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January 24, 1942

1

The Secretary went over this draft with Mr. Kuhn at the Statler Hotel in Cleveland at 4 p.m. today.

It is a good and wholesome experience for any official from Washington to come here to Detroit to meet a great audience of automobile workers. We in Washington are much too accustomed to think that we sit at the very center of the war effort. For the past few weeks we have seen our Capital City become, in a sense, the capital of the world, the scene of wartime planning on a world-wide scale. The officials and admirals and generals of many countries are working together in Washington at this very moment, planning the military, naval, and economic strategy that will bring Japan and Germany to their knees.

Yet all our strategy, no matter how brilliant, cannot accomplish its decisive purpose until the materials of victory have rolled from America's assembly lines. All the individual daring and bravery of our men in uniform cannot win the war unless they are backed by the mass production of the implements of war. The real heart of the war effort is, therefore, not in Washington but right here in your workshops and factories. The big push begins here. The great offensive against the Axis is under way here in your State of Michigan, next door to you in Ohio and Pennsylvania, and wherever the skill and energy of working men and women are producing the weapons of victory.

You in this hall are in the front lines in this phase of the war, and I am genuinely proud to be here among you today.

This is not the first time that I have been privileged to visit the Detroit industrial area in recent months. Some of you know that I had the pleasure of attending a meeting of shop stewards at Pontiac in November. I came back to Washington from that meeting heartened and invigorated as seldom before. In that one evening I heard more sound common sense and more realistic judgments than I had heard in many meetings, in Washington or elsewhere.

From that day I have been convinced that American labor has been ahead of all of us in its willingness to produce armaments to win the war, whatever the sacrifices, whatever the consequences.

There is every reason for American labor to be out in the forefront in its understanding of the war and in its response to wartime needs. For this is a people's war, to an extent never before known in any of the great struggles of human history.

This war is a people's uprising against tyrants who are trying to push us back into the Dark Ages. It is being fought by the people and it can only be won by the people's efforts, by your efforts.

Upon your skill, your sweat, your willingness to dedicate yourselves to war production, the ultimate outcome will very largely depend.

In the second place, this is a war against the enemies of the free labor movement in this and every other country. Nobody needs to stand before any group of labor men and women in this country to tell it what Fascism means. When the Blackshirts bullied their way to power in Italy twenty years ago, when others praised Mussolini for making the trains run on time, American labor instantly knew Fascism for what it was. When Hitler crushed the trade unions in Germany, you of American labor knew at once that he would crush yours if he ever had the chance.

Labor has never been dazzled by the military accomplishments of the dictators. Labor has never made the mistake of imagining that theirs was in any sense a "new order" or that their medieval tyrannies could supply us with any guideposts to our own future. Now, at last, the life-and-death struggle has come, just as the rank and file of labor foresaw that it would. As Hitler said-- truthfully, for once!--"two worlds are in conflict; one of them must break asunder." We can tell him now that it is his world, not ours, which will break and die.

But there is a third and still more compelling reason why labor has an immeasurable stake in this war. Labor in this country and elsewhere looks to a better world, a freer and a more secure future. Everything that labor has fought for a hundred years to attain will be lost forever if the dictators should win. Everything that labor seeks, for its children and its children's children, is bound up with the success of the free countries in the present struggle.

I think I can describe those aims in a very few words by telling you about a great picture in the Grand Central Station in New York. It is a unique picture because it happens to be the biggest photo-mural in the world; we of the Treasury put it there to help the sale of Defense Bonds and Stamps, and we

made it big enough to cover an entire wall of the Station concourse, so that everybody could see it.

But what makes me so proud of it is not its size, but its message and its spirit. The first of its three huge photographs shows an American farmer and his land, and the caption under it says, "That we may defend the land we love." The second is a panel of children's faces, with the caption, "That these may face a future unafraid." And the last shows a worker looking up at a factory, and under it is the caption, "That we may build a better world."

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Those happen to be the objectives of the Defense Savings effort, but they also happen to be objectives of American labor, and they are the greatest of the aims for which we are fighting this war.

It may seem unfeeling of me even to mention Defense Bonds to an audience in which so many of you have temporarily lost your jobs, suddenly and through no fault of your own, because of the change-over to war production in the automobile industry. I know what you in the Detroit area have been suffering in temporary unemployment, and I wish as fervently as you do for the day when your plants will be back in full production again, and when those of you who are walking the streets will be back at your benches again.

Certainly I would never ask or expect any of you who are in trouble to buy Defense Bonds or Stamps. The country does not ask it or expect it of those who must wait for weeks and sometimes months to start work again. We have a slogan at the Treasury: "Let's make every payday Bond Day." That does not apply to those who have no payday and no regular income. The Treasury will never ask anyone to buy Defense Bonds if it means taking food from his children or clothing and shelter from his family.

The other day a Chicago advertising agency sent us an elaborate sales promotion plan based, frankly enough, upon (and these were its words) "the traditional dread among the American people of being held up to public ridicule and scorn."

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The idea of this misguided plan was to label as a slacker everyone who did not buy a bond. We replied that we disapproved and did not countenance anything of the sort. We replied that we did not believe in the effectiveness of intimidating Americans, and that if any such tactics were proposed, we would avoid them like the plague.

But for those who do receive regular pay, those who have good jobs at good wages, there is a greater need than ever to "make every payday Bond Day."

You who are working in the Detroit area have just seen with your own eyes what a great economic dislocation can bring.

You have seen friends and neighbors hard at work one day and thrown onto their unemployment insurance the next, as part of the price of preparing this country's factories for war. You know that those who have built up a reserve of savings are better able to meet an unforeseen shock than those who have not guarded themselves against it. Isn't it better to be prepared in time? Isn't it better to safeguard your future by setting aside a part of your earnings now, every week and every payday? Your country needs the money, and you need the security that these double-purpose bonds will bring.

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I am often asked three questions about Defense Bonds which must, I am sure, be in your minds. The first is, "Can I get my money out if I need it?" The answer is yes--any time after sixty days from the date you bought your bond. The second is, "What happens if I lose my bond?" The answer is that we at the Treasury have a record of every bond and its owner; we can supply you with another if you identify yourself, and we will be glad to keep your bond for you at the Treasury if you wish us to keep it in the safe for you. The third question is, "Will I lose money on these bonds the way so many people lost on the Liberty Bonds?" The answer is that you can't lose.

These bonds, unlike the old Liberty Bonds, are registered in your name. You cannot trade them on the market or offer them in payment of a debt. You will always get back at least one hundred cents on every dollar, and the longer you hold them, the more they will grow in value.

Moreover, Defense Bonds not only help to pay for the guns and tanks and planes that will win the war, they also pay for labor, your labor. Every time you buy a \$75 bond you pay for the services of a skilled worker for an entire week; every time you buy a Bond or even a Defense Stamp you are enabling the United States Government to pay you for your work, and you are hastening the day when

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our fighting men will be able to carry the war to Tokyo and Berlin.

About a month ago two of your brothers in the Dodge local came to see me in Washington, to discuss ways and means of hastening the conversion of their plants to war production. We accomplished something, partly because those two men had the initiative to come to my office, partly because of the fine cooperation of Mr. Patterson, the Undersecretary of War. But what I shall always remember about that meeting is the spirit that your representatives showed. I argued then, and I have said it for months to everyone who would listen, that the only way to arm this country in time was to order the

complete and immediate stoppage of all automobile production, and the quickest possible conversion of the plants. Your representatives knew that that would mean immediate unemployment for great numbers of men; yet when I asked them how they felt about it they answered, without a moment's hesitation, "We can take it; we want it done."

That was just a sample of the spirit we at the Treasury have found among American labor ever since we started the Defense Savings program. It is a sample of the spirit that the whole country has discovered in the weeks since Pearl Harbor. It is the spirit that is going to win the war.

I said in Cleveland yesterday that the pioneers who settled this Middle Western country did not let danger or hardship frighten them. They regarded every danger as a challenge, every hardship as an adventure. That is the spirit with which you are meeting this crisis, the greatest that free men have ever undergone.

You workers of Detroit are in the forefront of the fight, and you will see it through until the fight is won.

READING COPY

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SECRETARY MORGENTHAU'S ADDRESS

Before the Forum of the City Club of Cleveland

Statler Hotel
Cleveland, Ohio,
1 p.m., E.S.T., Saturday, Jan. 24, 1942

I am very happy to be with you in Cleveland this afternoon, because this great city, far from any battle line, is one of the places where the outcome of this war and the future of this country is being decided.

Here in the Cleveland area you have a great concentration of the forges and the assembly lines which are America's real front lines at this moment. Day and night your industrial wheels are turning, your hammers pounding, your fires burning, your workers toiling, to win the war. You in Cleveland are showing what our free people can do when they are aroused, and I take my hat off to you.

You and all the others of our 130 million people have begun to speak in the only language that tyrants understand -- the language of tanks and planes, guns and ships, and men with the courage and conviction to carry that message all the way to Tokyo and Berlin.

Pause

What has happened, I wonder, to those who used to say that the pioneer spirit was dead? The pioneers who opened Ohio did not let danger or hardship daunt them; they regarded every danger as a challenge, every hardship an adventure. You in Cleveland have not lost that spirit. It is alive and strong, here in your State and in every State.

Already we have answered the shock of Pearl Harbor by dedicating ourselves to the greatest job that ever confronted our country. We have shown that we can take marching orders by accepting and applauding the great task the President set for us the other day, the task of making such an overwhelming number of weapons that the Nazis and the Japanese will be utterly unable to match us.

If any further proof of our determination were needed, let any of our enemies look at the magnificent response to the sale of Defense Bonds and Stamps in the past few weeks. The total has now passed three billion dollars, and the response in January has set new records in every direction.

Whatever test may be given to us, we are going to surmount it. Whatever hardship may be in store for us, we are ready to take it and give it back to our enemies a hundredfold until victory is won. That was the pioneer way in the old Ohio days; that is the American way today. That is the way we shall keep faith with the pioneers and with the promise of a better world which they foresaw.

We have only just begun to fight; we have only begun to learn what this war effort will involve. In the near future, for example, we shall face a new challenge of a kind which I think too few of us have planned for or even considered.

That is the challenge of paying for the war. It will come first on March 16th, when fifteen million Americans will be called upon to pay income taxes for the waging and the winning of this war. It will come later in the payment of the vastly increased war taxes which we shall have to impose upon ourselves in the new financial year. I am confident that we shall meet those new requirements, and any requirements, without flinching. We know, as I have said before, that it's a million times cheaper to win a war than to lose one.

This is not the time for me to discuss the new tax program. The President has said we must have nine billion dollars in new revenue. We have no more right to fall short of that goal than we would have to fall short of the President's announced goal of sixty thousand planes and forty-five thousand tanks in 1942.

It will produce hardship; of course it will. Since when have the American people been daunted by hardship? It is part of our American tradition to face the facts, however harsh the facts may be. You know, without my saying so, that we cannot divert half of our national income to war production without "dislocating" our economy from its customary routine.

You know, without my saying so, that we cannot spend forty billion dollars in this year 1942 without "disturbing" ordinary business and ordinary living. You know, too, that we cannot fight and win a life-and-death struggle, a war that encircles the whole planet, without discarding old habits, old fears, old notions of business-as-usual.

We are, however, entitled to lay down just this one premise: that whatever hardship may be in store, we shall face it together; that it shall be distributed fairly and borne by all in their fair proportion, in accordance with their ability to carry it.

And that brings me to the chief subject I should like to discuss this afternoon.

This Administration has tried hard for years, and with a good deal of success, to remove tax injustices. Such injustices are of two kinds: those which permitted some to escape their fair share of tax payments, and those which bore down too harshly upon certain taxpayers. For eight years at the Treasury I have fought against the remaining vestiges of unfairness on the statute books, and in almost every one of those eight years Congress has closed some loopholes and enacted some remedial provisions.

In the Revenue Act of 1937 there was a whole series of reforms which made it impossible, among other things, for anyone to escape taxation by incorporating his yacht or country estate, or by creating a personal holding company. These devices have now been outlawed. Since then the struggle to perfect the statutes has gone on without stopping.

Pause

Now that we are at war, the fight becomes more necessary than ever. The President has spoken again and again of the need of making our taxes not only effective but equitable as well. Only the other day, in his Budget message, he repeated that "a fair distribution of the war burden is necessary for national unity."

War knows no avoidance. As the President said, "When our enemies challenged our country to stand up and fight they challenged each and every one of us." Every one of us has a direct stake in the outcome of this war, and each of us must, therefore, pay his fair share of the cost.

Yet I am sorry to say that the present tax structure still falls short of the requirements of equity and the insistent needs of a nation at war. In spite of all our efforts of recent years our tax laws are still weakened by loopholes; it is still possible for a few thousand individuals to escape their fair share of the burden and to pass their share onto the shoulders of the rest of us.

I asked our Treasury tax experts the other day to compute the total amount of revenue that had to be passed onto the shoulders of other taxpayers because of the existence of loopholes in the law. The answer was almost a billion dollars, about one-eighth of the entire receipts from income tax in the fiscal year that ends in June. How can the war efforts of our people reach their peak level until such a situation has been remedied? Can we be sure of getting the maximum response from everyone until everyone feels that the tax laws are as fair as it is humanly possible to make them?

In wartime, when we are drafting young men to fight and risk their lives for their country, any special privilege for a few becomes inexcusable.

So that you may know exactly what I have in mind, I should like to turn now to four specific examples of tax loopholes -- and I could name a great many more than four -- which have been allowed to remain on the statute books at the expense of the majority of our taxpayers.

Tax-Exempt Securities

The first is the continued existence of tax-exempt securities. At present, as you know, the interest from State and municipal bonds is exempt from Federal income tax.

This provision gives wealthy taxpayers a possible refuge, not from some income tax, but from all income taxes. No matter how much money may be needed for the war, no matter how high the tax rates may be for others, a taxpayer is not obliged to contribute anything in this hour of his country's peril, if only he can afford to lay his hands upon a sufficient amount of tax-exempt securities.

The Federal Government last year took a first step toward remedying this situation by stopping the issuance of tax-exempt Federal securities.

Now that we are at war, now that the revenue needs of the Government have soared beyond all previous conceptions, it is high time, in my opinion, to tax the income of State and municipal securities -- not only the income from future issues, but also the income from those issues now outstanding.

The existence of this loophole costs the Treasury, at present tax rates, about \$200,000,000 a year.

Community Property

A second source of tax discrimination exists in the nine States having what is called the community property system. In a community-property State the law assumes that the income of the husband belongs equally to the husband and wife. Yet since the husband has full management and control of the whole income, he is, in practical effect, in no different position from a husband in a non-community-property State. Both of them have the management and control of the income and in both cases the income is devoted to the family purposes.

In a community-property State a husband who earns a \$10,000 salary is allowed to report only \$5,000 of that salary as his income and his wife may report the other \$5,000 as hers. The two of them together will pay a total tax of \$965. In the thirty-nine other States, however, the husband who earns a \$10,000 salary must report that salary as his income and must pay a tax of \$1,305 on it. Thus the married citizens of nine out of forty-eight States are able to escape their fair share of the load at the expense of the married citizens in the rest of the country.

The existence of this community-property tax privilege costs the Treasury, on the basis of existing rates, about \$55,000,000 a year.

Separate Returns for Husband and Wife

The removal of this community-property privilege alone would not, however, reach a still more widespread form of avoidance. I refer to the method of separating a husband's and wife's investment income -- as distinguished from the income they get from salary and wages -- in such a manner that two families having virtually the same economic position pay vastly different taxes. Under the present law, if a husband and wife both have investment income, each pays a tax on the separate income.

Because the income-tax rates are progressive -- that is, because the higher the income the greater is the rate of tax -- a family in which both husband and wife have investment income pays less tax, in many instances, than a family having the same amount of income all of which is received either by the husband or the wife.

Let us take the case of a married taxpayer in the upper brackets having a \$100,000 income from securities. Under the present law he would pay a tax of \$52,748. But if he gives half of those securities to his wife, he will pay a tax of \$20,926 and his wife will pay a tax of the same amount.

This couple, at the cost of a moderate gift tax, has thus secured a perpetual reduction of \$10,896 in its income-tax liability under present rates. The loophole could be closed and the unfairness to the great mass of taxpayers removed by taxing the investment income of each married couple as a unit.

The use of separate tax returns for the investment incomes of husband and wife costs the Treasury, on the basis of present rates, about \$260,000,000 a year, in addition to the revenue that is lost because of the community-property tax privilege.

Percentage Depletion

The final loophole which I shall mention this afternoon is one against which the Treasury has struggled for years without avail. If you use a machine in your business and that machine can be expected to last for ten years, you are permitted to deduct each year for ten years one-tenth of the cost of that machine. Because you will probably have to buy a new machine at the end of ten years, this deduction is a fair and reasonable method of allowing you to recover your capital. Needless to say, you are not permitted to deduct more than the cost of the machine.

But you may be surprised to learn that this is not true of mines and oil wells whose owners are permitted over the years to deduct far more than the amount of money which they have put into the property for the conduct of their business. The so-called percentage depletion provision of the income-tax law allows these companies, not simply to deduct a percentage of the cost of their wells and mines each year until the entire cost has been made good, but to deduct an arbitrary percentage of their income indefinitely. An oil company which may long ago have recovered tax free many times the cost of the wells which it is operating is still permitted a deduction of 27 1/2 per cent of the gross income from those very same wells.

The allowance of percentage depletion costs the Treasury, on the basis of existing rates, at least \$80,000,000 a year.

I have pointed out the most glaring examples of these loopholes, but there are others, all of them unfair to the many for the advantage of the few, all of them dangerous to the unity we need to win this war. Perhaps the American public has been inclined to shrug its shoulders at the defects in our tax laws; yet they are not small matters, either morally or materially, nor are they matters beyond the control of the people themselves.

It has been difficult until now to correct our tax laws because taxpayers have been too few and too indifferent. Until the great body of American taxpayers becomes thoroughly aroused to the injustices which have been left on the statute books year after year, we cannot expect to correct the laws. The remedy lies in your hands as taxpayers.

We Americans can be proud of the unity that has been shown by all sections of our people since Pearl Harbor. But national unity is a precious thing. It will be subjected to many strains in the months and years of trial ahead.

For this reason, with your help, I am going to fight for the speedy removal of any defects in the tax laws which may injure our national morale.

We need nine billion dollars in additional revenue; I should like the very first billion of that amount to be obtained by closing the remaining loopholes. If this is accomplished it will be a contribution to the financing of the war, the morale of our people, and the victory of our cause.

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-piece
this week's

H. King

THE CITY

Volume XXVII

WEDNESDAY, JANUARY 21, 1942

Number 21

Secretary Morgenthau Speaks to 1,000 Saturday

Civic Meeting Will be Held at Statler

THE man who is responsible for procuring the vast astronomical dollar figures necessary for this country's defense and ultimate prosecution of today's Armageddon will be in Cleveland Saturday noon for one of the few public addresses he has made since he has become a national figure.

He is Henry Morgenthau, Jr., secretary of the treasury — confidant of President Roosevelt, dirt farmer and one of the hardest working public officials this country has ever had.

Naturally the subject of Mr. Morgenthau's address will be "Taxes."

More than 1,000 Greater Clevelanders, representing the cross section of the city, will be present at Hotel Statler Saturday noon to hear the Secretary of the Treasury. All members of civic organizations were invited to attend this city-wide meeting by the City Club, original sponsors of the Morgenthau meeting.

Mayor Frank J. Lausche will introduce the speaker and President Albert I. Cornsweet of the City Club will open the meeting with brief remarks.

INDEFATIGABLE WORKER

Secretary Morgenthau is not known in Washington as a particularly "colorful" person whose utterances or actions "make news" in that teeming capital.



Secretary Henry Morgenthau, Jr.

Rather is he regarded as a person who is an indefatigable worker who is interested more in getting things organized and getting things done, than talking about them.

The job at hand is more important to him at any given time than anything else.

He never has been known to seek per-

(Continued on page 3)

THE CITY CLUB PRESENTS

The Honorable Henry Morgenthau, Jr.

Secretary of the Treasury, who will discuss

Taxation in War Time

Hotel Statler Ball Room Tickets \$1.10 January 24, 1942

Luncheon served beginning at 11:45 a.m.

All Reservations should be picked up or paid for by 5:00 p.m. Friday

THE CITY

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Believe It or Not

Last Saturday's Forum with Senator Robert A. Taft the headliner was something of an event — and you know why. The Senator was in good form and the audience also. With Secretary of the Treasury, Henry Morgenthau, Jr., following this week, we think that Chairman Wendell Falgout is entitled to take a bow — two bows.

When Chairman Andrew Pangrace saw Citizen George (Harry Payer) Holmes come into the dining room last Thursday noon, he knew that sometime there would have to be a City Club Show. That's the only occasion George gets a chance to exhibit his talents as one of our best actors — and we mean talents.

Comes a story that when Ex-Pres Paul (Editor of the P.D.) Bellamy was handed the staggering "Addition" in a French Restaurant in a southern city, he remarked *ad hoc* vice: "The Free French, huh!"

Here's one we'll sell cheap to Citizen Ex-Pres Marcellus (Divvy) DeVaughn. Citizen Howard Burns of his firm travels about the country so much that it could be said that the other men in the office have no time to fiddle while Burns roams.

Citizen R. C. (Photographs while you wait) Halenson says that the President quoted from a Chinese prayer when he

said: "Lord, reform Thy world, beginning with me."

See where Citizen Art Genthoff's Canterbury Golf Club is going in for something besides golf as usual. Last Sunday Ex-Pres Russell (P.D. Editorial Writer) Welman spoke to the Sunday diners on "Financing the War." That's some distance from the 19th hole.

Our ex-presidents seem to be the ones that are being picked for responsible war activities. Ex-Pres Nat (The News) Howard goes to Washington in the Censorship Office, and Ex-Pres Wm. (Metropolitan Parks) Stinchcomb heads our local Civilian Defense. A salute to both.

Citizen Jon. L. (Internal Revenue) Heffernan doesn't like to remind you that March 16th is coming, but he will tell you that Groucho Marx has a book which may alleviate your suffering. The book is called "Many Happy Returns" and is described by Groucho as "The Idea of Marx."

Citizen M. J. Reigert thinks that regarding that the song "I wouldn't be a Jap for all the tea in China" isn't nice, more foolish is the man who, at a friend's house, kissed a Japanese print.

Great rejoicing in the dining room, especially at the Sanhedrin Table, last week. Citizen Frank (Doc) Fagan, one of the regulars, returned after a severe illness.

Called to the attention of our tirr rations, Citizen Norman (The Admable) Krichbaum is an ad in a San Diego newspaper: "Gentlemen would like to meet attractive young blonde with four good tires."

