

Cordially,

*Jacob Viner*  
Jacob Viner

JV:B  
Encl.

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The New York Times  
Times Square

March 10, 1943.

Prof. Jacob Viner  
Yale University  
New Haven, Connecticut

Dear Sir:

Mr. Duffus has passed along to me your criticism of our handling of the Treasury's tax plan.

Just to say we did not give a correct picture of it does not give me much to get my teeth into. If you would desire to write us a criticism of our coverage of that story, I would be happy to give it further attention.

Very truly yours,

Edwin L. James  
Managing Editor

HA

March 15, 1943

Mr. Edwin L. James,  
Managing Editor,  
The New York Times,  
Times Square,  
New York, N. Y.

Dear Mr. James:

I do feel that the Times' record with respect to the Ruml plan will not add to its laurels, and I am glad that the adverse comments which I have made have been passed on to you — though in an expurgated version, I hope. I do not claim to be a tax expert and I write only as a fairly-well-informed person who reads the Times closely and also lives in a community where he can observe its impact on the public. Unfortunately, I have not clipped the Times and have not got convenient access to a file, so I cannot thoroughly document my comments, but this Sunday's Times fortunately for me provides me with some substantiating evidence.

You have plugged for the Ruml plan day after day, in editorials, near-editorials, columnists' columns, Washington correspondence, news columns, as if it were the major economic problem before us. At a critical time when the most urgent fiscal need was higher tax rates, you have concentrated on the necessity of forgiveness of all tax liability on a past year's income. I know from my own experience and from my conversation with colleagues and neighbors in New Haven that you have never given your readers much of a chance to know what could be said and was being said on the other side, and you have tended to suggest that the only opposition to it was based on unworthy motives. A newspaper with an outstanding reputation for journalistic integrity to maintain, which boasts that it finds space for all the news that's fit to print and in practice prints important news several times over in space and time should have found occasion and space for an objective statement of the anti-Ruml case. Surely you might at least have printed the text of at least one of Randolph Paul's speeches on the subject?

The Times argument for the Ruml plan has been disingenuous. You have never, for instance, found it worth mentioning, at a time of great inflationary danger, that short of actual tax

Mr. Edwin L. James

March 15, 1943

payments, the awareness of tax liability was the best fiscal instrument for fighting inflation, and that while such awareness was no doubt painful to the taxpayer the pain was only incidental to his rendering his full duty to the nation. Tax forgiveness à la Ruml, in so far as it removes this painful awareness of a tax liability, is inflationary. This of course must be obvious to you, but you have done nothing to make it obvious to your readers.

The Times has repeatedly denied -- or admitted only by implication so obscure that only those already enlightened would see it -- that the Ruml plan, in the absence of upward adjustment of the statutory tax rates, might involve a genuine and substantial reduction in Treasury tax receipts. Your -- and Ruml's -- argument is that if, in a period of rising national income, the income base for current tax payments is advanced by one year, the increase in tax base will offset or more than offset any revenue-reducing effects of the forgiving of tax on the past year's income. You owed it to your readers to point out that the offset will vanish as soon as the increase in taxable national income ceases, and that, assuming we do stop inflation, taxable income is probably already very near its peak, especially if present plans as to the size of the military forces are carried out. Even with increasing national income, moreover, it is not clear that there will be, at constant tax rates, increasing tax liability, because of the decided trend toward a relatively higher portion of the national income going to the low-income and therefore low-tax-liability groups. For the offset claimed by Ruml actually to appear, it is an increase in aggregate tax liability at constant tax rates which must occur, whether aggregate national income increases or not.

According to the Times, there would be no tax-savings for any individual from the Ruml plan during his lifetime, (except where individual income in 1942 exceeds individual income in 1943).\*

---

\* "Thus, if the 1943 income is less than the 1942 income, the taxpayer pays the tax upon a lesser amount than he would have paid on without the plan. Except for this reduction the plan does not result in any saving to the taxpayer during his lifetime."  
(Nelson, S 5, March 14, 1943).

"Ruml supporters in the meantime have pointed out... that the only loss to the Treasury would be upon the death of individuals who would then have one less year's taxes to pay."  
(Crider, E 7, March 14, 1943.)

Mr. Edwin L. James

March 16, 1943

In fact, the Ruml plan will bring tax relief to the individual tax payer in the first year in which his income falls below the 1942 level. For all persons on the average, and probably for at least 90% of all persons who are over 60 years of age when they die, the peak of income is reached long before the year of death. A college professor with income of \$7,400. in 1942, \$7,800. in 1943, retiring on January 1, 1944, with taxable income in 1944 including pension of say \$3,000. -- a sufficiently representative case -- would enjoy the fruits of Ruml plan forgiveness in 1944, even though he should not die until 1960, or 1960, or 1970.

The Times repeatedly suggests that whatever losses in revenue to the Treasury would result from adoption of the Ruml plan could easily be met by increases in the tax rates, thus exaggerating the ease with which Congress can be persuaded to raise tax rates. For purposes of discussion of the Ruml plan, the Times always assumes that Congress will automatically fix tax rates at the needed level, as if financing by borrowing were not always an easier alternative. In a recent first-editorial you went to the length of asserting (I quote from memory): "the Treasury could readily (easily?) recoup itself for any losses by raising the estate tax rates." This attributes to the Treasury a power over tax rates which it of course does not have, and incidentally overlooks the fact that if Congress tried to raise the estate tax rates for whatever reason or under whatever circumstances it would have to be, judging from the past record of the Times on estate taxes, over its dead body. Moreover, a general increase of estate tax rates to offset Ruml forgivings would not be fair to estates which had not benefited from the Ruml plan and would fail to touch those Ruml plan beneficiaries, who, because of the large estate tax exemptions, of dissipation of estate before death by gifts or otherwise, or of failure to accumulate an estate, were not amenable to estate taxation.

You have not presented to your readers any systematic account of the distribution among different categories of taxpayers of the potential benefits and burdens of the Ruml plan, apparently on the ground that every tax reform involves incidental changes in the distribution of tax burdens. Your readers have been given the impression that criticism on this score of the Ruml plan is "demagogic."

\* Cf. News of the Week, 28, March 14, 1943: "But the real reason for Ways and Means Committee objection to the Ruml plan/ seemed to lie in Representative Percy Priest's remark that he had grown weary of letters favoring the Ruml plan because most of them came from folks who can dictate 'em," the implication being that people who can afford stenographers haven't many votes," (or that not many voters have any enthusiasm for the Ruml plan!)

Mr. Edwin L. James

March 15, 1943

I agree with your argument that it is not a valid objection against the Ruml plan that the rich as such will get more relief than the poor in dollars per person, or per dollar of income, in so far as this results solely from the fact that the income tax rate structure is progressive and that therefore the rich pay more in taxes per capita and per dollar of income than do the poor. But even this argument requires the qualification that the degree of progressiveness of the tax rate structure will remain constant or be increased. Actually the progressiveness of the tax rate structure is probably now at or very near its peak and the further increases in tax rates which are needed to stop inflation will have to come mostly at the low and moderate income brackets. From about 1942 on, therefore, the longer that forgiveness is postponed, the smaller will be the proportionate share of the rich in the benefits of forgiveness, and the greater the proportionate extra tax contribution which the low and moderate income groups will have to make if the Treasury is to be recouped by additional taxes for its Ruml - plan losses.

Aside, however, from the rich - - poor aspects of the Ruml plan, it has a general bias in favor of those who are at or near their income-peak as against those who are just beginning or have not yet begun to have appreciable incomes, i. e., a bias in favor of the old against the young. Am I a demagogue if, in spite of the fact that I myself fall in the first category, I hold that such a redistribution is of itself socially, economically, and ethically a perverse one?

I have no doubt that the tax experts have additional objections to the Ruml plan and could state more effectively the ones I have presented. I think you owe it to your readers (and to the Times itself) that they should be permitted to discover that there is a case against it and what that case is. This letter is of course not intended for publication, but I do plan to show it to several persons who may be interested in it.

Sincerely,

Jacob Viner

JV: B

MAR 20 1943

Dear Mr. Hoyt:

I have your letter of March 17th. Commissioner Helvering informs me that your appointment at Albany is to be at \$1,980, the maximum of Grade 3. To this will be added the overtime pay now provided by law, which in your case will bring your total compensation to slightly over \$2,400 a year. This definitely is the basis on which your reinstatement is being arranged.

Sincerely,

(Signed) H. Morgenthau, Jr. /

Secretary of the Treasury.

Mr. Morgan H. Hoyt,  
77 Spring Valley Street,  
Beacon, New York.

WNT:jc

File in Diary  
of Mr. Thompson

March 17, 1943

## MEMORANDUM:

Commissioner Helvering phoned me today that in the case of Morgan H. Hoyt, Collector Hickey at Albany had Mr. Hoyt in and told him he had a Grade 3 place for him--that Mr. Hickey gathered from what Mr. Hoyt told him that Mr. Hoyt was under the impression the Secretary had intended that he be given a Grade 4 or 5 job. The vacancy is in Grade 3, however, and the original plan of the Commissioner was to give Mr. Hoyt this grade at \$1,620, the entrance of the grade, but he is now authorizing Mr. Hickey to put Mr. Hoyt on at \$1,980, maximum of the grade, which with the overtime would give him \$2,400, which ~~was~~ the amount he was formerly receiving in Procurement. This is permissible under the Civil Service rules on reinstatements. I will advise the Secretary when the appointment actually has cleared.

*is within  
\$1,000 of* *for*

*forward  
to Mr.  
Hickey  
2/14/43  
for*

Beacon

March 17/43

Hon. Harry Morgenthau Jr,  
Secy of Treasury,  
Washington - D.C.

Dear Mr. Secretary-

You don't know how much  
I appreciate your taking time  
with all your cares to write to me. I  
thank you.

I called on Mr. Hickey  
at Albany and the only job  
he had for me was \$2,000 a  
cut of \$500 per year from what  
I received in the Procurement  
and today he telephoned the  
but he could do was \$1,800  
and some dollars, a cut of  
\$400 and living in Albany in  
these times will be a task. I'm  
wondering if you knew this. Check  
in our office get as much  
as that. I told him I would

try it, however.

34

34

I'm appreciative; don't think  
I'm not, but a cut of \$400 seemed  
large and I wondered if you

If that is all right,  
then I'll try it out.

at any rate you will  
always be held in memory  
with gratefulness.

Very sincerely  
Morgan H. Hoyt  
7 Spring Valley St  
Berwyn, N.Y.

I am awaiting word from <sup>all my</sup>  
other papers come through to  
report whatever the salary.

March 20, 1943.

Dear Mr. Knollenberg:

On behalf of the Secretary, I am acknowledging your memorandum of March 19, which forwarded a copy of the report on the status of the Soviet Aid Program, as of February 28.

Mr. Morgenthau was very glad to have this current information and appreciated receiving the personal copy.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. Bernhard Knollenberg,  
Office of Lend-Lease Administration,  
Five-Fifteen 22nd Street, N.W.,  
Washington, D. C.

Blue Report ret'd to Stettinius at his request  
8/24/43

File in Diary

GEY/d bs

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

E. R. Stettinius, Jr.  
Administrator

March 19, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau  
From: Bernhard Knollenberg  
Subject: Report on the Status of the Soviet Aid  
Program

Attached hereto is your personal and private  
copy of the report on the status of the Soviet  
Aid Program, as of February 28, 1943.

*Bernhard Knollenberg.*

Attachment

**TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY**

March 20, 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 March 10, 1943, 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.

(init) J. W. D.

ime:3/22/43

C  
O  
P  
YFEDERAL RESERVE BANK  
OF NEW YORK

March 19, 1943

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

I am enclosing our compilation for the week ended March 10, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed. You will note that the analysis of British accounts has been changed somewhat so as to show separately transfers to the Canadian Government account at this bank and transfers from the Australian account. Owing to the inactivity of the Bank of France account, we have discontinued showing the breakdown of debits and credits to the official French account.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,  
Vice President.

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

Enclosure

Copy:imc:3/22/43

**STATEMENTS OF RECEIPTS AND PAYMENTS ACCOUNTS**  
(In Billions of Dollars)

Week Ended March 10, 1941

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE				
	DEBITS				CREDITS				Net Incr. (+) or Deccr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Deccr. (-) in \$ Funds (d)	
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Rescriptions (Official) (b)	Transfers from Offi- cial Aus- tralian Account					Other Credits (c)
First year of war (g)	1,793.2	805.6	20.9	1,166.7	1,828.2	1,286.1	92.0	1.9	416.2	+ 35.0	866.3(f)	1,895.3(f)	+299.0
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	261.1	+ 10.8	898.3	1,098.4	+220.1
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	209.4	+ 13.2	38.9	8.6	- 30.1
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	27.4	1,276.8	+125.9	18.5	4.4	- 14.3
1942													
Sept. 1 - Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	27.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
Dec. 31 - Feb. 3	168.6	20.9	125.0	22.7	38.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.8	105.8	+ 33.6	-	-	-
<b>WEEK ENDED:</b>													
February 17	34.8	4.5	-27.1	3.4	16.5	-	-	-	16.5	- 18.3	-	-	-
24	14.1	3.1	7.6	3.4	30.3	-	-	10.0	20.3	+ 16.2	-	-	-
March 3	14.2	4.9	3.0	6.3	20.2	-	-	5.0	15.2	+ 6.0	-	-	-
10	6.3	3.7	-	2.6	8.1(1)	-	-	-	8.1(1)	+ 1.8	-	-	-

Average Weekly Expenditures Since Outbreak of War  
France (through June 19, 1940) \$19.6 million

See attached sheet for footnotes.

England (through June 19, 1940) \$27.6 million  
England (June 20, 1940 to March 12, 1941) \$54.9 million  
England (since March 12, 1941) 23.8 million

- (a) Includes payments for account of British Ministry of Supply Mission, 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 current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes \$4.1 million deposited by British Ministry of Supply.

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

Week Ended March 10, 1943

Strictly  
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds <sup>(a)</sup>	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds <sup>(a)</sup>
First year of war War period through December, 1940	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Second year of war**	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
Third year of war** 1942	525.8	0.3	525.5	566.3	198.6	3.4	123.9	86.5	+ 1.6	72.2	16.7	55.5	61.2	62.9	16.3	+ 9.0
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	- 9.8
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	+ 0.8
Dec. 3 - Dec. 30 1942	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	6.0	6.1	11.7	-	11.7	- 2.4
Dec. 31 - Feb. 3 1943	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.0	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
<b>WEEK ENDED:</b>																
February 17	14.0	-	14.0	37.9	-	27.1	-	10.8	+ 23.9	-	-	-	12.4	-	12.4	+ 12.4
24	8.9	-	8.9	13.8	-	7.6	-	6.2	+ 4.9	10.0	10.0	-	2.6	-	2.6	- 7.4
March 3	10.2	-	10.2	15.3	-	3.0	-	12.3	+ 5.1	5.0	5.0	0.9	1.0	-	1.0	- 4.9
10	3.3(b)	-	3.3	19.1(d)	-	-	-	19.1(d)	+ 15.8	0.7	-	0.7	2.7(d)	-	2.7(d)	+ 2.0

Weekly Average of Total Debits Since Outbreak of War through MARCH 10, 1943 \$ B.O. 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 transactions in Treasury bills.

(c) Includes \$6.9 million deposited by War Supplies, Ltd.

(d) Includes \$2.0 million credited to Australia for account of Treasurer of United States to be applied against U. S. currency and Treasury checks negotiated.

Regraded Unclassified

*House* 42

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE**  
March 20, 1943

**TO** Secretary Morgenthau

**FROM** Mr. White

**Subject:** Repayment of R.F.C. Loan by the British.

Sir Frederick Phillips in January inquired what our attitude would be toward the repayment by the British Government of the loan received from the R.F.C. in July 1941.

A balance of \$360 million is still owed by the British to the R.F.C. on the loan, as follows:

Total amount paid to the British Government by R.F.C. on the loan .....	\$390 million
Deduct the amount repaid by the British Government .....	<u>30</u> "
Balance due from the British Government to the R.F.C. ....	\$360 "

Collateral behind the loan consists of U.S. securities and direct investments in the United States, the value of which the R.F.C. estimates is substantially in excess of the amount of the loan.

With your approval, we placed the question before the Inter-departmental Committee on the Dollar Position of the United Nations. We invited a representative of the R.F.C. Mr. Mulligan who handles the loan attended the meeting. He later reported that he had discussed the question with Secretary Jones and that Secretary Jones had no objection to the repayment of the loan.

The Subcommittee, consisting of representatives of State, E.E.W., Lend-Lease, the Army and Treasury, is unanimously opposed, however, to repayment of the loan at this time, notwithstanding the interest cost of the loan to U.K. The members feel that it would almost certainly have unfavorable political consequences.

If you approve, we shall submit a Subcommittee report to the Cabinet Group for their consideration upon the Vice President's return.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 20 1943

TO Secretary Morgenthau

FROM Randolph Paul

7

You will recall that last December we issued a license to the American Jewish Joint Distribution Committee relating to a proposed program for the shipment of food parcels from Portugal to Jewish communities in Poland. One of the stipulations of the license provided that such parcels were to be distributed through welfare organizations in Poland rather than directly to designated individuals.

We are now advised by the J. D. C. that as yet, no food parcels have been delivered under this program, due, in the first instance, to the fact that the Portuguese Government had not issued the necessary export permits for these parcels, and more recently to the fact that it has been impossible to distribute the parcels to welfare organizations in Poland, as stipulated in the license. Accordingly, we have been requested to amend the license so as to permit distribution of these parcels to designated individuals.

After discussion of the problem by Leavitt of J. D. C. and Fehle, we have written a letter to the State Department advising that, subject to their concurrence, we are prepared to amend the license so that shipment of these food parcels can be made directly to individuals located in Jewish communities in Poland. We are informing State that the present proposal contemplates that the preparation of the list of individuals to receive such parcels would be undertaken by appropriate authorities in Portugal from the British Board of Deputies List. This change in the procedure seems unobjectionable since the original purpose of requiring the distribution to be effected through welfare organizations was primarily to avoid a situation where, because of the limited monthly

2..

allotment involved in these shipments, it would be necessary to pick and choose a list of persons in the United States who would be privileged to send such packages to their relatives in Poland. Although individuals will be designated under the new procedure, the designation will not be by the donors of the funds but by the J.D.C. organization in Portugal, selected from British lists of the persons in the area.



NOT TO BE RE-TRANSMITTED

U.S. SECRET  
BRITISH MOST SECRET

COPY NO. 13

OPTEL No. 90.

Information received up to 0700 20th March 1943.

1. NAVAL.

A Focke Wulf aircraft was shot down by an outward convoy in the Bay of Biscay yesterday.

2. MILITARY.

Tunisia. First Army. After counter attacks had failed to restore the situation, Tamera was evacuated during the night 17/18 and our forces withdrew to positions North and East of Djebel Aboid. 400 all ranks of the British Battalion cut off on 17th have rejoined their brigade. In the Southern Sector, United States patrols have occupied El Guettar previously evacuated by enemy. Patrols have also occupied Mdilla South of Gafsa and are in touch with French patrols from Metlaoui. United States armoured patrols are pushing on towards the Sened Gap.

Russia. In the Northern and Central Sectors Russian attacks continue.

3. AIR OPERATIONS.

Tunisia. 17th. Light bombers and fighters attacked tanks, mechanical transport, troops and gun positions in the Gafsa-Maknassy-Faid Area. 18th. 72 escorted bombers attacked enemy positions in the Mareth Area. Hurricanes bombed the Railway Station at Tamera.

Burma. 18th. 18 Blenheims bombed enemy positions near Donbaik. United States Kittyhawks obtained two hits on a bridge North-West of Myitkyina.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRETU.S. SECRETOPTEL NO. 93

13  
SECRETARY'S OFFICE  
TREASURY DEPARTMENT  
MAR 24 PM 12 29

Following is Supplementary Resume of Operational Events covering the period 13th to 20th March, 1943.

1. NAVAL.

NORTHERN WATERS. Tirpitz has left TRONDHEM. Scharnhorst and Lunden unlocated but likely to be with Tirpitz and Lutnow in NORTHERN NORWAY. Enemy aircraft from south-west FRANCE have attack convoy homeward-bound from NORTH AFRICA without success. Motor torpedo-boats obtained hits on 6 enemy merchant ships in Channel and off Dutch coast.

MEDITERRANEAN. Recent daily average discharge at TRIPOLI (L) 3200 tons, which is estimated about 1,000 tons more than daily rate under Italian control. Volume of Axis traffic to Tunisia remains about the same and is estimated 12,000 tons per week.

SUBMARINE WARFARE. Serious U-boat activity concentrated mainly in North Atlantic out of range of air cover. Italian submarines in Atlantic unusually active, one of them sank a 21,500 ton Merchant Ship. 5 U-boats believed still off SOUTH AFRICA.

Week ending 17th. 19 attacks on U-boats by aircraft. 14 by surface craft. 51k attacks considered promising up to date.

SHIPPING CASUALTIES. During the week 13th to 19th March inclusive, 46 ships were reported torpedoed. Two home-bound convoys attacked in the North Atlantic and 14 ships (4 British, 6 United States, 2 Dutch, 1 Panamanian and 1 Norwegian) torpedoed in one convoy, and 8 ships (5 British, 1 Dutch, 1 Panamanian and 1 Greek) in the other. One Dutch and 3 British ships in outward-bound convoy torpedoed west of CAPS FINISTERRE, 1 British, 1 United States and 1 French ship in convoy. 1 United States straggler from another convoy and 1 other British ship in the AZORES area. 1 Norwegian ship in WEST ATLANTIC 1 British and 1 Dutch ship north-west of ANJOU. 2 United States ships in convoy in the WINDWARD PASSAGE. A large liner in the SOUTH ATLANTIC. 1 British and 1 Norwegian and 2 United States ships in the INDIAN OCEAN. In the MEDITERRANEAN 3 British ships in convoy were torpedoed but reached port, and 2 British ships (one still afloat) torpedoed north-west of DAKKA. In addition, 1 British ship was damaged by aircraft at MURMANSK and a trawler was mined and sunk in home waters. One United States ship reported torpedoed last week in convoy west of LAND'S END has arrived undamaged, and the 2 British ships reported torpedoed in the MEDITERRANEAN have reached ALGIERS. 3 British and 3 Allied ships previously reported overdue are not presumed lost.

TRADE. Imports in convoy into United Kingdom week ending 13th 72,000 tons compared with weekly average 462,800 tons last 10 weeks. Rate of sinkings of Japanese merchant shipping exceeds estimated new construction by 50,000 tons per month. 8 more French ships totalling 32,600 tons arrived from NORTH AFRICA bringing phosphates and iron ore.

2. MILITARY.

TUNISIA. North. Very bad weather last few days both in north and centre. In United States sector, flooded roads and muds delayed advance which met with little more than heavy mining, air and artillery opposition.

South. A New Zealand Corps has now been formed in Eighth Army and consists of the Second New Zealand Division with other attached troops.

GENERAL. No change number enemy divisions in TUNISIA. Estimated serviceable tanks approximately -

Northern and Central Tunisia - 50 German  
Southern Tunisia - 150 German, 30 Italian.

In First Army sector, recent enemy thrusts appear local and are probably holding attacks to delay Allied preparations. Signs enemy having difficulties in supplying his troops around TAKERRA. Facing United States sector in GAFSA area are Italian troops, including armour and German reconnaissance forces. Some German

armoured elements probably available for counter attack in this area, but scale of effort may be limited by offensive requirements MARETH area.

BURMA. In KALADAN VALLEY, enemy remains south of PALETWA. Estimated Japanese strength this area and east of MAYU RIVER 4 battalions. MAYU PENINSULA 3 battalions. AKYAB AREA 2 Battalions. Japanese Divisions, latest estimated distribution - JAPAN/SAKHALIN 7, MANCHURIA/KOREA 24, CHINA 20, INDO-CHINA/SIAM/MALAYA 4, BURMA 4, PHILIPPINES 2, NETHERLANDS EAST INDIES/TIMOR 5, NEW GUINEA/NEW BRITAIN/SOLOMONS 7 (elements only. Total (Active) 73.

3. AIR OPERATIONS.

WESTERN FRONT. Ground fog on home bases curtailed night bombing operations. Only 134 sorties mostly on sea mining. 3 aircraft missing. Highly successful daylight attack on VEGESACK U-boat base and shipyards by United States heavy bombers is confirmed by photographs taken during the raid. About 15 enemy aircraft crossed UNITED KINGDOM coasts by day and about 84 by night. 14 were destroyed.

TUNISIA. Dust storms, heavy rain and poor visibility seriously hampered offensive operations.

MEDITERRANEAN. Following attacks on shipping - off PALERMO 1 ship and a large tanker torpedoed, SICILIAN CHANNEL 6,000 ton ammunition ship torpedoed and blown up, 2 others severely damaged. - Off TRAPANI one ship hit and another damaged by Fortresses. Off CAPE STILO 1 10,000 ton tanker probably sunk.

RUSSIA. No indications of any intensive Russian activity in any particular sector. They twice raided HATKY, east of HELSINKI and strongly supported their attacks south LAKE ILMEN. Little Russian air news from KHARKOV area but Germans reported considerable fighter opposition when they attacked the airfield at VOLCHANSK. In the KUBAN, the Russians carried out several low-level attacks and constantly raided the ports of TAMAN and ANAPA. Germans are thought to have concentrated a heavy scale of effort in support of their counter attacks in KHARKOV area.

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

ESSEN. Second raid was even more successful than its predecessor. Extensive area of destruction or severe damage at ERUP'S especially in locomotive ships.

MUNICH. Photographs taken on second day after attack show some fires still smoking and damage to following factories - Railway Wagon, Motor Car, Locomotive and Armoured Car, Aluminium, Railway Yards, Gasworks and 2 Barracks.

BERLIN. Reliable reports state - damage in centre more serious than first thought especially in shopping centre. On following morning German air ministry reported one thousand killed which has only been exceeded twice in UNITED KINGDOM. Destructive and long-range effect of our heavy bombs caused great impression since previously people felt fairly safe, except from direct hit but have now changed their ideas.

RENNES. Examination of photographs by railway expert leads to supposition that all traffic from this centre was temporarily stopped. It is likely that some time will be needed to restore facilities to working order. Effects will have caused serious delay to traffic for BRITANNY PENINSULA. Reported that a train in station was partly wrecked and 80 Germans killed and a hotel reserved for German Air Force was demolished with heavy casualties.

GNATON. Reports stated S.A.F. damage to ore dressing plant at MOLBOGNE MINE will stop production for 10 months. This is source of 75 percent of Axis molybdenum. Extreme inaccessibility of plant and fact that mineral content in under one percent renders removal of unprocessed ore impracticable. Molybdenum is essential for satisfactory manufacture of certain high grade steels especially for internal combustion engines, though Axis stocks may suffice for their essential aero-engine requirements.

5. HOME SECURITY.

Some industrial and house damage chiefly on Tyneside and considerable damage to houses at BASTINGS. 1 U.R.N.S. killed at GREAT YALMOUTH. Estimated civilian casualties week ending 17th, Killed 125, seriously wounded 192.

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET  
D.S. SECRET

OPTAL NO.91

Information received up to 7 a.m. 21st March.

1. NAVAL.

On the night 19th/20th about 12 enemy bombers and torpedo-carrying aircraft attacked HONGKONG HARBOUR. One H.M. Destroyer was damaged and beached. Two ships were sunk (1 of 7,000 tons) and damage was caused ashore. Four aircraft were destroyed by anti-aircraft.

2. MILITARY.

TUNISIA. 19th. First Army. Heavy rain continued over the whole front. In the north we established our positions covering DJEBEL ABIOD where only artillery activity reported. United States forces consolidated their positions in and around GAFSA and light contact was made by patrols working east from EL GASSIN.

3. AIR OPERATIONS.

WESTERN FRONT. 20th. Six Mosquitoes started fires in the railway centre at LOUVAIN and three others attacked objectives near ANTWERP.

20th/21st. Twenty-six sorties - Intruders 13, MONLAIN railway viaduct (1 hit claimed) 9, Gas-mining 4.

ITALY AND SICILY. 15th. Liberators dropped 16 tons of bombs at NAPLES. Heavy cloud prevented observation.

19th/20th. Intruders from MALTA destroyed or damaged 10 locomotives in SICILY and Southern ITALY. A large vessel was hit west-south-west of TARANTO.

20th. Twelve escorted Spitfires made an effective low level attack on a factory at POZZALLO.

BURMA. 18th. A total of 48 United States Bombers attacked and hit two railway bridges and other military objectives.

19th. Thirty-two Blemheims, Vengeances (A.21) and Fighters attacked the RATHEDANG area.

SECRET  
RE MAR 22 AM 11 07  
TREASURY DEPARTMENT  
INFORMANT  
107  
SECRET

3/22/43. 49

○

MISS CHAUNCY:

MR. GAMELE HANDLED THIS BY TELEPHONE.  
HE TALKED TO MR. COLLINS YESTERDAY AND  
TOLD HIM NEITHER SECY. OF NAVY NOR TREAS.  
WOULD BE THERE.

*CSA*

WU17 161 GOVT NL 29 EXTRA

CHICAGO ILL MAR 19 1943

HON HENRY MORGENTHAU JR

1943 MAR 20 AM 8 16

SECY OF TREASURY

ON MARCH 29TH WE WILL HAVE COMPLETED THE BUILD CRUISER CHICAGO  
 40 MILLION DRIVE. WE BELIEVE THAT THIS IS AN OUTSTANDING  
 UNDERTAKING BECAUSE IT HAS BEEN BUILT WITH THE PEOPLES MONEY  
 NAMELY ENTIRELY THROUGH THE SALE OF SERIES E BONDS WE EXTEND A  
 MOST CORDIAL INVITATION TO YOU TO BE PRESENT ON THAT EVENING  
 AND REQUEST THAT YOU EXTEND AN INVITATION TO THE SECRETARY OF  
 THE NAVY. MRS ROOSEVELT WILL BE WITH US THAT EVENING 930 PM  
 OUR PLAN WILL BE TO HOLD A RALLY OF ALL WAR SAVINGS WORKERS AS  
 WELL AS THE PEOPLE WHO HAVE BEEN INSTRUMENTAL IN SUCCESSFULLY  
 CULMINATING THIS DRIVE. OUR ARRANGEMENTS WILL DEPEND UPON YOUR  
 PRESENCE AND THAT OF THE SECRETARY OF THE NAVY PLEASE ADVISE  
 COLLINS IMMEDIATELY IF YOUR ATTENDANCE HERE WILL FIT INTO YOUR  
 PLANS

MAYOR EDWARD J KELLY HONORARY CHAIRMAN OF DRIVE C S YOUNG  
 CHAIRMAN WAR FINANCE COMMITTEE HAROLD H SWIFT STATE CHAIRMAN  
 OSCAR G MEYER COOK COUNTY COCHAIRMAN GUY E REED COOK COUNTY  
 COCHAIRMAN NORMAN B COLLINS STATE ADMINISTRATOR.

814AM MAR 20TH.

MAR 20 A.M.

March 27, 1943. (mailed 3/27/43)

Dear Mr. Reid:

With the thought that members of your association might have funds available to invest in United States Government securities, I will appreciate it if you will call to their attention the several attractive issues to be offered in the Second War Loan drive, which opens on April 12. As you undoubtedly know, the Treasury has set a goal of \$13,000,000,000 for this drive, of which it expects to obtain at least \$8,000,000,000 from sources outside the commercial banking system.

The securities to be offered are designed to fit the investment need of every type and class of investor. We are particularly anxious, however, to obtain the investment of surplus funds which, because of war conditions, corporations, institutions and others, are unable to utilize in the normal conduct of their business, as well as the current income of individuals, corporations and others, who are benefiting from some form or other of war activity.

We earnestly solicit your cooperation in impressing upon your members the importance and magnitude of the Treasury's task, and the necessity for the widest possible public participation in this drive, as evidence of our wholehearted support to the men in our fighting forces.

Sincerely,

(Signed) H. M. Jr.

Mr. William Reid, President,  
The Credit Union National Association, Inc.,  
Tax Collector's Office, Municipal Building,  
New York, New York.

SWP:bms

Copies in Diary

(Mailed from Peabody's  
office) ?

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 22, 1943.

TO

Secretary Morgenthau

FROM

Stuart Peabody *S.P.*

I think we might do something with the two word slogan which Mr. John Adams bequeathed to us so many years ago.

My impression is that we are already provided with enough posters to run us through the summer but I will take the matter up with the Poster Committee and see what might be done. It occurs to me, too, that because of the historical nature of this remark, some use might be made of it in radio-- in fact, a whole script might be written on the episode pointing up the fact that more than a century and a half ago, a famous American bequeathed us a slogan for our Bond Campaign.

March 19, 1948

Mr. Peabody

Secretary Morgenthau

I am attaching hereto copy of a memo which I received from Peter Odegard, and I would like to bring to your attention that John Adams said "Independence Forever".

This seems to me to be an awfully good slogan for a poster. I don't know what old John Adams looked like, but you might even have a poster made of him with the slogan underneath, "Buy War Bonds and Guarantee Independence Forever".

Let me know what your reaction is to this suggestion.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 18,  
1948

TO Secretary Morgenthau  
FROM Mr. Odegard

The program you heard on WINX is a weekly feature, MARCHING TO MUSIC, celebrating each week, the memory of some great American. The program to which you referred was about John Adams. The station is sending us a copy of the script. The following is an excerpt covering the Adams toast:

John Adams, at 91, listened and spoke from his bed. "It is a great day - it is a good day." A few hours before, the orator for the celebration at Quincy had asked John Adams to propose a toast for the gathering.

"I will give you," said old John Adams, "In-  
dependence forever."

The orator hesitated. "Only two words for a toast."

"Would you add anything to that sir?" I asked.

"Not a word", said John Adams firmly.

And on the 4th of July as John Adams breathed his last the crowds in Quincy cheered and applauded his toast - Independence Forever.