Recalled to our memory by this and that:

HELP THE HELPLESS

"Help the Red Cross" — sure we do!
"Help End Cancer" — me and you.
"Send to Britain" — yes, sir, yes!
"Tuberculosis" — well, I guess!
"Local Welfare" — won't say No —
"Help the Blind" — away, check, go!
"Fight the Nazis" — I'm for 'em!
"Help the Orphans" — here's my bit!

Secretary Morgenthau, Jr.

(Continued from page 1)

sonal glory and his past achievements are only results of persistent work. It is said that he seems more than a little bothered by the attention he gets in Washington. His rule of action has been to let other people have the praise if it will help to get a piece of work done.

The son of a rich man, he was nevertheless brought up to carry his own responsibilities, make his own career.

STUDIED ARCHITECTURE

He entered Cornell University to study architecture, but gravitated into the study of agriculture. The original intent in architecture was to prepare him for work in downtown New York real estate, owned, developed and operated by his father, Henry Morgenthau (the 85-year-old former ambassador to Turkey who does not like to be called Senior).

In 1913 Morgenthau Jr. bought a tract of land in Dutchess County, New York, intent on making farming his life work. Although he studied agriculture in college he did not become thoroughly sold on it as a career until he spent a summer on a Texas ranch, recuperating from an illness. Thereafter he toured the countryside in a Model T Ford looking for suitable land to develop.

This farm he bought is today a 1600-acre money making proposition dealing mainly in fruits (apples, strawberries and raspberries) with cattle raising and milk produce a secondary line. There are 100 head of Holsteins and Jerseys on the farm, 50 of the regular milkers.

TWO YEARS IN TURKEY

Before he settled down to farming Morgenthau Jr. went with his father to Constantinople where he spent two years and was present during the dramatic shelling of the Dardanelles in World War I. When he came back to this country he went into the U. S. Navy, commissioned a lieutenant. In April, 1916, he married the former Elinor Fatman.

When the war was over he settled down to his dirt farming, doing all the marketing himself and supervising the farm. In 1922 he purchased the *American Agriculturalist*, one of the earliest American farm papers and he continued to publish

it until 1934 — when he became secretary of the treasury.

In 1929 he was named by Gov. Franklin D. Roosevelt of New York, chairman of the governor's Agricultural Advisory Commission and in 1931 he was appointed Conservation Commissioner of the state, having jurisdiction over state lands and forests, state parks, fish and game and water power. In this position he directed the early stages of the state's million acre reforestation program.

Upon the inauguration of President Roosevelt he was appointed chairman of the Federal Farm Board and was commissioned to reorganize and consolidate government farm lending agencies. When the Farm Credit Administration was created he was named head of that agency.

Mr. Morgenthau was elected under-secretary of treasury on November 17, 1933, and due to the illness of the late Secretary Woodin he was named acting secretary. When Mr. Woodin resigned on January 1, 1934, Mr. Morgenthau was appointed secretary of the treasury.

AN EARLY RISER

His life on the farm made him an early riser and today in Washington he gets up at 6:30 a.m.

Because of this habit of early rising he also likes to go to bed early. When he is at his Dutchess County Farm the Secretary is generally in bed by 9:30 p.m., often at 9.

The 50-year-old Secretary prefers the companionship of his family to visitors, is a voracious reader of newspapers and the *New York Times*, published by his childhood friend, Arthur Hays Sulzberger, is one of his favorite dailies.

Besides newspapers the Secretary is a devout reader of detective stories, is intensely interested in the activities of the Secret Service and the different other policing departments that come under his department.

Casual acquaintances do not all know that the Secretary has an excellent sense of humor and loves to kid and pun with immediate members of his family.

When he was interviewed two weeks after he took office he had this to say about his department:

(Continued on page 4)

Secretary Morgenthau, Jr.

(Continued from page 5)

"The Treasury is the point, of all points, where the government and the citizens come closest together. The Treasury is going to be run in the interest of every citizen and with fairness to all.

"The principle approach is that all are to be treated alike. Selfish wealth has been allowed to evade its obligations to the common welfare for the last time.

"All the skill of its clever lawyers is not going to do it any good now. The special privilege class in this country is abolished, so far as the Treasury is concerned."

This was not a political pronouncement — but a statement of a man's social outlook.

His appearance here is a pleasure to anticipate.

With Deep Regret

It was with regret that the Club announced about 10 days ago that Winston (V — for Victory) Churchill, pro-consul extraordinary, could not appear before the City Club. He had other pressing engagements.

However, his representative in Cleveland, the vice consul, added some more explanations to the incident and his letter is printed herewith:

Dear Mr. Lafferty:

I have received a communication from the Embassy in which they informed me that when the Prime Minister sent his letter of regrets that he was unable to accept your kind invitation to speak in Cleveland, he did not appreciate the fact that the Cleveland City Club was the organization which had sent him the recording of the song from last year's Anvil Revue, "I am an Englishman."

The Prime Minister has asked me to let you know that he very much appreciated not only your kindness in sending him this record but also the sentiments which prompted the including of this song in Mr. Frieholin's Revue. I would be grateful if you convey to Mr. Frieholin the thanks of Mr. Winston Churchill and his good wishes to you all for 1942.

I also take this opportunity of extending similar greetings to you personally and to the Club generally.

Yours sincerely,

(Signed) E. J. BISIKER,
British Vice Consul.

COMING!

WILLIAM L. SHIRER

Author of "Berlin Diary"

EDWARD R. MURROW

Chief of C. B. S. European Staff

at the PUBLIC MUSIC HALL

WEDNESDAY, FEBRUARY 4, at 8:30 p.m.

Sponsored by Radio Station WGAR

All Seats Reserved — 50 cents, \$1.00, \$1.50

Tickets on sale at Bond Clothes, Wm. Taylor Sons,
Korner & Woods, Public Hall Box Office

Citizens may obtain tickets from J. J. Lafferty.

FIELD ORGANIZATION *News Letter*

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



ISSUED 24, 1942

NUMBER 36



**KEEP 'EM
FIRING!**

BUY

DEFENSE SAVINGS BONDS

NAVY DEFENSE SAVINGS CAMPAIGN



The poster features a high-contrast, black and white photograph of a ship's deck. In the foreground, a sailor's face is partially visible, looking towards the camera. The background shows the ship's structure and what appears to be a searchlight or gun turret. The text is bold and sans-serif. The word "BUY" is flanked by two sets of three stars. At the bottom, there are two anchors on the left and right, and the Treasury Seal in the center.

One of a series of special posters prepared by the Navy Department in connection with its Defense Savings Campaign now underway throughout the entire organization including shore establishments, naval yards and other civilian activities.



—Hungerford in the Pittsburgh Post-Gazette

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CAROLE LOMBARD HELPS NATIVE STATE LAUNCH WAR-TIME BOND DRIVE
BEFORE MEETING DEATH IN PLANE CRASH

INDIANA'S STATE-WIDE DEFENSE BOND RALLY on January 15 - the first of its kind in the country - was a great success. And much of the credit for its success properly belongs to that famous Hollywood star who two days later tragically met her death, Carole Lombard, who returned to her native state especially for this event and proved her mettle as a "Minute Man" by selling more than \$2,000,000 worth of bonds.

THROUGHOUT THE AFTER-NOON AND EVENING, at the State Capitol, in the lobby of the Claypool Hotel, at the Governor's Mansion and, after the big rally in the evening, at the Indiana Roof Ballroom, Miss Lombard made patriotic appeals, sold bonds, and rendered yeoman service to the Defense Savings Program.



Four prominent Hoosiers who participated in the ceremonies on the lawn of the Indiana Capitol, which marked the raising of the flag which flew from the Capitol dome in Washington when war was declared. From left to right: Governor Schricker, Carole Lombard, Will H. Hays and Mayor Sullivan of Indianapolis.

* * *

MORE THAN 6000 attend- ed the state-wide rally at Cadle Tabernacle. Representa- tives from all of the state's 118 city and county Defense Savings Committees were present and some cities and counties includ- ing Fort Wayne, Miss Lombard's home town, sent large delegations.

MUSIC, ENTERTAINMENT AND COLOR were provided by the Indiana and Purdue University bands; the Culver Military Academy's drum and bugle corps; military units from Fort Benjamin Harrison; American Legion color guards; a large group of newsboy Defense Stamp salesmen; and a Negro chorus directed by Floyd Jones.

SPEAKERS included Will H. Hays, Hoosier president of the Motion Picture Producers and Distributors of America, who played an active part in Indiana's Liberty Loan drives of World War I, as head of the State Council of Defense; Governor Henry F. Schricker; Carole Lombard; Eugene Pulliam, Chairman of Indiana Defense Savings Committee; and Clarence A. Jackson, Director of Indiana Defense Council.

Carole Lombard's untimely death as she was returning by plane to California came as a genuine loss to the Defense Savings Program. As Secretary Morgenthau wired her husband:

"We at the Treasury feel that we have lost a real friend and helper. . . She died in the service of her country."

CALIFORNIA'S "VICTORY HOUSE" HUGE SUCCESS



HUGE SIGNS similar to the one pictured above hang over all of the entrances to the "Victory House" which is now concluding a highly successful run of about two months in Pershing Square in downtown Los Angeles, California. The Los Angeles "Victory House," (or "Defense House" as it was originally designated) is a contribution to the Defense Savings Program of the Standard Oil Company of Southern California. It will soon be moved to San Francisco and later to other towns on the Pacific coast.

"VICTORY HOUSE" has been the center of a continuous program of entertainment and special events publicizing the Defense Savings Program. Some of these events, illustrated in the pictures reproduced here, could be readily duplicated elsewhere.



Representatives of the School Retirement Fund with State Administrator Howard Mills (right) deliver check for a limit purchase of Defense Bonds.



What A Thrill! Maureen O'Hara, RKO star delivers a stamp, purchased by a youthful patriot and movie fan at "Victory House".



Elke's band accompanies lodge officers to "Victory House" where a large block of Bonds is purchased for the organization.

SOME OF THE SPECIAL EVENTS AT "VICTORY HOUSE"



Circus clown, elephant, Mahout and ring master entertain crowd. Note glass bank in elephant's trunk.



Stamp Albums bring smiles to Hopi Indians from Albuquerque, New Mexico, who helped celebrate Santa Fe Railroad Day.



Edward G. Arnold, president of the Screen Actors' Guild appeals for purchases of Defense Bonds and Stamps.



Paul Whiteman and Billy Thor. Grunland, two of the many celebrities appearing at "Victory House."



Remember Pearl Harbor! Billy Matthew, wounded at Pearl Harbor, appears with Linda Darnell, 20th Century Fox Movie Star.

Many local Defense Savings Committees are now arranging for the erection of "Defense" or "Victory" houses of their own. The Special Activities Section of the National Defense Savings Staff is prepared to render assistance in connection with these exhibits.

D. C. BOARD OF TRADE BOND DRIVE GOES OVER THE TOP



Whole Sea bids Godspeed to the frontiersmen who typified the Defense Bond Drive. At the left, Fred A. Smith, president of the D. C. Board of Trade; at the right, Thornton W. Owen, chairman of the Board of Trade's Defense Bond Campaign.

to order F or G Bonds. One of these order forms was illustrated on Page 7 of the News Letter for December 30.

THE SUCCESS OF THE CAMPAIGN was celebrated on January 6 at a general meeting of the Board which was addressed by Daniel W. Bell, Under-Secretary of the Treasury; Harold S. Graves, Assistant to the Secretary of the Treasury; H. L. Rust, Jr., Chairman of the Defense Savings Committee for the District of Columbia and others. However, the dinner did not conclude the campaign. The Board of Trade has set up a special Defense Bond Committee which will, for the duration of the war, solicit bond purchases from board members.

SALE OF \$1,326,000 WORTH OF DEFENSE BONDS in less than three weeks! This was the accomplishment of the 100-man membership committee of the Washington Board of Trade which between December 16 and January 8 called on the 4400 members of this organization and earnestly solicited their Defense Bond purchases.

APPROPRIATE PUBLICITY marked the launching of the campaign as the picture at the left indicates. Each of the eight regular teams, into which the membership committee is subdivided, was given its proportionate share of the 4400 individuals and firms which belong to the Board and confined its efforts to this group and such non-members of the Board as the members of the team had the time to see.

FOR THIS CAMPAIGN, Special Order Forms were prepared in co-operation with the D. C. Bankers Association and the D. C. Building & Loan League. One of these forms, when properly filled out, constituted a draft on the bank or savings account of the bond purchaser and gave all information needed to enable the issuing agent to issue Series E Bonds or



Chairman Owen makes a limit sale. Edward Balts orders \$50,000 worth of Defense Bonds.

BALTIMORE BUYING BALTIMORE-MADE BOMBERS

IN A FOUR-WEEK CAMPAIGN beginning January 11, Baltimore citizens under the leadership of the Baltimore News Post and Sunday American have undertaken to invest enough money in Defense Stamps and Bonds to purchase many of the famous bombers built in the Baltimore Plant of the Glenn L. Martin Company. Originally, these papers (in common with other Hearst papers throughout the country) had planned to solicit donations to a fund for the purchase of bombers but at the suggestion of the Treasury, plans were changed and the campaign directed towards increasing purchases of Defense Stamps and Bonds.

THE PLAN OF THE CAMPAIGN follows the "Hagerstown pattern" (See News Letter for January 3):

Mondays. Newspaper carriers, advertising solicitors and other employees sponsor the sale each Monday for four consecutive Mondays.

Tuesdays. All women's organizations sponsor the sales on competitive basis between various clubs and fraternal groups.

Wednesdays. School children, principals, teachers and parent-teacher groups take over.

Thursdays. Public utility employees, plants, industries and allied commercial companies sponsor the sales.

Fridays. Merchants set up sales booths in stores, push sale of stamps and ask customers to take change in stamps.

Saturdays and Sundays, theatres "go to town" and wind up the week of competition.

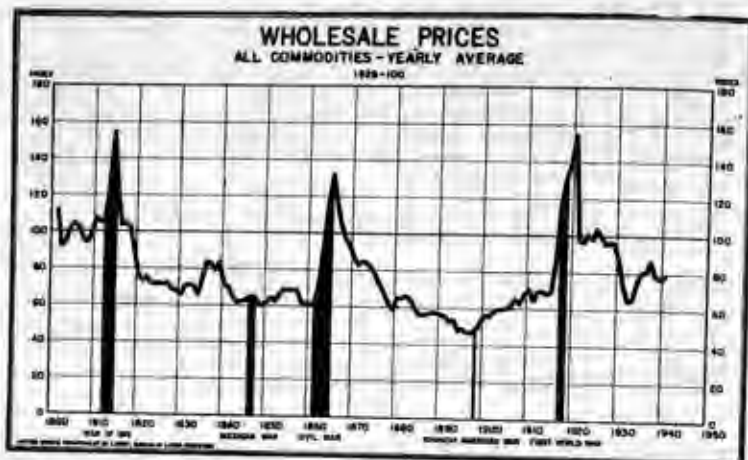
This is the pattern to be followed each week for the four weeks.

THE FIRST WEEK was enlivened by the appearance of the screen star, Dorothy Lamour, who devoted a day to appearances and brief addresses before many groups urging the purchase of Defense Bonds through participation in pay roll savings plans. Miss Lamour sold stamps and bonds at a special department store booth, made a radio broadcast from a store window, addressed the Kiwanis Club, spoke to workers of the Glenn L. Martin Company at the trailer village and dormitory just outside the company grounds, and addressed telephone employees at the offices of the Chesapeake and Potomac Telephone Company.

Following Miss Lamour's visit to Baltimore, State Administrator Walter S. Ruth reported:

"Her visit here should help wonderfully in producing a rapid acceleration of participation in the pay roll savings plan."

140-YEAR PRICE TREND SHOWS NEED FOR DEFENSE SAVINGS



This chart, published in the December issue of the Labor Information Bulletin of the U. S. Bureau of Labor Statistics, shows how prices increase during wars. The Defense Savings Program is designed to minimize this type of price inflation during the present war and to make it possible for workers to "store up" current earnings during a period of relatively high and rising prices and to carry these earnings forward for spending when prices revert to lower, more normal levels.

—Journal-Bulletin of Providence, Rhode Island.



Georgia Bankers Assn., Atlanta, Georgia.

92% OF ALL BANKS NOW QUALIFIED ISSUING AGENTS

DELAWARE, IDAHO and COLORADO can claim the honor of being the seventh, eighth and ninth states in which all banks have qualified as issuing agents for Series E Bonds. Delaware has 46 banks, Idaho 50, and Colorado 145. The first six states in which banks qualified 100% were: DISTRICT OF COLUMBIA, NEVADA, OREGON, VIRGINIA, NEW YORK and SOUTH DAKOTA.

In many other states, all but a very few banks have qualified, and in the following, 97% or more are now issuing agents: ARKANSAS, CALIFORNIA, MAINE, MICHIGAN, MINNESOTA, MISSISSIPPI, MONTANA, NEW HAMPSHIRE, NEW JERSEY, NORTH DAKOTA, UTAH, WEST VIRGINIA and WYOMING.

A total of 13,627 banks representing 92% of the 14,781 institutions in this category eligible to qualify had done so as of December 31, 1941 according to the report compiled by the Treasury's Division of Research and Statistics.

MORTGAGES HOME TO BUY BONDS

A week after America's entry into World War II, a customer of the Farmers' Bank & Trust Company in Wadesville, Indiana called on Bank Cashier L. P. Cox and said:

"I want to borrow all the money you will loan me. I want to purchase Defense Bonds and I want to leave the bonds as security for this debt."

Mr. Cox pointed out that Defense Bonds are registered in the name of the purchaser, cannot be assigned and accordingly, cannot be used as collateral for a loan.

"Then," said the patriot, "I want to mortgage my home for all you will loan me and invest it all in Defense Bonds. . . If Hitler wins, then my home and everything else I have is lost. If we win, my home and family will be safe and I know I can pay this debt in small monthly payments."

Needless to say, the loan was immediately approved and a substantial sum advanced on a 3% interest basis.

— From The Western Sun, of Mt. Vernon, Indiana.

"Buy Defense Bonds as if your very life depended upon it. It does!" — From one of the series of Defense Bond Messages prepared for newspapers by the Press Section, Defense Savings Staff.

PUBLIC EMPLOYEES

Many More State, County and City Governments Announce Pay Roll Savings Plans

IOWA, MINNESOTA, NEW YORK and UTAH are among the states which have recently made pay roll savings plans available to state government employees.



Governor Harold E. Stassen looks over the supply of allotment authorization cards which are about to be sent to the 6500 employees of the State of Minnesota, together with a letter from the Governor urging systematic investment in Defense Bonds.

* * *

City Council to administer a pay roll savings plan.

CHICAGO, ILLINOIS. All local governments in this area - the City, the Board of Education, Park District, Sanitary District and Cook County - employing a total of 56,000 have made pay roll savings plans available. The Park District reports 100% participation in its plan.

LOUISVILLE, KENTUCKY. Mayor Wilson W. Wyatt announcing the plan said: "As a starter I have instructed Finance Director Lindsay to deduct 10% from my pay check. Our goal is 100% participation by every officer and employee in the City Hall and of outside agencies supported by city taxes."

VICKSBURG, MISSISSIPPI. All of the city's 150 employees have agreed to participate, thus becoming the first group of employees in that city to enroll 100% in a pay roll savings plan.

In MINNESOTA, bond allotments authorized by state employees will be turned over to the State Capital Credit Union which will serve as a custodian of the allotments while sums sufficient to purchase bonds are accumulating.

In NEW YORK, Governor Herbert Lehmann launched the plan by authorizing the State Comptroller, Joseph V. O'Leary, to allocate 20% of his salary for the purchase of bonds.

Among the County and City Governments which have recently announced pay roll savings plans are:

BIRMINGHAM, ALABAMA. The Municipal Employees Association and other employee groups have undertaken to conduct a bond drive, and City Comptroller C. E. Armstrong has been authorized by the

PUBLIC EMPLOYEES

More Cities Install Pay Roll Savings Plans (Continued)

PORTLAND, MAINE. The municipal employees credit union is sponsoring the pay roll savings plan recently announced by City Treasurer John A. Gimartin.

SPRINGFIELD, MASSACHUSETTS. Plans for the pay roll savings program were developed here in co-operation with officers of the local Chapter of State, City and town employees which has undertaken to promote the plan.

FLINT and GRAND RAPIDS, MICHIGAN.

GREAT FALLS, MONTANA. City Treasurer Lyle Ashton reports virtually 100% participation in a plan in which the minimum allotment is \$6.25 a month.

BAYONNE, PATTERSON, HUDSON COUNTY and the BOARD OF EDUCATION of Jersey City, NEW JERSEY. These are some of the recent additions to the rapidly growing list of New Jersey cities and counties which have announced plans. In Newark, Mayor Murphy has announced that allotments of city employees total \$8,698 a month or approximately \$7 per participating employee.

THE NEW YORK CITY HOUSING AUTHORITY and ONEIDA COUNTY, NEW YORK.

WINCHESTER, VIRGINIA. Winchester's City Manager S. Lee Grant reports that all employees in his office and in the water, street and sewer departments are participating. The League of Virginia Municipalities through a special Defense Bond Committee headed by City Manager Seth Burnley of Charlottesville is urging all city governments to install pay roll savings plans.

This list of State and local governments having pay roll savings plans supplements the list published in the News Letter of January 10. These two lists provide ample precedents for all state and city governments and it is hoped that public employees in countless jurisdictions will soon be using pay roll savings plans to set an example which will be both an inspiration and a challenge to other employee groups of all kinds.

Some governmental jurisdictions may feel that there is some reason why they cannot institute pay roll savings plans and these authorities can develop "group agent" plans. However, pay roll savings plans will in the long run prove to be more satisfactory and these should be set up wherever possible. Of course a pay roll savings plan does not eliminate the need for "key men" to make the initial solicitation of their fellow workers and periodically to follow up this canvass to increase participation as conditions warrant.

LABOR AND INDUSTRY

A. F. of L. Sets One Billion Dollars as its 1942 Goal

Purchase of \$1,000,000,000 worth of Defense Bonds by the 5,000,000 individual members of the American Federation of Labor and by constituent member unions was pledged by President William Green in a statement released to the press on January 19th.

Participation in pay roll savings plans by individual members will be a major way of realizing this objective. "We urge every worker," said Mr. Green, "to agree to set aside part of his weekly earnings for the purchase of Defense Bonds."