MAR 22 1943

## Press Forms Council To Push \$13,000,000,000 Victory Drive

Greatest Financial Undertaking Of U. S. Treasury In  
History Will Start April 12

(By the Associated Press)

Washington, March 21—Representatives of America's newspapers formed an Allied Newspaper Council today to support the Treasury's \$13,000,000,000 second Victory drive, the greatest financial undertaking in history, which starts April 12.

The council was organized after the newspaper representatives heard Secretary Morgenthau and Gen. George C. Marshall, chief of staff.

### Sees All Impressed

"Everyone present was tremendously impressed with the magnitude and importance of the task which lies immediately ahead," a council statement said. "This

money can be raised only through investment in more Government bonds by every man, woman and child.

"It's a job which must be accomplished on the home front if we are to bring the war to an early and successful conclusion."

### Claims Major Credit

The council recalled that newspapers "were almost entirely responsible for the success" of last year's campaign to collect scrap metal to meet the urgent wartime needs of steel mills, and added:

"The responsibility for persuading our people to put their surplus funds in the safest investment in the world lies largely with the newspapers."

## UNITED STATES TREASURY WAR FINANCE COMMITTEE

BULLETIN  
March 22, 1943.

Presidents, Federal Reserve Banks:

At the meeting with the Publicity Directors on Thursday, March 18, it was suggested that on promotional matters concerning the drive, they might be permitted to communicate direct with this office rather than go through your office.

Mr. Robbins and I are determined to handle all matters concerning the drive strictly according to proper organization but it is true that the promotional end of the thing is so dynamic and the decisions are needed so promptly that perhaps it would be well to make some such exception as indicated above.

Furthermore, if you have no objection, it might be wise to follow the same procedure on communications from here to the field. As far as this office is concerned, I plan to handle matters directly with you but it probably would expedite things if I were to send communications having to do with promotion and advertising simultaneously to your Publicity Directors.

I would appreciate hearing from you as to whether this suggested procedure is satisfactory.

Stuart Peabody,  
Head Advertising Specialist.

WFC - 1



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

March 22, 1943.

TO THE SECRETARY:

I am attaching a memorandum from Mr. Cunningham of the Legal Division showing the powers and duties of the Director of Finance of the State of California. In general, he is the Director of the Budget, Auditor-General for some purposes, and Procurement and Contracting Officer.

Philip Gibson

I called two people who are now in Washington who know this gentleman; one was Mr. A. E. Stockberger of Civil Aeronautics Administration, who was Director of Finance of the State of California prior to Mr. Gibson. His knowledge of him was rather general. He said Mr. Gibson was a practicing attorney with very little government experience before he became Director of Finance and he was Director of Finance only one year before being promoted to Chief Justice of the Supreme Court. He thinks that this man has a lot of ability, but he wouldn't classify him as being strong on administration. He thinks he is clean, but he believes there was a general feeling that he was not qualified to be Director of Finance and when he was appointed to the Chief Justiceship there was some comment that he had had no court experience. He thought Mr. Gibson might be classified as the best of the three who served as Director of Finance under Governor Olson. He has a nice personality, is easy to get along with, and he thinks he is a good lawyer.

The other was Dewey Anderson, who is now employed in Governor Lehman's office. He apparently knows Mr. Gibson very well and was part of the political machine electing Governor Olson and knows all of the facts concerning his employment by the Governor.

He says that Mr. Gibson was a practicing lawyer with mixed clients. He testified as a character witness for Joe Schenck. He was brought into the California campaign by Mr. Olson for the reason that Mr. Gibson could bring in some money to finance the campaign, namely, the Schenck funds. He says



- 2 -

he is very quiet and a behind-the-scenes worker. The Governor, after he was elected, had the problem of finding Mr. Gibson a job. He was made Director of Finance for that purpose. He was not qualified to fill it and less still, he was not even interested in the job. He was elevated by the Governor to Chief Justice in order to pay a political debt. He says, however, that Mr. Gibson has worked hard at this job and made rather a creditable showing. As to his political complexion, he is an opportunist and it was Mr. Anderson's opinion that Mr. Gibson only entered the Olson campaign for what he could get out of it. He says he is able, but he wouldn't trust his judgment -- he changes whenever it is an advantage to himself to change. He does not think he is forthright and he is too skillful in his dealings where it involves his own self-advancement. He thinks he is a rather good technical lawyer, but he is not an administrator.

Attachment.

*swB*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 20, 1943

TO Mr. Bell

FROM Mr. Cunningham

Powers and duties of the Director of Finance of the State of California - Political Code (Deering, 1937).

1. Audit and examination of financial records of state institutions, commissions, bureaus, and offices of the state, once a year or as often as deemed necessary - Sec. 657.
2. Count of money in state treasury once a month and after each count to publish an affidavit in newspaper of Sacramento showing the amount of money or credit that ought to be in the state treasury and the amount and kind of money or credit actually therein - Sec. 660.
3. To authorize the creation of deficiencies in any appropriations of money made by law in cases of actual necessity and authorize the payment of deficiencies out of any money which may be appropriated for such purposes. No deficiency shall be authorized except on the written authority of the Director of Finance and the Governor - Sec. 661.
4. To invest the proceeds of the sale of state school lands whenever and as often as there is in the state treasury the sum of \$10,000- in bonds of the state or the United States in such manner and on such terms as he shall deem best for the fund. The securities are to be delivered to the state treasurer who shall keep them as a special school fund deposit and credit the interest to the state school fund - Sec. 671.
5. To invest funds in the state treasury to the credit of the state's deceased persons' fund in bonds of the state or the United States, etc., under same circumstances and conditions as in preceding section - Sec. 672.
6. General powers and duties -
  - (1) "1. To let, with the consent of the State department, board, commission, or officer concerned, for a period of not to exceed five years, any property, real or personal, which belongs to the State, except where such letting is expressly prohibited by law, if in the judgment of the director such letting will be for the best interests of the State.

- 2 -

"2. To hire or lease, upon the written request of the State department, board, commission, or officer concerned, any property, real or personal, if in the judgment of the director such hiring or leasing will be for the best interests of the State.

"3. To authorize, with the consent of the State department, board, commission, or officer concerned, the sale or exchange of any personal property which belongs to the State if in the judgment of the director such sale or exchange will be for the best interests of the State.

"4. To acquire title to real property in the name of the State of California whenever the acquisition of such property is authorized or contemplated by law, if no other agency of the State is specifically directed and empowered to acquire such title.

"5. To execute grants to real property belonging to the State of California in the name of, and upon behalf of, the State of California, whenever the sale or exchange of such real property is authorized or contemplated by law, if no other agency of the State is specifically directed and empowered to execute such grants; to execute grants to any real property belonging to the State of California in the name of, and upon the behalf of, the State of California with the consent of the State agency, if any, concerned, to the United States of America, in exchange for lands of the latter, or for such other considerations, as may appear to the Director of Finance to be to the best interests of the State; any real property acquired by the State of California by exchange pursuant to the provisions of this subsection shall be subject to the laws governing real property of the class to which such acquired real property belongs.

"6. To render such advisory, investigational or other similar service to any city, county, city and county, district or any other political subdivision of the State, as may be deemed expedient by the director, said service to be rendered only upon such terms and conditions as may be satisfactory to the Director of Finance.

"7. To institute, in the name of the State of California, condemnation proceedings for the acquiring of any land authorized by law to be obtained for any State department, board, commission or institution, except land to be acquired by the Department of Public Works for highway uses and purposes, and to proceed if necessary to condemn under the terms of the Code of Civil Procedure relating to such proceedings, if no other agency of the State is specifically directed and empowered to institute such proceedings.

- 3 -

"8. To grant and convey in the name of the State of California, with the approval of the department concerned, easements and rights of way over and across real property belonging to the State except real property used for highway rights of way, for such purposes and upon such consideration and subject to such conditions, limitations, restrictions and reservations as in his judgment may be to the interest of the State.

"9. To grant and convey by deed or otherwise to abutting property owners all right, title and interest of the State of California, in and to abandoned river channels.

"10. To withdraw from sale any and all of the public lands belonging to the State of California by executive order, with the approval of the Governor, and by like procedure, to return any or all of any such lands so withdrawn for the purpose of sale or other disposition in accordance with law.

"11. To establish, with the consent of the State agency concerned, boundaries between the property of the State of California held in proprietary capacity and real property in private ownership, and to execute in behalf of and in the name of the State of California, and to accept upon behalf thereof, instruments necessary to the establishment of any such boundary." - Sec. 675.

By virtue of the provisions of Sec. 675a contracts entered into by any state officer, board, commission, department or bureau for the purchase of supplies, materials, textbooks for use in the day and evening elementary schools of the state or services must be approved by the Director of Finance before they become effective except that to meet an emergency supplies of materials of a perishable nature in an amount not in excess of \$100 in value may be purchased without the permission of the Department of Finance.

(2) "The director of finance, as head of the department of finance, shall perform all duties, exercise all powers and jurisdiction, assume and discharge all responsibilities and carry out and effect all purposes now or hereafter vested by law in the department of finance, except such duties, powers, jurisdiction, responsibilities and purposes as are specifically vested in the board of control by the provisions of this article." Sec. 657.

The Department of Finance has "general powers of supervision over all matters concerning the financial and business policies of the state and shall whenever it deems it necessary, or at the instance of the governor, institute or cause the institution of such investigations and proceedings as may be deemed proper to conserve the rights and interests of the state." - Sec. 654

- 4 -

7. The Director of Finance is an ex officio member of the State Board of Control. His duties in this respect are as many and as varied as those with which the Board of Control is charged - Sec. 663.

*DR*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

MAR 22 1943

TO Secretary Morgenthau  
FROM Mr. Paul

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of February 1943.



Attachment.

IN THE OFFICE OF THE GENERAL COUNSEL  
FEBRUARY 1943.

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A. The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. NEW YORK CENTRAL RAILROAD COMPANY. Proposed refunds of income tax of \$201,492.53 for 1928 and \$218,701.91 for 1930 were referred to the Review Division for consideration. After examining the case, adjustments were made which will transform the proposed refund for 1930 into a large deficiency, and will reduce the proposed refund for 1928 to less than \$100,000. The taxpayer's representative acquiesced in most of the proposed changes and has advised informally that the company has already deposited substantial sums of money with the Collector in anticipation of the deficiency proposed for 1930, and of an increased deficiency for 1929.

2. STEEL AND TUBES, INC. A proposed refund of \$66,718.87 income and excess profits tax for 1939, and proposed deficiencies aggregating \$179,195.58 for other years were referred to this office for consideration. The Review Division is recommending that the proposed refund for 1939

-2-

be eliminated, and that deficiencies aggregating \$1,130,080.41 for 1934 to 1939, inclusive, be asserted - an increased tax liability of \$1,017,603.70. This proposal will allow the taxpayer to use \$11,504,878.86 as the basis for amortization of certain patents which cost its predecessor (also named Steel and Tubes, Inc.) only \$171,397.45. Since an interest of more than 50% remained in the same persons immediately after the transfer of the property from the old Steel & Tubes, Inc. to the present Steel & Tubes, Inc., the latter is required to use as its basis the cost of the patents to the transferor (\$171,397.45).

3. FRITZ and HARRIET KREISLER have offered \$150,000 to compromise an income tax claim amounting to upwards of a million and a quarter dollars - pleading insolvency. The additional taxes are based principally on profits from a New York brokerage account handled by a Kreisler agent. Criminal proceedings have been held inadvisable. Kreisler's attorney urges that his earning ability was largely destroyed by a traffic accident in 1940, but his current concert tour seems to prove the contrary. The Kreislers have assets which we have valued at about \$850,000 (including three violins

-3-

appraised at \$50,000), but \$560,000 of these assets are contained in two trusts created in 1919. The question whether the corpus of these trusts may be reached by the Government is now being considered.

4. JACK DIETZ was sentenced to serve seven months and fined \$5,000 on the first charge and was sentenced to serve two years in the penitentiary on the second charge, which sentence was suspended.

5. BERNARD TOPLITZKY. December 31, 1942, this office recommended prosecution for 1936 for failure to report income received from the sale of securities. Toplitzky, through his stock activities, was indicted for violations of the Securities Act of 1933. He plead guilty on June 10, 1939, and was sentenced to a year and a day on two counts, to run consecutively, and was placed on probation for five years on the eighth count. He also was indicted by a Federal Grand Jury in New York for mail fraud violations growing out of his stock transactions, but this indictment was dismissed. In addition to the federal offenses, he served approximately six months in the Los Angeles County Jail in 1938 on a charge of grand theft. The

-4-

State of California also placed him on probation for a period of ten years. On January 25, 1943, the Department of Justice advised that no useful purpose would be served by further prosecution, inasmuch as the proposed prosecution was based upon identical facts for which the taxpayer was convicted of violation of the Securities Act of 1935, (sic), (Securities Act of 1933).

6. STATE BANK OF CONGER, a bank in financial difficulties, transferred assets with a cost basis of \$120,000 to a trust fund in consideration of release by its depositors of \$100,000 of their claims. The trust assets were sold over a period of years for \$50,000 and this amount was ultimately distributed to the depositors in 1936 in complete liquidation. The bank had apparently been allowed losses of \$70,000 in prior years on the sale of the trust assets, and the problem was presented as to whether the bank realized taxable income of \$50,000 in 1936 by cancellation of indebtedness. Despite the implications of Peoples State Bank, 38 B.T.A. 857, this office ruled that the entire transaction was an executory one, and determination of gain or loss should be deferred

-5-

until the completion of the liquidation, at which time the bank sustained a \$20,000 loss. However, since this bank, as well as most of the others similarly situated, had currently reported trust income and had currently taken deductions for trust expenses and losses throughout the period of liquidation, and those years are now barred from ordinary adjustments of tax liability, the treatment devised herein must necessarily be accomplished by voluntary final closing agreement. It is believed that most of these banks will cooperate. However, if the bank declines, it has been provided that a determination of forgiveness of indebtedness income to it from the transaction may be resorted to instead, even though otherwise that would be undesirable.

7. ESTATE OF MILTON S. FLORSHIEM - date of death December 22, 1936 - proposed refund of \$21,603.78 estate tax, was referred by the Miscellaneous Tax Unit for consideration. Adjustments were recommended and the case returned to the Estate Tax Division, who now advise that the estate agreed to settle by paying a deficiency of \$150,000 (including interest).

-6-

8. ESTATE OF EDWARD E. BRADLEY. On January 18, 1943, the pendency of the Kroger case was reported in the Tax Court; a deficiency of approximately \$8,500,000 was determined by the Commissioner upon the basis of the decision of the Board of Tax Appeals in the case of the Estate of Mary H. Hughes, which held that the decision of the Supreme Court in May v. Heiner was no longer the law. On February 2, 1943, the Tax Court in a decision in the Bradley Estate case overruled its decision in the Hughes case (with five Judges dissenting) and said, among other things, that "upon more mature deliberation, we believe the better course to pursue is to adhere to specific decisions of the Supreme Court until there is no doubt that they are no longer authority." This office will request the Department of Justice to authorize the filing of a petition to review the decision of the Tax Court in the Bradley case.

9. BORG-WARNER CORPORATION (see report of April 27, 1942) was submitted to the Joint Committee and the proposed refunds have been criticized by the Staff of the Committee.

-7-

The basis of the criticism is the admitted failure of the Bureau to require compliance with TD 4422 in connection with depreciation allowances. The settlement as a whole was distinctly favorable to the Government by reason of its effect in reducing the basis for depreciation in subsequent high tax years notwithstanding it involved depreciation allowances for 1932 and 1933 in excess of what the Bureau would have allowed had not the settlement of the pending litigation been involved. The Staff of the Joint Committee takes the position that TD 4422 should be strictly complied with, and that in this case we have no sufficient assurance that the taxpayer will accept the resulting reduction of the basis in subsequent years. Also, that the Bureau should not permit the taxpayer to enter into a settlement that is unduly favorable to the revenue. The following language is quoted from the Staff's memorandum: "If the taxpayer should insist upon overpaying its tax liability still the tax returns should be properly adjusted and the money accepted as a contribution or gift instead of under the guise of taxes."

-8-

10. TOLEDO, PEORIA & WESTERN RAILROAD. The question was whether amounts paid to the railroad for transportation of property are exempt from the tax imposed by section 3475(a) of the Internal Revenue code, as added by section 620 of the Revenue Act of 1942, by virtue of section 3475(b), which provides that "The tax imposed under this section shall not apply to amounts paid by or to the United States or any agency or instrumentality of the United States for transportation of property." Possession of all the railroad's properties was taken by the Director of the Office of Defense Transportation pursuant to an Executive Order of the President dated March 21, 1942. This office has ruled that the exemption provided by section 3475(b), supra, is not applicable. This position is based on the proposition that it was not the intent of Congress to exempt from the payment of the tax on the transportation of property amounts paid to the United States in its temporary capacity as operator of the railroad.

11. BILLS FOR REFUND OF TAX PAID. During the 77th Congress, several bills were introduced to provide for the

-9-

refund of the tax paid, to the extent of \$1.00 per proof gallon, as to all distilled spirits used in the manufacture of nonbeverage products, i.e., extracts, flavors, food products, etc. Subsequently, during the same Congress, the extract manufacturers had introduced and secured enactment of legislation to refund this tax at the rate of \$3.75 per proof gallon. This legislation is section 602(f) of the Revenue Act of 1942. Upon the convening of the 78th Congress, some of the Congressmen who introduced the bills providing for the \$1.00 refund re-introduced such bills, apparently overlooking, or not being aware of, the fact that legislation had been enacted in the last session of the 77th Congress granting the \$3.75 refund. If these bills were enacted the result would be that their constituents would lose the right to claim a refund of \$2.75 a proof gallon.

12. LESTER S. LEVY transferred securities to his wife and a friend as co-trustees. The trust is to continue until the grantor's death, his wife's death, or until none of their children is under the age of 25, whichever event occurs latest. The trust income is to be paid to the wife for life, and thereafter in equal parts to living children

-10-

and deceased children's issue per stirpes until trust termination, when the corpus is to be paid over to living children and issue of deceased children per stirpes. The grantor retains the power to alter or amend in whole or in part at any time upon consent of the acting trustees. The grantor and his wife have submitted affidavits admitting that he controls the trust. It is held that the test of whether or not the wife's interest is substantially adverse under section 166 of the Internal Revenue Code as to income tax, and under Article 3 of Regulations 79 as to gift tax, is a legal rights test, and that regardless of the fact that the wife is amenable to her husband's wishes, he has nevertheless dedicated the income of the trust to her for a specified period and he cannot recapture such income without her consent. Accordingly, he is subject to gift tax on the commuted value of his wife's life interest in the trust income; but he is not subject to income tax under section 166 since he cannot revoke or amend except upon the consent of the holder of a substantial adverse interest in the trust income. Protection of the revenue requires treating the trust income as taxable

-11-

to the grantor under section 22(a) of the Internal Revenue Code on the theory that there was a reallocation of income within the family group, the period of reallocation depending upon the wishes of the grantor and his wife with the grantor admittedly the dominant party.

13. PROPOSED CONSTITUTIONAL AMENDMENT. A report has been requested on proposed amendment to the Constitution which would authorize reciprocal nondiscriminatory taxation of the income derived from public obligations issued by the United States or by or under the authority of any State. The kind of a report which should be made is a matter of some difficulty in view of the position of the Department that such a constitutional amendment is not necessary.

14. OTTO ROSE, 49 years old, Oklahoma Choctaw Indian, seeks to compromise the income tax claim of \$3,430.19 relating to the years 1935 to 1938, inclusive, for \$2,128.79. He started as a farmer on a Choctaw Indian land grant, went through the University of Oklahoma, served as an army bacteriologist in World War I, started a drug business in Oklahoma City, and became interested in a bank.

-12-

He was elected President of the Oklahoma City Board of Education in 1935, but was removed for maladministration in 1938. His bank went to the wall, and he was prosecuted for failing to report income from grafting while on the school board. He was convicted and sentenced to ten years in prison. Upon appeal the judgment was affirmed. Certiorari was denied. He started serving his term last month.

15. RAY C. MYERS was indicted at Toledo, Ohio, January 15, 1943, for willfully attempting to evade and defeat his income taxes for 1936 to 1939, inclusive, and pleaded not guilty. On January 30th he pleaded guilty and was sentenced to pay a fine of \$750 and costs. He has paid to the Collector the deficiencies in tax, penalties and interest for the years involved.

16. JAMES W. WEST. On October 31, 1939, indictments were returned charging West of Trenton, New Jersey, with attempting to defeat and evade his income taxes for 1932 to 1934, inclusive, and joining Ferdinand J. Knoebel and Alfred E. Christie as aiders and abettors, and charging West, Knoebel and Christie with conspiracy to evade and defeat West's

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income taxes for such years. The United States Attorney disposed of the indictment by the entry of an order of non prosequi on December 19, 1942.

17. COMMODITY CREDIT CORPORATION. Section 3475, I.R.C. which imposes the tax on transportation of property, makes an exception for "amounts paid by or to the United States or any agency or instrumentality of the United States for the transportation of property." Section 143.20 of Regulations 113 (approved February 1, 1943), limits the exemption to amounts "paid directly to a carrier by the United States or any agency or instrumentality thereof".

The Commodity Credit Corporation goes a step further claiming there is an actual agency between it and duPont Company, which pays the freight on shipments of cotton linters. To avoid complicated exemption certificate procedures, which would be burdensome upon the Bureau and the carrier, the Unit prepared a ruling denying exemption. In approving the ruling, this office recognizes that the conclusion is not clear as a matter of law. However, it is arguable that the regulation is a permissible interpretation of the statute and that this case comes within the terms of the regulation.

18. PITTSBURGH PLATE GLASS COMPANY. Proposed over-assessment of income tax for 1937. The reduction in tax is caused primarily by allowance of a deduction for a payment made to a rival manufacturer of safety glass as a result of patent infringement litigation that reached the Supreme Court. While other issues are involved in the case, concerning the allowable depreciation and obsolescence, as well as retirement losses, it is found that over \$880,000 was deducted in 1937 (and like sums in the accompanying years 1938 and 1939) for patent development and research expenditures. Though the Tax Court holds against allowance of such expenditures as deductions when incurred, the question is whether or not disallowance of the deductions will do the revenue more good in these years than harm in the later excess profits years, through increasing the base period net income and allowable credit based thereon. Furthermore, under Board decisions this taxpayer apparently can shift to credit based on invested capital and capitalize these expenditures but may run afoul of section 734 of the 1941 Act.

19. COLONIAL AIRLINES, INC. (Reported December 7, 1942) which was pending in the District Court of the United States for the Southern District of New York, has been dismissed without prejudice on stipulation of the parties.

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20. SMITH v. Shaughnessy, Collector and ROBINETTE v. Helvering, Commissioner, were decided by the Supreme Court on February 15, 1943. The decisions taken together establish a clear rule for determining gift taxes where possibilities of reverter are involved. In the Smith case, the Government conceded that the right of reversion to the donor in case he outlived his wife was an interest having value which could be calculated by an actuarial device and that it was immune from the gift tax. The Supreme Court said that was right. In the Robinette case the Government would not concede the value of the reversionary interest of the donor could be ascertained by recognized actuarial methods and it should, therefore, not be excluded from the value of the property to be taxed. The Court approved this, pointing out that the reversionary interest here depended not alone upon the possibility of survivorship but also upon the death of the daughter without issue who should reach the age of twenty-one years; and that the petitioner had not referred the Court to any recognized method by which it would be possible to determine the value of such a contingent reversionary remainder, and, while actuarial science may have made

great strides in appraising the value of that which seems to be unappraisable, the Court had no reason to believe from the record before it that even the actuarial art could do more than guess at the value there in question. In summary, the Government contended before the Court that contingent reversions should be eliminated where they were susceptible of valuation by recognized actuarial tables but not eliminated where they could not be valued by recognized actuarial methods, and this is the rule we deduce from the Court's decisions. It should be quite helpful to administrative officers in determining gift taxes, since the question is a rather common one.

21. JOHN A. ROEBLING'S SONS CO. In this case a renegotiation agreement determines excessive profits for 1942, which the taxpayer agrees to pay to the United States in four quarterly payments beginning March 15, 1943; and the taxpayer requests closing agreement that the excessive profits be eliminated from 1942 taxable income. The position of this office is that the excessive profits will be eliminated from 1942 income when and if recovered by the United States, but that a closing agreement to that

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effect should contain the following limitations: (1) there shall be excluded from the return only the portion which will be paid, repaid or credited to the United States to be covered into the Treasury as miscellaneous receipts; (2) there is to be no refund of taxes unless and until the taxpayer has first availed itself of the procedure for crediting the taxes against excessive profits in manner provided for in section 3806(b); and (3) upon audit the Commissioner shall be required to exclude only the portion theretofore repaid to the United States. Under section 3806 the taxpayer has complete assurance that if it is required to pay a tax on any portion of any of the excessive profits and such excessive profits are later repaid, the tax thereon will be credited against the excessive profits.

22. OVERPAYMENT of \$440,536.42 income taxes by Reba H. Rubin, New York, New York, was approved by the Staff of the Joint Committee during January, 1943.

23. ENOCK L. (Nucky) JOHNSON (Reported September 8, 1942) was sentenced to ten years on conviction for attempted evasion of his income taxes, and filed a petition for

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certiorari in the Supreme Court. On February 15, 1943, the Supreme Court affirmed the conviction, holding that the prosecutor's comment on defendant's claim of Constitutional privilege against self-incrimination, as reflecting on his credibility, did not constitute denial of due process since the defendant at the trial had waived objections to such comment by withdrawing his exception to it, and that defendant's exclusion from the court room while under cross-examination, during argument of counsel on a point of law, did not constitute error since no exception was taken to the Court's exclusion order, and, under the circumstances present, he was not prejudiced thereby.

. 24. CHICAGO, MILWAUKEE, SAINT PAUL & PACIFIC RAILROAD CO. On February 16, 1943, this office advised the Income Tax Unit (1) that an insolvent taxpayer on the accrual basis may accrue and deduct interest liabilities incurred within the taxable year though there is no reasonable expectation that such liabilities can or will be paid, which follows the decision of the Eighth Circuit in Zimmerman Steel Co. et. al., Trustees, v. Commissioner; and (2) that interest

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on the debts of a railroad corporation in the process of reorganization under section 77 of the Bankruptcy Act, as amended, continues to accrue as deductible items until the debts are extinguished by the transfer of the debtor to the reorganized corporation.

25. STATUS OF REGULATIONS. 47 Treasury Decisions have been issued since October 21, 1942, and 36 are pending. Of the 36 pending, 7 are with the Assistant Secretary for approval, 4 with the Deputy Commissioner, 14 with the Tax Legislative Counsel and 11 are in various stages of preparation in the L&R Division, some of which may be issued next week.

26. TAX DODGING. Mr. H, a United States citizen and inventor in the field of aviation, derived in 1940 and 1941 so-called commissions amounting to over \$2,500,000 for each of such years from the sale without the United States of aircraft and accessories thereto. In both years Mr. H. contends that he lived in Canada for more than six calendar months (having moved from

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the State of Washington to British Columbia from June 7, 1940 to January 4, 1941, and for corresponding period in 1941 and 1942). He thus contends that he was a bona fide nonresident of the United States under section 116(a) IRC, and hence that he is exempt from income tax upon the commissions. It is understood that he has filed no income tax returns in Canada for either of the years involved and that he is seeking to avoid income tax as to both countries with respect to the enormous income involved. The office of the Internal Revenue Agent in Charge at Baltimore is investigating the case. After the facts have been sufficiently developed, it is anticipated that consultations will take place with the Canadian revenue service in keeping with the Tax Convention between the two countries and with a view to frustration of the tax avoidance or evasion obviously involved. Section 116(a) was amended by section 148 of the Revenue Act of 1942. A part of the amendment is applicable to years beginning after December 31, 1941, but the part that will control this case is not applicable to years beginning prior to January 1, 1943.

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27. W. ROYSTON SMITH pleaded guilty January 10, 1943, to an indictment charging attempted evasion of income taxes for the years 1937 to 1940, inclusive, and was sentenced by U. S. District Judge W. Calvin Chestnut to pay a fine of \$1,000 with commitment in default. Smith is a resident of Hagerstown, Maryland, and is the half owner and active principal in the operation of the Hagerstown Paint and Glass Company, Hagerstown, Maryland. Prosecution for attempted evasion of income taxes for the years 1937 to 1940, inclusive, was recommended by the Bureau May 19, 1942.

28. MARTIN F. TIERNAN, et al. Two grantors, business associates, simultaneously deposited stock of their closely held companies into a number of trusts with themselves as trustees and as cotrustees with their wives. Trust income was to be applied so far as necessary "to the education and support of the child of the grantor for whom each of said trusts has been created." Certain of the trusts are for years with principal over to the children; the remaining trusts are for the life of the last surviving child, respectively, with payment of principal to

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future grandchildren. The trusts are irrevocable except with the consent of a beneficiary having a substantial adverse interest. The grantors obtained a decision (37 BTA 1048) that they were not taxable on trust income for the years 1932 and 1933 under sections 166 and 167 on the ground that trust income was not actually used to support and educate minor children. In considering later taxable years, this office has advised the Income Tax Unit that (1) the income of the trusts created by the husbands is taxable under Helvering v. Stuart, in the future, and, for open years, to the respective grantors to the extent that it could be used to support and educate minor children even though not so used; that such taxation is not foreclosed on the theory of res judicata by the Tax Court decision as to 1932 and 1933 taxes because the supervening Supreme Court decision in Helvering v. Stuart is directly contrary to that opinion; and that a decision with respect to one tax year is not res judicata with respect to the identical question in a subsequent year when a directly contrary intervening Supreme Court decision has established the error of the first decision; (2) consideration of whether the grantors are taxable under section 22(a) on income

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from the trusts in the future and for still open years is not precluded by the earlier Tax Court decision if for no other reason than because those proceedings related only to sections 166 and 167, and the question under section 22(a) is different therefrom; and (3) because of the unsettled effect of the John Stuart case on the Clifford doctrine and in view of the broad management powers retained by the husbands as trustees and as cotrustees of trusts created by them and other indicia of retained ownership evident from the surrounding facts, the grantors are taxable on trust income under section 22(a). This office is not yet ready to take the position that the John Stuart case makes a distinction between a grantor reserving powers to himself as grantor and a grantor creating broad powers to himself as trustee and acting as his own trustee.

29. JOHN M. McGOOHAN. On February 20, 1948, the Commissioner authorized and requested the Assistant Attorney General to direct the United States Attorney for the Eastern District of Pennsylvania to file suit against the City of Philadelphia, under section 3710 IRC, for

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the sum of \$36.94. The case is designed to test the power of the Federal Government to distrain against the states or their political subdivisions for the salaries of their employees whose federal taxes are delinquent. The Collector had previously, on January 15, 1942, served upon the City Treasurer copies of notice of lien, warrant for distraint, and notice of levy and had subsequently made demand upon the City Treasurer for payment of the sum. The City's refusal to honor the levy has been based upon a desire to protect itself, as well as on "the laws of the State of Pennsylvania and the strong public policy which prevails in our laws to preserve salaries and wages from attachment and precluding attachment of funds in the hands of a municipality"; the City Solicitor, however, has expressed a willingness to agree on "some method of procedure for bringing this matter to a judicial determination." Administrative officials have been apprehensive that failure to obtain judicial determination of the right of Collectors to enforce their levies against states and municipalities might likely

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militate against enforcement of collection of victory tax withheld by such officials, and they deem the question of such importance as to necessitate its being "brought to light as soon as possible and measures taken to have corrective legislation enacted." This case is not an altogether ideal one for a test case, since it appears the taxpayer has other property out of which collection might be made by usual distraint process, but even so, that does not affect the legal point involved when considered from that standpoint alone.

30. OKLAHOMA TAX COMMISSION v. UNITED STATES.

Certiorari to the Tenth Circuit Court of Appeals was granted in this case by the Supreme Court February 15, 1943. The Circuit Court held that the State of Oklahoma might not impose its inheritance tax on the transfer of the estate of a deceased member of the Five Civilized Tribes, considering itself bound by Childers v. Beaver (1926), 270 U. S. 555. The Supreme Court held in the Childers case that Oklahoma had no power to tax the transfer by death of the estate of a member of the Quapaw tribe. Justice McReynolds, writing the decision in Childers, placed it upon two

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grounds: (1) that the State lacked power to impose an estate or inheritance tax unless it had the power to regulate the transmission of the property at death, and, (2) that the control of Congress over Indian property, to the exclusion of the State power of inheritance taxation, was essential to the discharge of the Federal Government's duty to its Indian wards (the "instrumentality" argument). In the circumstances it is not clear why certiorari was granted in the instant case. In response to an informal request of the Solicitor General's office, on account of the positions the Government is taking looking to the taxation of interest of State and municipal obligations, a letter has been sent to him suggesting that the argument in the Supreme Court in support of the Circuit Court's decision be based primarily upon the first ground indicated in the Childers decision, which, as a matter of fact, was the approach emphasized in the Government's briefs in the Circuit Court and in the Supreme Court in opposition to certiorari.

31. WARD BAKING COMPANY. This case presented the question whether a tax under the provisions of Schedule A-3 of

Title VIII, Revenue Act of 1926, as amended by section 723(a), Revenue Act of 1932, should be assessed on the transfer of the right of the disappearing corporation (Ward Baking Corporation) to receive stock issued directly to the stockholders by the continuing corporation (Ward Baking Company) in connection with a consolidation of these two companies pursuant to the laws of the State of Maryland and the State of New York. It was held, in view of the language of the Supreme Court in Raybestos - Manhattan v. United States (1935) and in view of GCM 23239, that a stamp tax on the transfer of the right to receive stock was incurred in this case. It was recognized that the instant case is not identical with Raybestos-Manhattan, supra, since the latter involved a sale of assets. However, in deciding the Raybestos-Manhattan case the Supreme Court viewed the agreement as providing that the shares of stock of the new corporation were to be issued directly to the stockholders of the old corporations without further intervention by the latter. The taxpayer also contended that under the regulations it was never intended that a transfer tax be assessed in this situation. It was concluded that the exemption from tax accorded by these

regulations referred merely to the surrender of stock of the merging corporation.