The drive to sell Defense Bonds and to secure Defense Bond purchase pledges will be climaxed by "Labor Invests For Victory Week," scheduled for February 23 to March 1. The week will be opened on the evening of Washington's Birthday, February 22, with a nation-wide radio broadcast in which Secretary Morgenthau and President Green will appeal jointly for worker support. During the week, each of the 802 central labor unions in as many cities will hold mass meetings and rallies at which announcements will be made of results achieved by each local union in the Defense Bond drive, in terms of cash purchases and pledges to purchase. These meetings will be patriotic rallies which will serve as an inspiration to all of the communities in which they are held and to the nation as a whole.

Secretary Morgenthau commended the American Federation of Labor for setting this patriotic example to the nation.

"Just as hundreds of members of the AFL building trades unions gallantly fought with the Marines at Guam," the Secretary said, "so are millions of union members now joining with other American citizens and investing in Defense Bonds to the limit of their financial ability."

"Pay Roll Savings" Preferred Term for Allotment Plans

Attention is called to the fact that "Pay Roll Savings" is the term which is to supplant or supersede the term "Pay Roll Allotment." Although publications of the Defense Savings Staff which use the older term will not be recalled, the new term will be used in all new material.

"Pay Roll Savings" is more readily understood than "Pay Roll Allotment" and for other reasons too, is believed to be a more satisfactory term for Defense Bond purchase plans by which an employee arranges with his employer for the accumulation of an agreed-upon portion of his regular pay towards the purchase of Defense Bonds.

"Pay Roll Savings" plans are to be distinguished from all other systematic savings plans and particularly from those which involve the purchase of stamps.

LABOR AND INDUSTRY

High Enrollment in Pay Roll Savings Plans to Win Special Flag

Plans are now being made by the National Defense Savings Staff for the distribution of special flags or pennants to companies of more than 500 workers in which 90% or more of all employees are participating in a pay roll savings plan. Full details with reference to how an employee group can qualify for and obtain one of these flags will be forthcoming in the near future.

In the meantime, some companies have developed their own Defense Savings flags to stimulate inter-departmental competition. In the photograph at the right, a coveted 100% banner is being awarded to the Experimental Department of Vultee Aircraft, Inc., the first "100% for Defense Savings" department in this enormous concern, which in its Downey and San Diego California, Wayne, Michigan and Nashville, Tennessee plants, employs more than 55,000. On January 15, more than 70% of all company employees were participating in the Defense Bond purchase plan.



Evansville Honor Roll

An "Honor Roll" to include all local industrial firms and business houses in which every employee subscribes to purchase bonds through a pay roll savings plan is to be established by the Vanderburgh County Defense Savings Staff, Evansville, Indiana, under the direction of Michael Schaeffer, executive chairman and Walter Drier, chairman of the pay roll savings drive. A committee of more than 250 persons representing every line of business in the county is now concluding a comprehensive canvass to sell the pay roll savings plan to employers and employees.

First 100% Department at Vultee Plant receives pennant. Jonas Touchstone (left), consulting expert, National Defense Savings Staff, congratulates J. D. Stemple (holding banner), of the Experimental Department. The others, left to right, Byron T. Smith, local DSS worker and A. H. Balah and W. Gerald Tuttle, Vultee executives.

One of the first universities to establish a pay roll savings plan was the Massachusetts Institute of Technology, Cambridge, Massachusetts. There are some 2000 members of the Institute's staff.

FIELD ORGANIZATION NEWS

New State Leaders Appointed

Governor Keen Johnson of Kentucky, Governor Sam H. Jones of Louisiana and Governor Arthur H. James of Pennsylvania have this month accepted the Honorary Chairmanship of the State Defense Savings Committees being formed in their respective states.

Ohio State Committee Organizes

Organization of the Ohio State Defense Savings Committee was completed January 7, at a meeting in Columbus attended by the Honorary Chairman, Governor John W. Bricker and 85 other members of the state committee.

State Chairman Roy Moore, State Administrator John McSwenney, and Deputy Administrator and Executive Secretary Harold Bredlow reported on the very considerable progress made up to that date in organizing the Ohio Defense Savings campaign and outlined plans for the immediate future.

Dr. Peter Odgaard, special consultant to Secretary Morgenthau, was present from Washington to deliver a keynote address. Other speakers included Theodore Wagner, president of the Canton Federation of Labor and labor consultant on the Ohio Staff; H. W. Hoover, Canton industrialist; and Mrs. Ray Fair of Akron, originator of Akron's school Defense Savings Program.

Milwaukee Committee Organizes

First meeting of the Defense Savings Committee for Milwaukee County and City was held January 16 in the auditorium of the Gas Company. Leaders of the Defense Savings Program who addressed this meeting are shown at the left.



Speakers at Milwaukee's Organization Meeting. Left to right: State Administrator Kuhl; County Chairman E. T. Franck; Mayor Zeidler and County Commissioner Timmerman.

ROTC Cadets Use "Tag Day" Technique to Sell Defense Stamps.

As one of the final features of the Defense Bond and Stamp week held in San Antonio, Texas from January 12 to 17 under the sponsorship of the Junior Chamber of Commerce, all ROTC cadets from the city's high schools, in their attractive uniforms, devoted Saturday morning and afternoon to selling Defense Stamps throughout the business section of the city.

FIELD ORGANIZATION NEWS

Parade Opens County Drive in South Dakota

The Defense Savings campaign in Pennington County, South Dakota was launched with a large meeting at the city auditorium in Rapid City. The meeting was preceded by a parade staged by officers and men from nearby Fort Meade and representative groups from all of the city's patriotic and war service organizations.



Governor Harlan J. Bushfield, Congressman Francis Case, Deputy State Administrator Elmer Rustad and County Chairman Robert E. Driscoll were among the speakers. In conclusion, prior to the playing of the national anthem, Turner M. Rudesill, past state commander of the American Legion, led the audience in a pledge which began with William Tyler Page's famous "American's Creed" and concluded:

"It was cold outside (18 degrees below zero!); but the rally inside was as hot as they come." — South Dakota State Administrator Charles A. Christopherson

* * *

"And to the end that this creed may become effective in these present troubled times and that my country and the principles for which it stands may be perpetuated, I pledge myself to buy National Defense Bonds and Stamps to the best of my ability."

Automatic Phonographs Continue to Serve

The six patriotically decorated automatic phonographs which have been placed at the disposal of the Illinois Defense Savings Staff by the See-burg Corporation, manufacturers, continue to boost Stamp sales in a gratifying way. Deputy Administrator John Gallaher reports that the machine at the City Hall sells several thousand dollars' worth of Stamps weekly. The machines, which are displayed and operated in various public places, are serviced by women members of the American Legion Auxiliary.

Among the other cities where these machines either recently or currently are promoting bond and stamp sales under the general supervision of state Defense Savings Staffs are Detroit, Michigan; Kansas City, Missouri; New York City, New York; Rochester, New York; Cleveland, Ohio; Nashville, Tennessee; Dallas, Texas; and Milwaukee, Wisconsin.

FIELD ORGANIZATIONAL NEWS

Searchlights Rein Providence Boost Sales

A sound truck equipped with huge searchlights formerly used at Hollywood movie premieres recently was enlisted by the Rhode Island Defense Savings Staff to boost bond and stamp sales in Providence. When



"V for Victory" in Rhode Island

the truck was in Providence, it was parked in front of the City Hall and became the center of a round of entertainment (by members of the cast of the Ice Capades) and addresses by such notables as Mayor Dennis J. Roberts, Lieutenant Governor Louis W. Cappelli, and Deputy State Administrator Henry H. Sullivan. To the crowds which gathered for these events, newspaper carrier boys sold stamps. In the evening, the truck's powerful searchlights made the "V for Victory" symbol in the sky. And throughout the day the truck's sound amplifiers flooded downtown Providence with patriotic airs.

"March of Time" Movie and Other Unusual Features Mark Denver Rally

A patriotic rally in behalf of Defense Savings was held in a Denver, Colorado high school auditorium on a recent Sunday afternoon. Music by the Lowry Field (Army Air Corps training center) orchestra and quartette; two acts of professional vaudeville; a showing of the March of Time film, "Our County at War"; eye witness accounts of the Pearl Harbor blitz; addresses on the pay roll savings plan by representatives of management, labor, and the Defense Savings Staff; and an inspirational appeal by Col. Earl E. W. Duncan, Commanding Officer at Lowry Field, were some of the features of this successful gathering.

Bond Campaign Dramatized with Pugilistic Terminology

The Duval County Defense Savings Committee in Jacksonville, Florida has set \$1,370,000 as its initial Defense Bond objective. This is the approximate cost of the ten fighter planes which are the campaign's symbolic goals. A series of radio "Bond Battles" are raising part of this amount. The first of these "battles" raised \$238,740. (See News Letter for January 3.) Newspaper publicity in connection with the second battle included photographs of the loser, Elliot Butts, in a wheel chair, attended by a nurse, making a statement to the effect that he was recovering rapidly from his first bout and would definitely be in shape for the return engagement; and photographs of the winner, Fuller Warren, chopping down huge trees and doing road work in preparation for the second battle.

FIELD ORGANIZATIONAL NEWS

Chicago Judges and Lawyers Sell Bonds

Under the leadership of Meyer E. Weinstein, a young and aggressive Chicago attorney, Judges of the Circuit, Superior and Municipal Courts located in the Cook County Court House undertook to canvass the Court House and the adjoining City Hall in behalf of Defense Bonds. Results - the sale of \$414,950 worth of Bonds in three days! The judges know how to get results!

With the success of this campaign, a committee of lawyers was formed to canvass the 14 Loop office buildings largely tenanted by members of the legal profession.

Speakers Bureau Plans to Reach Every Club

The Speakers Bureau of the King County Defense Savings Committee, in Seattle, Washington, has undertaken to secure "a spot" for a brief message on Defense Bonds on every program of every club or organization or gathering which brings together 15 or more persons. One girl is now devoting her entire time to telephoning club offices and arranging these speaking engagements.

The five Tonightmasters and Tonightresses' Clubs of Seattle have volunteered their services, and on December 30, they held a joint dinner meeting at which more than 125 of their members received instructions and training to enable them to fulfill speaking assignments obtained for them by the King County DSS Speakers Bureau.

Radio Messengers and Editors Contribute Helpful Ideas

Many constructive and helpful ideas were received by Washington's State Administrator Sam Hens in reply to a letter addressed by him to the editor of each daily and weekly newspaper and the manager of each radio station in the state. In this letter he thanked them for their cooperation and invited their suggestions. He reports that their comments and suggestions have proved to be of genuine value to him and his associates.

Wilkie Meets with Indianapolis Committee

Members of the Indianapolis Defense Savings Committee, holding one of their regular Saturday meetings December 27, received a surprise visit from Wendell L. Wilkie, who responded to an invitation extended by telegraph two weeks previously by general chairman Russell W. McDermott and committee member Homer E. Capehart.

News Letter

TO THE LADIES

A Woman's Work Is Never Done:

In North Carolina, Mrs. John D. Robinson, who is on the State Defense Savings Committee as the representative of women's organizations, has her hands full of Defense Bond and Stamp business. For not only does Mrs. Robinson serve on this Treasury Committee, but she is also in charge of Women's Activities in the State Council for Defense. In that capacity she directs 14 State women's committees, one of which is set up to promote the sales of Defense Bonds and Stamps. At the same time, she is U. S. Chairman of Bonds and Stamps for the General Federation of Women's Clubs. In the latter position she has been responsible for setting in motion a Defense Savings Program that is currently reaching the majority of the 17,000 federated clubs. Her idea has been to appoint a U. S. Bond and Stamp Chairman in each State, in each of the 500 G. F. W. C. districts, and eventually in each local club. To these chairmen, Defense Savings materials are sent with suggestions as to how they might best be used. Mrs. Robinson was in Washington last week to arrange a Defense Savings Program for the G. F. W. C. Board Meeting to be held here in January.

10 Degrees Below Zero

Not even a temperature of 10 degrees below zero could keep 200 leaders of local women's Defense Savings groups from their first meeting, held in Indianapolis. Practically every county in the State was represented in this meeting which was lead by Mrs. Oscar A. Ahlgren, head of the Women's Division of the Indiana Defense Savings Staff. Mrs. Ahlgren is another active G. F. W. C. member who is giving much of her time to the Defense Savings Program. At present, she is President of the Indiana Federation of Women's Clubs.

Dances for Defense

A Defense Savings Stamp booth was a feature of the "Honky Tonk" dance given at the National Press Club in Washington, D. C. by three auxiliary Junior philanthropic groups — Junior Hadassah, Junior Council, and the Jewish Consumptives' Relief Society. Paul Draper, nationally known dancer, and members of a local stage cast acted as salesmen at the Stamp booth.



Ruth Steiner - one of the Defense Stamp salesgirls at the "Honky Tonk" dance in Washington, D. C.

News Letter

ON THE AIR

Radio Programs for the Coming Week:

Monday, January 26. "FOR AMERICA WE SING," Dr. Frank Elack's Orchestra and Chorus, 9:30-10:00 PM (EST), NBC Blue Network.

Saturday, January 31. "AMERICA PREFERRED," Alfred Wallenstein's Orchestra, with Deems Taylor, commentator, 8:00-8:30 PM (EST), Mutual Network.

* * * *

Many Radio Programs Sell Bonds

In Indianapolis, the Railroadmen's Federal Savings & Loan Association, broadcasting over Radio Station WIRE, has demonstrated effectively the potentialities of the radio as an aid in the sale of Defense Bonds. This Association began, on Monday evening December 8, a series of daily half-hour broadcasts devoted entirely to promoting bond sales. Listeners were invited to telephone in and order either bonds or stamps. The names of all purchasers were read over the air, and in the case of bond purchases, the amount of the purchase was also given. The first 12 programs resulted in sales of nearly \$90,000 to 387 different persons. In addition, the savings and loan association attributes many sales made at its offices directly to the radio program. The program is now being continued on a weekly basis.

In Montana, all major radio stations began on January 11 a series of Sunday afternoon broadcasts to promote the sale of Defense Bonds. Arrangements have been made by local Defense Savings Committees in co-operation with Boy Scouts and Service Clubs to fill immediately all orders for Defense Bonds telephoned in to the Radio Studios during the two-hour broadcast period.

In Detroit, in a special one-hour broadcast on December 30, over Radio Station WJZL, more than \$148,098 worth of Defense Bonds and Stamps were sold.

Radio's "Pay Roll of Honor" Grows Rapidly

Radio stations throughout the country are not only broadcasting Defense Bond messages - large numbers of radio employees are buying Defense Bonds through pay roll savings plans. Already 138 stations have won places on the Radio "Pay Roll of Honor," published in Radio Daily.

Station WHIP in Chicago, one of the first to announce achievement of 100% status, reports that its 40 employees have pledged themselves to invest at least \$12,000 in Defense Bonds during 1942.

BOWLERS HIS SPECIALTY



Pat Welsh, Detroit policeman is shown at the left with the placard he designed in connection with his usual patriotic hobby. When off duty, Patrolman Welsh goes from one bowling alley to another selling proprietors, league secretaries and individual bowlers on the idea of buying a twenty-five cent Defense Stamp each time they pay seventy-five cents for the privilege of bowling three games.

* * *

ANOTHER BILLBOARD BOOSTS BONDS



Milton K. Reville, Memphis and Shelby County Chairman, helps post another one of the Treasury promoted "boy and dog" bond posters. More than 1000 of these posters sponsored by hundreds of different local business institutions may now be seen throughout the country. (The "assistant bill posters" are Mrs. W. L. McKee, Jr., and Miss Elisabeth Farnsworth.)

TREASURY DEPARTMENT
 DEFENSE SAVINGS STAFF
 WASHINGTON, D. C.
 OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE: TEN TIMES
 PAYMENT OF POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

47

Unfilled Orders for Savings Bonds at the
Federal Reserve Banks and the Post Office Department
January 12 to date

(In thousands of pieces)

| | : Unfilled : orders at : opening of : business : | New orders : received : today : | Bonds : manufactured : today : | Unfilled orders at close of business | Stock of bonds on hand* | IBM : deliveries : this day : |
|------------|---|---------------------------------------|--------------------------------------|---|-------------------------------|-------------------------------------|
| Jan. 12 | 541 | 859 | 595 | 805 | 236 | 625 |
| 13 | 805 | 423 | 630 | 598 | 236 | 650 |
| 14 | 598 | 622 | 670 | 550 | 236 | 685 |
| 15 | 550 | 660 | 750 | 455 | 231 | 1,000 |
| 16 | 455 | 773 | 775 | 426 | 204 | 750 |
| 17 | 426 | 672 | 800 | 298 | 204 | 1,000 |
| 18 | 298 | none-no mail | none-closed | 298 | 204 | 800 |
| 19 | 298 | 204 | 800 | 202 | 704 | 825 |
| 20 | 202 | 204 | 800 | 86 | 1,184 | 1,000 |
| 21 | 86 | 411 | 800 | 59 | 1,546 | 875 |
| 22 | 59 | 697 | 800 | 86 | 1,676 | 1,000 |
| 23 | 86 | 569 | 800 | 50 | 1,871 | 1,000 |

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

January 24, 1942

* Bonds in Washington vaults only.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Twenty Business Days of January 1942 and December and November 1941
 (November 1-26, December 1-23, January 1-23)
 On Basis of Issue Price

(Amounts in thousands of dollars)

| Item | Sales | | | Amount of Increase | | Percentage of Increase | |
|-------------------------|------------------|------------------|------------------|--------------------|------------------|------------------------|------------------|
| | January | December | November | January | December | January | December |
| | 1942 | 1941 | 1941 | over December | over November | over December | over November |
| Series E - Post Offices | \$123,773 | \$ 69,593 | \$ 33,438 | \$ 54,180 | \$ 36,155 | 77.9% | 108.1% |
| Series E - Banks | <u>372,680</u> | <u>140,397</u> | <u>62,919</u> | <u>232,283</u> | <u>77,478</u> | <u>165.4</u> | <u>123.1</u> |
| Series E - Total | 496,452 | 209,990 | 96,356 | 286,462 | 113,634 | 136.4 | 117.9 |
| Series F - Banks | 54,804 | 20,760 | 16,206 | 34,044 | 4,554 | 164.0 | 28.1 |
| Series G - Banks | <u>215,671</u> | <u>107,198</u> | <u>91,026</u> | <u>108,473</u> | <u>16,172</u> | <u>101.2</u> | <u>17.8</u> |
| Total | <u>\$766,928</u> | <u>\$337,948</u> | <u>\$203,589</u> | <u>\$428,980</u> | <u>\$134,359</u> | <u>126.9%</u> | <u>66.0%</u> |

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

January 24, 1942.

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

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

49
 UNITED STATES SAVINGS BONDS

CONFIDE

Daily Sales - January, 1942
 On Basis of Issue Price
 (In thousands of dollars)

| Date | Post Office Bond Sales Series E | Bank Bond Sales | | | | All Bond Sales | | | |
|--------------|---------------------------------------|-----------------|-----------|-----------|-----------|----------------|-----------|-----------|-----------|
| | | Series E | Series F | Series G | Total | Series E | Series F | Series G | Total |
| January 1942 | | | | | | | | | |
| 1 | \$ 3,982 | \$ 10,229 | \$ 1,964 | \$ 7,605 | \$ 19,798 | \$ 14,211 | \$ 1,964 | \$ 7,605 | \$ 23,780 |
| 2 | 4,802 | 10,736 | 2,056 | 7,779 | 20,571 | 15,538 | 2,056 | 7,779 | 25,373 |
| 3 | 4,457 | 9,557 | 1,278 | 5,453 | 16,289 | 14,015 | 1,278 | 5,453 | 20,747 |
| 5 | 9,684 | 26,724 | 3,240 | 13,704 | 43,668 | 36,408 | 3,240 | 13,704 | 53,352 |
| 6 | 6,711 | 7,659 | 1,341 | 6,778 | 15,778 | 14,369 | 1,341 | 6,778 | 22,489 |
| 7 | 6,748 | 21,267 | 3,692 | 18,832 | 43,790 | 28,015 | 3,692 | 18,832 | 50,539 |
| 8 | 7,509 | 21,297 | 3,821 | 12,871 | 37,989 | 28,806 | 3,821 | 12,871 | 45,498 |
| 9 | 5,746 | 12,359 | 1,798 | 4,765 | 18,923 | 18,105 | 1,798 | 4,765 | 24,669 |
| 10 | 4,398 | 16,031 | 1,858 | 6,355 | 24,244 | 20,429 | 1,858 | 6,355 | 28,641 |
| 12 | 10,187 | 37,483 | 3,830 | 14,353 | 55,666 | 47,670 | 3,830 | 14,353 | 65,853 |
| 13 | 7,902 | 15,059 | 2,507 | 11,944 | 29,510 | 22,961 | 2,507 | 11,944 | 37,412 |
| 14 | 4,706 | 19,939 | 3,701 | 14,293 | 37,933 | 24,645 | 3,701 | 14,293 | 42,639 |
| 15 | 6,444 | 16,597 | 2,243 | 13,283 | 32,123 | 23,041 | 2,243 | 13,283 | 38,567 |
| 16 | 5,721 | 26,239 | 4,319 | 14,078 | 44,637 | 31,960 | 4,319 | 14,078 | 50,358 |
| 17 | 4,830 | 6,933 | 759 | 3,008 | 10,700 | 11,763 | 759 | 3,008 | 15,530 |
| 19 | 8,835 | 39,000 | 3,946 | 16,599 | 59,545 | 47,835 | 3,946 | 16,599 | 68,380 |
| 20 | 5,155 | 10,549 | 2,285 | 10,551 | 23,385 | 15,703 | 2,285 | 10,551 | 28,539 |
| 21 | 4,886 | 19,375 | 3,538 | 15,566 | 38,479 | 24,261 | 3,538 | 15,566 | 43,365 |
| 22 | 5,161 | 22,257 | 3,973 | 9,850 | 36,080 | 27,418 | 3,973 | 9,850 | 41,241 |
| 23 | 5,908 | 23,392 | 2,652 | 8,004 | 34,048 | 29,300 | 2,652 | 8,004 | 39,956 |
| Total | \$123,773 | \$372,680 | \$ 54,804 | \$215,671 | \$643,155 | \$496,452 | \$ 54,804 | \$215,671 | \$766,928 |

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

January 24, 1942.