32. WESTERN PERISHABLE CAR LOAD RECEIVERS ASSOCIATION OF NEW YORK. This office has reconsidered the question whether certain inspectors and typists performing services pursuant to an agreement between the above association and the Bureau of Agricultural Economics, U. S. Department of Agriculture, are employees of the association. The purpose of the agreement is to provide an impartial inspection of carload shipments of perishable fruits and vegetables received in New York by members of the Association. Under the terms of the agreement, the association pays the salaries of the inspectors, typists, and other personnel; it pays for or provides office supplies, inspectors' tools, and equipment used by such persons, and it pays \$0.15 per carload for inspection certificates received. The Bureau of Agricultural Economics whose duties with respect to the agreement are now administered by the Agricultural Marketing Service, selects, trains, licenses, and supervises the inspectors engaged pursuant to the agreement; it also fixes the salaries of such inspectors within a salary scale fixed by the

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association with the approval of the Bureau. The duties of the inspectors are assigned by the Bureau. The contract contains no provision for the selection, training and supervision of typists and other clerical personnel but as a matter of practice the Bureau does select, direct and supervise such persons without direction from the association. Based on a ruling by the Appellate Division of the Supreme Court of New York under the State unemployment program that a typist employed under the agreement is an employee of the association, and a statement from the Department of Agriculture that the inspectors and typists are not employees of that Department, this office ruled heretofore that the inspectors and typists and the Western Perishable Car Load Receivers Association of New York were subject to the taxes imposed by Titles VIII and IX of the Social Security Act and Subchapters A and C of Chapter IX of the IRC and amendments thereof. The Court of Appeals of New York has reversed the Appellate Division and the Supreme Court has refused to take the case on certiorari. This office has now reversed its original position and holds

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that the persons employed under the inspection agreement are not employees of the association within the meaning of Subchapters A and C of Chapter IX IRC, as amended.

33. WILLIAM E. ANDERSON, Edward T. Fellows and Arthur C. McEntee were indicted February 18, 1943, at Brooklyn, New York, for wilfully attempting to defeat and evade a large part of the individual income tax of Anderson for 1938 and 1939. Anderson was in the real estate appraisal business during the years covered by the indictment and acted as an expert appraiser for the City of New York. He is now engaged in the construction of defense housing at Hartford, Connecticut. The indictments are predicated upon Anderson's failure to report appraisal fees received from the City of New York and upon his claiming fictitious salaries and wages.

34. CHIN LIM MOW, Oakland, California, was indicted by a Federal Grand Jury in San Francisco, February 25, 1943, for wilfully attempting to defeat and evade his income taxes for 1936 to 1939, inclusive. He failed to file income tax returns for 1933 to 1937, inclusive, and reported only a

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small portion of his income in returns filed by him and his wife, Chin Wong Shee, on a community property basis for 1938 and 1939. He and his wife failed to report income aggregating \$446,370.36 received during 1933 to 1939, inclusive, from the operation of lotteries and gaming houses. The aggregate understatement of taxes amounted to \$79,043.88. He employed 16 aliases. He is a resident alien Chinese who has lived in the United States for approximately 30 years.

35. SHINYU NORO, SHOIE M. GOTO, HARUO TANIGUCHI, and ISO TANIGUCHI. On December 17, 1942, the Bureau referred the above cases to the Department of Justice with the recommendation that Noro, Goto and Haruo Taniguchi be prosecuted for evasion of their taxes. These individuals, all Japanese aliens, failed to report in their respective federal income tax returns the proper amounts of their respective shares of partnership income received from the operation of a restaurant in St. Petersburg, Florida. The cases originally arose from an investigation by the Assistant Collector of Customs, Tampa, Florida, who, acting under instructions from the Foreign Funds Control

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Division of the Treasury, took custody of the assets of the partners and partnership, Nikko Inn. On February 15, Noro was indicted for evading his income taxes for 1936 to 1940, inclusive. Haruo Taniguchi and Goto were named as aiders and abettors, and all three individuals were charged with conspiracy to evade Noro's taxes. Noro was arrested and has been released on bond. Goto is presently stationed at an alien relocation center somewhere in the West, and Taniguchi is believed to be in Japan.

36. NEW COCOANUT GROVE, INC., Boston, Massachusetts, was referred to the Department of Justice February 27, 1943, for consideration of advisability of instituting criminal proceedings against Barnett Welansky, Benjamin Welansky, Jennie Welansky, and Otto Spiller, or either of them on charges of wilfully attempting to evade and defeat a large part of the income and excess profits taxes of the corporation for each or any of the calendar years 1936 to 1941, inclusive, and on conspiracy charges. The United States Attorney, through the Department of Justice, requested that the case be forwarded to him. Barnett Welansky was the owner of the New Cocoanut Grove,

Inc., and together with his brothers, Benjamin and James, operated the nite-club owned by the corporation. Otto Spiller was the accountant who audited the corporation's books and prepared some of its returns. The fraud alleged concerns the failure of the corporation to report sales of alcoholic beverages, income derived from the hat and coat checking facilities, and the padding of various expense items. The corporation is in bankruptcy as the result of claims filed against it growing out of a recent fire wherein 489 persons lost their lives. Barnett and James Welansky are under indictment in the State courts on manslaughter and conspiracy charges growing out of this fire, and the reports of the Bureau's agents indicate that public indignation is running high. As a result of the bankruptcy, a jeopardy assessment of the deficiencies totaling \$113,399.72, including additional taxes, penalties, and interest, has been made. The reports on Welansky's and his brothers' individual income tax cases have not yet been received. Indictments were returned March 2, 1943, before Judge George C. Sweeney against New Coconut Grove, Inc., for the years 1936, 1937, 1939, 1940 and 1941;

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also against Barnett Welansky for evasion of income tax of the corporation for the same years, and against Otto Spiller, C.P.A., an enrolled agent, for evasion of income tax of the corporation for the year 1936. All indictments were returned under section 145(b).

37. ELEANOR ELVERSON PATENOTRE. A jeopardy assessment in the sum of \$2,836,961.43, consisting of a deficiency of \$1,279,465.87, penalty and interest, was made against Eleanor Elverson Patenotre on March 1, 1943, for the calendar year 1930. On the same date, the closing agreement previously entered into for the year 1930, was set aside by the Commissioner, with the approval of the Secretary, on the ground that it had been obtained by fraud on the part of the taxpayer. In short, the fraud consisted of the taxpayer and her son, a resident and citizen, representing to the Bureau that a certain block of stock had been given by the former to the latter prior to its sale and that the taxpayer had never, directly or indirectly, received any of the proceeds from such sale, whereas it was found that in truth and in fact the taxpayer retained substantially all of \$5,250,000, or its equivalent, which was delivered

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to her in Montreal, Canada. The stock in question represented the control of the Philadelphia Inquirer, now owned by the Annenbergs, one of the country's oldest and leading newspapers. The taxpayer is an American born citizen, the daughter of James Elverson, the founder and publisher of the newspaper for many years. She married a one-time French Ambassador to this country, and her son, Raymond, who was one of the chief conspirators in the fraud in question, is a French citizen, reputedly close to the present Laval Government. Information obtained indicates that in June, 1941, the taxpayer had on deposit, at J. P. Morgan's bank in New York City, upwards of \$3,000,000. Liens are in the process of being filed on this account; and it is anticipated that the Government's interests will be fully protected.

B. The following work was done under the supervision of Mr. Feidler, Assistant to the General Counsel:

38. (a) INSERTION OF RENEGOTIATION PROVISIONS IN TREASURY WAR CONTRACTS. An opinion, addressed to Mr. Mack, which was prepared by Mr. Meyer, Mr. Gilmore and Mr. Feidler, on February 5, 1943, concluded that the

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renegotiation provisions are probably not required to be inserted in contracts entered into by officers of the Treasury Department after April 28, 1942, and before October 21, 1942, and that the renegotiation provisions are required to be inserted only in war contracts made by officers of the Department. War contracts are defined to mean contracts relating to the war effort.

(b) Collection of Information by Treasury Agencies Excepted From the Federal Reports Act of 1942. An opinion, addressed to Mr. W. N. Thompson, was prepared by Mr. Tobolowsky and Mr. Feidler, on February 12, 1943, concluding that there are no legal objections to the adoption of a policy of advising the Treasury agencies excepted from the provisions of the Federal Reports Act of 1942 not to comply with the terms of Budget Circular No. 360 relating to the collection of information.

(c) Sale by Secretary of the Treasury of Unfit Currency and Cancelled Bonds. An opinion, addressed to Mr. W. N. Thompson, which was prepared by Mr. Blakeman and Mr. Gilmore, on February 25, 1943, concluded that (1) there is no statutory authority for the sale by the

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Secretary of the Treasury of unfit currency and cancelled bonds, (2) the Secretary of the Treasury has authority to transfer possession of such currency and bonds to a private company for the purpose of maceration and may sell to the company the pulp resulting from such maceration provided the contract of sale is not for an unreasonable length of time, (3) the proceeds from the sale of the pulp resulting from the maceration should be deposited in the Treasury as miscellaneous receipts, (4) before such proceeds are deposited in the Treasury they may be applied to the payment of the administrative expenses involved.

39. COMPILATION OF FEDERAL STATUTES AND EXECUTIVE ORDERS RELATING TO GOVERNMENT CONTRACTS. The compilation, prepared by Miss O'Connor, Mr. Blakeman, and Mr. Tobolowsky, includes, with certain minor exceptions, all the Federal statutes and Executive Orders relating to Government contracts. A comprehensive index to the subject matter is also included.

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40. (a) LEGISLATION: A memorandum prepared in the Chief Counsel's office of the Bureau of Customs regarding S. 214, a bill "To consolidate the function of furnishing legal advice to Government agencies in the Department of Justice," furnished reasons why the proposed transfer of all attorneys to the Department of Justice is undesirable and is not recommended by the Bureau of Customs.

(b) Hours of Work. A letter was prepared for the signature of Mr. O'Connell, instructing the solicitor to the collector of customs at New York that the personnel of his office shall work a 48-hour week, including an 8-hour day every Saturday. Similar instructions were recently issued to the assistant to the Chief Counsel at New York.

(c) Overtime compensation. In the report of the Chief Counsel's office of the Bureau of Customs for October 31, 1941, reference was made to the case of Howard C. Myers v. United States which, with other cases involving the same issue, was pending in the Court of Claims. On February 1, 1943, the court rendered its decision against the Government, holding that, under the customs overtime statutes, customs

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officers or employees are entitled to overtime compensation for all services performed between 5:00 p.m. and 8:00 a.m. or on Sundays or holidays even though such services are within such officers' or employees' regular tours of duty. Upon request from the Assistant Attorney General's office for an expression of the views and recommendation of this Department, there was prepared for the signature of the Assistant General Counsel a letter recommending that an application be made to the Supreme Court for a writ of certiorari.

41. THE OPIUM POPPY CONTROL ACT OF 1942. An order was prepared, and promulgated by Mr. Gaston as Acting Secretary, delegating the authority vested in the Secretary by the Opium Poppy Control Act, to the Commissioner of Narcotics. Narcotic Regulations No. 7, prepared by the Narcotic Section under authority of the Opium Poppy Control Act and of the delegation of authority by the Acting Secretary, were approved by the Commissioner and the Acting Secretary February 10, 1943, and both documents were published in the Federal Register.

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C. The following work was done under the supervision of Mr. Tietjens, Assistant General Counsel:

42. COLLECTION OF TRAVEL ADVANCES FROM MEMBERS OF THE ARMED FORCES. Mr. Reeves and Mr. Wald conferred with Mr. Bartelt, Commissioner of Accounts, and Mr. Allen, Chief Disbursing Officer, concerning the recovery of travel advances from Government employees who have gone into military service. It was decided, as a matter of administrative policy, that no steps would be taken to secure recovery of such advances at this time other than perhaps to communicate with the former Government employees and suggest to them the desirability of making repayment from the standpoint of their maintaining favorable personnel records.

43. ALLOWANCE OF CREDIT IN ACCOUNTS OF TREASURER OF THE UNITED STATES FOR CERTAIN CHECKS PAID BY THE PHILIPPINE TREASURY. Mr. Reeves, along with representatives of the Treasurer's office and the General Accounting Office, attended a conference in Mr. Bartelt's office which was called to discuss the procedure to be followed

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by the Treasurer of the United States in obtaining credit in his accounts for certain checks which were paid by the Treasury of the Philippine Islands on behalf of the Treasurer of the United States and which are unavailable to support such credit since they were destroyed as a result of military action. The Treasury of the Philippine Islands was reimbursed for the amounts of these checks upon receipt of cabled advice of their payment. Prior to the evacuation of Manila, most of these checks were sent to Corregidor where they were inventoried and subsequently destroyed by General Wainwright. The inventory which was made of the checks was brought back from the Philippines by High Commissioner Sayre. The General Accounting Office representatives agreed that credit would be allowed in the accounts of the Treasurer of the United States for the checks listed in the inventory. With respect to other checks which either transcripts or cabled advices received in the United States indicate were paid by the Philippine Treasury but which were not included among those sent to Corregidor, it was agreed that it would be necessary to

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secure the enactment of legislation authorizing the allowance of credit in the accounts of the Treasurer of the United States for the amounts thereof.

44. EARNINGS OF CONSCIENTIOUS OBJECTORS UNDER SELECTIVE SERVICE ACT. Mr. Reeves conferred with Mr. Bartelt, Commissioner of Accounts, and Mr. Imery, of the Selective Service System, concerning the handling of earnings of conscientious objectors who are assigned to agricultural work. The Comptroller General has advised the Director of Selective Service that these earnings must be covered into the Treasury as miscellaneous receipts. This has created a problem since the conscientious objectors have stated that they will refuse to work unless they can be assured that their earnings will not be used to further the war effort. It was suggested to Mr. Imery that the amounts of these earnings might be placed in a special deposit account with the Treasurer of the United States and held there until the conclusion of the war or until such time as the Congress provides for their use for some nonmilitary purpose. While as a practical matter these funds would be available for any governmental expenditure whatsoever, Mr. Imery

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stated that in his opinion this method of handling the funds would be a satisfactory solution of the problem. Accordingly, Mr. Bartelt advised Mr. Imery that he would consult with the General Accounting Office to determine whether it would be willing to approve the proposed procedure.

45. CLAIM FOR RELEASE OF CERTAIN GOLD BULLION DEPOSITED WITH FORMER HIGH COMMISSIONER SAYRE. Mr. Reeves and Mr. Tietjens conferred with Mr. Heffelfinger and with members of Mr. Luxford's office concerning a request made by Marsman & Company, Inc., Manila, P. I., for the release and purchase by the United States of certain gold bullion turned over to High Commissioner Sayre at the time of the emergency in the Philippines and subsequently delivered to the United States where it is now held in custody in the United States Mint at San Francisco subject to the direction of the Secretary of the Treasury. Documents which accompanied the gold at the time it was deposited with the High Commissioner indicate that, while it was produced by companies managed by Marsman & Company,

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Inc., it had been pledged to secure advances from the Bank of the Philippines. Unfortunately, so far as the Department has been able to ascertain, the Bank of the Philippines has no representative in the United States. It appears that under authority contained in §5(b) of the Trading with the Enemy Act, as amended, the gold bullion might be purchased and the proceeds thereof invested in Government bonds which would be held in a special blocked account. However, it was determined that in view of all the circumstances involved no action would be taken along these lines unless Under Secretary Bell should determine that, as a matter of policy, such action is desirable.

46. SHIPMENTS OF CURRENCY BY HOME OWNERS' LOAN CORPORATION. Mr. Reeves conferred with Mr. Kane of the Legal Division of the Home Owners' Loan Corporation concerning the shipment of currency by that corporation under the provisions of the Government Losses in Shipment Act, as amended. Regulations issued, pursuant to the Act, jointly by the Secretary of the Treasury and the Postmaster General, require shipments of this character

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to be made by registered mail. The Home Owners' Loan Corporation objects to paying the registry surcharge imposed by law upon all shipments exceeding \$1,000 in value since the maximum indemnity covered by the registry fee is limited to that amount, and desires to make shipments of currency by regular mail if shipments so made would be entitled to the protection afforded by the Government Losses in Shipment Act, as amended. Mr. Reeves advised Mr. Kane that this proposal would require an amendment to the present regulations and suggested that the matter be formally submitted to the Treasury Department. Mr. Reeves further advised him that it was questionable whether the Department, as a matter of policy, would determine that shipments made in this manner would be afforded sufficient protection to warrant replacement of losses from the fund for payment of Government losses in shipment.

47. REFUND OF AMOUNT TRANSFERRED BY CABLE TO MERCANTILE BANK OF INDIA, LTD. A communication was prepared for Mr. Bell's signature to the Chief of Finance, War Department, concerning an attempt to effect refund of \$5,000 paid by the Federal Reserve Bank of New York to the

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National City Bank of New York for transfer by cable to the Mercantile Bank of India, Ltd., Singapore, for payment to Lt. Col. Francis E. Brink, United States Army, Singapore. It appears that Col. Brink was not at Singapore when the transfer was made and never received the amount transferred. In connection with a request for refund made to the National City Bank of New York, the Federal Reserve Bank of New York was asked to furnish an agreement of indemnity, and advised the Department that it is not in a position to execute such an agreement on its own behalf but that it would execute such an agreement in its capacity as fiscal agent of the United States if it were so instructed by the Treasury Department. The letter to the Chief of Finance stated that the Secretary of the Treasury has no legal authority to execute an agreement of indemnity in this case or to authorize the Federal Reserve Bank of New York in its capacity as fiscal agent of the United States to execute such an agreement. The letter further advised the Chief of Finance that it would not be feasible to replace the amount for which refund is sought from the fund for payment of Government losses in shipment.

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48. FEDERAL FARM MORTGAGE CORPORATION. The Federal Farm Mortgage Corporation has a considerable amount of surplus funds for which it is seeking investment pending their use in paying off maturing obligations of the Corporation. The Corporation asked the Treasury for assistance in this respect and it was suggested that the problem could be met by a sale by the Treasury to the Corporation of RFC notes owned by the Treasury bearing 1 percent interest. In order to make notes available for this purpose, the RFC drafted a proposed resolution authorizing the issuance of \$500,000,000 of notes of Series X-A which it proposes to exchange for a like amount of Series X notes now held by the Treasury. The purpose of issuing a new series is to make certain changes in the form of the notes in order to adopt them to the proposed transaction. Mr. Tietjens went over the proposed resolution at the request of Mr. Heffelfinger, and approved it as satisfactory from the Treasury standpoint.

49. PUBLIC DEBT. (a) Credit against the Victory Tax for purchase of Savings Bonds. On two different occasions Mr. Tietjens discussed with Mr. Heffelfinger and

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Mr. C. W. Davis, of Surrey's office, proposed regulations to be issued by the Bureau of Internal Revenue providing for the giving of credit against the Victory Tax for the purchase of United States Savings Bonds. The principal point under discussion was the drafting of a regulation which would follow the statutory provision that credit be given for "one half of the amount of the obligations owned jointly by the taxpayer with one other person, but shall not include such obligations acquired by the taxpayer by gift, \*\*\*". It was concluded that in this respect the Victory Tax regulations should follow as closely as possible the Bureau's regulations with reference to Income and Estate Taxes on Savings Bonds.

(b) Reorganization cases. United States Savings Bonds are non-transferable. Problems arise when a corporation which owns Savings Bonds is dissolved or reorganized, since most of these cases involve a request for the re-issuance of bonds originally held by the corporation either in the name of the reorganized entity or in the names of stockholders. Informal opinions were rendered

by the Chicago Office in eleven reorganization cases including labor unions, business corporations, charitable societies, insurance companies, and the Methodist Church. Progress is being made in the establishment of specific requirements for each type of organization in each state and in laying down general rules with respect to resolutions, assignments, official certificates, affidavits, and requests for reissue required. In the case of The Banting Motor Car Company a request for reissue in the name of one stockholder of bonds substantially in excess of his entire interest in the corporation was turned down, it being shown that he paid for the excess in cash, the result being a deliberate transfer contrary to the regulations.

50. PROPOSED LEGISLATION. (a) Purchase of obligations of Federal home loan banks by the Treasury. Mr. Reeves, along with Henry Murphy, Assistant Director of Research and Statistics, and Charles R. Schoeneman, Assistant to the Secretary, conferred with Mr. Parsons and Mr. Willis of the Bureau of the Budget concerning a provision contained in a draft of proposed legislation submitted to the Bureau of the Budget by the National Housing Agency, which would authorize the

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Secretary of the Treasury to purchase obligations of the Federal home loan banks. The representatives of the Bureau of the Budget were advised that the Department had opposed similar proposals in the past on the grounds that the proceeds of such purchases could be used by the home loan banks only in order to permit their members either (1) to extend mortgage loans beyond the amount of funds provided by their shareholders, or (2) to permit the withdrawal of share accounts when funds would not otherwise be available; and that neither of these purposes is a suitable use for Treasury funds. The Treasury representatives further stated that while they could not state the Department's present position in the matter, the facts which led to the adoption of the previous position appear to remain unchanged.

(b) Administrative procedure bills. Consideration was given to the effect of various administrative procedure bills now pending in Congress upon the activities of those divisions of the Treasury Department, with the legal work, of which this office is concerned.

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(c) Report on H. R. 227, a bill "For the relief of the Tours Apartment Hotel." A report was prepared to the Senate Committee on Claims on the above bill which is designed to reimburse Mrs. Ruth Hamilton Stoner for a loss of interest sustained allegedly through the erroneous issuance of United States Savings Bonds registered in the name of the Tours Apartment Hotel. The Tours Apartment Hotel was not a business organization in the name of which United States Savings Bonds could properly be registered, but simply a trade name attached to real estate, the life interest in which was vested in Mrs. Stoner with remainder in fee simple to her son. In view of this fact, the Department has taken the position that the purchase of the bonds in the name of the Tours Apartment Hotel resulted in excess holdings of United States Savings Bonds by Mrs. Stoner. Since it does not appear that Mrs. Stoner's husband, Thomas I. Stoner, who acted for her in purchasing the bonds, was entirely frank in dealing with the Post Office Department officials who issued them, and since the loss would have been considerably minimized by seasonable presentation of the question to the Treasury, the report recommends against enactment of H. R. 227.

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(d) Report on S. 447, authorizing the creation of a War Distress Finance Corporation. There was prepared a report to the Senate Committee on Banking and Currency on S. 447, a bill "Authorizing and directing the Reconstruction Finance Corporation to create a subsidiary corporation to be known as the War Distress Finance Corporation, to deal with cases of business distress and financial hardship attributable to the war and causes related thereto, and for other purposes." The report stated that the Department does not possess sufficient information to express an opinion as to the merits of the proposed legislation, but suggested that, in view of the present burden of financing the war, careful consideration be given to the necessity of its enactment.

51. RAILROAD REORGANIZATIONS. (a) Seaboard Air Line Railway Co. (See January 1943 report, item 37). On February 13, Messrs. Tietjens, Proctor and Heffelfinger attended a conference with Col. Anderson, Receiver, and Mr. Gallagher, Attorney for the Receivers, to discuss the purchase from the Treasury of certain securities held by the Secretary of the Treasury as collateral for section 210 loans. The Treasury suggested a price of \$2,200,000

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and the Seaboard representatives suggested a price of \$1,500,000. After such discussion, a price of \$1,700,000 was said by the Seaboard representatives to be the best price they could possibly justify to the other creditors of the Seaboard and to the United States District Court. The Treasury representatives agreed to present this figure to Under Secretary Bell. Mr. Bell indicated that he thought the price was low and a letter was drafted addressed to Mr. Frank Wright of the RFC asking his further advice in the matter. The letter stated that Mr. Bell thought the price was low and will afford a basis on which Mr. Wright can discuss the matter with Col. Anderson and Mr. Gallagher. Mr. Wright has promised to let the Department know whether he can make any progress in obtaining a better offer from the Receivers.

(b) Seaboard Bay Line. Following the Seaboard Air Line Railway conference, Col. Anderson and Mr. Gallagher brought up the matter of the Receivers Certificates which the Treasury holds as security for the Seaboard Bay Line loan. The Seaboard representatives advised that a very large proportion of outstanding certificates had been sold at 79, and that some time ago the Treasury had tendered

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its certificates at 90, an offer which the Receivers had rejected. The Seaboard representatives said that tenders would probably again be asked for in the near future and suggested that if the Treasury would reconsider and offer their certificates at a figure near the price at which the other purchases had been made, it would be of great benefit to the receivership. The Department indicated that the suggestion would be kept in mind but doubted that it could justify selling at such a low price.

(c) Washington, Brandywine & Point Lookout Railroad. This road owes the Treasury approximately \$85,000, \$50,000 being principal and \$35,000 being accrued interest on an old railroad loan. Last fall this road was taken over by the Navy Department and negotiations have been under way for some time between the Navy and the railroad for the purpose of arriving at a fair value of the road's properties. In connection with these negotiations, representatives of the road have, at various times, approached the Department to see if some adjustment could not be made in the amount which the Treasury would

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be willing to take in full settlement of its claim. Mr. Bell had previously indicated that the Treasury would not oppose legislation permitting the acceptance of the principal amount of the debt in full settlement. With interest which the road has previously paid on its obligations, this would net the Treasury a 3 per cent return. This information was given the road's representatives (Messrs. Chesley, Duke and Edlin) on February 10, 1943, by Mr. Heffelfinger and Mr. Tietjens. They stated that they would approach Senator Tydings to see if they could obtain his help in getting the necessary legislation; the Department has not heard further from them.

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D. The following work was done under the supervision of Assistant General Counsel O'Connell:

52. NATIONAL GALLERY OF ART (PERMANENT LOAN) (See January 1943 report, item 42). On February 1, 1943, Mr. Shea conferred with Senator Barkley in regard to the National Gallery of Art bill.

53. BUDGET HEARING. At Mr. O'Connell's request, Mr. Shea attended a budget hearing on February 3 and presented reasons for not reducing personnel of the General Counsel's Office, despite overtime provided by the overtime compensation law.

54. COORDINATION CONFERENCE OF TREASURY LAW ENFORCEMENT AGENCIES. Mr. Shea attended a meeting of the enforcement agencies on February 4.

55. UNITED STATES COMMISSIONERS BILL. Mr. Shea attended a conference in Mr. Ireys' office on February 5, 1943, in regard to H. R. 1191, providing for the hearing of certain criminal cases by United States commissioners, etc.

56. TREASURY APPROPRIATION BILL. Mr. Shea attended numerous conferences during the week with Assistant

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Secretary Sullivan, Mr. Graves, Assistant to the Secretary, Under Secretary Bell, and Mr. Luxford, in regard to the Celler amendment to our 1944 appropriation bill.

Mr. Speck cooperated with Mr. Brenner in the preparation of a memorandum addressed to the Secretary, which concluded (1) that the amendment would not repeal the Silver Purchase Act, and therefore would not terminate the legislative authority to purchase silver; but (2) that by precluding the use of the Treasury appropriation "directly or indirectly" for the purpose, it would have the effect of preventing the purchase of silver under the existing procedure. It was further pointed out therein that certain problems in the administration of the Silver Purchase Acts, other than the purchase of silver, would be raised by the adoption of the Celler amendment.

57. CONSPIRACY BILL. On February 10, Mr. Shea discussed with Mr. McMains, Secretary to Senator Hatch, our proposed bill designed to enable the Government to use more effectively the charge of conspiracy in suppressing counterfeiting and other offenses against currency, coinage, etc. Senator Hatch was chairman of the subcommittee

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designated to consider this bill in the last session of the Congress. Mr. Almond of the Bureau of the Budget had suggested to Mr. Shea that the proposed legislation need not be formally submitted again to Congress and that it could be handled in this manner. Mr. McMains indicated that they would be agreeable to introduce the bill upon Senator Hatch's return.

58. MEDAL FOR THE PRESIDENT. At the informal request of Senator Barkley's office, Mr. Ranta prepared a draft of a concurrent resolution requesting the Secretary of the Treasury to strike a medal to be presented to the President for inspiring confidence in aviation by his flight to North Africa. Mr. Shea handed the draft to Mr. Johnson of Senator Barkley's office.

59. STABILIZATION FUND AND WEIGHT OF DOLLAR. At the request of Mr. Bell, a draft of a bill to extend for an additional two years the powers relating to the stabilization fund and the authority to alter the weight of the dollar was prepared by Mr. Ranta. Also, a draft of a memorandum from the Secretary to the President and letters

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for the President's signature requesting Congress to extend such authority were prepared and were sent forward for initialing.

60. RELIEF BILL FOR STAMP SHORTAGES. Mr. Casey attended a meeting on February 17, 1943, in the office of the Second Assistant Postmaster General concerning the adjustment by a relief bill of a claim by the Post Office Department against the Bureau of Engraving and Printing for stamp shortages.

61. SENATE CONFIRMATION OF OFFICERS IN THE EXECUTIVE BRANCH OF THE GOVERNMENT. A letter to the Bureau of the Budget on S. 575, "To provide that officers in the Executive branch of the Government who receive compensation at a rate in excess of \$4500 a year shall be appointed by the President, with the advice and consent of the Senate, in the manner provided by the Constitution", was drafted by Mr. Speck.

62. FOREIGN FUNDS PROPOSAL TO EXTEND THE NATIONAL SERVICE LIFE INSURANCE ACT TO COVER CIVILIAN EMPLOYEES IN WAR ZONES. Mr. Speck conferred with Mr. Bailey of the Bureau of the Budget with regard to this matter, and ascertained that similar proposals are being considered by

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the Bureau of the Budget, which expects to submit to the agencies concerned a suggested general plan within a week or ten days. In this connection, a memorandum of background material was prepared by Mr. Keith.

63. FURLOUGH CERTIFICATES FOR THE ARMED FORCES.

Mr. Ranta prepared letters to the Chairman of the Senate Committee on Military Affairs giving the views of this Department on S. 343 and S. 815, relating to issuance of furlough certificates to certain members of the armed forces.

64. MUTILATION OF COINS. In response to a request from the Secret Service Division, Mr. Ranta prepared a memorandum advising that apparently no criminal offense had been committed in a case where ten-cent coins were made into souvenirs.

65. USE OF SAVINGS BONDS AS COLLATERAL. At the request of the Secret Service Division, Mr. Ranta prepared an informal memorandum concluding that there was no violation of the Federal criminal statutes in a situation where a pawnbroker loaned money to negroes, the negroes certifying a bond for payment and endorsing the check to the pawnbroker when it was received. The memorandum pointed out, however, that the State usury statutes had probably been violated.

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66. REPRODUCTION OF REVENUE STAMPS. A letter was prepared by Mr. Ranta advising Dr. G. W. Twomey, Veterans Administration, Minneapolis, Minnesota, that it was the policy of the Department not to grant special authorizations to permit the reproduction of entire revenue stamps.

67. ILLUSTRATIONS OF WAR SAVINGS STAMPS. At the request of the Secret Service Division, Mr. Ranta reviewed an amendment prepared by the Bureau of Public Debt to the regulations relative to illustrations of War Savings Bonds which proposes to permit without restriction illustrations of War Savings Stamps. The regulations were revised to impose certain conditions as to the use of illustrations of stamps with the view in mind of suppressing any possibility of the counterfeiting of such stamps.

68. DISMISSAL OF INDICTMENTS. Mr. Ranta prepared letters advising Assistant Attorney General Berge that this Department would interpose no objection to the dismissal of an indictment as to Fred Hines for the forgery of a Government check and as to Maurice Weinstein for counterfeiting Federal Reserve notes.

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69. COMPROMISE OFFERS. The Acting Secretary of the Treasury duly accepted offers made by the Maryland Casualty Company to compromise for \$16,493.08 its liability under the claim of the United States against the Monarch Pennant Company for \$20,727.56; the offer made by Chester A. Oakes, "agent" for Clifford Oakes, payee on certain vouchers, in compromise settlement of the claim of the United States against the stated payee; and the offer made by Joel R. Ross in settlement of indebtedness arising from loans made to him in 1931 and 1933. Letters were prepared by Miss McDuff advising the Comptroller General and the Governor of the Farm Credit Administration of the acceptance of the respective offers. .

Letters were prepared, addressed to the Secretary, recommending acceptance of (1) an offer made by the New Amsterdam Casualty Company to compromise for \$375 its liability to the United States as surety on the bond of Charles K. Tucker; and (2) the offer of J. H. Wood to pay \$125 in compromise settlement of any indebtedness to the United States arising from loans made to him in 1922 by the Secretary of Agriculture. These letters were prepared by Miss McDuff.

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70. CONGRESSIONAL ACTION ON TREASURY-SPONSORED

LEGISLATION. (a) National Gallery of Art. S. 319, authorizing the acceptance of a permanent loan to the United States by the Board of Trustees of the National Gallery of Art, and for other purposes, was passed by the Senate on February 15, 1943, and referred to the House Committee on the Library on the following day. H. R. 1801, the House bill, had been introduced by Representative O'Toole on February 11, 1943, and referred to the Committee on the Library.

(b) Medal for the President. On February 25, 1943, the Senate agreed to S. Con. Res. 7, providing for the presentation of a medal to the President in recognition of his air trip to Casablanca, which had been submitted on February 11, 1943, by Senator Barkley.

(c) Coinage Mint. On February 25, 1943, Senator Van Nuys introduced S. 767, a bill to authorize the establishment of an additional coinage mint of the United States, which was referred to the Committee on Banking and Currency.

(d) Public Debt Act of 1943. On February 25, 1943, the Committee on Ways and Means of the House submitted its

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report (H. Rept. No. 181) on H. R. 1780, our bill to increase the debt limit of the United States. As reported the bill includes the Disney rider relating to salary limitations. This report was referred to the Committee of the Whole House on the state of the Union.

E. The following work was done under the supervision of Assistant General Counsel O'Connell and Mr. Luxford, Chief Counsel of Foreign Funds Control:

71. NORTH AFRICAN PROGRAM (See January 1943 report, item 58). In the early part of February Messrs. Murphy and Rains of the Legal Division left by surface convoy for North Africa. It is contemplated that Mr. Murphy will eventually be assigned to Dakar and Mr. Rains to Casablanca.