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

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

Regraded Unclassified

Stock of Series E Savings Bonds on Hand ^{1/}
January 15, 1942 to date

(In thousands of pieces)

| | : Stock on hand : beginning : of day | : Sales : this day | : Bonds : manufactured : this day | Stock on hand close of day | IBM deliveries this day |
|------------|--|-----------------------|---|----------------------------------|-------------------------------|
| Jan. 15 | 6,569 | 320 | 750 | 6,999 | 1,000 |
| 16 | 6,999 | 445 | 775 | 7,329 | 750 |
| 17 | 7,329 | 163 | 800 | 7,966 | 1,000 |
| 18 | 7,966 | none-closed | none-closed | 7,966 | 800 |
| 19 | 7,966 | 665 | 800 | 8,101 | 825 |
| 20 | 8,101 | 218 | 800 | 8,683 | 1,000 |
| 21 | 8,683 | 337 | 800 | 9,146 | 875 |
| 22 | 9,146 | 381 | 800 | 9,565 | 1,000 |
| 23 | 9,565 | 377 | 800 | 9,988 | 1,000 |

January 24, 1942

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

^{1/} Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices,
(3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

Unfilled Orders for Divines Issued at the
Federal Reserve Bank and the Post Office Department
January 12 to Date

(In thousands of pieces)

CONFIDENTIAL

| | Unfilled orders at opening of business | New orders received today | Bonds manufactured today | Unfilled orders at close of business | Stock of bonds on hand* | 1942 deliveries this day |
|---------|---|---------------------------------|--------------------------------|---|-------------------------------|--------------------------------|
| Jan. 12 | 541 | 859 | 595 | 805 | 236 | 625 |
| 13 | 805 | 423 | 630 | 598 | 236 | 650 |
| 14 | 538 | 622 | 670 | 550 | 236 | 685 |
| 15 | 550 | 660 | 750 | 455 | 231 | 1,000 |
| 16 | 455 | 773 | 775 | 426 | 204 | 750 |
| 17 | 426 | 672 | 800 | 298 | 204 | 1,000 |
| 18 | 298 | none-no mail | none-closed | 276 | 204 | 800 |
| 19 | 298 | 204 | 800 | 202 | 704 | 825 |
| 20 | 202 | 204 | 800 | 86 | 1,184 | 1,000 |
| 21 | 86 | 411 | 800 | 59 | 1,546 | 875 |
| 22 | 59 | 697 | 800 | 86 | 1,676 | 1,000 |
| 23 | 86 | 569 | 800 | 50 | 1,871 | 1,000 |

January 24, 1942

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

* Bonds in Washington vaults only.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 24, 1942

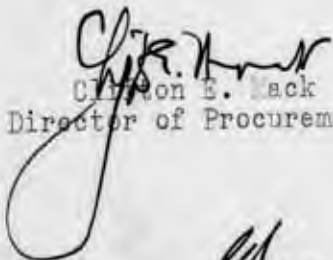
52

MEMORANDUM TO THE SECRETARY

There is submitted herewith the operating report of Lend-Lease purchases for the week ended January 24, 1942.

The advance requisition was received for 1,058,500 tons of steel for delivery during the second quarter of 1942.

Arrangements have been made for in-transit storage, also local storage, for supplies awaiting shipping instructions from the requisitioning country. Due to the shortage of vessels, efforts are being made to provide types of cargo immediately which will permit full utilization of space in the ships.


Clayton E. Mack
Director of Procurement



FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND
WAR
STAMPS

OPERATING REPORT - LEND-LEASE PURCHASES

WEEK ENDED JANUARY 24, 1942

| | | |
|--|-----------------------|-------------------------|
| TOTAL ALLOCATIONS | | \$817,112,879.00 |
| PURCHASES PREVIOUSLY REPORTED | \$409,117,623.49 | |
| PURCHASES THIS WEEK | <u>32,746,031.08</u> | |
| TOTAL PURCHASES | \$441,863,654.57 | |
| REQUISITIONS IN PROCESS OF PURCHASE | 33,122,856.00 | |
| REQUISITIONS IN PROCESS OF CLEARANCE BY WAR PRODUCTION BOARD | <u>137,877,507.50</u> | <u>\$612,864,018.07</u> |
| UNOBLIGATED ALLOCATIONS | | \$204,248,860.93 |

JAN 21 1942

Dear Mrs. Freese:

The Treasury Department has been informed by the State Department that according to information received from Ambassador Gauss at Chungking Americans in Hong Kong were unharmed and were being housed in the Hong Kong and Shanghai Bank Building. The Secretary of the Treasury was assured that the American Consul General in Hong Kong would do everything in his power to assist Mr. Freese.

Negotiations with the Japanese Government through the intervention of the Swiss authorities are proceeding to secure the exchange of Japanese official personnel in the United States for American official personnel in Japan and Japanese occupied territory.

The State Department will make every effort to have Mr. Freese included in the American party if an exchange takes place.

Very truly yours,

Acting Secretary of the Treasury.

Mrs. Walter F. Freese,
Arlington Village Apartments,
2508 Columbia Pike,
Arlington, Virginia.

HW/efs
1/21/42

Ret. to Rm 814 1/2

JAN 22 1942

Dear Mrs. Taylor:

The Treasury Department has been informed by the State Department that according to information received from Ambassador Gense at Chungking Americans in Hong Kong were unharmed and were being housed in the Hong Kong and Shanghai Bank Building. The Secretary of the Treasury was assured that the American Consul General in Hong Kong would do everything in his power to assist Mr. Taylor.

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The State Department will make every effort to have Mr. Taylor included in the American party if an exchange takes place.

Very truly yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

Mrs. William H. Taylor,
Roosevelt Hotel,
2101 16th Street, N.W.,
Washington, D. C.

LSV/efs
1/20/42

Ret. to Rm 214 1/2

TREASURY DEPARTMENT

58

INTER OFFICE COMMUNICATION

DATE January 24, 1942

TO: Secretary Morgenthau
FROM: Mr. Coo
SUBJECT: Notes on the Rio Conference

1. Yesterday, January 23, the Conference voted unanimously to recommend to the governments of the 21 Republics a rupture of diplomatic relations with the Axis. This wording was finally accepted by Argentina which had rejected the previous wording that the Republics "cannot continue relations with the Axis".

It was reported by radio today that Peru has broken off relations with the Axis. This leaves seven Republics still maintaining relations with the Axis: Argentina, Chile, Uruguay, Brazil, Bolivia and Ecuador. Of these all but Argentina and Chile are expected to break off relations within a few days or weeks -- Uruguay possibly today.

2. The major economic projects now being considered at the Conference are the following:
 - (a) Proposal for a Hemispheric Stabilization Fund. It was reported yesterday that March 15 and Washington have been named as the time and place for the Conference of American Finance Ministers to consider the establishment of this Fund.
 - (b) Severance of commercial and financial relations with the Axis.
 - (c) Development of transportation and distribution of strategic and other essential raw materials.
 - (d) Maintenance of the internal economies of the American nations under wartime conditions.
 - (e) Joint maintenance of shipping which would provide for use of available ships in the inter-American trade "in the best possible manner".

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
JAN 24 1942

TO Mr. Foley
FROM Mr. Pehle

The question has been raised by Internal Revenue as to whether the information contained in TFR-300 Reports can be made available to it for the enforcement of tax claims.

It is my understanding that it is not the practice of the British Government to use censorship material for non-war purposes such as tax collecting. However, in the letter signed by Mr. Gaston on January 19, 1942, to the Director of Censorship, one of the classes of censorship information in which the Treasury indicated its interest was as follows:

Internal Taxation - Any information which would indicate schemes or efforts to avoid or escape income, profits or other internal taxes of the United States, including taxes on alcoholic liquors.

If American censorship material is to be used for tax collecting purposes, it would be logical to assume that the material from the TFR-300 Reports should also be available for such purposes.

I suggest you raise the matter at a 9:30 meeting and obtain the Secretary's decision in order that the Foreign Funds Control may be guided accordingly in its relations with the Bureau of Internal Revenue.

JAN 28 1942

*D.L.
J.M.Z.*

J. Pehle

Mrs. Klotz:

58

● Photostat to Dr. White as per your instructions.

R. McH

Jan. 27th



OTTAWA, January 24, 1942.

PRIVATE AND CONFIDENTIAL

Dear Mr. Morgenthau:

I wish to thank you for your letter of January 14th and to express the appreciation of my Minister and myself in regard to the efforts which you have made and are making to solve our U.S. dollar exchange problem in order that we may be able to make the maximum contribution to the common war cause.

Since returning from Washington I have done a good deal of work on our estimates and have revised certain of the items in the light of further information and consideration. We have not yet completed our investigations in regard to some of the other items and it will take at least two or three weeks before these studies can be completed. I had been considering whether I should wait until all these investigations were completed and we could give a completely revised forecast with some degree of assurance. However, in view of the time factor I have concluded that, on the whole, it is better for me to send to Mr. White the results of my present thinking on the subject. I know that he realizes how difficult it is to make these forecasts, based as they must be on so many factors of risk and uncertainty, and that he will accept them for what they are, tentative estimates for our own working purposes subject to constant revision in the light of the developing situation.

Incidentally, the results may be summarized very briefly as follows:

| | <u>Gain or Loss in Gold and U.S. Dollars</u> (In Millions of U.S. Dollars) | <u>Total Gold and U.S. Dollars at End of Period.</u> (In Millions of U.S. Dollars) |
|------------------|--|--|
| 1942 1st quarter | +13 | 201 |
| 2nd " | -41 | 160 |
| 3rd " | -91 | 69 |
| 4th " | -118 | -49 |
| 1943 1st " | -126 | -175 |

(over)

The less favourable position indicated by the above table as compared with that which I discussed with Mr. White during the Christmas week is due to a number of factors. For instance, it takes into account an up-to-date revision of our estimated deliveries of merchant ships, the program for which was delayed for some months by the difficulty of securing an adequate tonnage of steel. I have also increased our estimated war imports from the United States by an allowance for the price factor and also by taking into account an additional contract which I believe we are now placing in the United States for about \$80 million of automotive equipment for war purposes. Finally, it seemed to me necessary, if we were not to be unduly optimistic, to take the more extreme of the estimates of loss in our receipts from United States tourist expenditures in Canada during the present year. In other words, I have estimated that these receipts will be approximately cut in two.

On the other side of the picture, I have left unchanged the figures of probable deliveries of Hyde Park sales to the United States, as I have not yet been able to secure from our Supply officials any more up-to-date estimate than I had in late December. I know, however, that the process of negotiating new orders is going on fairly steadily between War Supplies Limited and your various Service Departments and no doubt a considerable number of new orders will be given to us. For instance, I am advised that the order for Canadian scout cars which was held up for a time by Mr. Phillip Young's ruling has finally been accepted. Furthermore, I gather from odd bits of information given to me about new orders under negotiation that it is not improbable that in the general desire to secure the most effective pooling of the economic resources of the two countries to which the two Governments are now committed, and in the interest of getting the speediest possible deliveries from whatever source they may be available, the Military and Supply Agencies of the two Governments may reach decisions in regard to the purchase of finished articles in Canada which may greatly improve the prospects of our exchange position. I suppose it will be better for all concerned if purely war supply considerations should accomplish this result automatically without requiring too great intervention on the part of the Treasury. Before the revised estimate is presented to Mr. White it will probably be possible to take into account the result of some of these new favourable developments.

I appreciate your taking the position that the exchange problem should not stand in the way of maximum war production. I note also your assumption that the goods in question will be produced and used to the best advantage, whether the payment is in U.S. dollars or some other form. In so far as we are concerned, we will do our utmost to see that that assumption is sound, although I am bound to say that new war production projects must be planned a good many months in advance, and where, as is normal in our case, such projects involve a substantial United States content, it is difficult to overlook, and not be anxious about, the possibility that when the time comes we may not have the United States dollars with which to purchase that United States content.

In this connection I know you will be interested in the statement in Thursday's Speech from the Throne to the effect that the Canadian Parliament will be asked "as an integral part of Canada's direct war effort, to approve a contribution to Britain of vast quantities of munitions, foodstuffs and supplies." On Monday next the Prime Minister will make his address in the Debate on the Speech from the Throne and during the course of this address will make a detailed announcement in regard to this contribution and to the whole subject of our financial relations with Great Britain. I am making arrangements to see that a copy of at least this part of Mr. King's address will be handed to you as soon as possible after it has been finalized, probably early Monday evening.

Mr. Halsey wishes me to express to you again the Government's appreciation of your sympathetic interest in, and your understanding of, our exchange problem and the renewed expression of your willingness to have us raise with you at any time questions relating to our U.S. dollar position. Last year we lost \$142 million of U.S. exchange, not to mention a substantial amount of other U.S. assets, but had it not been for the Hyde Park Agreement which you inspired, the situation which we would now be facing would be far more serious indeed. It is difficult for me to find words to express my own appreciation.

With kindest regards, I am,

Yours very sincerely,

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

N. C. Clark

Treasury Department
Division of Monetary Research

61

Date January 24, 1942 19

To: Secretary Morgenthau
From: Mr. Coe

These few pages regarding the proposed loan to China might be of some use to you. A considerably more extensive analysis is now being prepared by the Division.

TREASURY DEPARTMENT

62

INTER OFFICE COMMUNICATION

DATE JANUARY 24, 1942

TO Secretary Morgenthau
FROM Mr. Coo
SUBJECT: Summary of conclusions and considerations on loan to China.

1. Conclusions

For political and military reasons it is suggested that the United States should grant China a loan of approximately the size requested by the Generalissimo -- 500 million dollars. Probably the best form for the loan would be the extension of a special Lend-Lease credit to China, on which they would draw whenever they could use the dollars.

The Generalissimo's desire that there should be no conditions to the loan should be met only partially. The Lend-Lease credit would have to be for a number of specified uses. No other conditions would be imposed and the Chinese would have complete freedom to use the dollars in any or all of the specified ways.

The uses which could probably be agreed upon would be for the payment, directly in currency or indirectly through bond issues, of current military expenditures for goods and services; the purchase, directly or indirectly, of goods and services necessary for the welfare of the people; the purchase of necessary imports; investment in necessary productive enterprises; to guarantee bond issues designed to absorb Chinese currency which would otherwise circulate, and for the backing of currency. By careful definition of the uses so that "uneconomical" uses were ruled out, it would probably result that these dollars would be drawn down gradually.

2. Political requirements and the size of the loan

The President, the Generalissimo, State Department officials, Mr. Currie and Mr. Fox have all stressed that the loan to China is to be made primarily for political purposes. Under present conditions, particularly with the Japanese attempting to induce China to make peace, it is highly important that all possible measures be taken to keep China in the war on the side of the United Nations. The present military situation is such that the

- 2 -

energy with which China continues the war is vital to us. The military assistance we can give the Chinese may be long delayed. Therefore, if China holds out for a larger loan, it is desirable on political and military grounds that they receive what they ask for, or something approximating what they ask for.

3. Economic conditions in China.

China is in the middle of a grave inflation. Since 1937, retail prices in Chungking have risen 27 fold while during the same period the volume of currency outstanding has increased 7 fold. Outstanding currency will be doubled again in 1942. The total volume of goods in Free China is decreasing primarily due to decrease in imports, and the volume of hoarded goods is increasing. These economic conditions are the greatest threat to the Generalissimo's control.

4. The economic uses to which a dollar loan can be put

Under present conditions, difficulties of transportation greatly curtail the ability of China to import goods. Moreover, China can obtain under Lend-Lease the goods she needs from the United States and elsewhere. Therefore a dollar loan is not necessary for imports.

A dollar loan could greatly help China in two ways: (a) to combat inflation by substituting financial hoarding for commodity hoarding, and (b) to increase the production of goods and the amount of welfare services in China. In addition, (c) some temporary psychological benefit would result from the announcement that China had acquired a large store of foreign exchange to be used for backing of her currency or other vague purposes.

(a) If a dollar loan was used to reduce the hoarding of commodities in China, it would make more goods available to the Government and people of China and would decrease or prevent increases in the outstanding Chinese currency, thus attacking inflation from both ends. Among the various mechanism for doing this are: (1) issuance of bonds in exchange for fapi, the bonds to be payable optionally or mandatorily in dollars, with or without guarantee of principal and interest by the United States Government; (2) issuance of bonds as above in exchange for goods and services; (3) shipment of United States currency to China and its distribution to Chinese nationals in exchange for goods and services; and (4) the shipment of gold to China and its distribution there to Chinese nationals in exchange for goods and services.

- 3 -

There are many possible variants of these proposals, all of which could be of use in combating inflation. In the sending of United States currency to China there is the political problem of the probable opposition of the Chinese Government to anything that would seem to be depriving China of her own monetary system, and, economically, the many problems raised by the introduction of a foreign currency alongside of a depreciating domestic currency. In addition, both in the case of shipping United States currency and gold, the problem of safe transportation might be difficult.

It is not necessary that monthly payments be made to a given number of Chinese soldiers, in order to achieve the objective of paying out dollars currently while fighting is proceeding. Provision might be made for meeting a portion of the budget, either military or total, month by month; or, by agreement, dollar backed bonds could be issued only to meet current military expenditures -- in limited monthly quantities; or, by insistence that the bonds should be sold to individuals and without corresponding increases in bank credit, the Chinese would be forced to issue bonds -- and to use up the money -- at a slow rate.

(b) In addition to allowing the Chinese to use the Chinese currency proceeds from the bond issues or sale of United States currency for military purposes, it would be desirable to allow them to use these to finance increases in production and to improve welfare services. Although the Chinese could do these things by printing more paper money, these important ways of increasing the war effort are more likely to take place if United States dollars can be so used. Among such projects would be financing small industrialists at attractive rates of interest, financing of industrial cooperatives and land reclamation. Some degree of American collaboration would be desirable in the financing of such projects and the Chinese might agree to this kind of intervention. The Chinese Stabilization Board might be linked to the loan in this way.

(c) The fact that a dollar account in New York is stated to be "in back of" the Chinese currency will not decrease directly the expenditures which the Government has to make or its need to print paper money. But there would be temporarily a psychological effect, with decreased hoarding and speculation, and some temporary effect on price rise. The immediate political effect might be substantial.

5. Sources of funds

It is assumed that if the loan is anywhere near \$500 million the Stabilization Fund will not be used. The resources of the Export-Import Bank are currently less than \$200 million. Therefore, the alternative sources of funds would seem to be a Congressional authorization for a loan or Lend-Lease. Since Congress is already in favor of Lend-Lease, it would seem to be easiest to obtain the money from this source.

In addition, the use of Lend-Lease would make it possible to eliminate rate of interest and much of the other financial paraphernalia which is inappropriate in wartime.

It would seem feasible to use Lend-Lease funds for the payment of military expenses in China, for strengthening the Chinese economic system with a consequent strengthening of the Chinese war effort, and for preventing the Chinese monetary system from collapsing.

AIE

PLAIN

66

Bombay

Dated January 24, 1942

Rec'd 12:18 p.m.

Secretary of State,
Washington.

49, Twenty-fourth.

Silver dull and inactive with declining prices partly due weakness gold market. Stocks increased amounting bars 20,000 daily, offtake 400, spot high seventy-one rupees six pias, low sixty-four twelve, close seventy eleven. Decision reserve bank to discontinue sale of sovereigns against gold announced seventeenth caused sharp price increase due misunderstanding bazaar operators of impositions this notice. As sovereigns rose in price speculators bought gold heavily and spot price rose to forty-seven eleven at which level short selling began as operators realized that since it was no longer possible to buy sovereigns against gold, price of latter must decline. Prices dropped assisted by heavy arrivals from interior. Movements local price of gold in future will depend upon supply and demand of metal itself undisturbed by fluctuations in price of sovereigns stocks. Totals 75,000 daily arrivals and offtake 7500 spot high forty-seven eleven, low forty-six two, close forty-seven.

INFORM TREASURY.

WTC

DONOVAN

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FD 8900.5151/12

January 24, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram No. 18, dated January 23, 1942, from the American Legation, Baghdad, Iraq, concerning exchange control measures recently adopted by the Government of Iraq and the request of the Exchange Control Committee for a list of dollar holdings of residents of Iraq as reported on Treasury Form TFR-500.

The Secretary of State would appreciate the advice of the Secretary of the Treasury as to the reply to be made to the telegram under reference.

Enclosure:

From Legation, Baghdad,
No. 18, January 23, 1942.

ALM

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

Baghdad

68

Dated January 23, 1942

Rec'd 11:05 a.m.

Secretary of State,
Washington.

18, January 23, 10 a.m.

Iraq Ministry of Finance in exercise of exchange control has issued notice of January 21 requiring all persons resident in Iraq to surrender against dinar equivalent any holdings of United States dollars and Swiss francs within period of 15 days. Holders are required to furnish declaration and prepare telegraphic instructions to effect delivery, and such cables will be despatched at expense of Exchange Control Committee. Licensed dealers in Iraq are Ottoman Bank, Eastern Bank, and Imperial Bank of Iran, which will pay dinar equivalent at rate of \$4.03 and Swiss francs 17.40. Exchange Control Committee has today made it clear to Legation that American residents of Iraq possessing dollar holdings are not (repeat not) affected but was unable for peculiar local reasons to specify this exception in the notice.

Committee understands from NEW YORK TIMES of August 18 that United States Government initiated complete census of foreign property held in United States per Treasury form TFR--300 to be completed September 30. Committee requests that

it be furnished by Treasury through this Legation a list of dollar holdings of residents of Iraq in order to administer exchange control here effectively. Legation would appreciate telegraphic reply whether Treasury can do this.

State the cost of reply.

KNAENSHUE

RR

Copy:bj:l-26-42

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70

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 840.51 Frozen Credits/5125

January 24, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram no. 210 of January 21 from Bern, concerning the difficulties with which the American Legation in Bern is presented in securing Swiss francs for its dollar drafts.

Enclosure:

From Bern, no. 210,
January 21, 1942.

Copy:bj:l-28-42

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 840.51 Frozen Credits/5125

January 24, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram no. 210 of January 21 from Bern, concerning the difficulties with which the American Legation in Bern is presented in securing Swiss francs for its dollar drafts.

Enclosure:

From Bern, no. 210,
January 21, 1942.

Copy:bj:l-28-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: LEGATION, Bern
TO : Secretary of State, Washington
DATED: January 21, 1942, midnight
NUMBER: 210

Reference is made to Bern's 167.

Swiss banks state they cannot be sure that they will be able to resell official drafts and Treasury checks, and as a result there have been serious difficulties in selling them. These banks now offer to purchase this paper at a discount only, the repurchase of such paper being refused by the Swiss National Bank.

The previous stable buying rate of 4.285 is now 4.145 without assurance that they will continue to make purchases or that the rate will not go lower. A Legation representative informally consulted yesterday with the Director from Bern of the National Bank and with the Foreign Office Economic and Financial Liaison Officer with a view to obtaining the assurance that at a stated time sufficient funds in Swiss francs would be provided for Foreign Service establishments and their employees in Switzerland. Several previous conversations have been held on this matter.