The status of the accounts of the central banks in the North and West African areas was clarified this month. Messrs. Pehle's and White's offices participated in preparing a lengthy cable setting forth willingness to grant generally licensed status to such accounts on a prior notification basis. Upon receiving a reply of representatives in North Africa that this procedure was entirely satisfactory, appropriate licenses were issued to the Federal Reserve Bank of New York and French American Banking Corporation.

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Several conferences were held with Lt. Colonel Bernstein and with representatives from all interested branches of the Treasury and State Departments, covering a great many of the problems which Lt. Colonel Bernstein desired to present before his return to North Africa. Among the problems canvassed at such conferences were the following:

- (1) The question of restrictions on yellow seal and non-yellow seal currency brought into the United States from North Africa by members of the armed forces;
- (2) The problem of food packages sent from North Africa to metropolitan France;
- (3) The transition from the 75 to the 50 franc rate of exchange;
- (4) The question of taxation of the allied forces by French African authorities;
- (5) The question of mopping up excess purchasing power in North Africa;
- (6) The proposed ad hoc and sequestration decree;
- (7) The question of budgetary aid to North Africa; and
- (8) The question whether North African exchange controls should be implemented.

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Definite conclusions were reached on some of these problems and others were left for further study. On the United States currency problem, after an exchange of cables, a procedure was put into effect whereby officers and men arriving in the United States may bring in any amount of non-yellow seal currency if they present to the collector of customs a certification showing that such currency was given to them by an Army finance officer in exchange for yellow seal or local currency. With respect to food packages a cable was transmitted expressing disagreement with any procedure which would have the effect of breaching the blockade. A cable was sent on the ad hoc and sequestration decree indicating full approval of the action of representatives in North Africa in persuading the French authorities to go along with a decree which is comparable to the similar measures adopted in the United States. The French authorities in Algiers have not yet issued such decree but it is indicated that when it is issued it will be drafted along lines similar to those followed by this Department in its ad hoc blocking program. With respect to the taxation and

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inflation problems the Treasury cooperated with Lend-Lease and other interested agencies in drafting cables calling for further studies on the other side.

Conferences were held with Mr. Claflin of the French American Banking Corporation, Mr. Knoke of the Federal Reserve Bank of New York, and Mr. Hall, Director of the Bureau of Engraving and Printing, on outstanding problems in connection with the manufacture of banknotes in the United States for the three African areas. As a result of these conferences a cable was drafted and sent to Algiers dealing with all outstanding items in this connection.

Considerable time was devoted this month to the problems arising in connection with payment of salaries to officers and crews of French men-of-war in the United States. An original payment for this purpose had been advanced by General Bethouart's mission in the United States. It was thought that it would be necessary for subsequent payments to be made from former French Government funds in the United States through the means of the directive licensing procedure. However, such use of directive licensing was averted

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as a result of the purchase by the Secretary of the Treasury from the Admiral of the French fleet of a draft in the amount of 31,250,000 francs drawn on the French Treasury in Africa. A cable was prepared and sent to the American Consulate in Algiers requesting Mr. Murphy to work out more permanent arrangements with General Giraud so that future payments of this nature could be financed either by the purchase of such drafts or by the use of dollar funds in this country now available to North African authorities. These matters were handled by Messrs. Aarons, Johnston, and Minskoff.

72. LITIGATION PROBLEMS (See January 1948 report, item 60). (a) Swiss National Insurance Co. v. Alien Property Custodian. In this action the Swiss National Insurance Co. contested the right of the Alien Property Custodian to retain, pursuant to the provisions of the Settlement of War Claims Act of 1928, profits earned by the Swiss National Insurance Co. while doing business under license of the Secretary of the Treasury during 1917 and 1918. The insurance company admitted that it was an "enemy" within the meaning of the Trading with the enemy Act of 1917. However, it claimed that property of an enemy earned

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while it was licensed to do business is not thereafter subject to seizure as enemy property. At the request of the Department of Justice a proposed preliminary statement was prepared by Messrs. Alk and Golding for inclusion in the brief of the Alien Property Custodian which pointed out the implications of the position advanced by the Swiss National Insurance Company with respect to the Government's foreign property control program.

(b) Draeger Shipping Co., Inc., et al., v. Alien Property Custodian. On February 13, 1943, Judge Bondy, District Judge of the Southern District of New York, decided the case of Draeger Shipping Co. and Frederick Draeger v. Alien Property Custodian, holding that all the provisions of the Trading with the enemy Act of 1917, as amended, should be held applicable to section 5(b) of the Trading with the enemy Act, as amended by the First War Powers Act, 1941, so far as this can be consistently done. He also held that where property is seized by the Alien Property Custodian, an American citizen is entitled to proceed under section (9) of the Act to obtain a determination whether he is a national

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of a foreign country, and that it was not necessary for such American citizen to exhaust his administrative remedies before having recourse to the judicial remedy afforded by section 9(a). Judge Bondy's opinion is regarded as favorable to the extent that it appears to treat the present program with respect to property of persons who are in fact foreign nationals as not within the scope of judicial review under the provisions of the Trading with the enemy Act, as amended. The portions of his opinion which do not conform to the Government's views appear to relate exclusively to the Government's treatment of American citizens as nationals of foreign countries. These portions are not expected to be of serious concern to the Government's economic warfare program.

The Government's position in briefing and arguing this case before the District Court was formulated with the concurrence of the Office of the Alien Property Custodian, the Alien Property Unit of the Department of Justice and Foreign Funds Control of the Treasury. All agencies concerned have concurred in the determination that an appeal should be taken

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to the Circuit Court of Appeals for the Second Circuit primarily for the purpose of obtaining a decision with respect to the question of exhaustion of remedies. Messrs. Alk, Lesser, Golding, Scott and Smith, who handled the matter, are studying all aspects of the case which may arise upon further judicial review, and canvassing procedures for effecting such review.

(c) Schnyder v. Frederick Draeger, et al. This is an action by the Swiss owner of certain cattle hair and horse hair against the defendants for selling such merchandise at less than prevailing market price. Plaintiff alleges that such sale was effected contrary to the provisions of the Treasury Department directive license under which it was effected, and that the plaintiffs were entitled to rescission of the transaction or, in the alternative, to an accounting for the fair and reasonable value of the cattle hair and horse hair. The defendant's motion to dismiss the complaint was denied, Judge Carew of the New York Supreme Court deciding that the complaint stated a good cause of action. An appeal from this decision has been taken to the Appellate Division. After consideration of the issues on appeal, Messrs. Lawler,

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Lesser, Alk and Golding determined that it probably would not be desirable for the Government to intervene at the present stage of this litigation inasmuch as none of the parties question the authority of the Treasury Department to issue the directive license.

(d) Von Clemm v. United States. Further discussions were held with Mr. Bruno Schachner, Assistant United States District Attorney for the Southern District of New York with reference to defense of section 5(b) of the Trading with the enemy Act, as amended, against the assertion that it represents an unconstitutional delegation of legislative powers. Particular stress was placed by Messrs. Alk and Golding upon the desirability of presenting arguments addressed to the question that under conventional principles Executive Order No. 8389, as amended and approved by Congress, specifies adequate standards. In addition, it will be argued that section 5(b), so far as relevant to freezing control, need not specify standards in order to be constitutionally valid.

(e) Proposed Action of Marsman and Co. v. Secretary of the Treasury. Acting on behalf of Marsman and Co., agents for certain Philippine mining companies, the firm of Cummins

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and Stanley of Washington, D. C., presented a proposed complaint for a mandatory injunction to require the Secretary of the Treasury to sell certain gold now held in the San Francisco mint and to invest the proceeds for the benefit of the true owners. The gold was alleged to have been pledged to the Bank of the Philippines who delivered it to High Commissioner Sayre for safekeeping. A further question was raised whether the directive license technique should be utilized in order to make such gold available to the Government, and to invest the proceeds. A memorandum of law with respect to this matter was prepared and conferences were held with members of other units of the Treasury by Messrs. Alk, Scott, Golding and Miss Hodel. It was decided that the Treasury Department should take the position that Marsman and Co. was without sufficient authority to maintain suit and that no advantage would be gained for the Government by acquiring the gold at this time.

73. PUBLIC DOCUMENTS ISSUED. (a) General Ruling No. 15 - Mexican Railroad Property. (See January 1943 report, item 57). The ruling, immunizing Mexican railroad property from seizure in the United States, discussed at length in

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the January report, was issued on February 19, 1948; Messrs. Aarons and Minskoff worked on this matter.

(b) General Ruling No. 12A. General Ruling No. 12A, prepared by Messrs. Aarons and Golding, was issued this month, providing that certain unlicensed transfers would not be regarded as void under General Ruling No. 12 if certain strict conditions have been complied with. The banking community has apparently accepted the strict standard of care imposed by the general ruling without protest.

(c) General License No. 32. General License No. 32 was amended this month so as to increase from \$100 to \$500 per month the amount of permissible remittances that may be made to persons in blocked countries, subject to the limitation that if the payee is within Portugal, Spain, Finland, Sweden, or Switzerland and is a national of any other blocked country the amount of the remittance is limited to \$100 per month. The amount will ease the administrative burden of handling license applications for such remittances on a specific basis. Messrs. Aarons and Daum handled the matter.

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(d) Public Interpretation No. 10. With cooperation of the administrative staff, a draft was prepared by Mr. Alk and Mrs. Rogan of Public Interpretation No. 10 which requires banking institutions in the United States who receive checks from abroad to examine endorsements on such checks and to ascertain whether any of the endorsers are Proclaimed List nationals. It also provides that checks or drafts bearing the endorsement of a Proclaimed List national may not be endorsed, presented, accepted, collected, etc., except pursuant to a license expressly referring to General Ruling No. 11.

74. ENFORCEMENT AND INVESTIGATIONS. (See January 1943 report, item 59). (a) Swiss Banks. The chief lesson learned from the investigation of the Swiss banks, conducted last summer, was that the manner in which banks were permitted to operate rubric and omnibus accounts afforded a major means of defeating freezing control. After a period of experimentation, Public Circular No. 21, affecting the operation of rubric accounts, was promulgated in January. During February, methods were adopted to control the operation of omnibus accounts held by the New York agencies of

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Swiss banks. If such regulation proves successful, it will be extended generally. Messrs. Lesser and Ackermann collaborated in this work.

It has been decided to consolidate the proposed hearings with respect to the New York Agency of Credit Suisse and the Swiss American Corporation. Swiss American Corporation is a wholly-owned subsidiary of Credit Suisse and it is believed that the consolidated hearing will present a more rounded picture of the activities of Credit Suisse in this country than would two separate hearings. The factual data is now being prepared by Messrs. Lesser, Ackermann and Seay, and it is contemplated that the notice of hearing will be issued within the next three weeks.

(b) Criminal Cases. In response to requests from the United States Attorney for the Southern District of New York, cooperation is being extended by Messrs. Lesser and Schwartz (1) in the preparation for presentation to the Grand Jury of a case involving the filing of a false TFBE-1 affidavit, false TFR-300 reports, and false applications for licenses, which was referred to the Department of Justice by this Department; (2) in the preparation for presentation

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to the Grand Jury of a case involving the smuggling of currency into this country by a blocked national and the unlicensed use thereof; and (3) in the investigation of a case which may involve fraudulent practices under color of the authority of a directive license.

After consultation with Mr. Lesser by telephone and teletype, Customs agents at New Orleans arrested and removed from two outward-bound Chilean steamships four merchant marine officers and charged them with violating General Ruling No. 5. It was charged that they brought large sums of United States currency into the country from South America which they failed to declare to Customs and to deposit with a Federal Reserve Bank. Upon arrest, they confessed to having brought in the currency and to having used it to purchase cashier's checks on New Orleans banks and travelers checks. The cashier's checks were found on their persons and they claimed to have destroyed the travelers checks. All four were arraigned before a United States Commissioner and were held for the Grand Jury in \$5,000 bail each.

Three persons were arrested in the Panama Canal Zone charged with violating General Ruling No. 5. Two are presently under indictment and one has pleaded guilty.

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(c) Field Investigations. Field investigations have been completed in the cases of William J. Topken and Horst Albrecht Wegener and final reports are expected to be completed within the next two weeks by Messrs. Lesser and Carolan and Miss Mayer. The Topken case involves the ownership and the filing of reports with respect to the ownership of Schimmel and Co., Inc., Amber Mines, Inc., Adolff Hobbin Co., Inc., and Comet Tools, Inc. The evidence indicates that the stock of all four corporations is owned beneficially by German nationals resident in Germany. The Wegener case involves the ownership and the filing of reports with respect to the ownership of American Giese Wire Corporation and Steel Wire Corporation. The evidence indicates that the stock of both corporations is beneficially owned by nationals of Germany resident in Germany.

A field investigation of Julien Giguet, Inc., a French national, was made and it appears that the subject has engaged in unlicensed remittances to its French parent company. The investigation also disclosed that Bank of the Manhattan Co. and William Iselin Co., Inc., apparently knowingly, permitted Auguste Viret, the American manager of Julien Giguet,

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Inc., to operate, without license, accounts belonging to Julien Giguet, Inc., in his own name. Messrs. Lesser and Ackermann handled this matter.

Investigations and studies were made by Messrs. Lawler and Proctor of the Associated Minerals and Metals Co.; the Lanova Co.; the American Wire Co.; and two freight forwarding companies, Phoenix Shipping Co. and Goudran Shipping Corporation. It is probable that vesting by the Alien Property Custodian will be recommended in these cases.

The investigation of Hoffman-La Roche, Inc., New Jersey, and affiliate companies, including the interrogation of the executives, has been completed and the case is being prepared for possible criminal prosecution by Messrs. Lawler and Parker.

Work is continuing on the solution of the French Line problem and a letter to the Secretary of State is being prepared by Mr. Lawler for Assistant Secretary Gaston's signature, together with a memorandum concerning Moran de Linclays, president of the French Lines.

Discussions have been had with counsel for Sofina, a large international utilities holding company, in regard

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to additional information needed for further action in this case. Messrs. Lawler and Warner are working on this question.

Study was continued by Mr. Lawler of transshipments in connection with Ciba, Sandoz and Geigy, including the preparation of replies to the objections of the Swiss Minister.

(d) Administrative Enforcement. Oral interrogations were conducted by Messrs. Lesser and Ackermann in the following cases: Herman Hollander, Inc. (unlicensed remittances to Rumania); Josef Havlik (unlicensed remittances to France); and Ludwig Wolfe (false representations in an application for a license).

The following apparently unlicensed transactions were uncovered and explanations in writing requested: by the Corn Exchange Bank Trust Co., payments from an account in which a Japanese national had an interest; by Theodore Haviland II and Charles G. Loeb, the receipt of a remittance from France; by Mitchell, Hutchins and Co., the operation of a securities account in which a blocked national had an interest; by the Bank of the Manhattan Co., the operation

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of a cash account in which a blocked national had an interest; by William Iselin Co., Inc., the operation of a cash account in which a national of a blocked country had an interest; by Elvira Garbiras, the importation of United States currency. Messrs. Lesser and Ackermann and Miss Mayer collaborated in this matter.

Preliminary studies were conducted by Messrs. Lesser, Ackermann and Carolan in the following cases: Felix Israel (unlicensed remittances); Leacock and Co. (unlicensed remittances); Ossip Pernikoff (unlicensed remittances); Paul Nipkow (unlicensed remittances); Crown Willamette Paper Co. (trade and communication with a Proclaimed List national); Inter American Merchandising Corporation (unlicensed remittances); J. Kinderknecht (false TFR-300 report); S.S. Diamond Dental Tool Corporation (unlicensed liquidation of a blocked corporation); Coty, Inc., and affiliated companies (unlicensed transfer of securities and the filing of false reports).

(e) Enforcement Committee. The Committee on Investigations and Enforcement and the Ad Hoc Committee have been merged into the Enforcement Committee. This Committee will deal with all matters of investigation and

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enforcement, blocking and unblocking, and the licensing of ad hoc blocked nationals. The Legal Division's representatives on the Committee are Messrs. Lawler and Lesser.

75. HAWAII. (See January 1943 report, item 66(a)).

(a) Change in Licensing Procedure. A meeting was held early in the month at which the advisability of changing the licensing procedure in Hawaii was discussed. It was suggested that some treatment equivalent to that of General License No. 68A be used in Hawaii in order to reduce the number of special applications involving inconsequential transactions and in order to free representatives of the Department in Hawaii for more intensive work on problems of particular importance. Letters were prepared by Mr. Johnston to the Secretary of War setting forth this suggestion and requesting an expression of his views thereon, and to Mr. Tree requesting that he discuss the question with Governor Stainback and forward to the Department a complete statement of the Governor's views and of his own reaction to the proposal.

(b) Restoration of Power to Civil Governor. The proclamations issued concurrently by the civil and military

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Governors were studied by Mr. Johnston with a view to determining their effect on the proposed change in our licensing procedure in Hawaii, and also, whether any action is needed with respect to outstanding regulations on currency, securities, etc. It was concluded that it would still be advisable to ascertain the views of the military Governor before making any major change in licensing procedure. It was also concluded that the Proclamations do not necessitate any change with regard to regulations on currency, securities, etc.

(c) Application of Scorched Earth Program to Coins.

A memorandum was received from Mr. Bell by Mr. Pehle stating that it would be impracticable to give the Treasury Custody Committee in Hawaii the responsibility of receiving and disposing of coin held by financial institutions in the event of an enemy invasion. A letter prepared by Mr. Johnston was sent to Mr. Tree transmitting the substance of Mr. Bell's views and the suggestion was made that Tree consider the problem further if he considered it of sufficient importance after discussing it with the military authorities.

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(d) Consolidation of General Licenses Nos. H-2 and H-3. Word was received from Mr. Tree that it is proposed to consolidate General Licenses Nos. H-2 and H-3 with the result that in the future all war bonds purchased by or for blocked nationals whether by cash or by check would be required to bear the words "subject to Executive Order No. 8389, as amended". A cable to Tree was prepared by Mr. Johnston pointing out that the Treasury policy is liberal regarding purchase of war bonds by blocked nationals and requesting that the proposed action be delayed and a detailed statement of reasons be sent to the Department.

76. LATIN AMERICA PROBLEMS. (See January 1943 report, item 72). (a) General. During the past month a study was made of the functions and activities of the different divisions in the Treasury Department in the Latin American field and a memorandum was prepared by Mr. Moskowitz outlining such activities and functions, proposing various projects which might be undertaken by the Treasury (Foreign Funds Control, Monetary Research and the General Counsel's Office) and also suggesting certain procedures for the

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coordination of administration in this field. A number of problems involving Latin American republics were handled, including examination of a number of proposed decrees which several Latin American republics have enacted or were prepared to enact within the near future.

A suggested policy for handling German-owned trademarks in Latin America was worked out by Mr. Lawler.

(b) Argentina. During the month of February study of the problems involved continued in conjunction with the general Latin American study. Six additional names were designated as special blocked nationals. Under the policy of licensing, substantially no overdrafts and new credits to the Banco de la Provincia and Banco de la Nacion have been extended. The action has not caused any substantial improvement in the administration of Argentine controls in fulfillment of their obligations undertaken at the Rio and Washington Conferences. The negotiations carried on by the Embassy with the Banco Central have not resulted in any new developments.

At a conference with members of the administrative staff and the General Counsel's Office, Mr. Bohan;

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Commercial Counsellor of Embassy in Argentina, outlined a plan of "persuasion" employing export controls over commodities critical to Argentine industry, which the Embassy proposed to undertake during the next three months and which they hope will result in more effective cooperation, short of breaking off diplomatic relations with the Axis. At the conference Mr. Bohan indicated that if this plan failed, firmer measures, including many which Treasury has long proposed, may be taken with respect to this country.

Studies were continued by Mr. Lawler with respect to the Argentine Bemberg case, preparatory to an interrogation of Bemberg, and with respect to the Sudan case, involving the sale of three chains of utilities in Argentina and Chile.

A check was made by Mr. Moskovitz for all TFR-300 reports which may be filed in the name of persons recommended for Proclaimed Listing, to determine whether such persons should be specially blocked until such time as their names actually appear on the Proclaimed List.

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(c) Licensing Problems. Study of the problems in connection with the promulgation of a standard of conduct for United States concerns within Latin America who may engage in transactions involving blocked nationals has been completed. Public Circular No. 18A, setting forth this standard of conduct, has been prepared by Messrs. Aarons and Moskovitz and has been submitted for the consideration of the State Department, together with the proposed circular instructions to the Missions dealing with this circular and related problems.

(d) Special Blocked Nationals. During the past month eleven persons, six in Argentina and five in Brazil, were designated as special blocked nationals. In conjunction with members of the administrative staff, the confidential circular dealing with procedure for designating and licensing transactions involving special blocked nationals, is being revised. It is planned to exclude special blocked nationals from the benefit of a number of general licenses.

A confidential circular is being drafted by Messrs. Lawler, Moskovitz and Miss Klein in conjunction with the

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administrative staff which sets up a procedure and standard of conduct with respect to checks and drafts on which names of special blocked nationals appear, similar to that involving Proclaimed List nationals.

(e) Proclaimed List. The State Department submitted a draft of an undertaking and escrow agreement prepared by members of its legal staff which are to be signed by certain of the South American Bata companies in connection with their deletion from the Proclaimed List. The drafts of the undertaking and the escrow agreement were considered and redrafted and certain objectionable clauses which tended to involve the United States Government in the operation of these Bata companies were removed. The draft, prepared by Messrs. Lawler, Moskovitz and Locker, was sent to the State Department and after some discussion was approved and dispatched.

No deposit was required under the terms of the undertaking but certain standards of conduct were established. The sanction for the undertaking is that the companies may be listed again on the Proclaimed List,

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although this is not specifically set out. The escrow agreement, which has the same sanction, requires that the shares of stock in these South American Bata companies shall be placed in a bank and all proceeds received on these shares shall be placed in the bank in the name of the manager of the particular Bata company. Through this escrow agreement, the United States Government did not determine who would be entitled to the shares or the proceeds thereof, but that matter was left open to be determined after the war.

(f) Trade Problems. A memorandum was prepared setting forth a tentative plan for possible action by the Government to have the United States drug industry replace the German drug industry in Bolivia with a view toward securing more complete cooperation of the Bolivian Government with the United States Government in carrying out the Proclaimed List program.

A cable was drafted by Messrs. Lawler, Warner and Miss Klein to be sent to Ambassador Winant by the State

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Department urging that action be taken to stop the export of dyestuffs from Switzerland to South America. These dyestuffs are believed to be composed primarily of German raw materials.

(g) Insurance Problems. A program prepared by the State Department to prevent South American insurance information vital to the war effort from being transmitted abroad was considered by Messrs. Aarons and Kehl and suggestions with respect thereto were submitted to the State Department.

Requests to investigate Compania Hispania Americana, a Spanish insurance company which may be operating as an Axis front in Latin America, were prepared by Mr. Kehl for transmission by the State Department to the United States embassies in Spain and Chile.

77. LICENSE PROBLEMS. (a) Retroactive Licenses. (See January 1943 report, item 76). Conferences were held relative to the formula to be employed in handling applications for retroactive licenses where the facts are such that approval would have been withheld if applications

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had been made before the transactions were effected. It was agreed that such applications, as a general rule, would be denied, it being understood that the effect of such denial is without prejudice. A caveat will be included in action wires in such cases indicating that a new application will be considered in any case where it is shown that substantial property rights are being affected. Messrs. Lesser, Alk, Golding and members of the administrative staff handled the matter.

(b) General License Re Insurance. A draft of a general license for transactions with respect to life insurance policies in which there is a blocked interest has been prepared by Messrs. Reeves, Alk, and Kehl and circulated for consideration.

(c) Conference Work. Messrs. Alk and Kehl and Miss Hodel cooperated with the administrative staff in the reorganization of the Foreign Funds Control Conference Section. As a result of the reorganization, a member of the Legal Staff will be available for conferences requested

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by applicants or their attorneys concerning applications which are pending or which have been acted upon.

(d) Explanation of Denial of Licenses to Satisfy Judgments. Heretofore where inquiry has been made by letter with respect to the Department's reasons for denying applications to satisfy judgments obtained in attachment proceedings and similar cases it has been the practice of the Department to answer such letters without mentioning its policies such as that against permitting one creditor of a blocked debtor to be preferred over another. The Department is now preparing replies to letters of this type which will disclose, so far as may be appropriate, the motivating reasons which impelled the Department in denying a particular application. This action, part of the program to acquaint the public more fully with the program of Foreign Funds Control, is being handled by Messrs. Reeves, Alk and Kehl.

(e) Consumer Enterprises in War Relocation Centers. The War Relocation Authority is in the process of organizing cooperative consumers enterprises in the various

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relocation centers. Since it is possible that these consumer enterprises would be blocked because of the interest of some blocked nationals, the War Relocation Authority requested that a special license be issued in order to avoid the difficulties of blocking. Pursuant to this request, a broad special license was drafted by Mr. Locker and sent to the War Relocation Authority authorizing the consumer enterprises located in these relocation centers to engage in any domestic transactions which could be engaged in by a generally licensed national. Other restrictions were put in the license in order to give Foreign Funds Control the necessary control over these enterprises.

(f) Licenses Involving Ad Hoc Blocked Nationals.

Memoranda were prepared by Mr. Lawler and Miss Klein on the advisability of unblocking the accounts of Ernest K. Halbach and Wilhelm von Meister, formerly associated with General Aniline and Film Corporation.

A formal hearing was held in San Francisco on the application of Gerhard and Hooper for unblocking. Denial

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of the application was recommended by Mr. Linville and the case is now in the hands of Justice Department for possible criminal prosecution.

A memorandum was prepared by Mr. Warner on proposed changes in licensing of ad hoc blocked nationals, with particular reference to living expenses allowances.

(g) Miscellaneous. A study is being conducted by Messrs. Lawler and Proctor on the advisability of revoking a license which authorized purchase of certain shares of Ore and Chemical Company.

A license was issued authorizing the transfer of 450 shares of Askania Regulator Company stock from the name of Askania-Werke A.G. to H. A. Brassert and the resultant unblocking of Askania Regulator Company. Mr. Lawler and Miss Klein handled the matter.

(h) Stamp Procedure. (See January 1943 report, item 66(b)). The circular letter to collectors of customs revoking previous instructions concerning the treatment of postage stamps imported into the United States was issued on February 19, 1943. Under the new procedure, all

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stamps entering the United States will be forwarded to the collector at New York, who will submit them to the Philatelic Control Unit of the Office of Censorship for expert examination and for its recommendation as to detention or release. If the Philatelic Control Unit recommends release, the collector is authorized to release the stamps without the requirement of a Treasury Department license. The Philatelic Control Unit will also examine the stamps which have been held in customs custody under previous instructions, pending presentation of a license, and, if release is recommended, the collector at New York will forward the recommendation of the Philatelic Control Unit to Foreign Funds Control, so that the case may be reconsidered in the light of such recommendation.

The procedure referred to is described in Confidential Circular No. 192. Mrs. Rogan and members of the administrative staff handled the problem.

78. SECURITIES. (See January 1943 report, item 71). A draft of Confidential Circular No. 11A has been prepared

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by Messrs. Alk and Scott which will make it possible for domestic banks to obtain the attachment of Form TFEL-2 to securities which have been held by such banks continuously since April 8, 1940. The circular requires the completion of items (a) and (b) only of Form TFEL-2 and the insertion of a statement as item (c) to the effect that the securities have been held since April 8, 1940 and that no blocked country or national thereof has had any interest in the securities since the effective date of the Order.

79. TRADE AND COMMUNICATION WITH ENEMY NATIONALS.

(See January 1943 report, item 62). Work in connection with redrafting General Ruling No. 11 is continuing by Messrs. Alk, Daum and Mrs. Rogan. The necessity for revision has been indicated by a prosecution under section (3)(a) now pending in New York. Claim is being made that inasmuch as the acts in question were not prohibited by section 5(b) of the Trading with the enemy Act, such acts were licensed by reason of the provisions of paragraph (4) of General Ruling No. 11.

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Discussions were had with the State Department by Messrs. Lawler and Moskovitz relative to incoming communications from enemy territory.

The question was raised by American exporters to the French West Indies whether such exports were prohibited under General Ruling No. 11 and Public Interpretation No. 5 because insurance thereon was effected by enemy nationals. After investigation it was found by Mr. Kehl that such exports were insured by the Local French Government in the West Indies without communication with continental France, and the exporters were, accordingly, advised that no license under General Ruling No. 11 was required.

A circular instruction to the Missions which deals with the handling and processing of applications involving enemy nationals who are not also Proclaimed List nationals has been proposed and submitted to the State Department for its consideration. This proposed circular instruction also outlines the types of cases in which the Missions are authorized to act and those in which action may be taken only by the State Department.

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Study of specific problems which have arisen in connection with transactions by American subsidiaries located in the European and neutral countries with enemy nationals has continued. Upon receipt of information from the State Department or the Licensing Division, several letters were written to American concerns advising them that the Department has information that their subsidiary has engaged in certain transactions in violation of General Ruling No. 11. In one instance a reply was received indicating that the United States concern may not be able to control its representative in Switzerland and an appropriate reply is being drafted. In another instance, a conference was had with counsel of the American company and full cooperation of the United States concern was obtained to the end that it would do everything in its power to control the subsidiary and prevent trading with the enemy. The matter was handled by Messrs. Lesser and Moskowitz.

There is under consideration by Messrs. Lawler and Moskowitz a circular instruction to the Missions in the European neutral countries to the effect that all concerns

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subject to the jurisdiction of the United States be notified that they may not pay or authorize or declare the payment of any dividends or interest on any of their outstanding stocks or bonds if they have reason to believe that any part of such dividends or interest would be payable directly or indirectly to an enemy national, except pursuant to a license under General Ruling No. 11. A typical case in which such notification would have been efficacious is that of the Ford Motors Aktb. of Stockholm, 60% of the stock of which is owned by the Danish subsidiary. The Board of Directors of the company recommended payment of a dividend which would probably result in making available to the Axis about 120,000 Swedish kroner if the dividend is actually declared. In conjunction with the administrative staff of Foreign Funds Control together with the State Department this problem is receiving close attention, to the end that no dividends be declared or paid in free exchange.

A study was made, in conjunction with the administrative staff, of the past and present licensing practice of the

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Treasury Department in cases involving transactions between American firms in neutral European countries and firms in enemy territory, and also of the extent to which past transactions have been licensed in accordance with the recommendations of the London Mission and the State Department and of the extent to which the views of the Treasury have differed with either the London Mission or with State Department, or both. Memoranda were prepared by the administrative staff and Monetary Research concerning certain pending cases and the disposition of past cases. Memoranda were prepared outlining past statements of policy by the British and particularly by this Government in this field and analyzing deviations from this policy since its enunciation in August 1942. A conference was had with representatives of the State Department, in which the licensing policy was reviewed. The position of the State Department on this whole problem was enunciated and the various pending cases were discussed and the manner of disposition was agreed upon. A detailed memorandum of the conference and of the consideration given to the various pending applications in this field was prepared by Messrs. Aarons, Lawler and Moskovitz.

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80. MISCELLANEOUS STUDIES AND MEMORANDA. (See January 1943 report, item 77). (a) Use of Foreign Funds Control Appropriation. A study is being made relative to the legal authority of Foreign Funds Control to expend the Foreign Funds Control appropriations for the purchasing of books, periodicals and newspapers and for maintaining passenger car automobiles. In view of statutory provisions requiring appropriations for these purposes to be specifically addressed thereto, doubt was expressed concerning the authority of Foreign Funds Control to make such expenditures under the language of the various Foreign Funds Control appropriations. The Comptroller General has issued a number of opinions, from which it would appear that expenditures for the above purposes are authorized if administratively determined to be indispensable to the carrying out of Foreign Funds Control functions. The study of this matter is continuing by Messrs. Alk, Golding and members of the administrative staff.

(b) Irrevocable Deposits for payment of Bonds. A memorandum is being prepared by Messrs. Alk and Smith

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relative to the facts that must be shown in order to establish that a depositor of funds into a bond-servicing account has absolutely and irrevocably appropriated the funds to the payment of bonds and divested itself of any control or interest therein. This matter is of importance because of the policy adopted by Foreign Funds Control permitting payment of interest when there has been an irrevocable deposit set up for such purpose.

(c) Bank Set-Off. A memorandum was prepared by Mr. Alk on the question whether a bank which has negotiated sight bills of a Philippine corporation may upon maturity of such bills offset the amount thereof against the blocked account of the Philippine corporation with the bank. The conclusion was that a general deposit may be offset against any matured debt owed by the depositor to the bank.

(d) Rulings. Legal rulings on a variety of questions were made, including the following:

A license is not necessary in order to alter or change the name of a blocked corporation;  
Public Circular No. 14, limiting the purchase of corporate securities by blocked nationals

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except under specific license, is applicable to estates and trusts in which there is a blocked interest;

General License No. 11 is not applicable to blocked accounts of persons residing outside of the United States;

General Ruling No. 10A is applicable to a defendant's answer, which asserted a lien against the property of a Philippine corporation and prayed that the property of the corporation be subjected to such lien;

After the distributive share due a national of one of the neutral countries has been deposited in a blocked account pursuant to the provisions of General License No. 30A, or the appropriate Washington license, the transfer to the ultimate beneficiary in the neutral country may be effected pursuant to the applicable neutral license upon the issuance of a proper certification.

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(e) Arpad Plesch Case. A study is now being made by Mr. Parker and Miss Klein as to the action, if any, to be taken by the Treasury Department in connection with Arpad Plesch, a Proclaimed List national, who is about to sue American Express Company in the Swiss courts for payment of travelers checks which Plesch has bought in Europe at a discount. One possible course of action being considered is the vesting of such checks by the Treasury Department under Executive Order No. 9193.