In a memorandum of the conference it is stated that the National Bank and the Foreign Office have not prohibited the purchase of drafts by commercial banks. It has merely

been pointed out by the National Bank that although there would be no objection to their purchase of them and their fixing the exchange rate, the National Bank could not repurchase them. If a buyer is found, the Foreign Office claims we are free to offer and sell our drafts, and that its (omission) not required. The fact that the market for our drafts has almost vanished, the Swiss Government holds is not its fault. It also does not feel required to make any suggestions for betterment of our position.

It was readily agreed that since commercial banks may suddenly find it impossible to continue purchasing our drafts regardless of the low price, such a position could not be satisfactory to us. The principal reason why the banks can continue to buy them at all, it was said, is because of the possibility of their being resold to emigrant Jews. Several possible ways out of this situation were seen by the National Bank Director. One. It was felt that the assent by other National Bank directors could be obtained to insure the purchase of dollars offered by us and Latin American nations if Treasury would agree to transfer either Swiss blocked dollars or gold to neutral countries' accounts as had recently been asked and rejected in the Portuguese case and undecided in the Spanish case.

It was stated the Legation thought that providing

Swiss francs for maintaining representation of the United States in Switzerland should not be included with other problems in the financial relations between Switzerland and the United States, which was a separate and distinct question. It was indicated by the bank conferee that if the United States Government should buy badly needed commodities, preferably metals, for shipment to Switzerland, aside from these for which navicerts already are obtainable, there would be a further possibility for furnishing francs. Since the Bank had offered to pay francs to us for gold delivered to it in Portugal or Bern, it would very likely do so, enabling us to pay the Swiss for expenses incurred in representation of interests.

The representative of the Foreign Office stated that there could be no agreement by the Swiss Government to "diplomatic" clearing; and asking us only for such shipment of gold would take care of our eventual debit balance. The Foreign Office believes that with imposition of clearing, the United States and Switzerland are well able to pay their debts, and that such a "diplomatic" clearing, if established, would soon, to the distinct distaste of the Swiss, become general for all transactions between Switzerland and the United States. It was indicated by the conferee of the National Bank that there was perhaps a

-4-

false impression by our authorities that the bank wishes to liquidate or diminish its position with the United States, but if it might render it mobile again by adding to it and drawing from it for legitimate actions of no help to enemy countries, the Bank would welcome the opportunity to hold that position. The Bank would willingly take a corresponding amount of dollars if Treasury would approve the three million dollar transfer to the Spanish blocked accounts.

The local bank verbally informed the Legation on January 19 that it would purchase our draft for \$42,500 on January 31 (operating expenses for February and salaries for January) although its resale to the National Bank was uncertain. This verbal assurance has now been conditioned upon whether or not the National Bank will buy the draft. Our bank will probably refuse ultimately. Thus a very uncertain material situation faces the consulates, which in the meantime has, of necessity, had to cash certain small drafts on private accounts at the reduced exchange rate. Following communication from Swiss National Bank received by Legation since above was drafted: "Swiss francs 1,502,145.92, which amount we hold at your disposal, has been transferred to us by the Federal Reserve Bank of New York through the Banco de Portugal, Lisbon". Apparently

this is the franc equivalent of \$350,000 referred to in telegram no. 139 of January 17 from the Department. The Legation requests the Department's permission to use this Swiss franc account at the National Bank for personnel and administrative funds, as of January 31, until arrangements are permanently made, thereby escaping exchange loss which would result from forced draft sales at a discount, and in view of the uncertainty of the draft market would assure available funds.

TREASURY DEPARTMENT

76

INTER-OFFICE COMMUNICATION

DATE January 24, 1942

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|----------|
| Sold to commercial concerns | \$32,000 |
| Purchased from commercial concerns | \$27,000 |

Open market sterling was quoted at 4.03-3/4, and there were no reported transactions.

In New York closing quotations for the foreign currencies listed below were as follows:

| | |
|--------------------------|------------------|
| Canadian dollar | 11-5/8% discount |
| Argentine peso (free) | .2360 |
| Brazilian milreis (free) | .0516 |
| Colombian peso | .5775 |
| Mexican peso | .2065 |
| Uruguayan peso (free) | .5250 |
| Venezuelan bolivar | .2675 |
| Cuban peso | Par |

There were no gold transactions consummated by us today.

No new gold engagements were reported.

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BRITISH EMBASSY,
WASHINGTON, D. C.

24th January, 1942.

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 27

Information received up to 7 a.m., 23rd January, 1942.

1. NAVAL

A twelve thousand ton outward bound tanker was torpedoed on the 22nd six hundred miles east of CAPS RACE.

2. MILITARY

LIBYA. 22nd. Three enemy columns, including tanks, made a reconnaissance in force about fifteen miles deep from their positions around AGHEILA. Our forces are withdrawing but maintaining touch and harassing the enemy while our reserves are moving forward towards the fighting area.

MALAYA. East. Our forces, after successfully ambushing the enemy, have withdrawn south of the river MERSING. Our artillery are harassing enemy movements. Centre. No further change. West. Heavy fighting continues and the position is confused. On the 21st eight hundred Australian and four hundred Indian troops who had been cut off, rejoined from the BAKRI area. A British infantry brigade counter attacked BUKIT PAYONG to help this movement. By the 22nd the BUKIT PAYONG area was strongly held by the enemy and remainder of our troops in this area who were unable to force their way through, are making their way in by tracks leaving their wheel transport.

BURMA. Heavy fighting continues at KANKAREIK in the MOULMEIN area against the enemy in force. The evacuation of our forces from the MERGUI area is proceeding. A number of military personnel from TAVOY have arrived in the ME area and all the R.A.F. ground party have reached MOULMEIN safely.

RUSSIA. The Russian advance southwards west of RZHEV has made further progress. Russian attacks south-east of KHARKOV have gained ground. Little change in the CRIMEA but a resumption of the German attack towards KESKOW probable.

3. AIR OPERATIONS

WESTERN FRONT. 21st/22nd. BREMEN. Thirty-seven tons and one thousand five hundred incendiaries.

BREMEN. Forty-seven tons and two thousand two hundred incendiaries. At BREMEN a four thousand pound bomb burst near the railway junction and another near the Atlas Shipyards. Eleven R.C.A.F. and two R.A.A.F. aircraft took part. One Canadian Hampden was among those missing.

22nd. A Hudson obtained two hits on a one thousand ton merchant vessel off the FRISIAN ISLANDS.

- 2 -

22nd/23rd. Seventy-two aircraft sent out, 47 of them to MUNSTER. Two are missing and one crashed on return.

LIBYA. 21st. Water logged landing grounds prevented operations over the forward area.

MALTA. 22nd. Two air attacks took place, at HALOOR aerodrome buildings and a Hurricane on the ground were damaged. Our fighters probably destroyed three aircraft and damaged two more. We lost one Hurricane.

MALAYA. SINGAPORE ISLAND was attacked by about hundred aircraft on the 21st and by 54 bombers escorted by fighters on 22nd. The aerodromes were heavily bombed, five of our aircraft being destroyed on the ground and several others damaged. In air fighting our fighters destroyed nine aircraft, probably destroyed one and damaged four. We lost ten fighters but four pilots were safe. In addition A/A artillery claim nine aircraft destroyed.

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RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, January 24, 1942

INFORMATION BULLETIN
No. 7
MID 461

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-R-M.

NOTES ON JAPANESE WARFARE

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- Section I JAPANESE LANDING OPERATIONS
1. GENERAL
 2. JAPANESE LANDING OPERATIONS IN THE PHILIPPINES
- Section II OTHER INFORMATION UPON JAPANESE FORCES
1. TACTICS
 2. WEAPONS

ILLUSTRATIONS

(at end of text)

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- Figure 2. Type "A" Japanese Landing Boat
- Figure 3. Type "B" Japanese Landing Boat
- Figure 4. Type "C" Japanese Combination Picket and Command Boat
- Figure 5. Type "D" Japanese Landing Boat
- Figure 6. Type "E" Japanese Landing Boat
- Figure 7. Type "F" Japanese Landing Boat

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Section I
JAPANESE LANDING OPERATIONS

1. GENERAL. Landing operations have for some time been part of the peace-time tactical training of Japanese divisions. During the war with China, which started in July 1937, ample opportunity has been afforded various Japanese units to perfect the technique of this operation under service conditions, so that today it follows a pattern tried and tested by war.

a. Technique of Effecting a Landing

(1) Preparation. Landing beaches or shores are carefully reconnoitered from the air or by means of secret agents or both. Troops assigned to effect landings are carefully drilled in advance.

(2) Rendezvous Point for Troopships. Troopships, landing-boat carriers, and naval-convoys establish a rendezvous at a designated anchorage the night before the landing. If a suitable anchorage is not available, vessels arrive off the designated beach between midnight and dawn.

(3) Landing. Landings are usually made just before dawn on a day when it is high tide just after 6 a. Periods of rain or stormy weather are chosen when possible in order to increase the element of surprise. Men are transferred from the transports and landing-craft carriers just off the landing beach. The initial force usually comprises infantry and some field artillery, engineers, and light tanks, all of which are embarked in landing craft. These craft make for the shore at full speed, and if all are in formation, they shut off their engines and drop stern anchors together when they are a short distance off the beach. For the remainder of the distance the boats are eased in until they are grounded by means of the hand brakes on the stern anchor cables. Boats normally ground at intervals of about 50 yards. If the situation demands that boats leave immediately after troops have disembarked, stern anchors are weighed by hand or power and the boats make off at top speed. Patrol craft armed with pompons and machine guns give close support to the landing, and air support and naval support are provided if they are required. Once a beachhead is secured, the bulk of the troops landed proceeds rapidly inland.

(4) Forces Used. Practically all Japanese landings in China have been made with a force of two divisions (40,000 men or less). These units were embarked with normal equipment, including 2-ton tanks, 105-mm. field howitzers, and 75-mm. field guns. Serious opposition was encountered on only one occasion. In this case, though heavy casualties were inflicted by machine-gun fire and by land mines, the landing force gained its objective by nightfall.

RESTRICTED

(5) Air and Naval Cooperation. The Japanese have had complete air and naval superiority in all their landing operations. Thus sea communications have always been assured and all landings have had overwhelming support from sea and air. On one occasion Japanese destroyers assisted the landing forces by gun fire, which took the following form:

(a) Preliminary bombardment of enemy positions at a range of about 1,300 yards.

(b) "Hawitzer" fire on special areas. This was achieved by putting extreme elevation on the ships' guns and using a reduced charge.

b. Types of Special Ships and Landing Craft Employed

(1) Landing Craft Carrier (Figure 1). This special-type of transport is similar in construction to a whaling depot ship. Landing craft loaded with full complements of men and material are slid into the sea through slide hatches.

(2) Landing Craft

(a) Type "A" (Figure 2). This is a large open type with a landing ramp on the bow which flaps forward on to the sand, enabling guns to be wheeled up. The engine and the cockpit are usually protected by bullet-proof plating. Twin keels provide stability after grounding. This type of boat is used by the main landing force.

(b) Type "B" (Figure 3). This is a small open type, holding from 60 to 80 men. Its speed is from 8 to 10 knots. This type of boat is used by the initial covering party. When it is fully loaded, it has a draft of 30 inches.

(c) Type "C" (Figure 4). This is an armored motor launch used for close support work, reconnaissance, and maintenance of communications.

(d) Type "D" (Figure 5). This type is used to supplement the large open Type "A" described above. It is used solely as a tow boat.

(e) Type "E" (Figure 6). This type is fitted with an air screw for use in shallow water or in creeks, smaller tributaries, and weed-bound water. Figure 6 is a drawing made from a photograph of one of these airplane-propeller-driven boats, taken of one of two in a group of 10 launches headed down a river. These boats are approximately 50 feet in length, and not over 10 feet abeam. About 18 feet of the

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forward underwater body rose above the water, as was judged from the low spray in the original photograph. The draft at light load appeared to be not over 2 feet. The craft was steered from forward under the canopy. In the drawing is shown a shield for a machine gun in the bow.

(f) Type "G" (Figure 7). This type, which is constructed of steel plates, is in two sizes: 30 feet over-all and 40 feet.

c. Comments. The following factors were instrumental in giving the Japanese the success that they have achieved in landing operations:

- (1) Complete security of sea communications;
- (2) Complete naval and air superiority, thereby lessening the difficulty of landing transport and artillery during the early stages of operations;
- (3) Inefficiency of enemy observation and security organizations;
- (4) Lack of real enemy opposition at the beach, enabling transports to be brought close to shore;
- (5) Lack of enemy artillery, making a shallow beachhead sufficient protection for the main landing;
- (6) Care taken by the Japanese to achieve surprise by choosing difficult landing sites and poor weather conditions.

2. JAPANESE LANDING OPERATIONS IN THE PHILIPPINES

a. Naval and Air Operations. The typical procedure in landing operations was to cover about 4 miles of beach. A line of destroyers forms a belt a half-mile from shore, with a heavy cruiser or battleship about 2 miles beyond the line of destroyers. The groups of transports remain between the destroyers and the heavy vessels. An aircraft carrier stays between the two groups of transports. Then about 50 barges with a capacity of 150 men each start for shore, each barge being armed with 2 or 3 machine guns. Special vessels are in a position to fire upon the beach, and they can also deliver effective anti-aircraft fire, which is extremely heavy up to about 2,500 feet. Machine-gunning, observation, and pursuit protection are provided by aircraft carriers and landing fields already established.

b. Tanks. The V-front light tank which is used by the Japanese fires armor-piercing ammunition from .50 caliber machine guns. Direct hits from 37-mm. guns are deflected by the sloping front of this tank.

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c. Fifth Column Activities. The complete extent to which residents of the Philippines friendly to the enemy have been used is not known. Flasher boats and lights, however, are known to have aided the Japanese in some of their landing operations.

Section II
OTHER INFORMATION UPON JAPANESE POWERS

1. TACTICS.

a. Air-Ground Communications. Close liaison between Japanese air force and ground troops is being maintained by means of portable radios. These radios, equipped with earphones, are carried on the chest by commanding officers of companies. Air Forces, with air superiority, observe the positions of the Allied front lines and troop dispositions and movements. Their information is then relayed to the Japanese commanders, who, in many instances, are told when to move forward and when to stop.

b. Infantry. The Japanese infantry armed with grenades and automatic weapons, have obtained great mobility by leaving behind all other equipment not absolutely necessary. Their attacks usually are made at dusk. Company commanders move up their companies by squads and consolidate them with advance security detachments prior to the attack.

c. Local Security. In many instances during the Malayan campaign, the Japanese have not taken strong security measures, either while halted in columns or while moving. Use of lights at night also have been noted by the British, who have capitalized on such Japanese weaknesses.

d. Motor Transportation. In Malaya both the British and Japanese are using heavy motor vehicles sparingly. For in the low, soggy terrain they tend to become cannibalized on any road that is not hard surfaced, and therefore become easy targets for enemy attack.

e. Jungle Movements. The Japanese have equipped and trained their soldiers in Malaya to travel for a number of days through jungle trails with their supplies either in their packs or on small transport vehicles.

f. March Discipline. Cycle troops, of which the Japanese appear to have a great many, and some detachments of motor transport troops observed in Malaya have a tendency to bunch up while halted as well as while in movement.

5. Japanese Troops at Hong Kong. The tactics, battle efficiency, and armament of the Japanese troops who stormed Hong Kong were far

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superior to those previously observed, according to reports of British officers who escaped from the island just before it was captured.

2. WEAPONS.

a. Machine Guns.

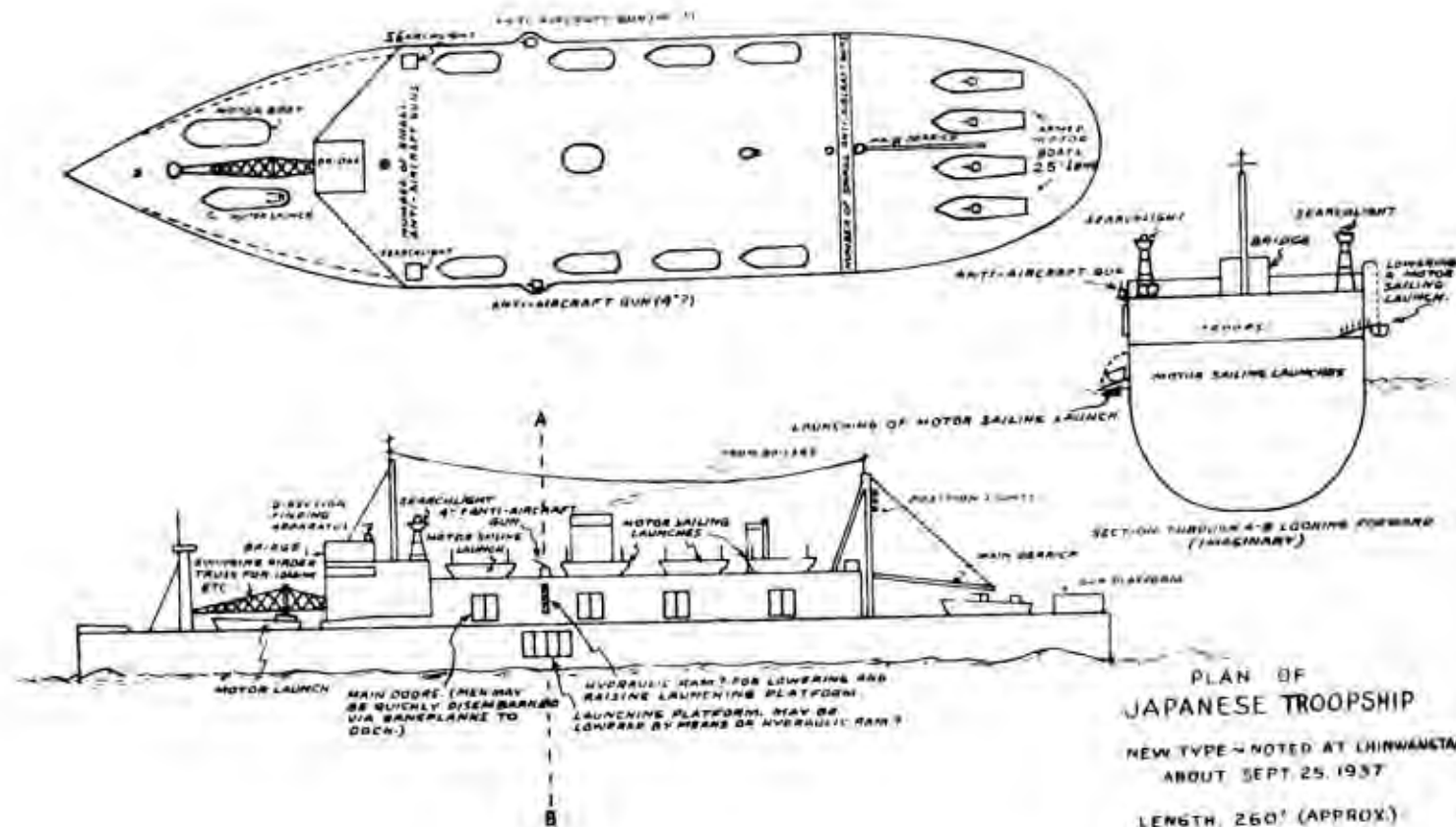
(1) Among the weapons in use by the Japanese in the Malayan campaign, the following types of machine guns are reported: a Thompson-type submachine gun; a type "90" light machine gun; and a belt-fed medium machine gun. The latter, mounted on a wheeled carriage pulled by truck, is very similar to the British Vickers gun except that the Japanese weapon has a larger water jacket.

(2) The new type "98" light machine gun is believed to have several improvements over the Namby Light Machine Gun, Model 1922. The principal measurements and characteristics of the type "98" gun are as follows:

| | |
|-------------------------------|---------------------------------|
| Weight - - - - - | 19.18 lbs. |
| Length, over-all - - - - - | 42 inches. |
| Caliber - - - - - | 6.5 mm. (.256 inches.) |
| Rifling - - - - - | 4 grooves, right twist. |
| Muzzle velocity - - - - - | 2400 feet per sec. (approx.) |
| Cyclic rate of fire - - - - - | 550 rounds per minute (approx.) |
| Bipod mount - - - - - | 2 positions. |

b. Artillery. It has been found that artillery vehicles in movement along roads are likely to be ambushed. The feeling has grown that self-propelled howitzers would be the most practical field artillery weapon.

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PLAN OF
JAPANESE TROOPSHIP

NEW TYPE - NOTED AT LHWANSTAD
ABOUT SEPT 25, 1937

LENGTH, 260' (APPROX.)
BEAM, UNKNOWN.
DRAFT, UNKNOWN.
FROM INTELLIGENCE OFFICE, U.S.N.T.C.