(f) Policy with Respect to Preferences. A study was made and detailed memoranda prepared by Mr. Moskovitz with respect to departmental memoranda or public statements in regard to the so-called "preference argument" as a policy determination in the handling of licensed applications. The so-called preference argument has been used to describe the policy involved in varying fact situations:

1. Where payment is allowed out of the blocked funds of a country whose total assets in the United States are less than the total amount of claims of United States creditors against that country or its nationals, a preference would necessarily result;
2. Even in a case where total blocked

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assets of a particular country or its nationals exceed the total claims, payment of claims out of the blocked account of a particular national might result in a preference in favor of certain creditors. In that connection also, the claims of foreign creditors are to be taken into consideration; 3. Since blocked assets held in the United States will play an important part in the peace conference and in post-war settlements, they should be preserved and not depleted by the granting of licenses which authorize payments therefrom.

(g) Currency Held by Spanish Government. Examination was made of the file and all documents pertaining to certain United States currency held by the Spanish Government which it desired to export to the United States. After study of a memorandum of the State Department attached to a memorandum from the President, a letter was prepared by Mr. Moskovitz for transmittal to the Secretary of State on the subject and a memorandum to the President was prepared advising him that action would be taken in accordance with the President's Memorandum and enclosing a copy of a letter transmitted to the Secretary of State.

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(h) Proclaimed List. A study was made of the present practice and of the legal aspects of Proclaimed List listing of ships and also of the practice of the British and the legal basis for the British Ships Lists. A memorandum on this subject was prepared by Messrs. Aarons and Moskovitz and recommendations were made for revising our practice of listing ships. The matter was referred to the administrative staff of Foreign Funds Control to be taken up with the Proclaimed List committee.

81. HUGARIAN AND ITALIAN WORLD'S FAIR PROPERTY. In response to State Department's request that the Treasury Department express its views with regard to granting assurances that certain Hungarian and Italian World's Fair property would not be the subject of directive licenses, this Department wrote to the State Department expressing its attitude on the matter. The attitude adopted was that notwithstanding this Department's policy of exercising control over the property of foreign governments such as bank balances, gold, securities, etc., including World's Fair property, it was disposed to grant the assurances requested

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with respect to such World's Fair property in view of the opinion expressed by the State Department that such action should be taken unless some paramount national interest dictated otherwise. Of course, it was understood that such assurances are to be subject to the continued granting of immunity by enemy governments to property of the United States Government located in enemy territory. Mr. Minskoff prepared the communication.

82. INTER-ALLIED DECLARATION. In order to implement the Inter-Allied Declaration in which the Allied governments reserved their rights to declare invalid any transfers which took place in occupied territory, a subcommittee was proposed which would examine the legislative controls in the various allied countries for the purpose of determining to what extent they were adequate to deal with the objective stated in the declaration. In a previous report it was mentioned that this Department sent a letter to the Department of State requesting that Treasury be consulted on questions relating to American participation in the proposed work. In response to this letter, State Department has requested information along the following lines:

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- (1) The existing United States legislation under which transfers and dealings of the kind referred to in the declaration would be or could be invalidated;
- (2) The experience of the Allied governments relative to the modus operandi of the Axis; and
- (3) Decrees issued in territories annexed to or conquered by the Germans.

The foregoing problems are presently being given consideration by Mr. Minskoff.

83. LEND-LEASE IN CHINA. A proposed Lend-Lease agreement for China drawn by the State Department was studied by Mr. Minskoff with particular consideration being given to Section 2 thereof which inaugurated a new policy by providing for "lend-lease in reverse" with respect to Chinese currency. This provision was designed to relieve the acute financial situation of the United States forces in China which results from the unfavorable fixed rate of exchange.

84. POST-WAR. Continued consideration is being given to international financial and economic post-war problems.

In connection with discussions which have been taking place relative to international stabilization fund, it has

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been suggested that such conversations should be shifted to London. Consideration was given to that subject and a memorandum was drawn by Mr. Minskoff pointing out the undesirable features of the proposed change.

85. PATENT PROBLEMS. Conferences were continued with respect to Treasury policy in licensing transactions relative to foreign patents, trademarks, and copyrights in which there is some enemy interest. It has been decided to consider each case on its own merits and take action in the manner which will do most harm to the enemy interest with the least harm to the Allied interests. In those cases where no harm can be done to the enemy interest, the possible damage to the Allied interest is the only consideration.

A program is being developed relative to the policy of licensing blocked interests in the United States with respect to their foreign patent, trademark and copyright interests. The blanket licenses necessary for their operation create the biggest problem and these have been limited to operations in the generally licensed trade

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area. They cover only transactions in which there is no blocked interest other than the licensee's. Messrs. Lawler, Kehl, and Cassoday with members of the administrative staff are considering the matter.

A program is being worked out by Messrs. Lawler, Kehl, Cassoday, Miss Klein and members of the administrative staff for the elimination of joint control by Foreign Funds Control and the Alien Property Custodian of royalty payments in which there is a blocked interest.

86. ALIEN PROPERTY CUSTODIAN RELATIONS. (See January 1943 report, item 63). Foreign Funds Control released control of over 150 cases in which the Alien Property Custodian has assumed jurisdiction. Miss Klein and members of the administrative staff handled this work.

Further study is being made by Messrs. Lawler and Warner of problems arising under the relations between Alien Property Custodians of various United Nations.

Discussions have been held by Mr. Lawler with the Alien Property Custodian and the Department of Justice relative to the handling of the Silesian-American case.

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87. PROPERTY CENSUS REPORTS. (a) Form TFR-500 - Proposed Census of Property in Foreign Countries. Form TFR-500, the regulations concerning said form and the proposed circular containing instructions relating to it have been multilithed and in this form were presented to you. Approval to the project has been given. Conference was then held with the Bureau of the Budget which raised no general objections as to the taking of the census but offered various detailed suggestions, all of which are now being considered by Messrs. Reeves and Arnold.

(b) Form TFR-300 - Census of Foreign-Owned Property in the United States. A conference was held with the Division of Monetary Research in regard to the problems of consolidation of TFR-300 reports in order that this work may be expedited. Conferences were also held by Messrs. Reeves and Arnold with representatives of the Division of Monetary Research and Foreign Funds Control, particularly the Enforcement Division, concerning the relationship of the Enforcement Division to the consolidation.

88. FOREIGN FUNDS CONTROL PAMPHLET. In conjunction with the representatives of the Federal Reserve Bank of

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New York, a revision of the pamphlet containing Documents Pertaining to Foreign Funds Control was prepared by Miss Hodel and Miss Klein. The printing work will be handled by the Government Printing Office and the pamphlet should be ready for distribution to the public sometime in March.

89. OTHER MATTERS. Silver. (See January 1943 report, item 81). The Treasury appropriation bill for the fiscal year 1944 was passed by the House with an amendment designed to prevent the use of the funds appropriated in carrying out the Silver Purchase Acts of 1934 and 1939. An opinion was prepared which concluded that the amendment would have the effect of preventing the carrying out of any of the provisions of either Act, but that by reorganizing the procedure followed by the Department in the past it might still be possible to carry out the principal provisions of those Acts.

A report was prepared on a bill introduced by Senator Murdock which is designed to permit the further use of

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Treasury silver in the war effort. This bill is somewhat similar to Senator Green's bill but calls for repurchases by the Treasury after the war. Several letters were prepared to the Bureau of the Budget commenting on proposed reports of other agencies on Senator Green's bill.

Negotiations were continued with the Metals Reserve Company with respect to the purchase of silver contained in gold deposits. An agreement has been drafted which provides for the purchase by the mints and assay offices for the account of the Metals Reserve Company of foreign silver contained in mixed deposits of gold and silver. The execution of this agreement will be delayed until a decision is made concerning the continued stockpiling of silver by the Metals Reserve Company. In the event that stockpiling continues, this arrangement will be put into effect. Mr. Brenner handled each of these matters.

90. CONTROL OF EXPORTATION OF COINS AND CURRENCY.

A memorandum was prepared by Mr. Brenner on the respective authorities of the Treasury and Board of Economic Warfare in controlling the exportation of coins and currency. It

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concluded that the Treasury had ample authority to control such exportations and that the Board of Economic Warfare could properly take action in this field only if the coins or currency exported are intended for use in a foreign country as metal or paper in a manner contrary to the best interests of the United States, or if the materials contained in such coin or currency ought to be retained in the United States for possible use in the production of war materials.

91. STABILIZATION AGREEMENT - IRAN. A draft was prepared by Mr. Brenner of a stabilization agreement between the United States and Iran and was forwarded to the Iranian Minister. It provides for the purchase of Iranian exchange by the Treasury to the extent deemed necessary to cover the needs of the United States in Iran. It also provides for the sale of gold to Iran and the purchase of gold from that country.

92. LEGALITY OF ISSUANCE OF FEDERAL RESERVE BANK NOTES. Professor Walter E. Spahr in an "Open Letter to Congress" attacked the recent issuance of \$660,000,000 of Federal

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Reserve Bank notes. Several letters to Senators were prepared by Mr. Brenner indicating that the issuance was legal, that it was designed to conserve materials and that it would not have an inflationary effect.

93. WAR RISK INSURANCE. A draft of a bill to extend war risk life insurance protection in the amount of \$10,000 to civilian government employees assigned to duty in war areas has been prepared by Mr. Kehl.

F. The following work was done under the supervision of Assistant General Counsel O'Connell and Mr. Hill, Chief Counsel of Procurement Division:

94. (a). RUSSIAN OIL REFINERY. (See January 1943 report, item 53). At a conference held on January 27, attended by Mr. Hall of E. B. Badger & Sons Co. and by Messrs. Walsh, Flatley, Davis, and Larsen of the Procurement Division, various problems concerning the contract with E. B. Badger & Sons Co. on the Russian oil refinery project were discussed and a full agreement reached. On January 28, a final draft of the contract referred to above was prepared and

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said contract was on the same date signed by Erastus B. Badger of E. B. Badger & Sons Co. and by Mr. A. J. Walsh in behalf of the Procurement Division. This contract was subsequently submitted to you for approval, and on February 17 was returned to the Procurement Division bearing your approval.

On February 4 at a meeting attended by Mr. Hargrove of E.B. Badger & Sons Co. and Messrs. Mack, Walsh, Flatley, Holme, Edgar, Hill, Davis, Zingesser, and Larsen, various problems involved in the Russian oil refinery project were discussed. A current report and a tentative graph showing the progress of the project were submitted by Mr. Holme. Mr. Mack informed Mr. Hargrove and Mr. Holme that the question of compensation for royalties should not be permitted to enter into the negotiations concerning compensation to various process owners for engineering services which such owners are to furnish to E. B. Badger & Sons Co. It was also determined that the contract with E. B. Badger & Sons Co. should be modified to permit E. B. Badger & Sons Co. to arrange contracts directly between the Procurement Division and the contractors named in Schedule B of

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the Badger contract rather than to have the transactions contemplated in said Schedule B handled as subcontracts of E. B. Badger & Sons Co. This amendment was prepared and signed by E. B. Badger & Sons Co. and by Mr. A. J. Walsh on behalf of the Procurement Division during the last two days of the month of February. The said amendment will shortly be submitted to you for approval together with an appropriate explanation of the circumstances necessitating the modification of the contract. At the meeting on February 4 Mr. Mack informed Mr. Holme that he desired Mr. Holme to attend all meetings or conferences relating to the negotiation of the contracts referred to in this paragraph and to keep Mr. Mack closely informed as to all particulars of such negotiations.

(b.) On January 30 there was a conference in the office of Mr. O'Connell attended by Messrs. Howard and Handler of the Office of Lend-Lease Administration and Messrs. O'Connell, Hill, and Larsen. At this conference Messrs. Howard and Handler outlined the desired content of a report requested by Mr. George W. Ball, Associate

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General Counsel of the Office of Lend-Lease Administration, on the progress of negotiations with the owners of processes involved in the Russian oil refinery project. This report was prepared on February 5th and 6th and was thereafter transmitted to Mr. Ball. The said report contains a rather complete statement of the progress of negotiations with the aforementioned process owners up to the date of the report. The said report was supplemented by an oral report given by Messrs. Hill and Larsen to Messrs. Handler and Howard at a conference held on February 19. At the conference last referred to Mr. Handler and Mr. Howard stated that the Office of Lend-Lease Administration proposes to take such action as may be necessary to have the President of the United States make a written request of the U.S.S.R. that the U.S.S.R. either refrain from post-war use of the aforementioned processes or make payment for such post-war use on the same basis as would be made to the process owners by the Government of the United States for use in the United States.

(c). On February 3 Mr. Larsen of the Office of the Chief Counsel of the Procurement Division met with

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Mr. John Leonard of the Office of Petroleum Administration for War for the purpose of discussing the negotiations which said office and Defense Plant Corporation have had with the process owners with whom the Procurement Division is negotiating licensing agreements for use of petroleum processes in connection with the Russian oil refinery project. The purpose of this meeting was to conform the negotiations of the Procurement Division as nearly as possible with principles established in negotiations between the Office of Petroleum Administration for War and Defense Plant Corporation with said process owners.

(d). During the remainder of the month of February, representatives of the administrative staff and of the Chief Counsel's Office of the Procurement Division corresponded and conferred with representatives of the Stratford Development Company, the Universal Oil Products Company, the International Catalytic Oil Processes Corporation, the Max B. Miller Company, and the Houdry Process Corporation, with regard to the terms and conditions of proposed licensing agreements with the aforesaid concerns covering the use

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of their respective processes in connection with the Russian oil refinery project. Tentative licensing agreements were drafted and discussed in the case of each process owner and substantial progress made toward the conclusion of satisfactory agreements with each of the process owners referred to above.

G. The following work was done under the supervision of Mr. Klaus, Special Assistant to the General Counsel:

(a). STUDY OF TAX-EXEMPT SUBVERSIVE ORGANIZATIONS

(See January 1943 report, item 82). Study of the German-American Technologists has been completed. Upon the discovery that several members of this Association, which was demonstrated by investigation to be Nazi in character, were employed in the Federal Government, letters were prepared at Mr. Gaston's suggestion for transmission to the Attorney General and the interested agencies. In addition, reports were prepared recommending the denial of exemption from income taxes under Section 101 of the Internal Revenue Code in the cases of the branches of the Association which had applied for such exemption.

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(b). Upon orders from Mr. Mooney, the investigation of the America First Committee begun in Palo Alto by Revenue Agent Mammel of Chicago was stopped and Mr. Mammel ordered to return to Washington to report. Mr. Mooney wishes to assign Mr. Mammel to another case and proposes that any work by Revenue Agents on the America First matter be handled separately.

(c). A study is being made of other native organizations such as Gerald L. K. Smith's Committee of One Million (and related organizations)--on which conferences have been had with Mr. Wenchel and the Special War Policies Unit of the Department of Justice--and Joseph Kamp's Constitutional Educational League.

(d). The investigation of the New York Turn Verein, in aid of the Department of Justice's civil case under Section 101, has been largely completed; after conferences it was determined to ask for a postponement of the civil case pending the preparation of a criminal case under the Registration Acts against the individuals involved in this

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organization and the German-American School Association with which it was connected. This decision was concurred in by Mr. Wenchel.

(e). Information is being supplied to the Department of Justice for use in denaturalization and criminal cases under the war powers.



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 22, 1943

TO Secretary Morgenthau  
 FROM Mr. Hassel  
 Subject: The Business Situation,  
 Week ending March 20, 1943.

Summary

Living costs: The cost of living continues to rise gradually. The BLS index in the month ended February 15 rose 0.2 percent, largely as a result of a further increase of 0.5 percent in food costs. Price Administrator Brown has reiterated OPA's intention to hold prices down, but has intimated that it will be difficult to avoid a rise in living costs of one-half of one percent a month.

Commodity prices: The general price level continues to advance. The BLS all-commodity index in the week ended March 13 rose 0.3 to 103.2, or 37.6 percent above the pre-war level of August 1939. However, basic commodity prices were hesitant last week, although a moderate upturn occurred on Friday as a result of the sudden House passage of the Pace bill to include farm labor costs in computing parity prices.

Consumer buying: The recent heavy wave of consumer buying has shown further signs of subsiding. Department store sales in the second week in March were down 20 percent from the February peak and were only 3 percent above 1942 levels. However, sales last March were rising due to the early approach of Easter.

Stock prices: The recent heavy buying of low-priced stocks received a set-back last week, when low-priced rail stocks broke sharply on the announcement of Supreme Court decisions unfavorable to stocks and junior lien bonds of bankrupt railroads. At the close on Saturday, industrial stock prices were down about 1 percent from week-earlier levels, while railroad and utility stock prices were down about 3 percent. Despite the rise in stock prices and trading activity in recent months, loans for purchasing or carrying securities are at the lowest level since last November.

East Coast oil supplies: Stocks of East Coast petroleum products available for civilians fell to a new low at 29.9 percent of "normal" in the week ended March 13. However, the advent of warmer weather is relieving the pressure for fuel oil for heating purposes.

- - - -

- 2 -

### Buying movement subsides

Last month's heavy wave of consumer buying and active bidding up of prices in the stock and commodity markets has subsided considerably, although the general price level continues to rise. Retail trade has receded to around year-earlier levels, while stock prices have eased slightly and trading activity has fallen off. Basic commodity prices also have displayed hesitant tendencies, although the sudden passage by the House of the Pace Bill to include farm labor costs in calculating parity prices brought a moderate price upturn on Friday. An interruption to the long succession of favorable reports from the Russian war front, the impact of mid-month income tax payments, and the adverse effects of a Supreme Court decision on recent heavily-traded bankrupt rail stocks are among the factors which have contributed to the more sober trend of recent trade and market developments.

### Rising food costs continue to lift cost of living

In a mid-Western speech last week Price Administrator Brown reiterated that the CPA would attempt to hold prices down, but added "we will be doing well if we hold the rise in the cost of living to one-half of one percent a month." He then stated that in any case "a further rise in wages beyond the 'Little Steel' formula would be dangerous." The average monthly increase in the BLS cost-of-living index last year was 0.7 percent, and in the first two months of 1943 it has averaged 0.2 percent.

The BLS cost-of-living index advanced 0.2 percent in the month ended February 15. (See Chart 1.) An increase of 0.5 percent in food costs was primarily responsible, despite the usual large seasonal decline in egg prices. The average cost of foods other than eggs was up 1.5 percent. Foods not under control (about 10 percent of the total food budget) advanced 4.4 percent. Although the controlled food group decreased 0.1 percent, it is doubtful if this indicates the actual situation, as the observance of price ceilings continues to be a major problem.

Of the other cost-of-living components, costs for house-furnishings and miscellaneous services rose 0.3 percent, in part reflecting an increase in service charges reported from a majority of cities. Other groups remained virtually unchanged.

- 3 -

Chart 2 compares the rise in the BLS cost-of-living index with that of the BLS wholesale price index of 389 commodities, on the 1926 base. Since the impact of the war accelerated the movement of prices early in 1941, it will be noted, the wholesale price index has risen more steeply, the increase in the two-year period amounting to nearly 27 percent. The cost-of-living index, on the other hand, has increased about 20 percent.

It should be kept in mind that the actual increase in prices has doubtless been somewhat greater than indicated by either of these indexes. The all-commodity index is artificially held down by the inclusion, at unchanged prices, of various items that are no longer being sold. The cost-of-living index does not reflect the higher costs resulting from the virtual abolishing of out-rate sales and from deterioration in quality.

In the week ended March 13, the all-commodity price index moved up 0.3 percent, and continued the rate of rise of about 1 percent a month prevailing since mid-February. At 103.2 percent of the 1926 average, the index stands 37.6 percent above the pre-war level of August 1939.

#### Basic commodity prices again weaken slightly

Prices of basic commodities continued to mark time last week. Continued uncertainty concerning Government action on livestock ceilings, and Congressional action on agricultural legislation, resulted in a decrease of 0.2 percent in the BLS index of 7 uncontrolled commodities. The index of 28 basic commodities was off very slightly. (See Chart 3.)

Prices of grains, cotton, and wool showed some strength at the close of the week, derived from trade buying and from Congressional resurrection of the Pace bill. Livestock prices continued somewhat below their recent high levels, as press reports indicated that the question of imposing livestock ceilings had been placed before the Director of Economic Stabilization.

#### Legislation to raise agricultural prices again active

Seizing the moment when few "city" members were present last Friday, the House unexpectedly called up, passed, and sent to the Senate the Pace bill, which would tend to increase farm product prices by incorporating in the parity formula the cost of farm labor, including hired workers, the farmer, and his family.

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Following passage of the Face bill, the president of the Farmers Union attacked its passage, saying, "...By forcing labor costs into parity estimates, production will not be helped and the manpower, machinery, fertilizer, and feed problems of the farmer will not be solved. The bill may well be a boomerang to some farmers by lowering their prices to parity."

#### Congress agrees on feed wheat sale

Sale of 100 million bushels additional of wheat for feed, at the parity price for corn, was authorized in a bill passed by the Senate and sent to the White House on Friday. (The previous 125 million bushels of feed wheat were sold at 85 percent of parity for corn.) The provision increasing the sale price was written in largely at the instigation of legislators from Corn Belt States, who argued that sale at 85 percent of corn parity would cost the Government \$25 million while sale at full corn parity would cost \$9 million.

According to Department of Agriculture reports, practically no corn is moving out of the mid-West, where it is being fed to hogs or is being held on farms in expectation of a higher price. The Commodity Credit Corporation is reported to be swamped with requests for purchases of corn, and is selling 250,000 bushels a day. It was reported that distillers producing 20 million gallons of industrial alcohol annually face a shutdown within 48 hours through inability to buy corn.

Over the opposition of the War Department, the Senate has passed the Bankhead-Johnson bill, which would direct draft boards to defer all men employed substantially full time in producing "essential" foods and fibers. The measure would replace the present amendment to the Selective Service Act by which deferments may be made under a unit system which requires minimum standards of production of essential crops. The bill now goes to the House.

#### Food developments

Disruptions in the flow of food supplies continued in the headlines last week. The grocery trade reported that consumers are virtually on strike against the high-point ration values affixed to certain canned foods. As a result, an extra burden has been thrown on fresh fruits and vegetables, and sharp price advances have occurred on such products which have not yet been placed under ceilings. Moreover, price ceilings on certain fresh vegetables are operating to cause inequitable distribution as between cities, marketing areas, and as between stores within the same city.

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In a surprise move by the OPA, sales of butter and certain other edible fats and oils were halted at midnight Sunday, a week in advance of rationing of these products, in order to forestall heavy stocking-up by consumers during the week before rationing. The sales stoppage will also allow storekeepers to obtain enough supplies to meet consumers' demands after rationing starts.

Evidence of a rising spiral in milk prices is appearing. A wage increase for dairy employees in New York has been recommended by the Chairman of the milk industry in a report to the NLRB, to be retroactive to last October 25. The milk companies state that such a rise would tend to nullify price adjustments recently granted to distributors by the OPA. The early-January increase in retail milk prices in New York was to remain in effect only until April 1, by which time distributors were to have instituted certain economies, but the recommended wage rise is said to represent more than half of the price increase. In Washington, the proposal for an increase in milk prices is reported as having reached the desk of the Economic Stabilization Director.

#### Acreage goals not likely to be reached

The spring "intentions to plant" report published by the Department of Agriculture last week indicates that only one-third of the staple food crops covered by the Department's report as of March 1 are likely to attain the 1943 acreage goals. If these acreages are realized, an aggregate crop production in 1943 about 9 percent below that of 1942 is expected by the Department on the assumption that average weather will result in crop yields about 12 percent below the exceptionally high records set last year. The indicated acreage for the 17 crops covered exceeds last year's plantings by 3.5 percent.

Table I shows prospective plantings compared with 1942 acreage planted and 1943 goals. Among crops raised primarily for food, only rice exceeds the goal, while edible beans, peas, potatoes, sweet potatoes, and sugar beets will be below the goals. The prospective wheat acreage is about the area planted last year and close to the goal.

It will be noted that among the feed crops, the indicated acreages of corn, peanuts, and grain sorghums are less than called for. The goals for soybeans, oats, barley, hay, and flaxseed are likely to be exceeded.

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With respect to corn production, the report shows that the increases in acreage are to be made largely in the Corn Belt. Such increases will be partly at the expense of oats, hay, barley, and pasture, indicating a further swing to hog production in this great feeding area, at the expense of beef and dairy cattle. Government action, particularly with respect to livestock and corn ceilings, will be a strong determining factor in the final allocation of acreage planted.

#### Stock prices and trading activity decline

A reaction in the stock market long awaited by many traders showed some signs of developing last week. The recent heavy buying of the stocks and junior lien bonds of bankrupt railroads was brought to an abrupt halt at the beginning of the week, when the Supreme Court handed down decisions with unfavorable implications for such securities in pending reorganizations. Although the general market held up well in the face of the ensuing heavy selling of bankrupt rail stocks, both prices and trading activity showed a drift toward lower levels during the remainder of the week. As measured by the Dow-Jones averages, industrial stock prices during the week declined about 1 percent while prices of railroad and utility stocks declined about 3 percent.

The fact that trading in low priced rail shares was carried out on a cash basis prevented the break from having more serious repercussions. It has been frequently pointed out that the increased buying of stocks in the past year has been largely on a cash basis. Thus reference to Chart 4 will disclose that weekly reporting member bank loans for purchasing or carrying securities on March 10, the most recent figures available, were reduced to only \$842 millions. This compares with an average level of \$940 millions last August when industrial stock prices were about 18 percent lower. It will be noted that a sharp rise in borrowing occurred last December, but this was a temporary development brought about by increased loans to brokers and dealers in connection with financing the Victory Fund campaign.

#### Retail buying slows down

The recent heavy wave of consumer buying has shown further signs of slackening. By the week ended March 13, department store sales were down 20 percent from the peak reached 4 weeks earlier and were only 3 percent above the corresponding week in 1942. (See Chart 5.) This relatively narrow gain over 1942

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levels contrasts with a similar gain of 14 percent in the previous week and an extreme gain of 45 percent in the second week in February. On the other hand, while sales have fallen off from the February peak, part of the narrowing margin over year-earlier levels is due to the fact that Easter occurred 3 weeks earlier last year, and sales in March 1942 were rising under the impact of pre-Easter buying.

Retail inventories still high at end of 1942

Despite a decline in the latter part of the year resulting from heavy consumer buying, total retail inventories at the end of last December aggregated \$6.7 billions, according to the Department of Commerce. This figure represented a decline of 11 percent from the all-time peak of \$7.5 billions reached last June, but nevertheless was about 1 percent higher than a year earlier. However, since prices during the year rose about 11 percent, the stocks of goods on hand actually declined.

A break-down of the retail inventory total by store groups reveals the fortunate fact that the largest gains in inventories during 1942 occurred in apparel and department stores, which are the stores that have borne the brunt of the recent scare buying. The percentage changes in inventories of the various retail store groups at the end of 1942 as compared with a year earlier are shown in the following table:

<u>Kind of business</u>	<u>Percentage change</u>
Lumber, building materials	-16
Hardware stores	-12
Filling stations	-11
Furniture, household appliances, radios	- 3
Jewelry stores	- 1
Drug stores	+ 2
Food stores	+ 3
Department stores	+ 6
Apparel stores	+10

In general, the larger stores maintained their inventory position in 1942 better than the smaller stores. Thus large independent stores with annual sales of \$200,000 actually increased inventories about 4 percent during the year, while all other groups showed declines. The largest decline, which amounted to 6 percent, occurred in the smallest store group-- those with annual sales of less than \$10,000.

East Coast civilian petroleum supplies at new low

With the announcement of a reduction in the value of the "A" gasoline coupon in the East Coast area, the American

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Petroleum Institute reported that supplies of petroleum products available for civilians in the area dropped to a new low. In the week ended March 13 these stocks amounted to only 29.9 percent of "normal". (See Chart 6.) The "normal" used in A. P. I. calculations is the corresponding period 2 years earlier.

With warmer weather relieving the pressure on fuel oil supplies, attention is being centered on measures to prevent a repetition of the critical East Coast shortage next winter. New England and other interests are backing Secretary Ickes' recommendation that the 20 inch pipeline now authorized to run from Texas to Seymour, Indiana, should be extended to the Philadelphia-New York area. Appraisal of the over-all outlook for East Coast petroleum supplies, however, is unusually difficult due to the censorship on military needs.

Table I

Prospective 1943 crop acreages compared with 1942 acreages and with 1943 goals  
(Based on farmers' March 1 reports on planting intentions)

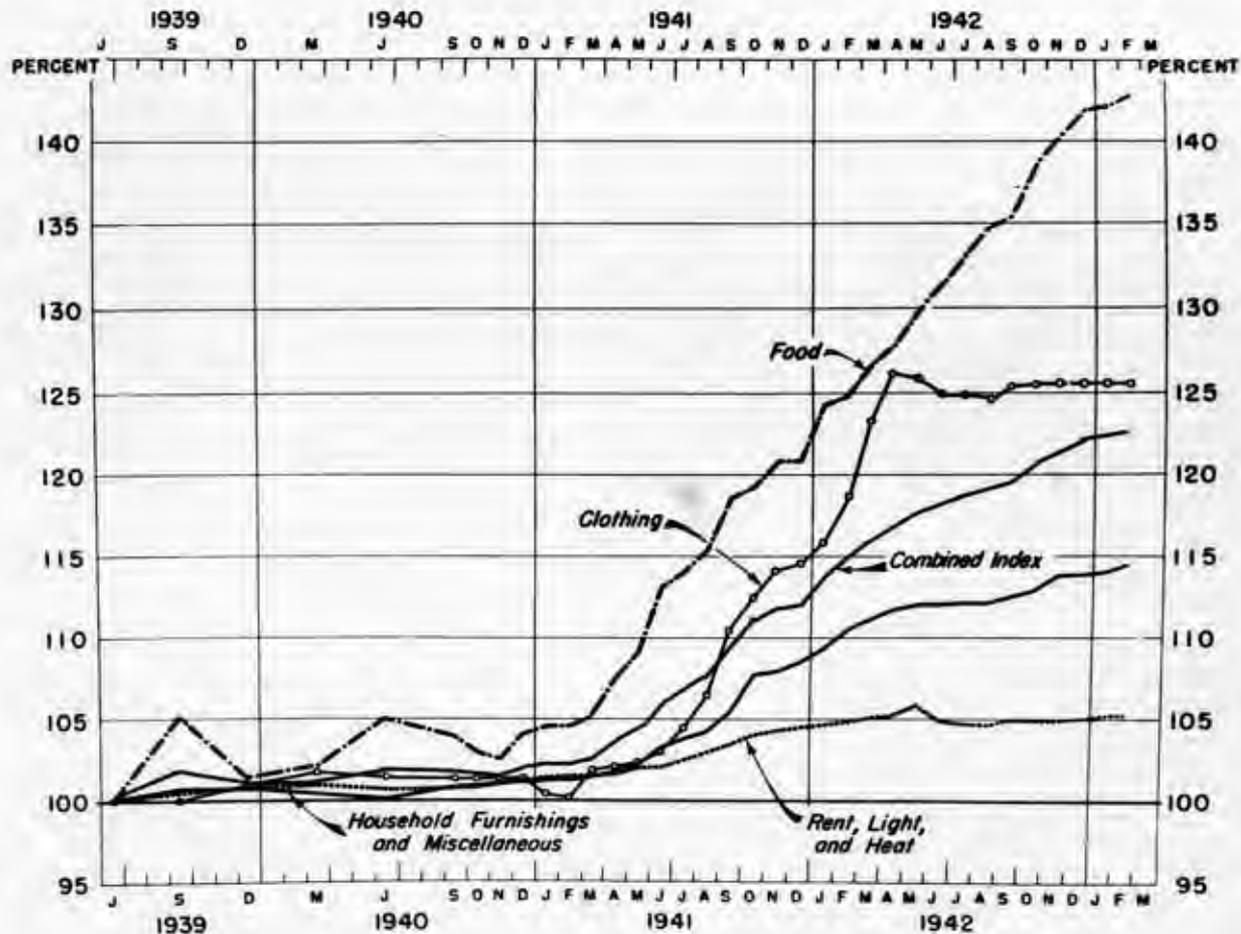
	Indicated change (Intended acreage 1943 as percent of 1942 planted)	Percent of goal (Intended acreage 1943 as percent of 1943 goal)
Dry peas, field	135.1	93.4
Flaxseed	129.0	110.0
Grain sorghums	118.0	95.8
Dry beans, edible	116.2	75.2
Sweet potatoes	114.8	81.3
Potatoes	113.6	97.4
Peanuts <u>1/</u>	112.5	77.6
Soybeans <u>1/</u>	109.7	101.2
Burley tobacco	108.0	89.9
Corn	106.4	96.8
Flue-cured tobacco	101.0	95.1
Hay, tame <u>1/</u>	100.1	101.8
Rice	100.0	109.1
Oats	99.9	114.3
Barley	99.3	107.3
Wheat	99.3	99.4
Sugar beets	70.5	70.5

1/ Based on 1942 acreage harvested.

Source: Department of Agriculture.

# COST OF LIVING AND SELECTED ITEMS

June 1939=100



Source: B. L. S.