91

Figure 1,

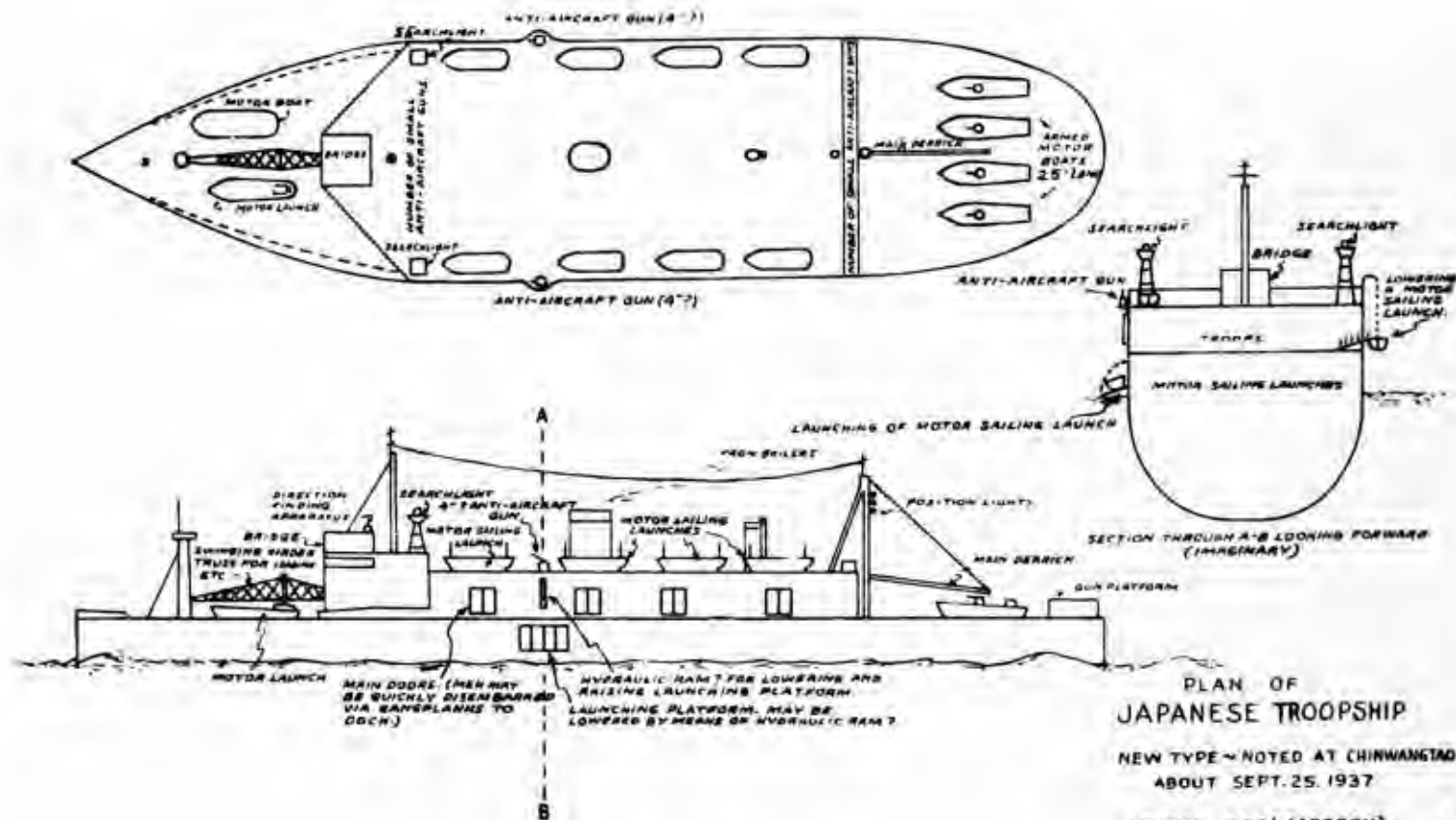
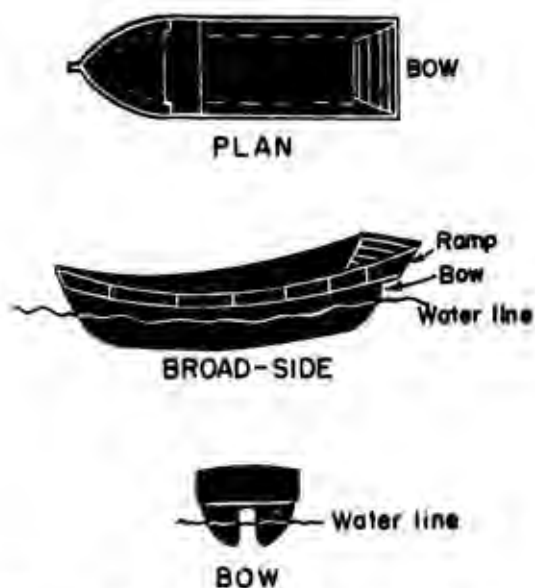


Figure 1.

84



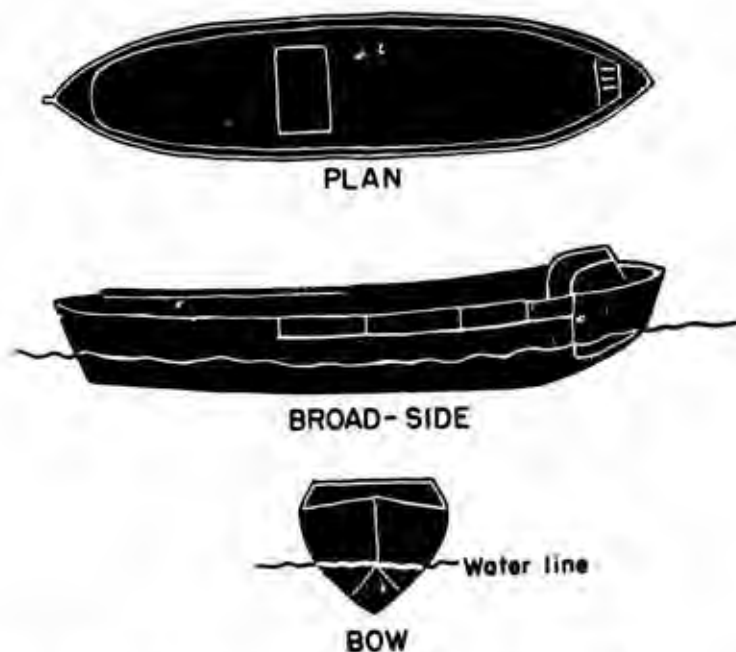
TYPE "A" JAPANESE LANDING BOAT.

Approx:-

| | | |
|-------------------|-------|---------------------------------------|
| Overall | 50' | (Also same type boat - Overall - 67') |
| Water line | 41' | Beam 13' |
| Loaded mean draft | 3'x3" | Loaded least freeboard - 3' |

Powered with low-speed 2-cylinder gasoline engine.
 (A few Diesel engines used) Approx. speed: 10 knots.
 Estimated capacity: 110-120 men fully equipped.

Figure 2.



TYPE "B" JAPANESE LANDING BOAT.

Overall - 20' to 40'

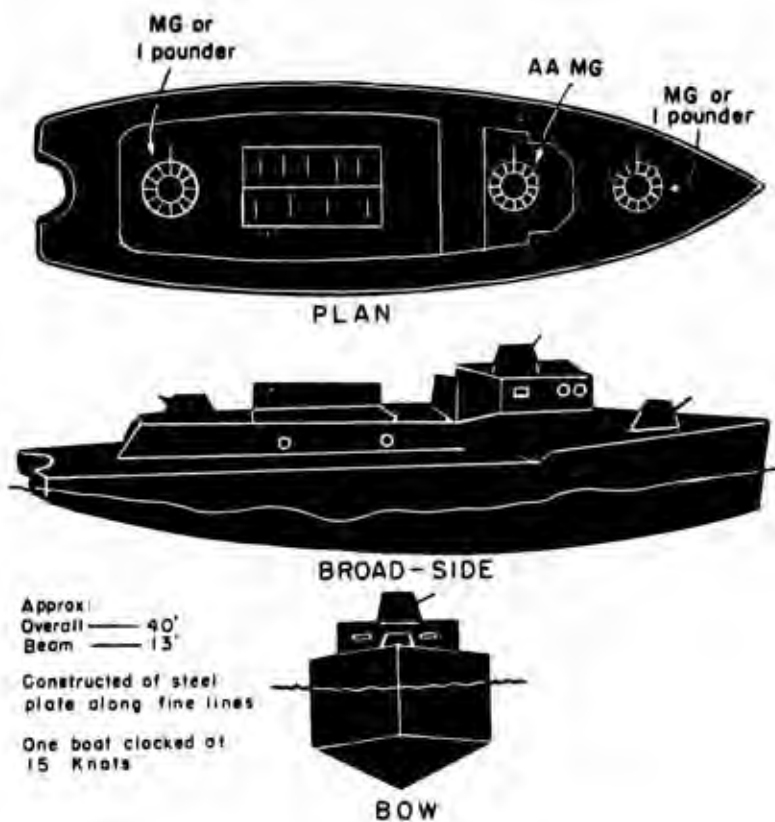
Powered with gasoline engine.

Construction similar to a steamer lifeboat.

Only some are equipped with bullet-proof shield in bow.

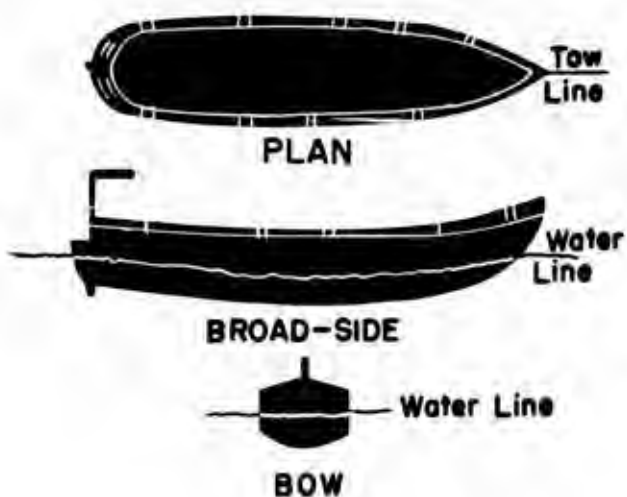
Some carry a light machine gun in bow.

Figure 3.



Type "C" Japanese Combination Picket and Command Boat

Figure 4.



TYPE "D" JAPANESE LANDING BOAT

Approx:

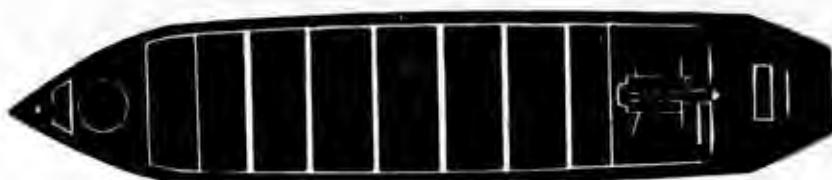
Overall — 30'

Beam — 10'

Constructed solely as a tow boat.

Has a wooden hull, similar to standard motor launch.

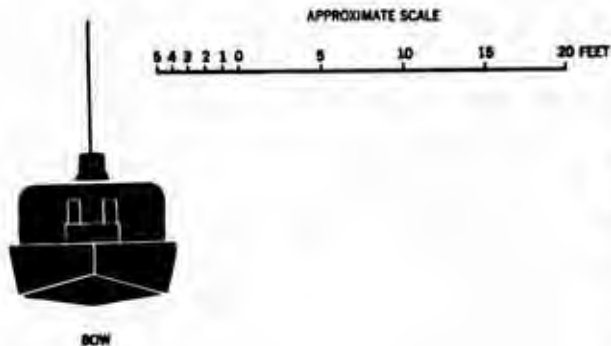
Figure 5.



PLAN



BROADSIDE



BOW

TYPE 'E' JAPANESE LANDING BOAT

Figure 6.



PLAN



STERN & SIDE

TYPE "F" JAPANESE LANDING BOAT.

Approx:

Overall- 40' (Also a 30' boat, this same type, used)

Beam- 12'

Boat is constructed of steel plates. A metal shield is rigged in bow for protection. In this shield there is an aperture for a machine gun. 40' boat clocked at 9 knots.

Figure 7.

My friends:

The United States of America is at war. Just what does that mean? It means that every last square inch of it is at war. It means that every man, woman, and child in the United States is at war.

The war is not something that affects only the Philippines, 7000 miles away, and the Atlantic seaboard, where the submarines of the enemy are taking their toll. It affects us all. It is the concern of every American, whether he is in Alaska or residing in the inland security of Illinois or Tennessee. Scores of those in this gathering have sons in our fighting forces. You workers are engaged in war production, and all of our lives are directly affected by the insurmountable fact of war, which is changing already the course of our day by day existence, no matter what our circumstances and no matter where we live.

You workers here at this great plant have demonstrated that you realize it to be your duty to yourselves and to your country to enlist your dollars voluntarily, dedicating them to the winning of the war. After all, these dollars are merely the symbol of the sweat and effort and determination you expended in earning them. And when you enlist your dollars you enlist yourselves. The more dollars you devote to victory, the greater part you play in achieving the great objective.

This proves what can be accomplished by the complete cooperation of labor and management, working together harmoniously in a common cause. Thirty nationalities are represented here in this plant, but they are all Americans. The results speak for themselves.

It is my great pleasure today to bring to you on behalf of the Treasury Department of your government, this flag, emblematic of the fact that more than ninety per cent of the 8,100 employees of this corporation, are payroll savings volunteers. This afternoon the Chrysler Tank Plant will be awarded a similar decoration. It is my hope that every plant and every business house in the country will earn and proudly display such a flag in the near future.

The flag will fly over this plant as long as 90 per cent or more of its workers continue to buy Defense Savings bonds by means of voluntary payroll savings. I am sure that it will fly until the victory is ours.

And so, Mr. ^{Pastorius} ~~Pink~~ I present to you, for your employees, this United States Treasury flag, emblazoned with the figure of the heroic Minute Man and the thirteen stars which bring to mind the pioneer states of our republic.

My congratulations and grateful appreciation.

* * * * *

opinion but when others had doubts, I remember particularly 1 day he spoke it to me from my own car on a cold autumn day. The last speech was to have been delivered at a very old theatre that was nothing but a firetrap. One of us tried to dissuade him from entering this building, but FDR had promised to make his appearance, & the mass disappointed his audience. - He has never disappointed the country, and he won't disappoint the millions who are looking to him now. -

He has given a lot of thought to America through fight he had to wage. He has a complete knowledge of our people. He is not prepared himself for this crisis.

Many a time when he stood before Congress...

In November 1914 - He gave me my first job in 1920. One time during those two years or so he wanted to take longer than anyone else. My wife & I went with him first year he went to Washington, & went with him a year many years after that. As Warren Springs we got to recognizing that the patients had a certain cheerful optimism, a ready helpful relation toward each other & this spirit has subsequently known as spirit of Warren Springs. was really the spirit of FDR into their life & courage into the people through the example he set.

This spirit of F.R. to overcome all hardships, to lend his friends & patients a helping hand, to overcome hardships of injustice - can be created in US. Nobody can ever tell me because you can't feel that kind of spirit - it's like the honest Mr. Truback - spirit of Warren Springs, spirit of F.R. spirit of America is something you can never beat.

It's often been said that London can take it. Through my friend's F.R. has shown he can take it.

You can go on 2 kinds of trips with a man - a company's trip or a company trip - to learn with the same love & respect & admire your friend, or you can go on a business trip. I've been on a number of company trips to my own state with F.R. - He was always the...

READING COPY
OF SECRETARY MORGENTHAU'S ADDRESS BEFORE THE
DEFENSE RALLY OF THE UNITED AUTOMOBILE WORKERS
STATE FAIR COLISEUM, DETROIT, MICH.

4 pm, Sunday, Jan.25,1942

It is a good and wholesome experience for any official from Washington to come here to Detroit to meet a great audience of automobile workers. We in Washington are much too accustomed to think that we sit at the very center of the war effort. For the past few weeks we have seen our Capital City become, in a sense, the capital of the world, the scene of wartime planning on a world-wide scale. The officials and admirals and generals of many countries are working together in Washington at this very moment, planning the military, naval, and economic strategy that will bring Japan and Germany to their knees.

- 2 -

Yet all our strategy, ^{no} ~~not~~ matter how brilliant, cannot accomplish its decisive purpose until the materials of victory have rolled from America's assembly lines. All the individual daring and bravery of our men in uniform cannot win the war unless they are backed by the mass production of the implements of war. The real heart of the war effort is, therefore, not in Washington but right here in your workshops and factories. The big push begins here. The great offensive against the Axis is under way here in your State of Michigan, next door to you in Ohio and Pennsylvania, and wherever the skill and energy of working men and women are producing the weapons of victory.

- 3 -

You in this hall are in the front lines in this phase of the war, and I am genuinely proud to be here among you today.

This is not the first time that I have been privileged to visit the Detroit industrial area in recent months. Some of you know that I had the pleasure of attending a meeting of shop stewards at Pontiac in November. I came back to Washington from that meeting heartened and invigorated as seldom before. In that one evening I heard more sound common sense than I had heard in many meetings, in Washington or elsewhere.

From that day I have been convinced that American labor has been ahead of all of us in its willingness to produce armaments to win the war, whatever the sacrifices, whatever the consequences.

There is every reason for the rank and file of American labor to be out in the forefront in its understanding of the war and in its response to wartime needs. In the first place, this is a people's war, to an extent never ~~before~~ known *before* in any of the great struggles of human history. This war is a people's uprising against tyrants who are trying to push us back into the Dark Ages.

- 5 -

It is being fought by the people and it can only be won by the people's efforts, by your efforts. Upon your skill, your sweat, your willingness to dedicate yourselves to war production, the ultimate outcome will very largely depend.

In the second place, this is a war against the enemies of the free labor ~~movement~~^{movement} in this and every other country. Nobody needs to stand before any group of labor men and women in this country to tell it what Fascism means. When the Blackshirts bullied their way to power in Italy twenty years ago, when others praised Mussolini for making the trains run on time, American labor instantly knew Fascism for what it was.

When Hitler crushed Germany's trade unions, you of American labor knew at once that he would crush yours if he ever had the chance.

Labor has never been dazzled by the military accomplishments of the dictators. Labor has never made the mistake of imagining that Fascism was in any sense a "new order" or that its medieval tyrannies could supply us with any guideposts to our own future. Now, at last, the life-and-death struggle has come, just as the rank and file of labor foresaw that it would. As Hitler said-- truthfully, for once!--"two worlds are in conflict; one of them must break asunder." We can tell him now that it is his world, not ours, which will break and die.

But there is a third and still more compelling reason why labor has an immeasurable stake in this war. Labor in this country and elsewhere looks to a better world, a freer and a more secure future. Everything that labor has fought for a hundred years to attain will be lost forever if the dictators should win. Everything that labor seeks, for its children and its children's children, is bound up with the success of the free countries in the present struggle.

I think I can describe those aims in a very few words by telling you about a great picture in the Grand Central Station in New York.

It is a unique picture because it happens to be the biggest photo-mural in the world; we of the Treasury put it there to help the sale of Defense Bonds and Stamps, and we made it big enough to cover an entire wall of the Station concourse, so that everybody could see it.

But what makes me so proud of it is not its size, but its message and its spirit. The first of its three huge photographs shows an American farmer and his land, and the caption under it says, "That we may defend the land we love." The second is a panel of children's faces, with the caption, "That these may face a future unafraid."

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And the last shows a worker looking up at a factory, and under it is the caption, "That we may build a better world."

Those happen to be the objectives of the Defense Savings Bond campaign, but I also know that they are the objectives of American labor, and they are the greatest of the aims for which we are fighting this war.

It may seem unfeeling of me even to mention Defense Savings Bonds to an audience in which so many of you have temporarily lost your jobs, suddenly and through no fault of your own, because of the change-over to war production in the automobile industry.

- 10 -

I know what you in the Detroit area have been suffering in temporary unemployment, and I wish as fervently as you do for the day when your plants will be back in full production again, and when those of you who are walking the streets will be back at your benches once more. Certainly I would never ask or expect any of you who are out of a job to buy Defense Bonds or Stamps. We have a slogan at the Treasury: "Let's make every payday Bond Day." That does not apply to those who have no payday and no regular income. The Treasury will never ask anyone to buy Defense Bonds if it means taking food from his children or clothing and shelter from his family.

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The other day a Chicago advertising agency sent us an elaborate sales promotion plan based, frankly enough, (and these were its words) upon "the traditional dread among the American people of being held up to public ridicule and scorn." The idea of this misguided plan was to label as a slacker everyone who did not buy a bond. We replied that we disapproved and did not countenance anything of the sort. We replied that we did not believe in the effectiveness of intimidating Americans, and that if any such tactics were proposed, we would avoid them like the plague.

Pause But for those who do receive regular pay, those who have good jobs at good wages, there is a greater need than ever to "make every payday Bond Day."

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You who are working in the Detroit area have just seen with your own eyes what a great economic dislocation can bring. You have seen friends and neighbors hard at work one day and thrown onto their unemployment insurance the next, as part of the price of preparing this country's factories for war. You know that those who have built up a reserve of savings are better able to meet an unforeseen shock than those who have not guarded themselves against it. Isn't it better to be prepared in time?

- 13 -

Isn't it better to safeguard your future by setting aside a part of your earnings now, every week and every payday? Your country needs the money, and you need the security that these double-purpose bonds will bring.

I am often asked three questions about Defense Bonds which must, I am sure, be in your minds. The first is, "Can I get my money out if I need it?" The answer is yes--any time after sixty days from the date you bought your bond. The second is, "What happens if I lose my bond?" The answer is that we at the Treasury have a record of every bond and its owner; we can supply you with another if you identify yourself, and we will be glad to keep your bond for you at the Treasury if you wish us to keep it in the safe for you.

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The third question is, "Will I lose money on these bonds the way so many people lost on the Liberty Bonds?" The answer is that you can't lose. These bonds, unlike the old Liberty Bonds, are registered in your name. You cannot trade them on the market or offer them in payment of a debt. You will always get back from the Government your one hundred cents on every dollar, and the longer you hold them, the more they will grow in value.

Moreover, Defense Bonds not only help to pay for the guns and tanks and planes that will win the war; they also pay for labor, your labor.

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Every time you buy a \$75 bond you pay for the services of a skilled worker for an entire week; every time you buy a Bond or even a Defense Stamp you are enabling the United States Government to pay you for your work, and you are hastening the day when our fighting men will be able to carry the war to Tokyo and Berlin.

Prize

About a month ago two of your brothers in the Dodge local, Mr. Rubin and Mr. Swetz, came to see me in Washington, to discuss ways and means of hastening the conversion of their plants to war production. Together we accomplished something, because those two men had the initiative to come to my office and also because of the fine cooperation of Mr. Patterson, the Undersecretary of War, Mr. Stettinius, the Lend-Lease Administrator, and Mr. E. T. Keller of the Chrysler Corporation.

But what I shall always remember about that meeting is the spirit that your representatives showed. I argued then, and I have said it for months to everyone who would listen, that the only way to arm this country in time was to order the complete and immediate stoppage of all automobile production, and the quickest possible conversion of the plants. Your representatives knew that that would mean immediate unemployment for great numbers of men; yet when I asked them how they felt about it, they answered, without a moment's hesitation, "We can take it; we want it done."

That was just a sample of the spirit I have found among American labor ever since we at the Treasury started the Defense Savings program. It is a sample of the spirit that the whole country has discovered in the weeks since Pearl Harbor. It is the spirit that is going to win the war.

I said in Cleveland yesterday that the pioneers who settled this Middle Western country did not let danger or hardship frighten them. They regarded every danger as a challenge, every hardship as an adventure. That is the spirit with which you are meeting this crisis, the greatest that free men have ever undergone.

You workers of Detroit are in the forefront
of the fight, and I am confident that you will
see it through until the fight is won.

-oOo-

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W/3283-330; No. 411 N.I.D., V.D. 11:00 A.M., January 25, 1942.

SITUATION REPORT

I. Pacific Theater.

Philippines: For several days the enemy has been building up for a prepared attack on our left. For this effort, fresh hostile troops were brought in under the protection of naval units. Their air preparations were heavy. In addition, night efforts at penetration were made along the Subic Bay coast in an effort to outflank our entire position. The attack was launched yesterday, and under its pressure we were forced to give ground with some loss. At this time, however, General MacArthur's right flank forces launched a counterattack with remarkable success, supported by a heavy concentration of 155-mm. fire. Our infantry found the enemy completely disorganized in this area, leaving hundreds of dead on the field as well as quantities of supplies and equipment. The situation is now stabilized. There is no further change in the Visayas or in Mindanao. Hawaii: No further reports of hostile activity. Malaya: The British have had some success in stabilizing a line from Batu Pahat on the west to Mersing on the east. The Japanese main effort is in the west. Burma: Japanese preparations for an attack on Rangoon continue, with scattered fighting in the Moulmein district. The press reports that U.S. and British fighter pilots destroyed 11 more enemy planes yesterday, including 7 twin-engined bombers. Guinea: Japanese activity in New Guinea and New Britain continues, according to aerial reconnaissance. West Coast: No further reports.

II. Eastern Theater.

Fighting continues on the eastern front in spite of the cold. There is no reported change in the situation. (No situation map will be issued this date.)

III. Western Theater.

No further reports have been received.

IV. Middle Eastern Theater.

Ground: Axis forces are moving large bodies of their troops westward from El Agheila. A strong column is moving along the Agheila-Meduba-Mustar coastal road. Sporadic fighting is reported in the Matlot-Saunna area.

Air: Axis Air Forces continue the attempted neutralization of Malta. In Tripolitania and Cyrenaica, both air forces continue actions against supply routes and dumps.

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January 26, 1942
9:45 a.m.

GROUP MEETING

Present: Mr. Blough
Mr. Bell
Mr. Southard
Mr. Paul
Mr. Viner
Mr. Morris
Mr. Thompson
Mr. Sullivan
Mr. Schwarz
Mr. Buffington
Mr. Graves
Mr. Gaston
Mr. Kuhn
Mr. Foley
Mr. Haas
Mrs. Klotz

H.M.JR: Herbert, what have you got?

MR. GASTON: I don't believe I have anything.

H.M.JR: Neither have I. Good.

Ed?

MR. FOLEY: I would like a chance to talk to you sometime this morning about the Alien Property Custodian stuff, a couple of companies. Leo Crowley had lunch with the President on Saturday.

H.M.JR: Yes.

MR. FOLEY: And I haven't heard anything. I don't know what happened.

H.M.JR: I see. Well, I haven't heard anything either.

MR. FOLEY: Here is a memorandum for the diary. (Dated January 24, 1942, re Alien Property Custodianship.)

H.M.JR: You tell them outside.

MR. FOLEY: Then I think we ought to get straight on the silver legislation, Mr. Secretary, if you have a few minutes today.

H.M.JR: Well, you tell them outside, but we will just sit tight and wait until we hear from Leo, that is all.

MR. FOLEY: All right.

H.M.JR: When he is ready, he will phone me. What else?

MR. FOLEY: That is all.

MR. SULLIVAN: Chairman Vinson of the House Naval Affairs Committee called me the morning after the article appeared in the newspaper last week that you and I were going to work with him in preparing a profit limiting bill. I had not talked with him before. I didn't know whether you had or not. He called and wanted us to help him prepare such a bill.

(Mr. Blough entered the conference.)

H.M.JR: I have not talked to him.

MR. SULLIVAN: And I said we would like to see the report, and he said he would send one down. It hasn't

yet gotten here, but it is a pretty voluminous affair, and I think we would have to put our men to work studying the report, but we can get into a great deal of difficulty between his Committee and House Ways and Means on that, and I just wanted you to know that we were trying to steer a course through that.

I understand that the Warner Brothers have a private studio that they are willing to make available to us, and I would like to show that tax picture to House Ways and Means and anybody in the Senate Finance who wants to see it before it goes out to the public.

(Mrs. Klotz entered the conference.)

H.M.JR: It is all right.

MR. SULLIVAN: There is an article on taxes in "Click" you might want to see.

H.M.JR: You mean the Disney picture?

MR. SULLIVAN: Yes. I think this article is pretty good, better than any they have had in the past. It goes on for four pages. I think it is pretty good.

H.M.JR: All right.

MR. SULLIVAN: I think Chick is responsible for that, and it is a good job.

MR. SCHWARZ: Thank you.

MR. SULLIVAN: Are we all going to see this Disney picture?

H.M.JR: I haven't heard. I don't even know whether it is in town.

MR. SULLIVAN: Yes.

H.M.JR: Is it in town?

MR. BUFFINGTON: The picture. I have three prints with me. Disney will not be here until the first of next week.

H.M.JR: How long does it take?

MR. BUFFINGTON: Seven and a half minutes.

H.M.JR: I don't know when the soldiers are in the studio. Well, sometime during the day.

MR. SULLIVAN: That is fine. The reason I asked that is that there are five hundred of them already out, and I think the sooner we can get them going, the better.

H.M.JR: Well, he (Buffington) is supposed to be in charge of that.

MR. SULLIVAN: I know that.

H.M.JR: And I suppose that is what he is doing.

MR. BUFFINGTON: What is that, Mr. Secretary?

MRS. KLOTZ: He can't hear you.

H.M.JR: Sullivan says he hopes that these five hundred pictures will get out, and I said that is what your job is, so when we get to it, you can give us a report, but you can show them to the committee - well, you had better - only one person can handle the publicity. I don't know what you have done with the Press Club. I am not going to worry. The picture is the property of Buffington.

MR. SULLIVAN: That is right, and the only reason I made the suggestion is, I know he is reluctant to let anybody see it until you have.

H.M.JR: Oh! Well, I didn't even know it was in town.

- 5 -

MR. SULLIVAN: All right. That is all.

MR. PAUL: We had a conference Friday with Senator George and Mr. Doughton and made a progress report to them. They seemed very pleased and as a result of that they said if it were agreeable to you they would postpone anything public for about three weeks and continue the working along the lines that we have been working on.

H.M.JR: Well, don't you think that is an awfully long time?

MR. PAUL: I don't think it is any too much, no.

H.M.JR: You don't?

MR. PAUL: I think it should be stopped if we should stop having progress or something of that sort, but for the moment I think we might work on that - with that schedule in mind.

H.M.JR: It seems awfully long to me. What do you think, John?

MR. SULLIVAN: I think that they are very anxious that every possible effort be made to get Stam in accord with the Treasury, and until it becomes apparent that he isn't going to give in, we will have to cooperate or we will continue to be accused by Doughton of not cooperating with the Committee. Randolph is entirely right. A great deal of progress has been made on many things. On the big issues, I don't think Stam is ever going to agree with us. I don't think he is going to agree with us on excess profits, but I think we jeopardize our position unless we do play along. Now, I think that Randolph has it correctly analyzed by saying that until it becomes apparent that we are not going to make any progress by cooperating, we should do it, and I likewise feel that the time that has been spent thus far has not been wasted and that the time we save on the other end is much greater than the time that has thus far been spent in conferences.

Stam, you know, fell and sprained his ankle and was out for about a week, and that held it up. It hasn't been our end of the show that has held us up all this time.

H.M.JR: Well. I will leave it with you two men. That is all I can do.

MR. PAUL: I would like to - I am sure that is the right decision. I would like to see you about a couple of matters for a few minutes, but it doesn't have to be today. Tomorrow would be all right.

H.M.JR: Would you mind telling them outside?

MR. PAUL: All right.

H.M.JR: Please. Anything else?

MR. PAUL: No, that is all.

MR. SULLIVAN: You remember last week you wanted us to come in again on exempt corporations?

H.M.JR: Yes.

MR. SULLIVAN: And I tried for a couple of days, and you were busy on your speech. We will be ready to discuss that with you whenever you say.

H.M.JR: I have got one more speech tonight and then I am through.

MR. SULLIVAN: I think that whatever we are going to do on this, Mr. Secretary, we had better do before we start on the tax bill because then we are not going to have much chance.

H.M.JR: George, tell us about Hollywood.

MR. BUFFINGTON: Five hundred prints were finished Saturday night, were shipped out of there. The schedule

- 7 -

originally called for the last five hundred to go out on the seventh, but they will go out either Thursday night of this week or Friday night of this week. There is a complete schedule worked out by the National Screen Service who the Program Committee of the War Activities Committee has permitted to handle all releases. We will have weekly a list of the theaters where each print is. They will be shown in many theaters within five and a half weeks.

The Disney Studio in California and their office in New York are handling the publicity, coordinating everything they do with Chick Schwarz. The first release probably will be Thursday of this week.

H.M.JR: Why coordinating with Chick Schwarz?

MR. BUFFINGTON: Well, I wanted to be sure that there is nothing that they do in the matters of publicity that might in any way interfere with the policy of the Treasury.

H.M.JR: Then that has nothing to do with the distribution of the--

MR. BUFFINGTON: No, no, stories.

H.M.JR: No, stories. They have been telling--

H.M.JR: That is good.

What I would like to know, is the picture any good?

MR. BUFFINGTON: I think it is fine. Peter Odegard saw it and Harold Graves saw it Saturday morning when I got in.

H.M.JR: What do you think about it?

MR. GRAVES: I like it very much.

H.M.JR: Not enthusiastic about it?

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MR. GRAVES: No, I am. I think it is a fine picture.

MR. BUFFINGTON: We have been given sixteen thousand boards by the Outdoor Advertising Association. In my absence, a poster was prepared which we wanted to use. We were told this morning that we can get the sixteen thousand posters--

H.M.JR: Now, the last I spoke - Bell called me up in Florida on that, and I said all of the posters were to go to Defense Bonds.

MR. BUFFINGTON: These are in addition to the ones going to Defense Bonds and in no way interferes, as I understand it, with the boards they have allocated to the Defense Bonds.

H.M.JR: Bell said Defense Bonds were working with the National Association and you were working with New England.

MR. BUFFINGTON: No, the New England man came to see me as a representative of the Association, and he was in favor of having the boards used for taxes, and Mr. Fulton, the president, was in favor of having it used for Defense Savings and there developed a little altercation in the organization, and, as a result of that, Mr. Fulton came back, as I understand it, on Friday of last week and offered the sixteen thousand boards for taxes.

H.M.JR: How many does that leave Defense Bonds?

MR. BUFFINGTON: Thirty thousand, I understand.

MR. GRAVES: Well, they are the same boards.

MR. BUFFINGTON: Same boards they had before.

H.M.JR: Well, you yourself told me you couldn't get the thing out in time, and I O.K.'d the thing once

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with you present to let them go for Defense Bonds.

MR. BUFFINGTON: Well--

MR. GRAVES: I think Mr. Buffington and I ought to get together on that.

H.M.JR: I think you should. I don't think you should bring it up to me, George. George, you yourself told me you couldn't get the thing ready in time.

MR. BUFFINGTON: No, I said that the Defense Savings group told us in Dan Bell's office that it wasn't possible to get the boards out in time.

H.M.JR: You said you couldn't get the thing out so it would do any good, and they were ready to go, and you agreed to it here in this office with me.

MR. BUFFINGTON: Well, I did at that time, but when they came back and said that we could have these sixteen thousand boards, and then--

H.M.JR: Well, is it part of the thirty thousand?

MR. BUFFINGTON: No, it is not. It is in addition to that.

H.M.JR: Well, you had better talk with Harold Graves. Will you?

MR. BUFFINGTON: All right, sir.

H.M.JR: You and Harold better get together, and in this matter, if you don't mind, whatever Harold decides will be final. And as to that sort of thing, you will have to clear that with Kuhn and Odegard. You have got to clear that with Kuhn and Odegard. Now, what else?

MR. BUFFINGTON: That is all.

H.M.JR: Have any fun out there?

MR. BUFFINGTON: Well, I got in at eight-forty, and I was in the Studio until one o'clock the next morning, and left Friday afternoon at four forty-five.

Technicolor has done a marvelous job. This is the fastest time they have ever gotten - this is the biggest single job they have ever handled and the fastest time they have ever made in printing.

H.M.JR: O.K.

Ferdie?

MR. KUHN: I have nothing except that the tax song was launched on the air last evening by Eddie Cantor, and I am told it was very, very good, and Chick got out a story on the song to the papers, and the Times printed the full text of the words this morning.

MR. SCHWARZ: The Herald Tribune and the Times Herald also carried all of it.

MR. KUHN: It is a question now of plugging.

H.M.JR: Jake?

MR. VINER: There are going to be hearings on a war risk insurance bill. The Treasury ought to have some interest in that. It ought at least to see that the bill is read here by somebody. It may be a big proposition that concerns you very much.

MR. FOLEY: I think Dan has been following it.

MR. VINER: Has he?

H.M.JR: He was to have been here this morning. He was to have had my estimates on my financing. I wonder if he is sick.

Who would you suggest to do it?

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MR. VINER: I think there ought to be a Treasury policy on it.

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

H.M.JR: Ask Bell who should do it, will you, Jake? He has been fussing with it.

MR. VINER: It is not a minor thing. It may mean - it may affect very important interests in the Treasury. I would say that Harry White's section ought to work on it.

(Mr. Bell entered the conference).

H.M.JR: I hadn't forgotten. I thought you said this morning you --

MR. BELL: Well, I am not, but I just thought I would sleep a couple of hours.

H.M.JR: Good for you. I approve. Well, before you leave, if you would - Viner raises the question of this war risk insurance, who is going to study it in the Treasury. Will you give it to somebody?

MR. BELL: Well, I started out to study it, you recall, and Jesse announced with the approval of the White House that he had created a corporation, and he has since gone to Congress and gotten Congressional authority, and I believe he is increasing his borrowing capacity to two and a half billion dollars, part of which is for that.

(Mr. Southard entered the conference).

H.M.JR: Do you think we ought to do anything about it?

MR. BELL: The only thing I think we can do is to just watch it and see what kind of a liability he puts

upon the Treasury. Apparently he has got White House approval.

H.M.JR: Would you have somebody look it over?

MR. BELL: Yes.

H.M.JR: Who will you give it to?

MR. BELL: I don't know. White has done some studying on it and furnished me several memoranda. It is probably between White and Haas. We will get together on it.

H.M.JR: Well, leave me a memo on it, will you?

MR. BELL: All right.

MR. VINER: Is it going to be free insurance?

MR. BELL: I think it is all free.

H.M.JR: The President said not.

MR. VINER: Well, the tax people ought to have a hand in it.

MR. BELL: I have seen nothing on it so far as the charges are concerned. It is a Government matter, and I understood the corporation would stand the whole bill.

H.M.JR: Well anyway, pin it on somebody.

MR. BELL: All right.

H.M.JR: And at a quarter of eleven for that Disney picture, you are all invited. Anything else, Chick? Roy? George?

MR. HAAS: Mr. Swope would like to change this daily table. You are receiving it in this form now, and he would like to change it this way. This shows the stock on hand in the Federal Reserve Banks and the Treasury.

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H.M.JR: Well, I will take my old one and the one he gets, both. I like the way I have been getting it.

MR. HAAS: O.K.

H.M.JR: I want to see the day where there are no unfilled orders.

MR. HAAS: Yes, that is why I wanted to check with you. Let me do it both ways.

H.M.JR: Let me have both. What does that mean, sales?

MR. HAAS: That means the sales - they sold thirty million dollars worth with that many pieces in the sales. We get the figures once a week, so we can give you that figure.

H.M.JR: I will take it both ways.

MR. HAAS: All right.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: I would like to ask you something personal, if you would stay behind a minute.

MR. GRAVES: Yes, sir.

MR. SCHWARZ: Mike McDermott called me just before the meeting. He hadn't been at Mr. Hull's press conference. He checked. He said he didn't say anything off the record along that line, but he talked with some of the boys over there and they said in his manner that some of them got the impression that he was treating it lightly, that he said it would have to be studied, and that it was out of his realm for the time being, it wasn't an immediate practical matter. He said there might be some basis, but that that statement was wrong. He checked it this morning.

H.M.JR: Anything else?

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MR. SCHWARZ: You might like to see the supplemental clippings on Cleveland.

H.M.JR: Thank you. Were there any clippings on yesterday's speech?

MR. SCHWARZ: Yes, there were some in the group I sent down earlier.

H.M.JR: Either you (Southard) - I don't know - with White and Coe away I don't know how to get this information, but between you and Frank Dietrich, one or the other, will you get for me from the State Department all the exchanges of cables between Rio and the State Department? I would like it this morning. In regard to the Stabilization. I want a complete file. Now, whether Frank Dietrich gets those or how that is done, I don't know.

MR. SOUTHARD: It would be a matter of being sure we have got a full set. What we have, we have organized.

H.M.JR: You might even go over there. There may be some cables - I am suspicious that somebody shot a cable down there that we don't know about. I am suspicious. I think if you got it you might go over, and I don't see why you just don't ask them for a set. Just say that I would like to have a set out of Mr. Hull's office of every cable that went, and was received, pertaining to Stabilization Fund.

MR. SOUTHARD: All right.

H.M.JR: And then the burden is on them to produce them all.

MR. SCHWARZ: That is all.

MR. MORRIS: Nothing.

H.M.JR: How is your number of corporations?

MR. MORRIS: The reports are as of each Saturday, and we don't get them until Tuesday night or they would be available to you Wednesday morning.

H.M.JR: What was the response to those twelve telegrams?

MR. MORRIS: I have either nine or ten answers, of which two were this morning. Most of them are favorable. One raises a question about lack of bonds in the Atlanta district that I want to follow up on. Atlanta sent out a request to corporations to please go slow, because they were very short of bonds.

H.M.JR: Now, that was the first week there were twelve and the second week there were about a hundred came in, weren't there?

MR. MORRIS: There were twelve more, a total of a hundred and eighteen today.

H.M.JR: I would like today a telegram to go out to the second lot, the hundred and twelve.

MR. MORRIS: I asked for that information as of the close of last Saturday to be here tomorrow morning.

H.M.JR: But you only sent it to twelve.

MR. MORRIS: But for the second batch, I will not have the data until tomorrow morning.

H.M.JR: Oh. Well, then you can send it out tomorrow night.

MR. MORRIS: And I had hoped - when I get that I would like to look at it because it may be I can do some on a sampling basis. I tried to make it somewhat personal instead of just an impersonal telegram, because I think the companies feel much better in getting something that ties in with the facts, rather than just a blanket one.

H.M.JR: I don't want to be - I want to do it once more.

MR. MORRIS: Yes, but maybe on a sampling basis.

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Do you want the whole hundred and twelve, or perhaps --

H.M.JR: No, sampling will be all right.

MR. MORRIS: Sampling basis on that group.

H.M.JR: That will be all right. Anything else?

MR. MORRIS: Nothing.

H.M.JR: Dan, you are just in this morning, aren't you?

MR. BELL: Yes. I have got a number of things I would like to talk to you about.

H.M.JR: Well, I was holding up the appointments. I will see you at eleven so that you can go back home.

Dan is going to stay home the rest of the week, at my orders.

We will come right upstairs from the movie.

MR. BELL: O.K. I have a number of things I would like to talk to you about it.

H.M.JR: All right. We will come right upstairs.

MR. PAUL: Can we make those other appointments now?

H.M.JR: No (laughter). I will tell you, what I am waiting for, I have got this speech at a quarter of eleven, which comes next. That is why I am holding everybody off. I want to do Dan, so he can go home.

MR. PAUL: I thought it was Dan.

H.M.JR: No, when I get this one more speech out - I have done three in three days, which is two too many. So we will get this out of the way, and we will get back

- 17 -

to normalcy again, as far as I can make it.

MR. KUHN: Four in three days, Mr. Secretary.

H.M.JR: That is right. One at the Great Lakes Steel.

MR. THOMPSON: We are planning to substitute the word "victory" for "defense" in this Minute Man symbol.

MR. GRAVES: That is only on the letterhead, Norman?

MR. THOMPSON: Well, I thought if we do it on the letterhead, we should do it on checks and other things.

H.M.JR: Who is behind this?

MR. THOMPSON: Harold Graves' organization suggested it.

MR. GRAVES: Our people have sent out mats to all newspapers with that change, instead of "For Defense" at the top, it is "For Victory".

H.M.JR: Do you want to take that up with the MacLeish Committee? Do you think they would be interested?

MR. KUHN: They are for it. I have been telling them that you don't have to change the name of the bonds. You can change the tone of the copy and do the same job.

MR. GRAVES: We still continue, as you will note, further down on the copy, to talk about defense bonds, but at the top --

MR. MORRIS: Don't you think you are going to have to change the name of the bonds?

MR. BELL: There should be a word "and" between bonds and stamps. That came to me Saturday, Mr.

Secretary, and I raised a question about it because you will recall, I think two or three weeks ago, some such matter was taken up with the President, and he said, "No victory on any posters because we haven't had any victory," and that is the reason I raised the question about it.

H.M.JR: There is a poster committee too, which the President has created.

MR. KUHN: I understood that he was simply opposed to changing the name of the bonds.

MR. GRAVES: That is what I understood too.

MR. KUHN: But in posters and in copy you can always speak of --

H.M.JR: Where is this poster committee? Lowell Mellett?

MR. KUHN: It has had no meeting yet.

MR. BELL: No, he was opposed to a victory program going to Congress because he said, "We haven't had anything but losses so far, so why emphasize victory?"

H.M.JR: Well, I tell you what you do. To make the record, you see, I would take it up officially at this MacLeish Committee this afternoon. Will you?

MR. KUHN: Right.

H.M.JR: And then before it is in effect, I would like to have you take it up again with me, because I am not sure myself.

MR. KUHN: They have issued an order, I believe, that all Government agencies with the word "defense" in their title should change it to "war." "Economic Warfare Board," and so on.

H.M.JR: Who issued the order?

MR. KUHN: I believe --

H.M.JR: Well, they are in direct contradiction of what the President said. Anyway, it won't do any harm to take it up this afternoon with MacLeish, and then I may even ask you to clear it with Steve Early. Let's clear it with MacLeish and Steve Early. I am not crazy about it.

MR. BELL: I am not either.

H.M.JR: So even if they say "Yes" I am not sure that I will. I may say "No". I am not crazy about it.

MR. KUHN: I like it. I think it is perfectly all right without changing the title of the bonds.

H.M.JR: But that isn't the point. I am not crazy about it.

MR. KUHN: May I take this?

H.M.JR: Yes. As I say, I would like you to go through the MacLeish Committee and through - and there is no use sending it over. You have got to walk it over to Steve Early, somebody, but I am not - and I am not sold on it myself. I am not sold on it myself. Is that all?

January 26, 1942
10:30 am

Present: Lord Halifax, British Ambassador
Sir Frederick Phillips
Mrs. Klotz

The Ambassador: You will remember that you talked to Phillips about the general financial condition. You suggested that it would be best for the Prime Minister to take the matter up with the President.