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

G-413-A1

Chart 1

1951

Regraded Unclassified

# COMMODITY PRICES AND COST OF LIVING

1926 = 100



Office of the Secretary to the Treasury  
Bureau of Economic Warfare

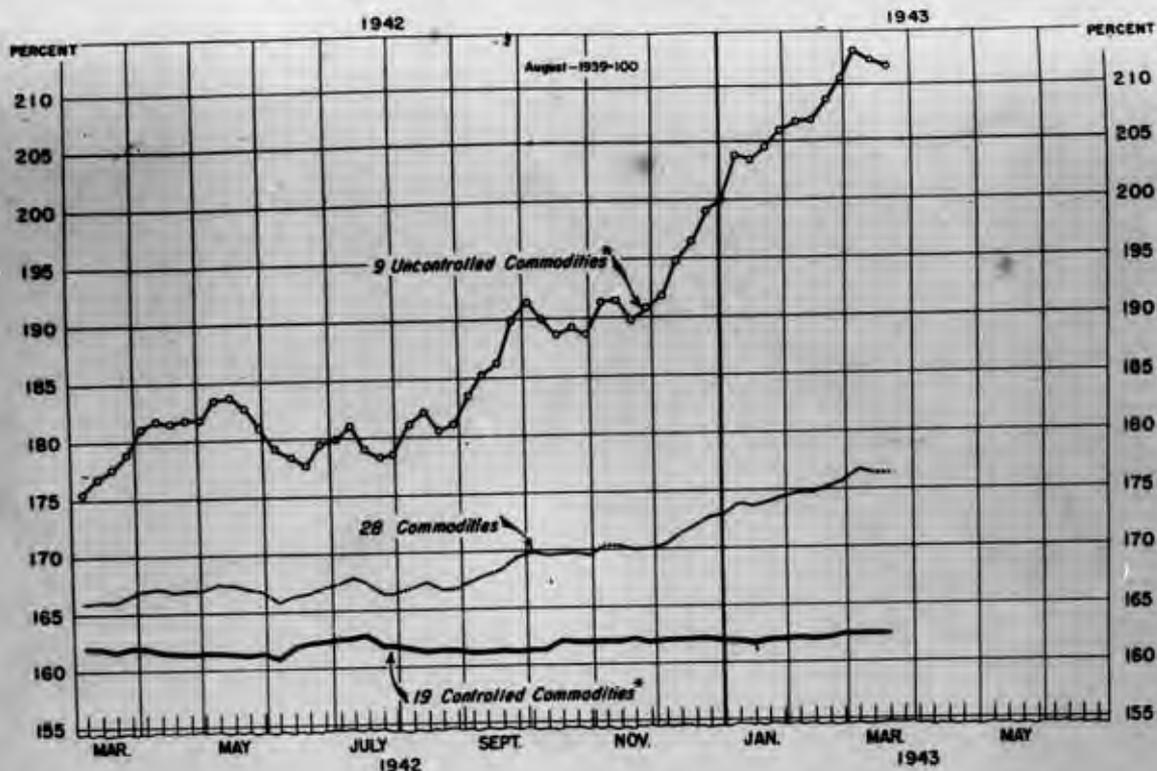
P-255

Chart 2

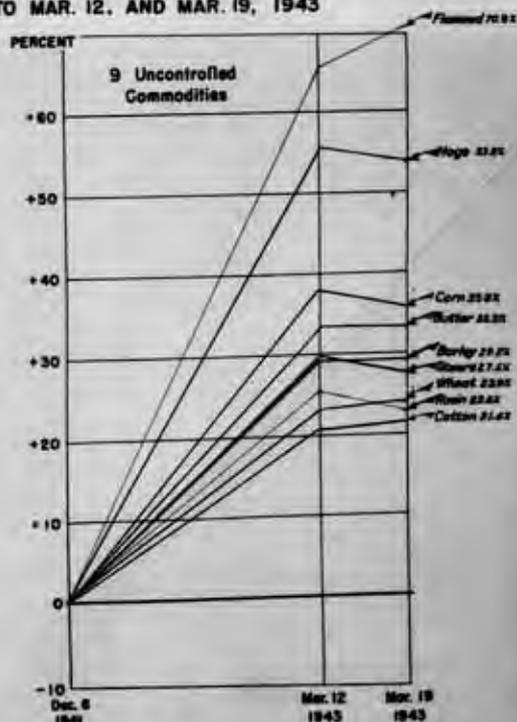
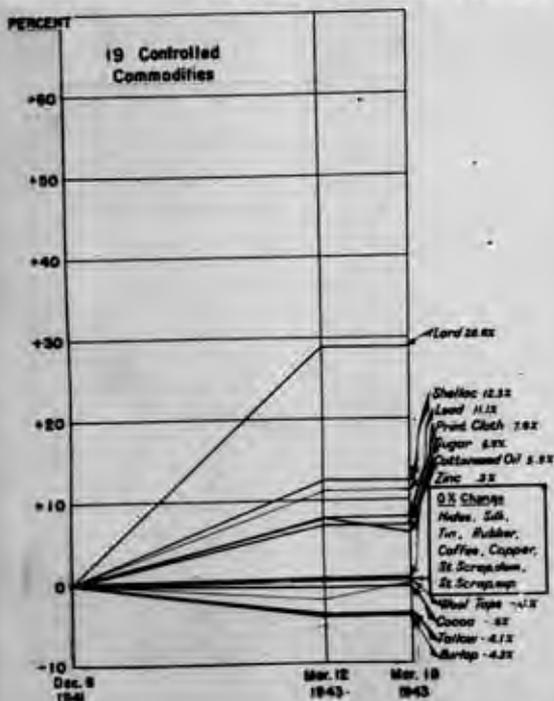
1943

Regraded Unclassified

# MOVEMENT OF BASIC COMMODITY PRICES

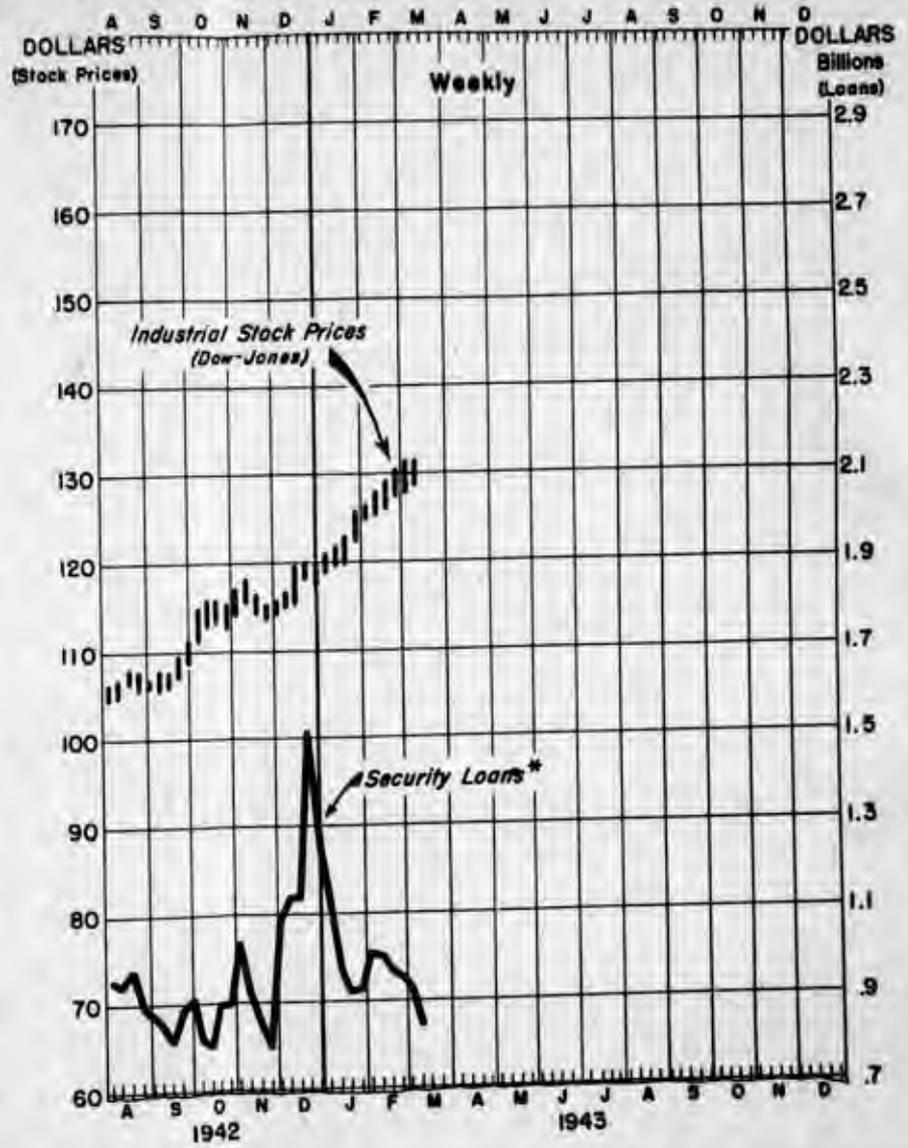
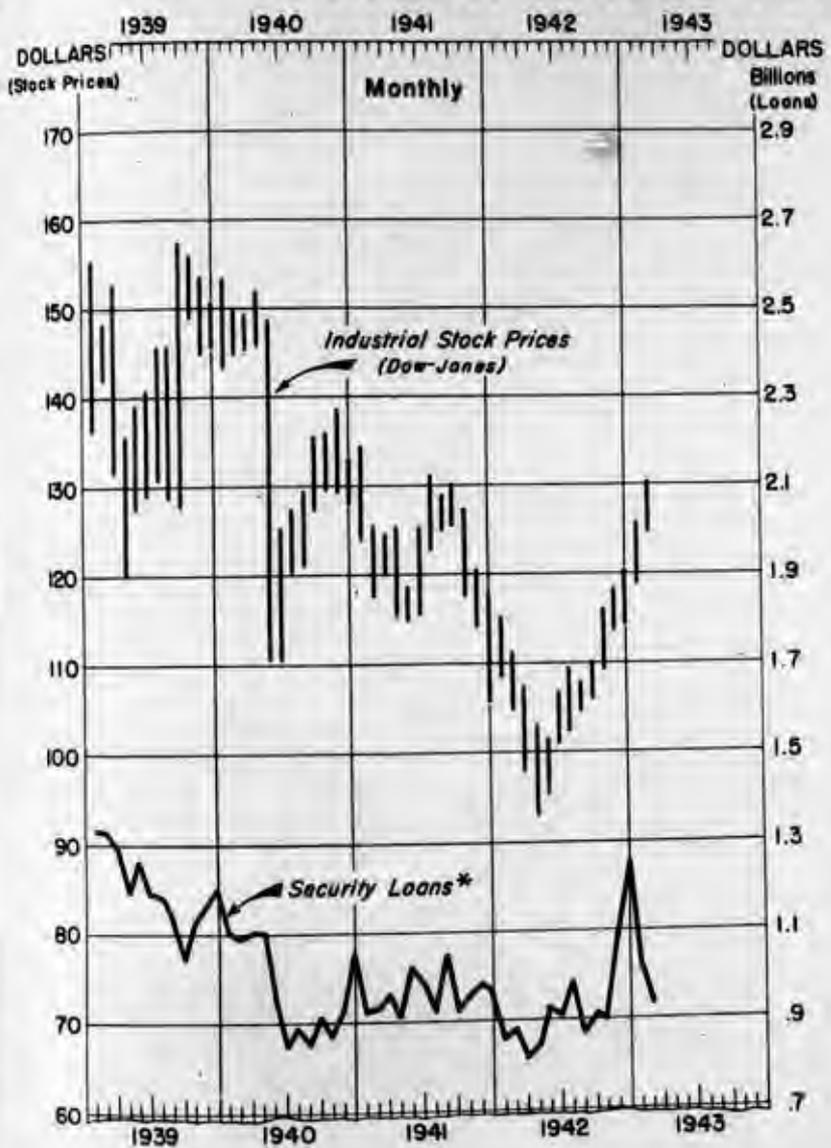


PERCENTAGE CHANGE DEC. 6, 1941 TO MAR. 12, AND MAR. 19, 1943



<sup>a</sup>20 Controlled and 8 Uncontrolled previous to June 26

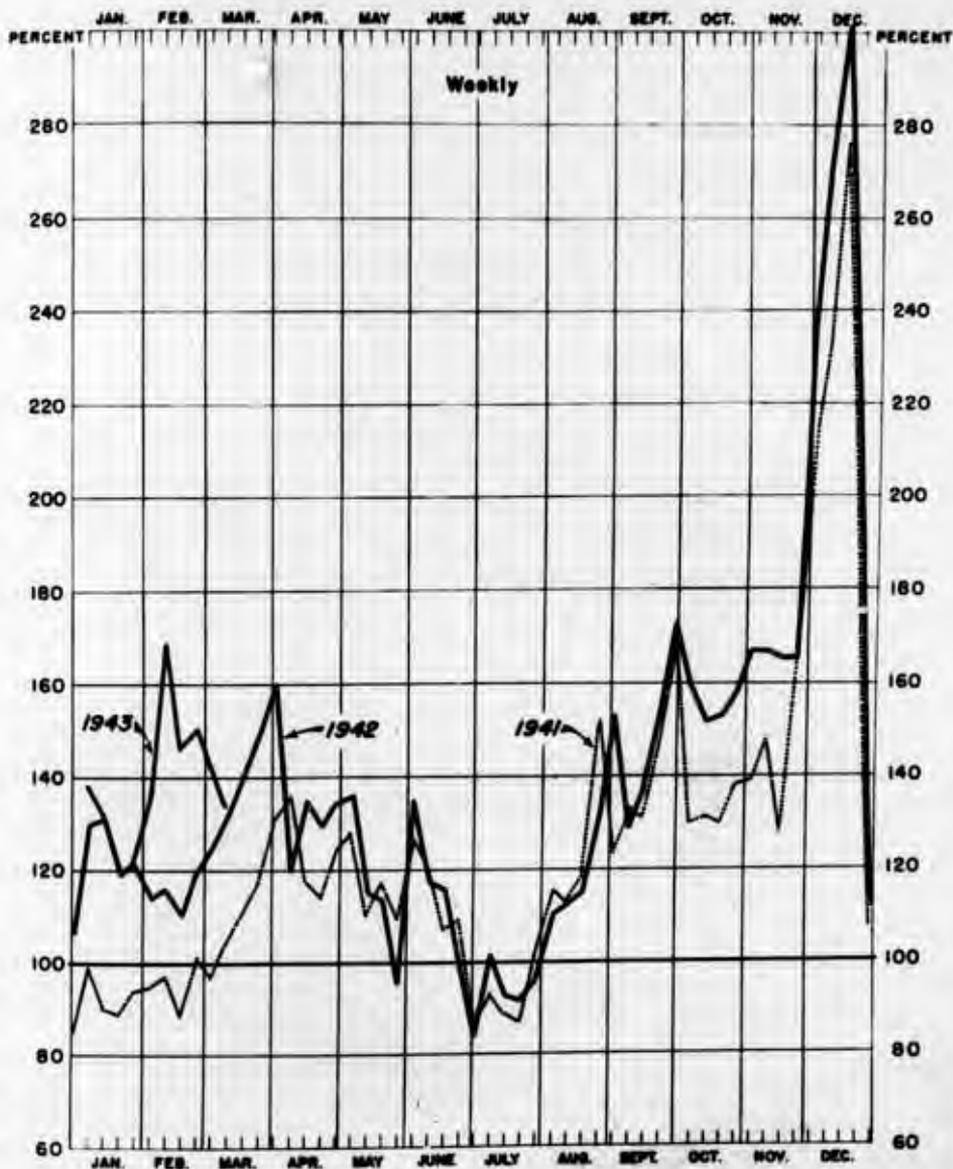
# STOCK PRICES AND SECURITY LOANS



\* Loans for buying or carrying securities, weekly reporting member banks.

# DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



# PETROLEUM PRODUCTS SUPPLY

Civilian Supply on East Coast as Percentage of "Normal":\* July 1942 to Date



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

\*"Normal" Supply for corresponding month in year beginning July 1940.

C-474

Chart 6  
200

Regraded Unclassified

*House*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

MAR 22 1944.

TO Secretary Morgenthau  
FROM Mr. Paul

In reply to your question on the America First memorandum, "Where do we go from here?", Sam Klaus proposes, and I concur in the proposal, that a Revenue Agent under his direction should take up an intensive search for records, especially bank records, in Chicago, Philadelphia, New York, and Washington, in that order. The basis for the investigation should be a reconsideration of the taxable status of the America First Committee and all its chapters, as well as the discovery of all major contributors who may have deducted contributions from their returns.

It should be noted, however, that this investigation, like others of exempt organizations being handled by Sam Klaus, will probably not be productive of any additional revenue commensurate with the effort expended in the investigation. It would have to be justified on the ground that the Treasury does not wish to stamp with its approval an organization whose activities are not for the national interest.

I am told that in addition to America First there are other, though less important, suspect organizations, such as, American Destiny Party (William J. Cameron), Gerald L. K. Smith's Committee of One Million, Technocracy, etc., that are being considered by Sam Klaus.

I am told that a tentative progress report on the non-financial contents of the America First Committee's files in Palo Alto will show some very interesting items, justifying further investigation into the possibility of inter-relations between the America First Committee and other organizations, such as, Father Coughlin's, Scribner's Commentator, etc., and several other important backers in the United States whose connection with the America First Committee has not been generally known.

To Mrs F. D. Roosevelt  
From  
Mrs Paul Buck

March 22, 1943

Confidential 202

"You may be sure that I have not forgotten your request of me. The reason for this delay has been that I have wanted to renew contact with my sources and to make sure that what I say, so far as I can make it, is in keeping with the latest facts.

" I am convinced that it would be of the highest value to us and to the people of China and Russia if you could visit those countries. It could be quite clearly explained that your visit was a friendly one without political implications and that it meant only what it was - a gesture of great friendliness from the American people. I know that the Chinese people would thoroughly understand this if it were explained publicly at your press conferences, and would indeed appreciate it. They would understand for they know you much better than you realize and know that you have no political ambitions or desire for personal power. There has been, I can tell you confidentially, a good deal of dissatisfaction among Chinese with Madame Chiang's tour. Not a few Chinese have said to me: "She has behaved like an Empress or a Queen and we Chinese do not want Empresses or Queens. We would have been better pleased had she behaved more democratically." They deplore the number of people who, as they say, "have the hurt feelings" from certain less fortunate aspects of Madame's visit. Be this as it may, I should like to say that the Chinese people are really most appreciative of simple human behavior. They catch instantly the friendly smile, the attitude of equality, the simple and human approach which is so essentially yours. I do not hesitate for a moment in saying that you would like the Chinese people and they would love you.

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\*Your difficult, of course, would be in getting beyond official contacts. The trouble with any new political regime, such as the present Soong family, is that they are new and insecure and they feel compelled to hedge themselves about with a good deal of trappings of royalty merely because they don't know how much or how little their power really is. The King and Queen of England can come and go with far more freedom and democratic behavior than the Soongs in China, with the exception of Madame Sun Yatsen, who is a person apart and for reasons which I will explain a little later. Perhaps it is this uncertainty, together with the knowledge that they are not in their position through democratic means that make the Soongs feel they must have safeguards on every hand and build up the distance, always great, between themselves and the people. The Generalissimo commands more respect and affection, for while he is connected with the Soongs, yet he is essentially not as alien as they are to the country.

"The Soongs can not be blamed entirely for this situation. Their father, Charlie Soong, made the mistake - if it was a mistake - of taking them so young to the United States that they grew up with little knowledge of Chinese life and thought. Madame Chiang, for example, was here during her formative years. When she went back at nineteen it was to lead the life of a Newport set in Shanghai. She was the beautiful daughter of a very wealthy family - the poor cabin boy Charlie Soong grew to be a rich man in his life time - and in addition there was the marriage of her second sister to Sun Yatsen and all the temptations

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of political power. I do not believe that Madame Chiang ever had the impulses of real democracy toward her own people. I think she was often ashamed of things she saw about her and her New Life Movement with its emphasis on the externals of clean faces and buttoned up garments and outward niceties, rather than on developing the springs of real democracy among the people, is really the result of her shame at people who did not mind having dirty faces or dirty dooryards and who think the sensible thing for a man to do when he is hot is to take off his jacket and sit with none. It was the shame of a college girl coming home to find fault with the house and the family. This the shrewd Chinese perfectly understand and to this day they call her, with a smile, "The American college girl."

"This impatient shame and sense of superiority, an essentially superficial superiority - has clouded the life of all the Soongs except Madame Sun. She has lived apart from them all and has made the cause of common Chinese people hers and they know it. She has made the cause of the guerrillas hers in this war and has taken the part of communists more than once and has been deeply influenced herself by Russian communism because it seemed to her that communism has been the only force in China that has thought of the common people. It has been unfortunate for China that she did let herself become identified with the communist movement and with Russia, for it has limited her usefulness very much by weighing down her actions with political implications. Sometimes those implications were deserved, but often they were not. Her primary passion is for the plain people, she is really

democratic and in her helplessness she has thought of communism as a means.

"This has deepened the alienation between her and her family. I remember at the time of Sun Yatsen's funeral in Nanking, now many years ago, she would not have anything to do with the family. She had to attend the funeral and walked alone behind the great catafalque, but spoke to none of her brothers and sisters and had no intercourse with them during the several days she was in the city. She dresses with extreme plainness and lives alone, usually with one servant in a small house or a few rooms. But she has for years been a virtual prisoner, having freedom only when she kept absolutely silent. The outward surface has been maintained but it is only a surface. When Emily Hahn wrote her book *The Three Sisters*, Madame Sun would have nothing to do with it - furnished no material and would never see Emily Hahn. Madame Sun has been outspoken in her criticism of Chiang himself, even, because she feels he has not developed democratic procedure in China as Sun Yatsen planned it, and she has prolonged unduly the period of tutelage which Sun thought would be only a few scant years. She criticizes also the well known corruption of Madame Kung and her husband and family and as Madame Chiang has in later years grown nearer and nearer to Madame Kung, this criticism has extended to Madame Chiang. Madame Kung has assumed more and more the role of the head of the family which is in accordance with Chinese tradition for the eldest. One of the sons of this family, T.V. Soong is much the most able but no ruling family

- 5 -

are free from the charge of corruption except Madame Sun. The Chinese people are perfectly aware of all this and of far more than I can tell you in a brief space. The younger Soongs are wastrels, being the typical sons of a very rich man, in a corrupt and effete Shanghai society, now, happily, gone.

"On behalf of the Soongs, however, I should say that official corruption is very common in China and we have some ourselves. While it is nothing like as bad here as it is in China is is bad enough to lead me to believe that it is everywhere to some degree and in some individuals, but our greatest advantage is that we have the means to combat against it and to check it by law while the Chinese people at present have no power whatever against their officials and must submit to all those officials do.

"It is perhaps inevitable that officials who have been thrown up, or have risen themselves, by chance and circumstance, should in their great insecurity try to protect themselves by vast sums of money which they can place in various safe deposits against the day of their downfall. The Soong family, and this includes of course even the Generalissimo, are in their present position not by any right or democratic choice but partly by their own ability, partly by their always enormous resources in money, and partly by force of arms. It is a peculiar and interesting situation. It cannot of course, last. I fear an outbreak from the people immediately after the war or at least as soon as the people can recuperate sufficiently to make it, and if Chiang can keep his power it will probably be by severing himself from the family.

"What I am telling you is simply a synthesis of what I hear from many kinds of Chinese, but particularly young Chinese,

although also from some very influential business men.

"Madame Sun's personal circumstances are very poor. Sun Yatsen left nothing to her except a house and some books, and she subsists on an allowance presumably from the family, and a few secret gifts from friends. She is not allowed any real contact with those whom she thinks of as her friends. All this goes on behind public demonstrations of respect.

"It is understandable in human terms. The family clings to the Generalissimo and tries to surround him, for indeed without him they would be powerless. But there are very diverse forces working upon him to alienate him from the family. The family will try to strengthen itself - is doing so - with reactionary and strongly conservative groups in foreign countries, with the hope of getting from these groups support to keep them in power as an ostensibly stabilizing force in China and one with whom such forces abroad can work.

"Strongest of all the opposing forces in China is of course, the communist-agrarian group. I call them that for they are partly communist and partly purely popular and agrarian. It is a pity they have made common cause, for the people's group would have been stronger without the political implications of communism. But it happened that young communists were the first in China to take up the cause of the people and there has been an unavoidable connection between them. The division between the communist agrarian group and the present government is growing constantly deeper. You know that Chiang-Kai-shek bitterly fought communism. I am myself an anti-communist of the deepest dye, and yet I felt the killing of thousands of young men and women in the name of communism was

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as black a stain on Chiang Kai-shek and his regime as the purge was upon Stalin. Some of these young people were communists, some joined the communists because it was the only group that professes and practiced a real democracy. But some were wholly innocent and even ignorant and died without knowing why. I was teaching in a government university in Nanking during those years and it was very terrible to have the almost daily occurrence of losing some young persons whom I knew. When I called the roll, almost always someone did not answer, and when I looked up I would be given the sign by someone else which meant, "He has been killed." If they were imprisoned, I could sometimes get them out at least for long enough to escape, but so often there was no imprisonment. A young man or woman, sitting at his desk doing his homework, would hear the door open behind him, a hand would be laid on his shoulder, and in ten minutes he would be dead. Soong Mei-ling was married to Chiang already at this time and I always think of those young people when I look at her, even today. She must have known.

"I suppose it was all necessary to the rise of power. But the people have never forgotten and will never forget, and today the Eighth Route army, which is the communist-agrarian army, does not forget. Madame Chiang complains that they do not obey orders from Chiang unless they want to do so. The reason is that they are constantly on guard. If they obey they are afraid that they will always be ordered to the front and to the most dangerous places so that they will be killed off.

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"But there are other forces also against the present dynasty and these are not linked with communism. There is a People's Party, made up of younger men and women, some of whom are actually in the present government and working in the bureaus, etc. This party is still rather secret, although its existence is known. But many of the young intellectuals, who do not live near Chungking at all, to avoid that government center take refuge in the province of Kwangsi, whose governor is a very liberal man, belong to what they call the People's Party.

"The civil war, if there will be a civil war after the present war, will be between these groups, the two popular ones ones probably uniting against the present government which is now doing everything it can to consolidate its position both at home and abroad in view of the coming struggle. The People's Party would probably accept Chiang alone but not the others in the government - particularly not the Spongs. There might be a compromise made between the People's Party and the communist-agrarian party. But nothing will happen until after the war and all are determined on the one thing of eliminating the Japanese. Peace with Japan might be made by the existing government if it felt that its situation was so precarious at home that it must have outside support and this support did not come from us, or elsewhere.

"Against this political background the great stream of life in China goes on. This life is that of a people not much dependent on any government for no government has done anything much for them, and this present one is certainly no exception to that. There has not been any broad effort made for their welfare

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or relief. In Chungking you will be shown some good works - orphanages, a few hospitals, some schools, a few cooperatives. These are also in some other cities, and in a very, very few outlying districts. But taking China by and large, the people fend for themselves. The war itself has steadily become less and less a people's war. The popular height was at the taking of Hankow. From then on there has been less and less recognition of the rights of the people and indeed there is now a growing tendency in the government to discredit what they do through guerrilla warfare, etc. They go on, they still do what they can against the enemy, but it is outside the acknowledged realm of warfare.

"I wish that if you went to China you could get to know the real people. They are so great, so calm, so plain and so brave. My faith in people is constantly renewed because of what I have continually heard and what I have myself seen of the way of the plain Chinese people have lived and died in this war. A whole new spirit has come up. Take for example, the new drama. I asked Madame Chiang about it and she knew nothing of it. She had never even heard the name of some of the leading figures in it. But fifteen troupes of young men and women went out from Shanghai and left the theatres there to go and play for the soldiers and rouse the people. They travelled with the soldiers, the groups scattering themselves all over fighting China. They lived with peasants and traveled with the army. They ate soldiers' fare, wore straw sandals and blue cotton peasants' garb, having sold all they had so as to support themselves. Their resources they pooled and doled out at the rate of three dollars a month a piece

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just for haircuts and to buy soap, one of them told me. They played every day and every night for the country people and the soldiers, and a new drama evolved in the process.

"These young people had been trained in the orthodox theatre, both old and new, a very subtle art, where the lifting of an eyebrow had a meaning, where every gesture was studied, and the way a tea-bowl was put down carried meaning. They found that such subtleties were not appreciated by plain people and they put them aside, and began to play in simple broad realistic strokes. They found that men and women who faced death every day wanted realism, not sophisticated fantasies, and they played on their stages, which were only threshing floors and village commons, the kind of thing which the people were having to live through. They learned what would move a crowd of soldiers who had faced death today and would face it again tomorrow, and what would comfort and invigorate a group of farm folk who didn't know what the war was about. Out of this has grown an extraordinary popular theatre. If you would like to meet one of the chief actresses of one of these troupes, I would like to send her to you. She is simple, sincere and good, and full of a gentle force which is entirely Chinese.

"My knowledge of the Chinese people as I have lived among them all my life gives me the utmost confidence in them as a nation. Whatever happens to the present government they will go on, a great people, practical, humane, democratic in their actions and feelings, and they will develop a really democratic government. They could not develop any other kind.

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"I told you, you may remember, that they are so much like us, and you wondered at that. I know that the tradition that we have built up about them has been an opera bouffe sort of thing - it is entirely false. They are amazed when they see it. They are so plain, so hearty, so wholesome that they cannot imagine where we got such notions of them. It is as though they were to think of us as our romances portray us in the 18th century, our fainting ladies, our pitter-patter talk, our false morals, and all that rose and honeysuckle school of stuff and nonsense. The Chinese are 85% rural - that does not mean all farmers, but village folk and small town folk and farmers - all people dependent on the land. About ten percent are city people, and about five percent intellectuals - that is, people who have either been abroad or have been educated by foreigners or foreign-trained Chinese. The bulk of China is really Chinese, and it is these who are most like us. They love a hearty joke, they love good food, they enjoy children and fun and motion pictures and the theatre, they are not deeply religious but are deeply moral. They love home and family life, valuing these above all else. They can not understand how it is that we tolerate a condition which allows for illegitimacy of children. In China no child is illegitimate. People would consider it wicked. Concubinage has its evils, but they think it less evil than the system which ostracizes the unmarried mother and her child.

"If you go to China, I hope you will give particular heed to the plain people you see coming and going on the street. You will be surrounded with the one percent who are western

- 12 -

trained, but please remember how few they are and look into the faces of the real Chinese, too. I hope very much you will ask for opportunity to go into Chinese crowds. They will be poor and dirty just now. But they will catch from you at once your friendliness and humanness and that will mean so much to them.

"You will be guarded and protected constantly, of course, for the Chinese will be supersensitive to your safety and welfare, but still it is quite right for you to ask to see anything and anyone. A guest in China has that right to express his own wish to an extent we do not in our own country, where the wishes of the host are paramount upon the guest. But you could ask, to be taken out into the country, to see villages, to see home industries, to see the cooperatives. I hope you would ask to go to Kunming and also to Sianfu, two very different cities. Chungking is a political center, Kunming is an intellectual center, Chengtu is a missionary center, Sianfu is a people's center.

"Missionaries are good people and nearly always well-meaning persons, but usually rather ignorant of the real people. They tend to live too much in their own circle of American life and with standards too high above the people. Ask a missionary what the people are thinking, what they are saying in the teashops etc. and he will not know. Above all, let me give you warning against the missionary, Shepherd, who has an evil influence, the Chinese believe, over Madame Chiang and even the Generalissimo. The Chinese, and these are all Chinese, I think, for I have never heard a Chinese speak well of him, call him the Rasputin of China. In a lesser degree this applies to other missionaries who have

- 13 -

used Madame's Christianity to get into very influential positions. The Chinese almost without exception - so far as I know, without exception - resent these persons. Some of them are good enough in themselves and believe they are doing God's work when they persuade those in high places, but others, being little men, are puffed up by any power they have over Madame and her husband.

"I hope you won't be put off by a lack of sanitation in China and by some dirt - I am afraid a good deal - by naked babies and frankness in behavior. Men will urinate where it seems convenient, and calls of nature are nothing, the Chinese think, to be ashamed of. But Chinese women are extraordinarily modest and it is only men who are unconscious of these things. The frankness about natural necessities is counterbalanced by a fine delicacy between the sexes, which forbids any familiarity in public between men and women and indeed a very moral wholesome attitude toward the whole matter. But hygiene they have not, and for that reason it is extremely important to wash the hands with soap and hot water and better still disinfectant before eating, and to avoid any food whatever, even in the best of houses, American or Chinese, which is cold. Drink no unboiled water. Tea is always safe, for the water in that is always boiled. I lived my life there perfectly well, never had dysentery or any of the usual tropical diseases, lived off the country while travelling, by these simple rules. And again it is perfectly polite for a guest not to eat everything in China. There is always something delicious and good and the Chinese themselves eat almost entirely hot food, having learned pragmatically that those who do stay well.

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This means no salads, no raw fruits. Raw fruits can be eaten only if washed first and then peeled.

"Beyond this, your own natural behavior will carry you everywhere. They will love you and adore having you there. You will be overwhelmed with affection and respect and I can not think of any American who could do as much good as you can by going, just because you are the sort of person they will like and understand. I wish we could find a man with your qualities who could be our next Ambassador to China. I know that Madame Chiang is anxious to have someone who knows nothing about China, because she wants to be able to tell him. She does not want an old China hand, and rightly so, for these belong to a regime which despised the Chinese, but she really wants an ambassador with two qualities - no knowledge about the Chinese people, and what she calls "power", with the President, whatever that means. The Chinese say this frankly.

"Well, that is beside the point, just now. What I am trying to say is that I hope you can and will ask and see, if you can not meet, plain people in China, because some of their equality will get through to you and some of yours will get through to them. You will have to have this in mind, though for otherwise you will be so surrounded that you could come away without any idea of the real people who are China.

"All in all, the outlook is hard just now for the people, and if you could signify your human interest in all people, it would make the Chinese happy.

"One of the best things Wendell Willkie did in the eyes of the Chinese people was to ask to see Chou Enlai. Even those

- 15 -

who had no interest on communism appreciated the fact that one who did not belong to the government "set" was known by an American.

"I suggest the following list of persons whom you would like to see and whose remarks you could trust. They are persons of varying work.

Chou Enlai - official representative of the communist-agrarian group - a very find cultivated man now in Chungking.

Dr. Chang Po-ling, former president of Nankia University, and one of the great educators. Now in Chungking.

Dr. Robert Lim, the man who more than any other has done heroic medical work with China's wounded and refugees.

Rewi Alley, an Australian who organized the Industrial Cooperatives.

Bishop Hall, former Bishop of Hongkong, who is a fine, understanding honest Anglican bishop. He is probably in Chungking or Chengtu

If you do go, I shall hope to see you before you go and bring to your attention some more detailed suggestions."

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- 15 -

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OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

March 22, 1943

**SECRET**

## MEMORANDUM TO THE SECRETARY:

Supplementing report to you of March 15, 1943, the purchases against the North African Rehabilitation Program from March 15, 1943 to March 21, 1943, totaled \$745,429.41, or a total of purchases for the program thus far of \$20,775,415.65.

Attached is report giving status of shipping against these purchases.

A. J. Walsh  
Deputy Director of Procurement



SHIPPING REPORT AS OF MARCH 20, 1943

**SECRET**

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
New & used clothing	2018.75		323	
Cotton Piece goods	5859.5	80	2336	1502
Shoes, boots & soling	211.25	47.75	106	28
Refined sugar	4106.5			
Raw sugar	1545			
Powdered milk	119.5			
Tea	171.5			
Matches	381.75			
Copper sulphate	4378.25	1004.75		451
Drugs	8.007			
Books & booklets	2			
Nails	100	5	22	
Lamp Chimneys			17	
Newsprint	472	201		511
Printers ink	.1			
Mach. finished book paper	2			
Cordage & twine	225	5	40	
Cotton thread	29.25	11.75	35	
Chemicals	163.5	72.5	301	
Cotton hose	25.5	9	14	
Nipples, bottles, eye cups			9	
Phonograph records			1000	Each
Tooth brushes			.75	
Wash basins			7	
Spark plugs		2		
Storage batteries	47			
Tires, tubes & tape	175.75			
Parts for autos, tractors & harvesters	260	141	203	28
Tin plate	346			

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand At Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Coal cutters		12		
Fullers earth			71	
Wire rope	36.5		52.5	
Pig tin			60	
Shoe tacks			15	
Babbitt metal	53.5			
Steel			95	400
Horse shoes & nails			36	62
Gelatin	1			
Paint pigments	11		1.5	
Asbestos sheet packing			2	
Glycerine	12.75			
Calcium carbide		247		95
Scrap rubber sheeting-				27
Sheet copper				67
Brass rods & sheets				118
Files			45	
Bone glue				33
Saws				.25
Brick			20	100
Rubber cement			10	
Lumnite			30	20
Light bulbs				4.75
Totals	21,438.917	1918.75	3856.75	3447

Treasury Department  
Division of Monetary Research

220

Date 3/29/43 19

To: Miss Chauncey

From: Miss Kistler

The message was transmitted orally  
to the Secretary by Mr. H. D. White.

C O P YDepartment of Finance  
CanadaOffice of the  
Deputy Minister

Ottawa, March 22, 1943.

Dear Mr. White:

I regret very much that I have delayed for so long a reply to your kind letter of March 6th but I had intended to see you personally before this and in addition the pressure of work in this office during the last few weeks seems to have reached a new peak.

We want you to know how much we appreciate the consideration given to the suggestion I made in January and the decision you have reached to accept it. My Minister would like you to express his appreciation to Mr. Morgenthau in this connection.

I notice the slight modification made in the suggested treatment of net proceeds of security sales. We have no objection to this modification and of course none to the assumptions on which your approval is based that there will be no substantial relaxation of our foreign exchange control nor any significant modification of our import policy without prior consultation with your Government.

I have already instructed our supply officers that certain "CANEX" requisitions, about which negotiations had already made considerable progress, should not be proceeded with.

As intimated in my first paragraph, I had intended to go to Washington a week ago to discuss with you the details in regard to implementing the new arrangement. We are so short staffed, however, and the pressure is so great with Parliament now in session, on Budget and other measures, that I found it quite impossible to get away. The chances for an early trip at present seem very remote. It is also true that our Mutual Aid Bill has not yet been dealt with by Parliament, and it now appears that it will take the House of Commons several more weeks to complete the Budget.

2.

Debate, the Budget Resolutions and the consequential legislation which must be completed before it can get to our Mutual Aid Bill and the War Appropriation Bill for next year.

Again thanking you,

I am,

Yours very truly,

/s/ W. C. Clark

H. D. White, Esq.,  
Assistant to the Secretary,  
Treasury Department,  
Washington, D. C.

RC 223

January 26, 1943

Dear Dr. Clarke:

Mr. Plumptre has been kind enough to send me a copy of your dispatch to him dated January 22, 1943, concerning the tentative decision of Canada's U.S. dollar exchange reserve.

It appears, from your reply, that there is a misunderstanding concerning the basis of our tentative views. It is true that one of the factors taken into account is the relationship between Canada's reserve and that of other countries. However, this was of only minor importance. The major considerations were Canada's total international financial situation since the outbreak of war and the over-all policy of this Government in extending financial assistance to our Allies.

The prime purpose of the policy of this Government in extending financial assistance to the United Nations is the prosecution of the war. In view of Congressional directives and public commitments made by the Administration, it would be most difficult to defend extension of financial aid to the Allied Governments for the purpose of providing for their post-war needs.

So far as concerns the second major consideration, we were dubious about the feasibility of evaluating Canada's U.S. dollar position without reference to changes in her over-all international financial situation. Other factors influencing our decision were (1) the fact that your suggested minimum figure is higher than the U.S. dollar reserves held by Canada at the outbreak of war in September 1939, and (2) the lack of any justifiable basis for special treatment of Canada's post-war needs.

There is to be another meeting tomorrow morning at which time your views will be submitted. We shall, at that time, also examine very carefully your suggestion for handling the net proceeds of security sales.

Very truly yours,

(Signed) H. D. White

H. D. White,  
Assistant to the Secretary.

Dr. W. G. Clarke,  
Deputy Minister of Finance,  
Ottawa, Canada.

HWM:SMK:RL 1/26/43  
Copied and 1/29/43

MAR 6 1943

Dear Dr. Clarke:

I am writing to tell you about the decision on Canada's U.S. dollar exchange reserves.

With the exception of the treatment of net proceeds of security sales, the arrangement agreed upon here is substantially as I indicated to Mr. Plumptre on January 20. Concerning the size of the reserve, it was decided, in the light of present circumstances, that the reserve of gold and U.S. dollars which we should assist Canada in maintaining should be not less than about \$300 million nor more than about \$350 million. This arrangement would, of course, be subject to reexamination if there is any significant change in the general situation.

Your recommendation concerning "Can-ex" requisitions was favorably received. It was agreed to limit the materials supplied to Canada and charged to the United Kingdom under lend-lease to those goods which retain their identity through the process of production.

As indicated in my letter of January 26, a meeting was held the following morning at which time your suggestion for handling net proceeds from security sales was considered. It met with general favor. Some slight modifications were made, however. The arrangement agreed upon is that for this year Canada's net U.S. dollar proceeds from security sales, if they are utilized for the redemption of maturing or callable securities payable in U.S. currency, be considered outside her U.S. dollar reserves. This arrangement is based, of course, on the assumption that there will be no substantial relaxation of your foreign exchange control nor a significant modification of your import policy without prior consultation with this Government.

I am forwarding a copy of this letter to Mr. Plumptre.

Very truly yours,

*(Signed) H. D. White*

H. D. White,  
Assistant to the Secretary.

Dr. W. C. Clarke,  
Deputy Minister of Finance,  
Ottawa, Canada.

TME:rl 3/6/43

*Plt to Raw. 201*

COPY NO 13NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRETU.S. SECRETOPT-L NO.96

Following for Joint Staff Mission, Washington.

TUNISIA

Further information regarding operations on 21st and 22nd indicates that New Zealand Corps operated on West flank of MARSAH position and by 6 a.m. on 22nd reached a point about 10 miles south-west of EL HAMMA taking 700 prisoners.

TREASURY DEPARTMENT

1943 MAR 25 AM 11 04

OFFICE  
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET

U.S. SECRET

OPTEL NO.94

TUNISIA. 1st Army. On 21st enemy captured a hill position north-west of DJEBEL ABIOD. A British counterattack was not successful but further attempts to regain the position were being made during the night 21st/22nd.

UNITED STATES SECTOR. Strong United States reconnaissance elements moved towards MAKNASSY and their infantry advanced 8 miles south-east of EL GUETTAR. French and United States troops attacked hill positions north of the SALT LAKES, where there were signs of preparation by the enemy for withdrawal.

EIGHTH ARMY. The attack by the 8th Army began on night 20th/21st. Successful actions had been fought 48 hours before by infantry units which had overcome heavy German resistance, and had gained objectives which greatly assisted the launching of the main attack. Initial objectives of our forces attacking on the northern flank of the MARETH position were captured during the night 20th/21st. A bridgehead was established between the road and the sea. During 21st this bridgehead was widened and further defended localities were attacked. By the morning of 22nd we had secured a bridgehead which included territory east and south-east of ZARAT (5 miles north-east of MARETH and 2 miles from Coast) and had pierced all organized defences on the MARETH position on this flank. Opposition was very strong and heavy fighting continues. Enemy casualties have been considerable and we have taken many prisoners.

SECRET  
DAS MAR 24 PM 12  
TREASURY DEPT

COPY NO. 13

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET  
U.S. SECRETOPTIM NO.92.

Information received up to 7 a.m. 22nd March, 1943.

1. NAVAL.

One of H.M. Submarines patrolling off SOUTHERN FRANCE between 10th and 13th sank a 2,000-ton ship off SETE and shelled and sank a tug and a lighter off TOULON and a sailing vessel off VILLEFRANCHE. One of H.M. Mine Sweeping Trawlers shot down one out of six aircraft which attacked mine sweeping flotilla off BONE.

2. MILITARY.

TUNISIA. Eighth Army. Operations against the enemy were resumed on 20th. First Army. In the Southern Sector United States Forces continued their advance and by 21st morning had captured the village and station of SENEZ.

BURMA. MAYU PENINSULA. A United Kingdom Brigade with 2 Indian Battalions launched an attack against enemy positions north of DONBAIK on the 17th and 13th which was mainly successful.

RATHEDAUNG FRONT. Heavy enemy attacks on the flank and rear of our positions north of RATHEDAUNG during an inter-brigade relief forced a general withdrawal. Defensive positions have been taken up at TAUNGMAW (17 miles north of RATHEDAUNG) and on the west bank of the MAYU RIVER.

UPPER BURMA. 17th. The Kachin levies who have re-formed have occupied SUMPRABUM and are patrolling southwards.

3. AIR OPERATIONS.

WESTERN FRONT. 21st/22nd. Whirlwind Bombers attacked the viaduct at MORLAIX and claimed 3 hits.

TUNISIA. 19th/20th. 38 Wellingtons bombed enemy concentrations in the MARETH area. 20th. 162 Light and Medium Bomber Sorties were made against enemy positions in the MARETH area and considerable damage is believed to have been caused. A few enemy fighters were met but anti-aircraft fire was heavy. EL HAMMA airfield (13 miles west of GABES) was attacked by 36 United States Warhawks (P.40). Enemy casualties - 1, 3, nil. Ours - 4, nil, 1.

SICILY AND SOUTHERN ITALY. 20th/21st. Intruder aircraft from MALTA destroyed or damaged 16 locomotives and attacked goods yards and mechanical transport. West of TRAPANI a ship, believed a destroyer, was hit with two torpedoes.

**TREASURY DEPARTMENT****INTER OFFICE COMMUNICATION**DATE March 23,  
1943

TO Secretary Morgenthau

FROM Mr. Odegard

Attached is the script of the program, "Marching to Music," which you asked me to inquire about last week.

# SCAP

CENTRAL PLAZA - NEW YORK

... *Radio Program Service*

ROBERT L. MURRAY, DIRECTOR

MAR 19 1943

TITLE:

MARCHING TO MUSIC

D-57

DATE:

March 17, 1943

PRODUCTION:

Talk: 4:10  
Music: 2 musical numbers - recordings or live music. See list attached.

NARRATOR: MARCHING TO MUSIC!

(FADE UP-AND  
FADE FOR)

NARRATOR: "America, would you like to have your fortune told?" Suppose someone had said that to the little cluster of states along the Atlantic, in 1774? "Boston, little village of fifteen thousand, waiting for the enemy fleet -- would you like to know if there's a happy ending?" Strangely enough, one man of 1774 could have told you -- he didn't gaze into a crystal ball -- and yet, John Adams knew.....

(FADE UP AND OUT)

NARRATOR: "America, I see men talking in secret, and from their meeting will spring your liberty." The general court of Massachusetts is meeting secretly to elect delegates to a congress of all the states -- outside the locked door, a British officer waits to dissolve the court. John Adams, young lawyer of Braintree, is one of the men chosen. That night, as he writes, he looks ahead: "There is a new and

(MORE)



-2-

NARRATOR: (CONTINUED) grand scene open before me." And he knew that it led to independence for the colonies. "America, I see words upon a sheet of parchment, and they change your whole destiny." In the July heat of 1776, the Philadelphia congress rests from months of toil and talk. And they sign their names, soberly, or with a flourish, to the Declaration of Independence. John Adams signs, and again he looks ahead: (IMPRESSIVELY) "This day will be celebrated by succeeding generations as the great annual festival. It ought to be commemorated as the day of deliverance...it ought to be solemnized with pomp and parade, with shows, guns, bells, bonfires and illuminations, from one end of this country to the other, from this time forward forevermore." Those salutes and shining rockets -- would they come easily? No, John Adams saw the endless struggle, too: "I am well aware of the toil and blood and treasure it will cost us to maintain this Declaration, yet through all the gloom I can see the rays of light and glory -- I can see that the end is worth more than all the means."

2:00

"America, I see you grown strong, and great, and wealthy."

"Our people," John Adams said to the poor, war-torn states, "our people will in another century become more numerous than England herself...and the united force of all Europe will not be able to subdue us!"

C: MUSICAL BREAK No. 1

NARRATOR: "America, I see one of your great men dying." The bells were ringing, the cannons sounding, on the day John Adams made his last prophecy. For the Declaration of Independence was fifty

(MORE)

-3-

1:15 NARRATOR: (CONTINUED) years old, and from the Atlantic to the Mississippi, America rejoiced. John Adams, at ninety-one, listened, and spoke from his bed: "It is a great day. It is a good day." A few hours before, the orator for the celebration at Quincy had asked John Adams to propose a toast for the gathering. "I will give you," said old John Adams, "'Independence Forever'". The orator hesitated -- only two words for a toast? "Would you add anything to that, sir?" he asked. "Not a word", said John Adams firmly. And on that Fourth of July, as John Adams breathed his last, the crowds in Quincy cheered and applauded his toast: "Independence Forever!" If you could have looked ahead to 1942, John Adams, what words would you have spoken? -- if you could see the planes roaring, the lighted factories, the laden trains -- if you could see your country working, fighting, day and night, for freedom for itself and the world -- what would you say? The words come firm and unyielding: "Independence Forever!"

C: MUSICAL BREAK No. 2

E IN -  
(FADE FOR)

2:20 NARRATOR: The music fades, John Adams' words are said -- they will continue to be said as long as Freedom "shall not perish from this earth". This is \_\_\_\_\_ speaking for all of us who  
(NARRATOR)  
are MARCHING TO MUSIC. Tomorrow we bring you Johnny Fitch -- the man who went broke - because he loved his country.

(ME UP AND OUT)

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE March 23, 1943

TO Secretary Morgenthau  
FROM William M. Robbins

Following our telephone conversation this morning, with reference to Perry Hall's article in the New York Times, I talked to Mr. Sproul and made two specific and definite requests: first, that publicity should issue in the name of the War Finance Committee; and, secondly, that Mr. Sproul should be mentioned as the leader of the movement rather than Perry Hall. On both scores, Mr. Sproul understood, agreed and promised control.

Further, to avoid similar confusion elsewhere, we are putting out a release today to all Federal Reserve Presidents and through them to all people handling publicity at all levels down the line.

W. M. R.



## UNITED STATES TREASURY WAR FINANCE COMMITTEE

BULLETIN  
March 23, 1943

## Presidents, Federal Reserve Banks:

I want to report to you on the extremely encouraging meeting we had here Saturday, March 20, with representatives of all the important newspaper associations of the country. Those attending were Walter M. Dear, President of the American Newspaper Publishers Association; John S. Knight, Vice President of the American Society of Newspaper Editors; Basil L. Walters, Secretary of the American Society of Newspaper Editors and President of the Managing Editors Association; E. H. Abels, President of the National Editorial Association; A. C. Hudnutt, President of the Inland Daily Press Association; O. G. Andrews, President of the New England Daily Newspaper Association; Charles P. Manship, President of the Southern Newspaper Publishers Association; and Cranston Williams, General Manager of the American Newspaper Publishers Association.

After a talk by the Secretary explaining our program for the drive and a stimulating talk by General Marshall, the publishers went into conference and, after their meeting, pledged their wholehearted support.

They formed themselves into a special committee called the Allied Newspaper Council and over that name sent an urgent bulletin over the wires to the Editor, Managing Editor, and Advertising Director of every newspaper in the country asking their full support.

It was decided that on April 2, a wire from the Secretary will go to these same newspapers advising them that a representative of the drive in their district will call on them and ask not only for editorial support but their assistance in securing sponsorship for War Bond advertising.

A copy of the Secretary's wire, plus suggestions as to making these local newspaper contacts, will be sent to you within the next few days.

We look for a higher degree of support from newspapers for this drive than we had in the last, and that was considerable.

Stuart Peabody  
Head Advertising Specialist

Copy to Publicity Directors

WFC-2

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 23, 1943

TO Secretary Morgenthau

FROM William M. Robbins

We have arranged for a so-called "closed circuit" hookup over the three National Networks for fifteen minutes from 1 PM to 1:15 PM, Eastern War Time, Saturday, April 10th. The purpose of this hookup is to provide a last minute rally for the workers who will go out on our bond-selling campaigns across the country the following Monday morning.

I have asked Mr. Peabody to work up arrangements for this rally with Messrs. Graves, Gamble and Buffington and I have also asked Mr. Peabody to report the plans to you as they are perfected.

Inasmuch as we will only have the hookup for fifteen minutes, it will afford limited opportunity for the purposes at hand, but should give us a chance to talk directly to a great number of our people across the continent at that one time.

I would naturally hope and expect that you will be the principal speaker on this hookup and I would imagine for any portion of the time which you do not use, I could fill in. I think if we try to put on more than two people in the limited time at our disposal, we would miss the full impact of our opportunity.

*W. M. R.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 23, 1943

TO Secretary Morgenthau

FROM Mr. Thompson

With reference to your comments on Mrs. Forbush's mail report of March 12, 1943, the following is submitted:

1. Complaints regarding delays in bond deliveries by employees of the War Department. A letter was drafted to Secretary Stimson which has already had your signature.

2. E. A. Basse, Jr., Piggly Wiggly Stores, San Antonio, Texas, complained of failure to receive check in redemption of bonds. Investigation shows that Mr. Basse's prior correspondence in the matter was with the Federal Reserve Bank of Dallas, his first communication to the Department being his complaint of March 9th. Immediately on receipt of this letter, the Assistant Treasurer wrote Mr. Basse expressing regret for the delay which he had experienced and enclosing him an application and affidavit to be executed for the issuance of a duplicate check without requiring a bond of indemnity. On the same date, the Federal Reserve Bank of Dallas was requested to advise whether the original check ever had been received. The bank replied in the negative. This case will have special attention and a duplicate check will be issued promptly upon receipt of the application and affidavit from Mr. Basse. The practice of the Treasurer's Office is to clear duplicate check cases within seven or eight days, preference being given to lost checks of persons in the military service.

- 2 -

3. James J. Coburn, Vice President, Newark Branch, United Automobile Workers of America, C.I.O., complained that they were not receiving satisfactory service on their War Bond purchases. Mr. Houghteling wrote a very nice letter to Mr. Coburn and at the same time he requested State Administrator Manning in Newark to contact Mr. Coburn with a view to arranging for his company to qualify as an issuing agent so that there might be no further cause for delays in bond deliveries to which Mr. Coburn referred.

4. Charles N. Cotter, Jamestown, New York, wrote in expressing the view that there was a diminishing interest in the purchase of War Bonds. Mr. Coyne, Field Director of War Savings Staff, replied to Mr. Cotter, advising him that Mr. Edward H. Letchworth, Chairman of the War Savings Office for Upstate New York, would have a member of his organization discuss the situation with Mr. Cotter.

5. Drew Pearson spoke of Government workers in the Frankfort Arsenal, Philadelphia, failing to receive their bonds. This is a War Department matter and was covered in the letter to Secretary Stimson referred to in the first item above.

6. William E. Wright, Savannah, Georgia, complained of being charged for bond redemptions in order to acquire funds for income tax payment. Under Secretary Bell wrote Mr. Wright fully explaining the situation and pointing out that requests for payment of Savings Bonds may be executed at post offices and at most Postal stations for which no charge is made.

- 3 -

7. Thomas C. Carrowon of Philadelphia complained that he was dissatisfied with the delay in the issuance to him of United States Savings Bonds by his employer, the Cramp Shipbuilding Company. Mr. Coyne wrote a nice letter to Mr. Carrowon and advised him that the matter was being taken up with the State Administrator for Pennsylvania.

8. Earl Alcorn of Long Beach, California, complained of having called at the local Internal Revenue office to pay the first installment on his 1942 income tax in cash, but that the local office declined to accept the cash payment. Mr. Helvering wrote Mr. Alcorn fully explaining the situation to him and pointing out that the Internal Revenue office at Long Beach is merely a branch office which serves to accommodate local taxpayers in many ways but does not have facilities for cash payments.

9. Mamie Louise Pitts, Calhoun, Georgia, complained of having been required to pay surtax on bond interest notwithstanding that the bonds state that "no taxes will be imposed now or hereafter." Mr. Broughton wrote her explaining that the bonds are exempt from taxation except from "\* \* \* graduated additional income taxes, commonly known as surtaxes." Mrs. Pitts has already replied to Mr. Broughton's letter, thanking you for the prompt and illuminating reply and stating it was her mistake.

Attached are copies of correspondence in each of the cases referred to, all of which appear to have had appropriate attention.



MEMORANDUM FOR THE SECRETARY

sent to see Mrs. Coby  
Mrs. Ferbask  
and  
Norman Thompson

About this  
file  
March 12, 1943.

Mail Report

Although the mail was numerically heavier during the past week, it was scattered as to subject matter and contained comparatively few quotable letters.

There was one campaign emanating from the Minneapolis locality and sponsored by the C.I.O. The 107 communications received opposed the Ruml Plan, favored a pay-as-you-go scheme of taxation, asked higher exemptions and the repeal of the Victory Tax. In addition to these, 36 letters favored a pay-as-you-go plan, 11 specifying the Ruml Plan. There were only 8 letters opposing forgiveness of a year's taxes.

The 20 per cent withholding tax, under consideration by the House Ways and Means Committee, was vigorously opposed in the ratio of four to one. Several letters protested higher taxes for white collar workers who have had no salary advances. Tax consultants and Tax Associations submitted a number of requests for a stay of six weeks or thereabouts, in the filing of returns. There were many letters pointing out the need for simplification of forms now necessary for employers to use in reporting various taxes to the Government.

There were about 60 inquiries about this year's tax measure and a number of miscellaneous suggestions as to new sources of revenue or new methods of collection. Some correspondents still think that regardless of any system of payment which might be adopted, a discount should be allowed for payment of the 1942 tax in full by March 15. Now and then a correspondent urged that tax certificates should be interchangeable between husband and wife.

I want a copy of letter I wrote him on this same subject. Had he ever answered it? (M.M.)

Please give me copies of letters complaining about delay in getting boards from War Dept. and I will send them over to Mr. Timson

- 2 -

Memorandum for the Secretary.

March 12, 1943

The Bond mail was largely routine. No-interest bearing securities, annuities, and similar suggestions appeared this week as they have before. A number of letters gave specific instances of excessive cashing of Bonds. There were 62 Bonds submitted to the Secretary for redemption. About four-fifths of the complaints in regard to delays came from personnel of the War Department.

There was a decided upsweep in requests for Bond music. "Jolly Molly Pitcher" was often praised in letters asking for copies, "Every Bond Every Payday" was frequently requested, and occasionally "Any Bonds Today." These requests reached a higher total than those of any of the past twelve months.

The general mail was also scattered as to subject matter. It included letters protesting the Regional Agricultural Credit Corporation and its activities, and also questions as to the validity of the Federal Reserve Bank release of greenbacks. In spite of the approach of March 15, there were a number of contributions and these included checks ranging from ten dollars to one hundred dollars, from persons who said that they owe no taxes and wanted to contribute to the War effort. There were a number of Bonds and Stamps for cancellation, gifts from school children, clubs, etc.

*J. G. Forbush*

General Comments

Mrs. O. Mindestrom, Hovland, Minn., sends check for \$375 for a \$500 Bond, and writes: "Just in case we get in serious pinch for food, I want to explain about the commercial fishing. \* \* \* Anybody that digs in hard shouldn't have any trouble to raise food, and we sure do that. I feel like a Russian pulling a box of fish at a time, all uphill, a four blocks' distance to the highway for the fish and freight truck to pick up. But that hard work will go away when the snow goes away. We are the kind of people that work more than our share all the time. We hustle and love it. My fingers sprain now and then! But we have 200 cakes of ice ready to carry on a good fish business through the hot months! But I haven't got time to be feeble long, so I forget the old ones and when a new tough job comes along, I get hurt some more. I love to live so Uncle Sam can't hand me anything too tough! Now please, Mr. Morgenthau, think it out real well and show it to the President, because tough as we are, we can't fish my son Woodrow's share of the fishing, the amount of 20 to 25 tons for the whole year! If we get too short on food, we may even lose the War. His being in the Army is fine, but he's worth more in the good fishing business now. \* \* \* He sure won't get soft here on our work. \* \* \* The whole world loves Roosevelt - he will see through our eating needs too. \* \* \* He has to be a good businessman too. The whole world just join hands to pay for this expensive war. \* \* \* If Stalin has a heart of gold like dear America's President, we'll come out all right. God bless the Treasury, our President and Congress."

Colonel L. L. Harris, The Walt Whitman Hotel, Camden, N.J. Being a Kentuckian, I appreciated your sending all the U. S. gold to my native State. I also appreciate the wonderful, efficient manner you so successfully overcome all the brain-racking obstacles that your office is heir to. I enclose a photo print that, as I know you, I thought excellent. \* \* \*

- 2 -

M. A. Lucken, President, Alexandria State Bank, Alexandria, Minn. I have read some of your remarks about the banks, P.C.A., and other socialized Government lending agencies. It is the most encouraging news we have had from Washington in many years. I know you understand that the banks do not feel very kindly towards the Government when they are in direct competition with them in most of their activities, and they expect to have the banks do all the work for nothing. \* \* \* The P.C.A., Farm Security Administration, and the Federal Savings and Loan Associations, as well as the Post Offices, are in direct competition with the banks. If there is proper opposition in Washington, I firmly believe Congress would change its attitude, and I assure you anything along that line would be very popular among the banks, as well as a great many other people.

Clarence T. Hodgson, Principal, Lincoln School, York, Pennsylvania. I am enclosing a check that was earned by the boys and girls of the Lincoln School. This \$76.75 was earned by collecting scrap metal, rags, rubber, etc., and the boys and girls wished the proceeds to be devoted to winning the War. Please therefore accept it on their behalf.

Fred S. McDonald, McConnelsville, Ohio, sends copy of letter he has written to Senator Byrd. \* \* \* Kindly refer to the enclosed "Inflation" pamphlet, of which I have just received four copies, as per envelopes, also enclosed. Apparently, three or four times as many of this publication have been printed and distributed as is necessary. It is impossible to determine by whom, or why this article has been issued, except that it is distributed by the Office of War Information. I am unable to find any justification for this expense. \* \* \* In the first place, the "unknown" author of this article seems to be completely unaware of the fact that our Government is spending millions of dollars for the operating of the Office of Price Administration, whose sole purpose is to prevent the inflationary results mentioned. \* \* \* Secondly, the statement is made that,

"our people today have more money to spend than ever before in all their history". Similar propaganda is being put out all the time by the Treasury Department as a basis for higher taxes. There is no doubt that this is true with respect to the members of the Labor Unions, but it is most certainly not correct with regard to millions of persons who receive salaries or fixed wages. The author of this article, and certain Treasury officials, seem determined to disregard the fact that at least half of the workers in this country are receiving the same income they received a year or two ago, from which is deducted much higher income taxes, Victory tax, deductions for War Bonds, and higher increases in the cost of all foods and other living expenses. These persons have less "money to spend", instead of more, as we are led to believe. \* \* \* The present conditions were caused by the Administration's program, in conjunction with Mr. John L. Lewis and other Labor Union Dictators, for higher wage rates, which are still going higher under the direction of the War Labor Board. \* \* \*

L. A. Liesch, Cashier, Cochrane State Bank, Cochrane, Wisconsin. Every day we receive letters from different Government Departments asking us to cooperate with the Government in various undertakings. We are asked to furnish help for the Victory Fund Drive, we are asked to carry the expensive burden for the various ration programs, and asked to sell Bonds to the public, pay a good share of our earnings to the Government in the form of various taxes. We are glad to do all we have done in the past, and more, if we are asked, but the question in our minds is this: When is the Government going to give the bank some cooperation? The various Governmental agencies rob us of our earning power by setting up P.C.A. loan agencies in every corner of our country. We are to spend our time selling Bonds when the agents of the Government are in our backyard soliciting our farmers to shift their loans from the bank to the P.C.A. \* \* \* Now we hear the R.A.C.C. is to be again made active. I don't know why all these loan agencies are necessary when every bank in the U. S. is overflowing with excess cash reserves. This situation is so serious, unless you men and Congress can see the light in time and curb some of the socialized Government, we will have lost the very thing our boys are giving their lives for today on many battlefields of the War. \* \* \*

- 4 -

Unfavorable Comments on Bonds

4  
7

E. A. Basse, Jr., Piggly Wiggly Stores, San Antonio, Texas. In January of 1942 I purchased two \$1,000 Series E, United States Savings Bonds. In February of 1942 my parents, not knowing that I had purchased these Bonds, bought \$5,000 of Series E Bonds for me for my birthday. \* \* \* Our Postmaster here in San Antonio returned the two Bonds to the Federal Reserve Bank in Dallas for redemption, who in turn forwarded them to the Treasury Department, Washington, D. C., and I was informed that I could expect payment within 30 days. September rolled around and I had not received my refund. After more correspondence with the Federal Reserve Bank in Dallas, it was discovered that the Treasury Department had mailed the Bank a check to cover the Bonds. The Bank in Dallas never received this check. After more correspondence it was established that the check was lost. From this point, and after much urging from me, the matter has been kicked around from one department to the other, and as it stands now, it is the 9th day of March, 1943, and I have not received my money yet. \* \* \* I now own \$25,000 in Series E and F Bonds, and I have several thousand dollars lying idle in my bank which I would like to use to buy more Bonds, but one thing is assured, I will not purchase one penny more of Savings Bonds until I have received the refund of the Bonds in question. It is not so much the amount of money involved, because I know a few thousand dollars is nothing to a man like you who deals in billions, but rather it is the principle of the thing. To me this is a typical example of Government inefficiency that is rampant in Washington today, and which is prolonging the duration of our national emergency. \* \* \*

1/14/43  
3/4

James J. Coburn, Vice President, Newark Branch, United Automobile Workers of America, C.I.O. The men in the Newark plant are utterly disgusted, almost to the point of cancellation, with the service they have been receiving on their War Bond purchases. \* \* \* The Company

Who looks after this?

I want to ins. run myself. M.J.

has made no effort to keep the morale of the men up by making prompt deliveries on the Bonds. We have appealed time and time again for the establishment of an issuing agency here in Newark, but all we have received are empty promises. This condition has existed for the part year, and I feel that unless some prompt action is taken, I cannot be responsible for the action of the Members of the Local Union in the cancellation of their War Bond purchases. \* \* \*

Charles N. Cotter, Jamestown, N.Y. Jamestown, New York, is reputedly manifesting diminishing interest in purchasing War Bonds. A concern called the American Aviation Corporation, allegedly holding a Navy contract on a cost plus 10% basis, has maintained for the past several months a force of clerks, etc., estimated at 250, and expensive office space, while waiting construction of a plant which, in location, size, etc., is destined to prove an economic miracle. \* \* \* From talk on the streets, Bond sales will continue to diminish and on the basis of disinclination to contribute a part of the carrying charges of the American Aviation Corporation. \* \* \*

*I want this investigated*

A. F. Sinex, Central Iowa Livestock Company, Tama, Iowa. A statement has been made by some persons in this locality that should the Government at some future date find itself in financial difficulties, that preference would be given in paying off Series G Bonds before paying Series E Bonds. Since the writer, together with several of my friends, are investing in Series E Bonds, we would like to know whether this statement is truth or fiction.

Drew Pearson, Washington Merry-Go-Round, Washington, D.C. I have had letters from a few Government workers, particularly in the Frankfort Arsenal, Philadelphia, to the effect that after paying 10% of their salary for War Bonds, they have not been able to receive delivery of these Bonds, despite repeated requests and despite the lapse of some length of time. They seem quite put out about it, and I thought it might be a good idea for your people to check on it.

*Is this the war left last? 1/14/42*

- 6 -

Warren Clark, Groceries and General Merchandise, Frannie, Wyoming. As you see from the heading, we have a store and I have been Postmaster for the past 27 years at this location. This is a small, rural community, but we do have a fair payroll for a small place, and I am writing to say that we are in favor, if it should ever come up, of not allowing War Bonds to be cashed without a good reason. Today, we had to prepare Bonds for cashing for one family, the wife works in a restaurant, she and her husband getting all three meals besides the \$10.00 a week she earns, and the husband earns \$190.00 a month, with \$12.00 rent a month, and other expenses in proportion. No children, no doctor bills on their hands, but he has cashed every Bond after the 60-days, which the Company has asked him to buy. His money has all gone for gambling is the reason he cashes these and does not have a dime to call his own.

2/24/43  
3/1/43  
William E. Wright, R.F.D. 3, Montgomery Road, Savannah, Georgia. I presented four small U. S. Savings Bonds to my bank in Savannah for payment today, to prepare to pay income tax installment, and was charged what appears to be a very high rate for this service, of 50% per Bond -- a total of \$2.00 on what will amount to \$75.00 total. On an interest basis this charge would amount to 2.67% per year, approximately, but as the transaction should not take more than ten days, the interest rate would be 96% for such period. Can you tell me if such a charge is a usual or customary thing for this service, and if there is any way in which I can cash this type of Bond for par value, including the expense of the exchange?

*Pat's  
look  
down  
me*

Joseph T. Huking, San Francisco, Calif. I am writing you for information regarding the cashing of War Bonds by the San Francisco Federal Reserve Bank. The Federal Reserve Bank refuses to certify Bonds, referring you to a Post Office, although they certified and cashed them

- 7 -

several months ago, and then suddenly stopped. It is necessary to call on a Post Office in one part of the city, to the Federal Reserve Bank in another part, and if an error is made, you are compelled to go back again to a Post Office, entailing a loss of many hours of work. Is this official or are they putting something over on the faithful Post Office Department?

*classified 2/1/43*  
*3/9*  
 P  
 7  
 =

Thomas C. Carrowon, Philadelphia, Pa. I am now employed at the Cramp's Shipbuilding Company, Philadelphia, and invest \$9.50 a week in Government Bonds. This is taken out of my salary. I really am not able to invest this much of my salary, but I am willing to sacrifice anything for Mr. Roosevelt to prosecute the War. I have three children to take care and provide for. I only wish that I was able to invest all of my salary in my Government. I believe in my United States and am willing to die for it at any time. \* \* \* I have talked to several men here in this yard and they are very dissatisfied with the way our Government Bonds are handled. Some of them are due as many as three or four Bonds. I for one am due three Bonds, with the money they took out this week. Now I would like to know if something cannot be done about this condition. I do not mind buying the Bonds, but I do think that we should get them on time and not several weeks after we pay for them. Is this correct? I understand several of the employees have cancelled their Bonds at the yard. Well, I do not intend to do that, but I do think the Government should look into this matter. \* \* \*

R. Davis, Stamford, Conn. So long as the Treasury Department has one hundred million dollars to give to the Fascist, Franco, I see no reason why the U. S. citizens should buy Bonds, which they thought were helping the War effort, but which we learn are being sent to Franco, the slaughterer of our boys in Spain, and ready to slaughter them now in North Africa, as soon as he receives word to do so. The State Department supplied Japan for years with everything to kill our citizens. The State Department would not help the Spanish Republic, nor the Chinese, nor Russia, with material to fight with us and for us, but they seem so willing to supply our enemies. We will buy no more War Bonds and have cashed in what we, like goops, did buy.

- 8 -

Unfavorable Comments on Taxation

Gladys C. Balcom, Scott Hotel, Dallas, Texas. I should like to ask you where we teachers can get exact information about our income tax payments. The men in the Revenue Office here tell us we are supposed to find out about our income and deductions before we go to their office. So, some of us bought books, advertised as being helpful. Then, when we quote and try to follow these books, we are told they are unreliable, and deductions given there are not allowed. For instance, summer school expenses are not deducted here - and the Simon and Schuster books say definitely that we may deduct expenses for summer school if we are required to attend school to hold our jobs -- as we are, regardless of our preparation and qualifications. \* \* \* Of course, we teachers want to do our part and pay what we are supposed to pay, but our salaries are just the same as they have been, so we, of course, wish to know the deductions to which we are legally entitled. I hope you do not question our loyalty or intentions.

Earl Alcorn, Long Beach, Calif. Now, finally, at long last, I've seen everything! Today after work (in a defense plant) I hurried down to the local office of Internal Revenue with cash in hand to pay the first installment on my 1942 income tax. But did I pay it? A thousand times, NO! For this excellent office will not accept U. S. money! Legal tender as provided by the Constitution, the value and issue of which is set by Congress. This currency, incidentally, is specifically designated by Congress as legal payment on ALL UNITED STATES DEBTS. Thus, I'm going to look into the possibility of forcing the office to accept my cash, or violate Federal law in refusing. As a staunch Republican, I have long known that New Deal finance would crumble, but I didn't believe one of its own receiving agencies would be the first to refuse cash payment as inadequate!

- 9 -

Mamie Louise Pitts, Calhoun, Ga. For many years I have invested my savings in Treasury Bonds, attracted by the assurance in each offer that "no taxes will be imposed now or hereafter". Beginning last year, this statement has been repudiated. I have 94,150 dollars worth of Bonds bought prior to March 1, 1941. Not any part of the income is taxable, yet I am required to pay surtax on \$2,709.64. Can you explain by what authority this tax is levied on income declared and published by the U. S. as untaxable? "No tax now or hereafter will be imposed" -- see the circulars sent many times over announcing the offerings. \* \* \* This arbitrary tax is without warrant, and I believe the Supreme Court will agree with me. Governments have no more right to repudiate their promises than individuals.

## PIGGLY WIGGLY SAN ANTONIO CO.

*Scientific Merchandising*

415 BLUESA VISTA STREET  
SAN ANTONIO, TEXAS

March 9, 1943

Mr. Henry Morgenthau, Jr.,  
U. S. Treasury Department,  
Washington, D. C.

Dear Sir:

In January of 1942 I purchased two \$1000 Series E. United States Savings Bonds, Numbers M287302 and 287307E. In February of 1942 my parents, not knowing that I had purchased these bonds, bought \$5000 of Series E Bonds for me for my birthday. Since the limit on Series E Bonds is \$5000 per person per year, Mr. Dan Quill, our postmaster here in San Antonio, was kind enough to return the excess of two bonds to the Federal Reserve Bank in Dallas for redemption, who in turn forwarded them to the Treasury Department, Washington, D. C. and I was informed that I could expect payment within 30 days.

September rolled around and I had not received my refund. After more correspondence with the Federal Reserve Bank in Dallas it was discovered that the Treasury Department had mailed the Federal Reserve Bank in Dallas a check to cover the bonds. The bank in Dallas never received this check. After more correspondence it was established that the check was lost.

From this point, and after much urging from me, the matter has been kicked around from one department to the other and as it stands now, it is the 9th day of March, 1943 and I have not received my money yet.

Sir, I call your attention to this matter because I am thoroughly disgusted with the whole thing and I am in hopes that you can spare a few minutes of your valuable time to get this deplorable situation straightened out.

I now own \$25,000 in Series E and F Bonds and I have several thousand dollars lying idle in my bank with which I would like to buy more bonds, but one thing is assured; I will not purchase one penny more of Savings Bonds until I have received the refund on the bonds in question.

{Page 2 - EAB, Jr., March 9, 1943}

It is not so much the amount of money involved because I know a few thousand dollars is nothing to a man like you who deals in billions; but rather it is the principal of the thing. To me this is a typical example of government inefficiency that is rampant in Washington today and which is prolonging the duration of our national emergency.

I know this complaint I am making is a small item in your many important duties as Secretary of the Treasury; but, on the other hand, if the small things are not run smoothly and correctly, the big things are usually a failure.

Yours truly,



E. A. Basse, Jr.

AWS-C

March 12, 1943.

Mr. Edgar A. Basse, Jr.,  
501 Terrell Road,  
San Antonio, Texas.

*Air mail*

Dear Mr. Basse:

Your letter of March 9 addressed to the Secretary of the Treasury relating to the nonreceipt by you of Treasurer's check No. 1278,005, dated May 29, 1942, for \$1,500.00, symbol 17-200 to your order, has been referred to this office.

The Division of Loans and Currency of this Department, Chicago branch, has informed this office that the check was forwarded by that branch to the Federal Reserve Bank of Dallas, Texas on May 26, 1942. It is reported that a delay has occurred in your receipt of the proceeds of the bonds.

In order that a duplicate check may be issued, it is necessary that the enclosed partially prepared form for application and affidavit be executed by you in accordance with the instructions printed on the back thereof. The completed form should be forwarded to the Treasurer of the United States, Accounting Division, Washington, D. C. and upon its receipt every effort will be made by this office to expedite the issuance of a duplicate check.

Very truly yours,

Assistant Treasurer.

NRL:ms

*Payle + HRB 4-17-43*

**APPLICATION AND AFFIDAVIT TO OBTAIN THE ISSUANCE OF A DUPLICATE CHECK WITHOUT THE EXECUTION OF A BOND OF INDEMNITY**

(See instructions on reverse side)

State of \_\_\_\_\_ }  
County of \_\_\_\_\_ } ss:

KNOW ALL MEN BY THESE PRESENTS, That \_\_\_\_\_  
(First name) (Initial) (Last name)

of \_\_\_\_\_, city of \_\_\_\_\_  
(Number and street)

State of \_\_\_\_\_, deponent, being duly sworn, deposes and says:

1. That he is advised and verily believes that check No. \_\_\_\_\_, dated \_\_\_\_\_ drawn on the Treasurer of the United States by \_\_\_\_\_ symbol No. \_\_\_\_\_, in the sum of \_\_\_\_\_ dollars and \_\_\_\_\_ cents (\$ \_\_\_\_\_), was issued to the order of \_\_\_\_\_ and does hereby make application for a duplicate of such check.

2. That he is the owner of the above-described check, and entitled to full and exclusive possession thereof.

3. That \_\_\_\_\_  
(State all information known regarding the nonreceipt, loss, theft, mutilation, defacement, or destruction of check)

4. That the check was \_\_\_\_\_ endorsed. (If endorsed state exact manner of all endorsements appearing thereon.)

5. That except as stated above the whereabouts of the check is unknown to him.

6. That this affidavit is made for the purpose of obtaining the issuance of a duplicate of the said check, or payment of the value thereof, and deponent does hereby agree immediately to surrender the original check to the Secretary of the Treasury (Division of Bookkeeping and Warrants) should such original check at any time hereafter come into his possession or control.

\_\_\_\_\_  
(Signature of deponent by first name, initial, last name)

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_  
I furthermore certify that the foregoing affidavit was by me read and explained to the deponent before the administration of the oath.

[SEAL]

\_\_\_\_\_  
(Title)

My commission expires \_\_\_\_\_

AWS-C

March 18, 1943

Cashier,  
Federal Reserve Bank of Dallas,  
Dallas, Texas.

*Air Mail*

Sir:

This office is in receipt of advice from the Division of Loans and Currency, Chicago Branch, that Treasurer's check No. 278,005, dated May 29, 1942, for \$1,500.00, ~~symbol~~ 17-200, to the order of Mr. Edgar A. Basse, Jr., was forwarded by that office to your bank on May 26, 1942.

Inasmuch as nonreceipt has been reported by the payee, you are requested to advise the Treasurer of the United States, Accounting Division, Washington, D. C., whether the check was received by your bank, and if so, the disposition made of the item in order that further appropriate action may be taken toward the issuance of a duplicate check.

It will be appreciated if your reply is expedited, *by*  
*means of the attached envelope.* Very truly yours,

Assistant Treasurer.

NRL:BS

A.S-C

March 15, 1943

Memorandum to Mr. Hayden:

This office addressed a letter to Mr. Edgar A. Basse, Jr. enclosing an application and affidavit for execution to obtain the issuance of a duplicate Treasurer's check No. 27B,005, dated May 29, 1942, for \$1,500.00, symbol 17-200, to the order of Mr. Edgar A. Basse, Jr. and informed him that the form should be returned to the Treasurer of the United States, Accounting Division, Washington, D. C.

As it is desired that this matter be given urgent attention, it will be appreciated if you will forward the application and affidavit to this office immediately upon its receipt.

Assistant Chief, Accounting Division.

cc: Miss Hipkins

NRL:ja

FEDERAL RESERVE BANK  
OF DALLAS  
FISCAL AGENT OF THE UNITED STATES

DALLAS, TEXAS

March 16, 1943

Miss Marion Banister, Assistant Treasurer  
Office of Treasurer of the United States  
Treasury Department  
Washington, D. C.

Dear Miss Banister:

Receipt is acknowledged of your letter of March 12,  
concerning Treasurer's check No. 278,005 dated May 29, 1942, for  
\$1,500 Symbol 17-200 payable to Mr. Edgar A. Basse, Jr.

Our records do not indicate that the above check was  
ever received in this office. As we have had several inquiries  
concerning the matter from the postmaster at San Antonio, Texas,  
it shall be appreciated if a duplicate check may be issued and for-  
warded to us at your earliest convenience.

Yours very truly,



W. E. Eagle  
Assistant Cashier

WRC/bmb

ml 340.42 ✓

FOR  
BUY  
UNITED  
STATES  
WAR  
BONDS  
AND  
STAMPS



TREASURY DEPARTMENT

FISCAL SERVICE

CHICAGO, ILL.



BUREAU OF THE PUBLIC DEBT  
DIVISION OF LOANS AND CURRENCY  
CHICAGO BRANCH

MERCHANDISE MARK

YOUR REPLY REFER TO

CR:2

The Treasurer of the United States,  
Accounting Division,  
Washington, D. C.

14-341

Dear Sir:

We have received a letter dated January 6, 1948, from the Federal Reserve Bank of Dallas, Texas, concerning Treasurer's check issued in payment of United States War Savings Bonds of Series E-1942, in the amount of \$2,000 (maturity value) for an adjustment of excess holdings which they state was not received at that bank.

The records show 21,000 United States War Savings Bonds of Series E-1942, Nos. 1-287,302-B, and 1-287,307-B, registered in the name of Mr. Edgar A. Basse, Jr., were received in this office for payment and were scheduled to the Cash Division of your office on Case No. BX 144 and that check No. 278006 in the amount of 2,000 dated May 28, 1942, was issued in payment of the bonds. The records also show that the check was sent to this office, which forwarded it to the Federal Reserve Bank of Dallas with Department letter of May 26, 1942.

Please advise us whether or not the proceeds of this check have been collected.

Sincerely yours,

*Edgar A. Basse, Jr.*  
Treasurer

*2 from  
of by 2/10/48  
all*

*Special checks  
requested 2/20  
all*



RECEIVED  
Accounting Division

JAN 30 1948

OFFICE OF THE TREASURER, U. S.

ACKNOWLEDGMENT OF STOPPAGE REQUEST

Mr. Edgar A. Base, Jr.

CHECK ISSUED BY  
U.S. Savings Bond

NUMBER  
278,005

3-29-42

AMOUNT

\$1,500.00

STOPPAGE REQUESTED

1-28-43

BY

L & C

DATE STOPPED

2-12-43

SYMBOL

17-200-G

Mr. Edgar A. Base, Jr.  
501 Terrell Rd.  
San Antonio, Texas.

114

To the Disbursing Officer:

With reference to the request received by this office for stoppage of payments on the check described herein, it has been entered on the stoppage list and the appropriate forms sent to

the claimant on \_\_\_\_\_

Respectfully,

W. A. JULIAN,

Treasurer of the United States.

U.S. GOVERNMENT PRINTING OFFICE: 1942. TREASURY DEPARTMENT - FISCAL SERVICE  
CHECKER'S OFFICE, ACCOUNTING DIVISION

1550

Feb. 11th, 1943,

Form  
TREASURY DEPARTMENT  
TREASURER'S OFFICE—ACCOUNTING DIV.

DESCRIPTION OF LOST CHECK

Treasurer's check No., 278005

Interest check No.

Loan U. S. Savings Bond,

Symbol No., 17200-C

IN FAVOR OF

Mr. Edgar A. Passe, Jr.,

For the sum of \$ 1,500.00

Dated May 29th, 1942, 102

Made May 29th, 1942, 102

to Mr. Edgar A. Passe, Jr.,

of 501 Terrell Rd.,

San Antonio, Tex.

CHECK DELIVERED TO SURRENDERS SECTION  
5/29/42

~~XXXXXXXXXX~~

Outstanding February 17 1943  
1167-21  
Bookkeeper

Payment stopped from pass 17 1943  
1167-21-6 - March 17 1943

Found approved and duplicate authorized

Duplicate listed 102

709 12th St., N.W.

March 20, 1943.

James J. Coburn, Esq.,  
Vice President,  
Local #365,  
United Automobile Workers of America,  
964 Broad Street,  
Newark, New Jersey.

My dear Mr. Coburn:

Secretary Morgenthau has asked me to thank you for your letter of March 8 in which you tell him that the members of Local #365 of the United Automobile Workers have been enthusiastic about buying War Bonds but have been very much discouraged by the slowness of the company pay office in making deliveries. I am sorry to say that you did not give us the name of the plant in which your members are having this disappointing experience.

To save time I am referring your letter to the Hon. John E. Hanning, State Administrator of the War Savings Staff for New Jersey, whose office is in Newark, and asking him to get into touch with you. We hope that he will be able to arrange it so that your company may qualify as an issuing agent, which will enable it to issue bonds to your members as soon as they are paid for.

We are very grateful for the fine spirit in which your men are backing up their Government in the War Savings Program.

Yours sincerely,

James I. Houghtaling,  
Director,  
National Organizations Division.

JLH:G

# Local 365

## United Automobile Workers of America, C. I. O.

LAMP CITY BRANCH  
SOUTHERN BLVD.  
ISLAND CITY, N. Y.  
(Area 4-7178-7177)

964 BROAD STREET.

NEWARK, N. J.

Mitchell 2-0075-0076  
March 8, 1943

HATBORO BRANCH  
HATBORO, PA.  
Hatboro 0816

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

Dear Mr. Morgenthau:

The men in the Newark plant are utterly disgusted, almost to the point of cancellation, with the service they have been receiving on their War Bond purchases.

The members of our Local union were very happy to know they had reached the goal that entitled them to the "T" flag; but they were also sickened when they thought of our boys on the fighting front needing implements of war, that the sale of these Bonds could give them, to aid them in defending Democracy.

The Company has made no effort to keep the morale of the men up by making prompt deliveries on the Bonds. We have appealed, time and time again, for the establishment of an issuing agency here in Newark, but all we have received are empty promises.

This condition has existed for the past year and I feel that unless some prompt action is taken, I cannot be responsible for the action of the Members of the Local union in the cancellation of their War Bond purchases.

I am appealing to you personally, to try to help us with this situation. I would appreciate it very much if you would give this your immediate attention.

Sincerely yours,

*James J. Coburn*  
James J. Coburn, Vice President  
Local 365, UAW CIO, Newark branch

JJC/it  
uopws #7

*Handwritten:* Charles N.

*Handwritten:* 61  
Kil

March 9, 1943

Mr. Charles N. Ogter  
Wellman Building  
Jamestown, New York

Dear Mr. Cottor:

This will acknowledge your letter of March 3 to Secretary Mergenthaler, concerning the American Aviation Corporation and the payroll savings plan for the purchase of War Bonds.

We realize that in the complicated arrangements for high speed war production, circumstances temporarily arise in some cases under which it appears that there is unnecessary delay and expense. Some of this is undoubtedly unavoidable.

Our War Savings Office for your area is closely in touch with this situation. A copy of this letter is being sent to our Chairman for Upstate New York, Mr. Edward H. Letchworth, 1402 Marine Trust Building, Buffalo. Mr. Letchworth's office has a War Bond Committee working in Jamestown, and I am sure that he will be glad to have some member of that committee discuss the situation with you.

Sincerely yours,

E. W. COYNE  
Field Director  
War Savings Staff

cc Upstate Chairman Letchworth  
Buffalo

*Handwritten:* JEM: [Signature]

CHAS. N. COTTER *Morse*

JAMESTOWN, NEW YORK

March 3, 1943

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

Dear Mr. Morgenthau:

Jamestown, New York, a city of 43,000 population in the center of a trading area of 125,000 is reportedly manifesting diminishing interest in purchasing war bonds.

A concern called the American Aviation Corporation, allegedly holding a Navy contract on a cost plus 10% basis, has maintained for the past several months a force of clerks, etc., estimated at \$50 and expensive office space, while waiting construction of a plant which in location, size, etc. is destined to prove an economic miracle, if it sustains in progressive costs, what preliminary expenses indicate will obtain if it ever gets into production.

The first paragraph notes effect, the second, cause, and from talk on the streets, bond sales will continue to diminish and on the basis of disinclination to contribute a part of the carrying charges of the American Aviation Corporation.

I have signed up as of December, 1942 for a \$100 bond a month - many of my friends have done likewise. We regard ourselves as average Americans and will, all of us, continue to purchase, but people generally here, and including the most important, and substantial among the citizenry, are finding their enthusiasm for bond purchases dulled because of the extraordinary situation as to expense and obvious development of unnecessary expense being sustained by this allegedly cost plus 10% arrangement.

Very truly yours,

*Chas. N. Cotter*

Chas. N. Cotter

cc:jb

1943 1 2 4

Dear Sir:

Reference is made to your letter of March 4, to the Secretary, concerning a charge imposed in connection with the redemption of United States Savings Bonds.

The Department has no control over charges made by banks for services rendered by them to their customers and to others. The commercial banks of the country have, however, generally cooperated with the Department in connection with the redemption of Savings Bonds and have for the most part made no charge for their service in certifying requests for payment. Banks, frequently, in addition to certifying requests, handle the bond as a collection item for their customer and take care of the details involved in sending the bond to the Federal Reserve Bank for payment. In such cases, banks frequently make a charge, but for the most part, as far as this Department is aware, limit their charges to cover reimbursement for actual out-of-pocket expenses for postage, registry, etc.

On proper identification, requests for payment of Savings Bonds may be executed at post offices and at most Postal stations for which, of course, no charge is made, but the owner of the bonds must himself forward them to the Federal Reserve Bank for payment.

The Department can only suggest that the owner have his request for payment certified at a post office or by some other officer who does not require a fee, and then forward the bonds to the nearest Federal Reserve Bank, in your case the Federal Reserve Bank of Atlanta.

Very truly yours,

L. D. W. Bell

Under Secretary of the Treasury

Mr. William E. Wright,  
RFD #3, Montgomery Road,  
Savannah, Georgia.

DRP- 3/9/43

04J *[Handwritten signature]* Wk Wk

80738

RFD #3, Montgomery Rd. .  
Savannah, Ga.  
3-4-43

Secretary of the Treasury  
Washington D. C.

Dear Sir,

I presented four small U. S. Savings Bonds to my bank in Savannah for payment, today, to prepare to pay Income Tax installment and was charged what appears to be a very high rate for this service, of 50% per Bond, a total of \$2.00 on what will amount to \$75.00 total.

On an interest basis this charge would amount to 2.67% per year approximately, but as the transaction should not take more than ten days the interest rate would be 96% for such period.

Can you tell me if such a charge is a usual or customary thing for this service and if there is any way in which I can cash in this type of bond for par value including the expense of the exchange?

Very truly yours,

*William E. Wright*

William E. Wright

WEM

March 11, 1943

Mr. Thomas C. Carrowon  
702 E. Belgrade Street  
Philadelphia, Pennsylvania

Dear Mr. Carrowon:

Thank you very much for your letter of March 8,  
concerning your interest in the Payroll Savings Plan.

We appreciate very much your support. The War  
Savings Staff is very much interested in eliminating  
as much as possible of the delay which occurs in  
some cases under the Payroll Savings Plan. The  
information in your letter is being forwarded to  
our State Administrator for Pennsylvania, Mr. Benjamin  
Ludlow, 203 South 15th Street, Philadelphia.

Sincerely yours,

R. W. COYNE  
Field Director  
War Savings Staff

cc and cc of inc. St. Adm. Ludlow  
Philadelphia

*Q*

100-101



ALC:COL

17  
March 9, 1943.

Mr. Earl Alcorn,  
218 1/2 Roycroft Avenue,  
Long Beach, California.

Sir:

Your letter of February 27, 1943, to the Secretary of the Treasury has been referred to this Bureau for attention. Your statement is noted to the effect that you called at the local internal revenue office with a view to paying the first installment of your 1942 income tax in cash. It appears the local internal revenue office declined to accept a cash payment. You called attention to the fact that currency has been designated as legal payment of all United States debts.

You are correct in your understanding that cash is acceptable in payment of Federal taxes. However, Federal taxes are payable at the office of the Collector of Internal Revenue. The office of the Collector for your district is located at Los Angeles, and you are assured that no Collector's office will decline to accept United States currency in the payment of Federal taxes. The internal revenue office at Long Beach is merely a branch office which serves to accommodate local taxpayers in many ways. However, it does not have the facilities for performing all the functions that are performed at the main Collector's office. As each Collector of Internal Revenue must be held responsible under his bond for the loss of any monies coming into the possession of himself or his employees, it is left to his discretion as to whether or not he will permit his employees outside the main office to accept cash in payment of Federal taxes. This is no new rule but has been in effect for many years.

It is, of course, regretted that you suffered an inconvenience but this office is sure you will appreciate the fact that a Federal official responsible under his bond for large sums of revenue must be permitted to exercise reasonable discretion for his own protection.

Respectfully,

Commissioner.

VMS:DAZ

COPY

218 $\frac{1}{2}$  Roycroft Avenue  
Long Beach, California  
February 27, 1943

Hon. Henry Morgenthau,  
Washington, D. C.

Dear Mr. Morgenthau,

Now, finally, at long last, I've seen everything! Today after work (in a defense plant) I hurried down to the local office of Internal Revenues with cash in hand to pay the first installment on my 1942 income tax.

But did I pay it? A thousand times, No! For this excellent office will not accept United States money! Legal tender as provided by the Constitution, the value and issue of which is set by Congress. This currency, incidentally, is specifically designated by Congress as legal payment on ALL UNITED STATES DEBTS. Thus, I'm going to look into the possibility of forcing the office to accept my cash, or violate Federal law in refusing!

As a staunch Republican, I have long known that New Deal finance would crumble, but I didn't believe one of its own receiving agencies would be the first to refuse cash payment as inadequate!

Very truly yours,

(Signed) Earl Alcorn

Earl Alcorn

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

Dear Sir:

I thank you for the prompt and illuminating reply made to my complaint of having surtaxes imposed on my supposedly non-taxable Treasury bonds.

My mistake. I failed to read the "excepts." I have always known that insurance policies, contracts, and the like have "jokers" somewhere, but it never occurred to me that my government would take advantage of my innocence.

Alas--Et tu, Brutel! And now I must live three-score and ten years longer to realize that some form of perfidy lurks in every business transaction.

Yours very truly

/S/ Mamie Louise Pitts

(Miss) Mamie Louise Pitts

March 10, 1943

Mrs. Mamie Louise Pitts,  
Calhoun,  
Georgia.

Dear Madam:

Your letter of March 8, 1943, addressed to the Secretary with reference to surtaxes on interest paid on Treasury bonds, has been referred to me for reply.

I am enclosing herewith a copy of Department Circular No. 307, dated October 9, 1922, announcing the issue of 4-1/4% Treasury Bonds of 1947-52, which were the first bonds issued by the Treasury after the Fourth Liberty Loan, and also a copy of Department Circular No. 641, dated September 25, 1940, announcing the issue of 2% Treasury Bonds of 1953-55, which were the last bonds issued by the Treasury prior to the effective date of the Public Debt Act of 1941.

You will see from the marked portions of these two circulars that it is provided that

"The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, \* \* \* now or hereafter imposed by the United States, \* \* \*".

It is also provided that the interest on the amount of the bonds, the principal amount of which is not in excess of \$5,000, shall be exempt from the surtax. Substantially no change was made in this language from 1922 to 1940, except for the addition of gift taxes. The reference to gift taxes was inserted by reason of the character of the taxes and it was held by the United States Supreme Court that a gift tax was not a tax on the bond or on the interest, but was in the nature of an excise

- 2 -

tax, standing on the same footing as estate and inheritance taxes. The language of the circulars is almost identical with the language of Section 7 of the Second Liberty Bond Act, as amended, which provides the statutory exemption for bonds issued under authority of that Act prior to March 1, 1941.

Accordingly, the requirement that you pay a surtax on a portion of the income derived from your Treasury bonds is not a violation of any contract by the Government

Very truly yours,

/s/ Wm. S. Broughton

Commissioner.

Enclosures (2)

*Received*  
*3-8-41*

Mr. Henry Morgenthau, Jr.  
Sec. of the Treasury  
Washington, D.C.

Dear Sir:

For many years I have invested my savings in Treasury Bonds, attracted by the assurance in each offer that "no taxes will be imposed now or hereafter." Beginning last year this statement has been repudiated.

I have 94,150 dollars worth of bonds bought prior to Mar. 1, 1941. Not any part of the income is taxable, yet I am required to pay surtax on \$2709.64. Can you explain by what authority this tax is levied on income declared and published by the United States as untaxable? "No tax now or hereafter will be imposed"---See the circulars sent many times over announcing the offerings.

Of course, I am well aware that bonds bought since Mar. 1, 1941 are taxable, and I am willing to meet the tax due on \$10,200 which I have bought, but this arbitrary tax (surtax, if you prefer) is without warrant, and I believe the Supreme Court would agree with me. Governments have no more right to repudiate their promises than individuals.

Yours very truly

/S/ Mamie Louise Pitts

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Mrs. Klotz  
FROM Joseph Gaer

March 23, 1943

Mr. John J. Floherty will arrive in Washington Sunday night, March 28, and will be in the Secretary's office at 11 a.m., Monday, March 29.

MEMORANDUM

March 23, 1943.

TO: The Secretary  
FROM: Mr. Sullivan

JLS

Herewith is a resume of my conversations with several members of the Senate re extension of Stabilization Fund and Power to Devalue:

I talked with Senator Barkley who advised me that he had had no opportunity to check up on the feeling in the Senate on an extension of the Stabilization Fund or an extension of the Power to Devalue. He said it was an offhand opinion that there was no objection to continue the Stabilization Fund but that there might be some to extending the Power to Devalue. He said he would be glad to check up on this and notify me.

\* \* \*

I tried to see Senator Maloney but was unable to get in touch with him. However, I ran into him in a corridor in the Senate and he indicated opposition to both extensions. He started to discuss the matter and then Senator Wagner, with whom I had an appointment, joined us and I had to leave Senator Maloney. Senator Maloney is tied up all day tomorrow and Thursday and is leaving Thursday night for Connecticut. He will be glad to talk with me the middle of next week.

\* \* \*

I talked with Senator Wagner who is enthusiastic for both extensions. He is going to check up on sentiment and is going to advise me. I told him that I expected to see Senators McNary and Tobey and he approved of my seeing them.

\* \* \*

I ran into Senator Danaher who was for the extension of the Stabilization Fund provided none of the funds were used in anyway by the BEW or the RFC. I told him that I was very sure

- 2 -

that neither of these organizations had any access to this fund. I further told him that I would check this so we could give him a positive answer. (Later in the afternoon I checked with Mr. Bell and called the Senator to reaffirm my statement. However, the Senator had left for the day.) Senator Danaher said that he would not start any opposition to the extension of either of these powers.

\* \* \*

Having been unable to reach either McNary or Tobey on the Floor, I called them from my office. Senator McNary said that he would be glad to check up on these two matters and tell me what he found. He indicated that he believed whatever opposition developed would relate to the Power to Devalue.

\* \* \*

Senator Tobey advised me that the discussions he had heard on the Floor and in the cloakroom indicated no opposition to the extension of the Stabilization Fund but some opposition to the continuance of the Power to Devalue. I explained that we did not wish to engage in a contest while we were doing the April financing. He said he would check up and let me know. He appeared to be cooperative and said he would give me a frank opinion as to whether we could safely proceed with these two matters now or <sup>wait</sup> until after the April financing.

\* \* \*



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

OFFICE OF THE DIRECTOR

**SECRET**

March 23, 1943

## MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended March 20, 1943.

Of the stock of 130,000 tons of pipe for the Russians, 75,000 tons were authorized for transfer to meet the requirements of Army, Navy and Industry.

To date approximately 10,000 tons have been approved for transfer by the Petroleum Administrator for War.

A. J. Walsh  
Acting Director of Procurement



(37861)

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF MARCH 20, 1943  
 (In Millions of Dollars)

**SECRET**

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$2920.4 (2916.9)	\$1545.7 (1544.7)	\$1066.1 (1066.1)	\$102.9 (102.9)	\$4.6 (4.6)	\$201.1 (198.6)
Purchase Authoriza- tions (Requisitions)	\$2390.1 (2349.2)	\$1367.3 (1342.8)	\$ 930.8 (917.3)	\$ 41.2 (41.2)	- -	\$ 50.8 (47.9)
Requisitions Cleared for Purchase	\$2292.7 (2266.3)	\$1329.5 (1311.1)	\$ 874.2 (866.9)	\$ 41.1 (41.1)	- -	\$ 47.9 (47.2)
Obligations (Purchases)	\$2156.5 (2126.7)	\$1247.9 (1227.8)	\$ 820.2 (811.3)	\$ 41.1 (41.1)	\$4.4 (4.3)	\$ 42.9 (42.2)
Deliveries to Foreign Governments at U. S. Ports*	\$ 947.0 (934.8)	\$ 714.6 (707.2)	\$ 204.9 (200.0)	\$ 17.0 (17.2)	- -	\$ 10.5 (10.4)

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

Note: Figures in parentheses are those shown on report of March 13, 1943.

**SECRET**

## EXPLANATION OF DIFFERENCES.

The decrease of \$200,000 in Chinese transfers represents material turned over to the War Department.

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Information received up to 7 a.m. March 23rd, 1943.

1. NAVAL.

A 19,000 ton Merchant Ship in east bound convoy was torpedoed by aircraft off ALGIERS early 23rd.

2. MILITARY.TUNISIA. No further report since Optal No.94.RUSSIA. Russians have captured DSROVO on the railway 35 miles west of VYAZMA.3. AIR OPERATIONS.WESTERN FRONT. 22nd. A force of 37 United States heavy bombers attacked WILHELMSHAVEN naval dockyard dropping 205 tons of bombs. Weather over objective good and preliminary reports indicate good bombing results. 3 bombers missing. 12 escorted VENTURAS attacked a lubricating oil refinery near ROTTERDAM and escorted fighter-bombers attacked an airfield and railway communications in occupied territory. Mosquitoes destroyed 2 Junkers 88 off WESTERN FRANCE.

22nd/23rd. Following aircraft despatched ST.NAZAIRE - 292 (one missing, one crashed), sea-mining 6, MORLAIX VIADUCT 9. Weather conditions over ST.NAZAIRE good.

TUNISIA. 20th. 35 escorted United States Mitchells attacked landing grounds south-west of EL HAÏMA. Other Mitchells attacked convoy north-east of CAPE BON setting one ship on fire.

20th/21st. Halifaxes and Wellingtons dropped 124 tons of bombs on mechanical transport and camps in the MAROTH-KAFENNA area. Wellingtons dropped 22 tons on FERRYVILLE docks.

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