HM Jr: Oh, no. It was not my suggestion. Phillips gave me two alternatives: (1) That the Chancellor of the Exchequer should take the matter up with me; and (2) That Churchill would take the matter up with the President. After giving me the two alternatives, I said that I thought it was so important that it would be best coming from Churchill to the President.

The Ambassador: We put that up to London and we received an answer that the Prime Minister was so deep in the day-to-day job of the war that they hesitated to ask him to take up the matter directly with the President, and I think he is reluctant to do it because he is not conversant to do it. They came back to the other alternative. They would be quite ready if the Chancellor could send you a formal message, and I have such a message and I can show it to you off the record or not.

I have a third alternative plan if the second is not acceptable. I could see the President and put whatever I have to say to him myself on instructions from London. I see certain disadvantages and yet certain advantages. I want your judgment as to these two courses of action.

HM Jr: Let me think out loud. I will be frank just as I always am. I want to look at it from your standpoint as to how we can get the money. If the thing comes from the Chancellor of the Exchequer to me, and then I have to go around to the various departments and try to get this money, and I am willing to do it just as I have in the past

- 2 -

Phillips: Stettinius got orders to put it in his new Lend-Lease Bill, and in the draft is a wide margin to cover these things. That draft is now going to the Budget.

HM Jr: That's all the more reason why it should be given to the President. Lend-Lease is under him and so is the Budget. Then when you saw the President, he would send you to the Director of the Budget. If you didn't mind, you could then suggest that the President should send it to the Director of the Budget. This will help so that I would not have to battle with the different departments, which I am willing to do, but I do not want it to become a personal issue that I am trying to do it.

The Ambassador: The doubt that I have in my mind is that the President might say and think, "What is this fellow coming over to see me for? He never talked to me about money before. He doesn't know anything. I do not know anything. Why does he waste my time? Why doesn't he talk to Secretary Morgenthau about it?"

HM Jr: You are right. Your reaction is absolutely right. If Churchill does not want to do it, let the Chancellor of the Exchequer send it to me personally, and I will do it the best I can for you. If, after a time, I fail there is always time to go to the President.

Phillips: You do not want it put up through Winant?

HM Jr: No. When I get this thing from the Chancellor, I will send a copy to the President, Hull, Stimson and Knox, and ask them for their suggestions.

The Ambassador: Would it help or hinder if I said a word to Harry Hopkins?

HM Jr: It would help. He is in the hospital now.

Phillips: Well, we came here to get Mr. Morgenthau's decision.

HM Jr: No, this is your decision.

The Ambassador: It is his informal judgment as a friend.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission,
who enclose Statement No. 17 - Aircraft Despatched -
for week ended January 20, 1942.

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

January 26, 1942

STATEMENT NO. 17

AIRCRAFT DESPATCHED FROM THE UNITED STATES
DURING WEEK ENDED JANUARY 20, 1942

| TYPE | DESTINATION | ASSEMBLY POINT | BY SEA | BY AIR | FLIGHT DELIVERED FOR USE IN CANADA |
|---|-----------------------|----------------|--------|--------|---------------------------------------|
| <u>CASNA</u> T 50 | Canada | | | | 54 |
| <u>CURTIS</u> Kittiwake Kittiwake | Middle East Canada | Port Sudan | 9 | | 5 |
| <u>DOUGLAS</u> Boston III | Russia | Basrah | 4 | | |
| <u>ELGIN WASTON</u> Baltimore | Middle East | Port Sudan | 3 | | |
| <u>LOCKHEED</u> Hudson III | U. K. | | | 1 | |
| <u>NORTH AMERICAN</u> Harvard II | Canada | | | | 6 |
| TOTALS | | | 16 | 1 | 65 |

British Air Commission
 January 24, 1942

TREASURY DEPARTMENT

137

INTER OFFICE COMMUNICATION

DATE January 26, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Shipment of Planes to British Forces

1. In the week ending January 20, a total of 82 planes of all types (22 combat planes, 60 trainers) were shipped to British forces.

2. The number of planes shipped to the British since January 1, 1941, has now passed the 5,000 mark. Light and medium bombers made up 33 percent of the total number, trainers, 31 percent, and pursuit planes 30 percent. The remaining 6 percent of the total was scattered among naval patrol bombers, heavy bombers, and army cooperation planes.

Table A - Shipments by Area

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| | Week Ending Jan. 20, 1942 | Total shipped in 1942 to date | Total shipped since Jan. 1, 1941 |
|--------------------------------------|------------------------------|-------------------------------------|--|
| <u>To the United Kingdom</u> | | | |
| Light and medium bombers | 1 | 1 | 1,125 |
| Heavy bombers | 0 | 0 | 104 |
| Naval patrol bombers | 0 | 0 | 102 |
| Pursuit | 0 | 13 | 324 |
| Army Cooperation | 0 | 0 | 35 |
| Trainers | 0 | 0 | 24 |
| Total to the United Kingdom | 1 | 18 | 1,714 |
| <u>To the Middle East</u> | | | |
| Light and medium bombers | 3 | 29 | 359 |
| Heavy bombers | 0 | 0 | 5 |
| Pursuit | 9 | 84 | 932 |
| Army Cooperation | 0 | 0 | 0 |
| Trainers | 0 | 8 | 150 |
| Total to the Middle East | 12 | 121 | 1,446 |
| <u>To the British Pacific Forces</u> | | | |
| Light and medium bombers | 0 | 0 | 95 |
| Naval patrol bombers | 0 | 0 | 27 |
| Pursuit | 0 | 0 | 168 |
| Trainers | 0 | 0 | 105 |
| Total to Pacific Forces | 0 | 0 | 395 |
| <u>To the Forces in Russia</u> | | | |
| Light and medium bombers | 4 | 4 | 48 |
| Pursuit | 0 | 0 | 49 |
| Total to Russian Forces | 4 | 4 | 97 |
| <u>To the Canadian Forces</u> | | | |
| Light and medium bombers | 0 | 1 | 55 |
| Naval patrol bombers | 0 | 7 | 15 |
| Pursuit | 5 | 5 | 47 |
| Trainers | 60 | 103 | 1,277 |
| Total to Canadian Forces | 65 | 116 | 1,394 |
| <u>Totals</u> | | | |
| Light and medium bombers | 8 | 35 | 1,682 |
| Heavy bombers | 0 | 0 | 109 |
| Naval patrol bombers | 0 | 7 | 144 |
| Pursuit | 14 | 102 | 1,520 |
| Army Cooperation | 0 | 4 | 35 |
| Trainers | 60 | 111 | 1,556 |
| Total | 82 | 259 | 5,046 |

Table B - Shipments by Types

| | Week Ending Jan. 20, 1942 | Total Shipped in 1942 to date | Total Shipped since Jan. 1, 1941 |
|----------------------------|------------------------------|-------------------------------------|--|
| Bell Airacobra | 0 | 0 | 154 |
| Boeing B-17 | 0 | 0 | 20 |
| Boston III | 0 | 0 | 39 |
| Brewster Buffalo | 0 | 0 | 168 |
| Cessna T-50 | 54 | 74 | 622 |
| Consolidated Catalina | 0 | 7 | 144 |
| L.B.30 (B-24) | 0 | 0 | 6 |
| Liberator I (B-24A) | 0 | 0 | 19 |
| Liberator II (B-24B) | 0 | 0 | 64 |
| Curtiss Kittyhawk | 14 | 89 | 471 |
| Tomahawk | 0 | 0 | 593 |
| Douglas Boston I | 0 | 0 | 1 |
| Boston II | 0 | 0 | 81 |
| Boston III | 4 | 4 | 443 |
| Fairchild 24 R-9 | 0 | 4 | 26 |
| Glenn Martin Baltimore | 3 | 29 | 97 |
| Maryland | 0 | 0 | 150 |
| Grumman Martlet II | 0 | 0 | 41 |
| Lockheed Hudson I | 0 | 0 | 1 |
| Hudson III | 1 | 1 | 352 |
| Hudson IV | 0 | 0 | 70 |
| Hudson V | 0 | 1 | 398 |
| North American Harvard II | 6 | 37 | 934 |
| Mustang | 0 | 13 | 93 |
| Pitcairn Autogiro | 0 | 0 | 5 |
| Vought Sikorsky Chesapeake | 0 | 0 | 50 |
| Vultee Stinson-049 | 0 | 0 | 4 |
| Grand Total - All Types | 82 | 259 | 5,046 |

Table C - Plane Shipments to the British by Weeks

| <u>Week Ended</u> | <u>Light and medium bombers</u> | <u>Heavy bombers</u> | <u>Naval patrol bombers</u> | <u>Pursuit</u> | <u>Army Cooperation</u> | <u>Trainers</u> | <u>Total</u> |
|---|---------------------------------|----------------------|-----------------------------|----------------|-------------------------|-----------------|--------------|
| Weekly average of shipments in 1941 | 32 | 2 | 3 | 27 | 1 | 28 | 92 |
| January 6, 1942 | 24 | 0 | 5 | 30 | 4 | 9 | 72 |
| January 13, 1942 | 3 | 0 | 2 | 58 | 0 | 42 | 105 |
| January 20, 1942 | 8 | 0 | 0 | 14 | 0 | 60 | 82 |
| Total shipments since January 1, 1941 to date | 1,682 | 109 | 144 | 1,520 | 35 | 1,556 | 5,046 |

For Miss Chauncey

141

**TREASURY DEPARTMENT
OFFICE OF THE SECRETARY**

January 26, 1942.

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 January 14, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.



dm: 1/26/42

C
O
P
Y

For Miss Chauncey

142

**FEDERAL RESERVE BANK
OF NEW YORK**

January 22, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended January 14, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knoks

L. W. Knoks,
Vice President.

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

Enclosure

Copy:lc:1/26/42

STATEMENT OF DEBIT AND CREDIT BALANCE ACCOUNTS
(In Billions of Dollars)

Week Ending JANUARY 14, 1942

Strictly Confidential

| PERIOD | UNITED STATES GOVERNMENT | | | | | | | | COMBINED BANK OF AMERICA (and Associated Governments) | | | | | | | | |
|--|--------------------------|-------------|--------------|---------------|------------|--------------|----------------|---------------|---|--------------|-------------|--------------|---------------|------------|--------------|----------------|---------------|
| | Total Debits | British A/C | Other Debits | Total Credits | Gold Sales | For U.S. A/D | For French A/C | Other Credits | Net Bal. (+) or (-) in Balance | Total Debits | British A/C | Other Debits | Total Credits | Gold Sales | For U.S. A/D | For French A/C | Other Credits |
| First year of war (8/29/39-8/28/40)* | 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 |
| War period through December, 1940 | 477.2 | 16.6 | 460.6 | 707.4 | 534.8 | 20.9 | 110.7 | 41.0 | +230.2 | 57.9 | 14.5 | 43.4 | 62.4 | 30.1 | 12.3 | | + 4.5 |
| Second year of war (8/29/40-8/27/41)** | 160.4 | - | 160.4 | 462.0 | 246.2 | 3.4 | 123.9 | 88.5 | + 1.6 | 72.2 | 16.7 | 55.5 | 81.2 | 62.9 | 18.3 | | + 9.0 |
| Aug. 28 - Oct. 1, 1941 | 23.1 | - | 23.1 | 52.2 | 21.2 | - | - | 31.0 | + 29.1 | 10.7 | 0.5 | 10.2 | 2.8 | 2.1 | 0.7 | | - 7.9 |
| Oct. 2 - Oct. 29, 1941 | 37.4 | - | 37.4 | 19.7 | 11.9 | - | - | 7.8 | - 17.7 | 8.2 | 5.5 | 2.7 | 8.0 | 5.9 | 2.1 | | + 0.2 |
| Oct. 30 - Dec. 3, 1941 | 52.8 | 0.1 | 52.7 | 32.5 | 19.3 | - | - | 13.2 | - 20.3 | 10.3 | 6.9 | 3.4 | 11.6 | 9.0 | 2.6 | | + 2.3 |
| Dec. 4 - Dec. 31, 1941 | 17.7 | - | 17.7 | 22.2 | 17.3 | - | - | 4.9 | - 25.5 | 3.9 | 1.8 | 2.1 | 2.2 | 0.2 | 2.5 | | - 1.1 |
| 1942 | | | | | | | | | | | | | | | | | |
| Week Ending: | | | | | | | | | | | | | | | | | |
| Dec. 24 | 11.7 | - | 11.7 | 5.5 | 4.5 | - | - | 1.0 | - 9.2 | 0.7 | - | 0.7 | 0.1 | - | 0.1 | | - 0.6 |
| 31 | 11.3 | - | 11.3 | 7.9 | 7.4 | - | - | 0.5 | - 3.4 | 1.8 | 1.8 | - | 1.6 | - | 1.6 | | - 0.2 |
| Jan. 7 | 7.0 | - | 7.0 | 1.4 | 0.1 | - | - | 1.3 | - 5.6 | 0.7 | - | 0.7 | 0.2 | - | 0.2 | | - 0.5 |
| 14 | 9.2 | - | 9.2 | 7.4 | 5.4 | - | - | 2.0 | - 1.8 | 2.1 | - | 2.1 | 0.6 | - | 0.6 | | - 1.5 |

Weekly Average of Total Debits Since Outbreak of War

through January 14, 1941 \$ 7.7 million

- * For monthly breakdown see tabulations prior to April 23, 1941.
- ** For monthly breakdown see tabulations prior to October 8, 1941.

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Billions of Dollars)

Week Ended January 14, 1942

Strictly Confidential

| PERIOD | UNIT OF BRITAIN (BRITISH GOVERNMENT) | | | | | | | | BANK OF FRANCE | | | | | | |
|--|--------------------------------------|------------------------|--------------|---------------|---------|---------------------------|-------------------|--|----------------|------------------------|--------------|---------------|-------|--|------------|
| | Total Debits | Gov't Expenditures (a) | Other Debits | Total Credits | CREDITS | | | Net Incor. (+) or Decr. (-) in Balance | DEBITS | | | CREDITS | | Net Incor. (+) or Decr. (-) in Balance | |
| | | | | | Gold | Securities (Official) (b) | Other Credits (c) | | Total Debits | Gov't Expenditures (d) | Other Debits | Total Credits | Gold | | Securities |
| First year of war (8/29/39-8/28/40)* | 1,793.2 | 605.6 | 1,187.6 | 828.2 | 1,356.1 | 52.0 | 420.1 | + 35.0 | 866.3(e) | 416.6(e) | 449.7 | 1,095.3(e) | 900.2 | 195.1(e) | +229.0 |
| War period through December, 1940 | 2,792.3 | 1,425.6 | 1,356.7 | 2,793.1 | 2,109.5 | 108.0 | 575.6 | + 10.8 | 878.3 | 421.4 | 456.9 | 1,098.4 | 900.2 | 198.2 | +220.1 |
| Second year of war (8/29/40-8/27/41)** | 2,203.0 | 1,792.2 | 410.8 | 2,189.8 | 1,193.7 | 274.0 | 722.1 | - 13.2 | 38.9 | 4.8 | 34.1 | 8.8 | - | 8.8 | - 30.1 |
| 1941 | | | | | | | | | | | | | | | |
| Aug. 28 - Oct. 1 | 140.9 | 105.9 | 35.0 | 176.2 | 20.1 | 2.0 | 154.1 | + 35.3 | 0.3 | - | 0.3 | 0.5 | - | 0.5 | + 0.2 |
| Oct. 2 - Oct. 29 | 109.0 | 77.3 | 31.7 | 150.9 | 0.8 | - | 150.1 | + 41.9 | 0.3 | - | 0.3 | 0.3 | - | 0.3 | - |
| Oct. 30 - Dec. 3 | 156.1 | 111.6 | 44.5 | 134.6 | - | 1.0 | 133.6 | - 21.5 | 16.1 | - | 16.1 | 0.4 | - | 0.4 | - 15.7 |
| Dec. 4 - Dec. 31 | 88.4 | 69.6 | 18.8 | 51.5 | - | - | 51.5 | - 36.9 | 0.8 | - | 0.8 | 0.4 | - | 0.4 | - 0.4 |
| 1942 | | | | | | | | | | | | | | | |
| Net CHANGED: | | | | | | | | | | | | | | | |
| Dec. 24 | 19.7 | 14.2 | 4.5 | 6.2 | - | - | 6.8 | - 11.9 | 0.1 | - | 0.1 | 0.1 | - | 0.1 | - |
| 31 | 22.4 | 17.9 | 4.8 | 10.0 | - | - | 18.0 | - 4.4 | 0.5 | - | 0.5 | 0.2 | - | 0.2 | + 0.3 |
| Jan. 7 | 20.4 | 17.7 | 8.7 | 11.5 | - | - | 11.5 | - 14.9 | 0.1 | - | 0.1 | 0.1 | - | 0.1 | - |
| 14 | 30.2 | 22.9 | 7.3 | 24.8 | - | 0.5 | 24.3(f) | - 5.4 | - | - | - | 0.1 | - | 0.1 | + 0.1 |

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) \$19.6 million
England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 41.3 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended January 14, 1942 \$ 162.7
Cumulation from July 6, 1940 \$

million
million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
(See attached sheet for other footnotes)

- (d) proceeds of official selling of securities for purchase of British goods and services to the official selling, substantial liquidation of securities for purchase of British goods and services in the early months of the war, although the receipt of the proceeds at this bank cannot be identified with any accuracy 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.
- (e) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$7.5 millions transferred from New York accounts of British Authorized banks and about over \$5,000,000 presumably representing refunds of advances made to American concerns by the British Purchasing Commission.

Treasury Department
Division of Monetary Research

Date ~~January 26, 1942~~ 18

To: Secretary Morgenthau
From: Mr. Southard

Dr. Viner has suggested that you may be interested to know that Prime Minister Mackenzie King will announce this afternoon in the Canadian Parliament that Canada will cancel \$1 billion of Great Britain's outstanding debt to Canada and will continue giving financial aid to Great Britain -- without any repayment obligation -- up to \$800 million per year.

January 26, 1942
11:20 a.m.

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HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: First rate. And you?

HMJr: I'm all right.

R: You got back from Cleveland.

HMJr: Yes.

R: Right.

HMJr: Now, I understand there's a misunderstanding on my speech in New York?

R: Well, they are confused. They don't know whether your remarks were directed entirely at state and municipal bonds or whether in the background there might be some way of getting at the partially tax exempt and the tax exempt Treasury securities.

HMJr: Well, now.....

R: Now, they don't stop to think that the question on state and municipals is one of the interpretation of that income tax amendment, and that in some opinion that it would only be a matter for legislation and that you have a contract - Treasury has a contract with its holders in respect to its own securities.....

HMJr: That's right.

R:which is the attitude that I've been taking when people have discussed it with me this morning.

HMJr: That's right. Well, now, is there any way - anything that we can do down here? You've got a copy of my speech?

R: No, I've sent out to the man who distributes them

- 2 -

here - Mr. Friend - and he hoped that he'd be able to get us one. So far it hasn't come in. I've had to rely only on the papers, and one man whom I know who heard you make the speech.

HMJr: Well, now, have you got a - can't they - what I said on tax exempte is only two hundred words. They could read it over to somebody over the phone.

R: Well, I'd like to have that; and I could have it dictated to my girl here.

HMJr: Well, I can tell - what's his name - the bond man?

R: Chick Schwarz?

HMJr: No. What?

R: Schwarz?

HMJr: No. Hadley. I'll ring for Hadley, and who do you want him to read it to?

R: Well, have him read it to the trading desk, and they'll have a girl take it down.

HMJr: Have Hadley read it to the trading desk.

R: Yeah, and they'll get a girl to transcribe it.

HMJr: Yeah. It's only very short, and you can - I recognize the obligation.

(Talks Aside) Hadley, read this part over to Harris on the phone and tell them to give it to Mr. Rouse. Do it right away.

R: But my interpretation is satisfactory from your standpoint, and I can go ahead and talk that way to these people and have it passed around.

HMJr: Give it to Harris, will you? (Talks aside)

You can. I mean, this is something that we

- 3 -

feel that there's no contract - no contractual obligation or moral obligation as to the Federal Government as to state or municipal bonds which have been sold.

R: Yeah.

HMJr: We do feel that there's a moral obligation between the Federal Government and Federal bondholders. Hello.

R: Yeah.

HMJr: And I feel that way very strongly, and I have nothing in mind about taxing the income from outstanding Federal issues.

R: The other thing that's bothering the market and has been for ten days in the same respect is the question of lowering the normal rate of normal tax and increasing the surtax as it affects the partially-exempt Governments.

HMJr: Well, I haven't even - no one's discussed it with me. I don't know. So I can't treat that. I mean, I can't handle it because I have no - I haven't discussed it with anybody here.

R: Well, the thing for us to do is to say to the dealers, and to the bankers with whom we talk, that your remarks were directed solely at state and municipal securities and not at Government securities.

HMJr: That's right. That's right.

R: And we'll have the text to work on.

HMJr: Well, you ought to have it inside of five minutes.

R: Fine.

HMJr: All right.

R: Right, sir.

HMJr: Thank you.

LEG RAPH T RE A S U R Y T E L G R A P H T R E A S U R Y T E L E G R A

1/26/42 ✓

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HON HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY WASHDC

ON BEHALF OF THE STATES AND MUNICIPALITIES OF THIS NATION,
ACTING THROUGH THE CONFERENCE ON STATE DEFENSE, I HAVE
CONCERNED YOUR PROPOSAL TO TAX OUTSTANDING STATE AND
MUNICIPAL BONDS AS A FLAGRANT BREACH OF THE CONFIDENCE AND
GOOD FAITH HERETOFORE EXPRESSED BY ██████████ THE ACTS OF CONGRESS,
DECISIONS OF THE SUPREME COURT, STATEMENTS OF THE PRESIDENT
AND YOURSELF AS SECRETARY OF THE TREASURY. IN THE LIGHT OF
PAST EXPERIENCES, THE PLEDGED WORD OF LOCAL GOVERNMENTS,
AND THE APPROUENCE OF THE FEDERAL GOVERNMENT, A FEDERAL
ATTEMPT TO TAX OUTSTANDING ISSUES IS IN FLAT CONTRADICTION
OF EVERY PRINCIPLE OF GOVERNMENTAL INTEGRITY FOR WHICH THE
AMERICANS ARE FIGHTING TODAY. WILL YOU DISCUSS YOUR
PROPOSAL TO TAX OUTSTANDING BONDS WITH ME OVER A
NATION-WIDE RADIO PROGRAM
-OMAR STEIN) CHAIRMAN CONFERENCE ON STATE
DEFENSE.

PROPOSED WIRE TO HENRY EPSTEIN

I wish to acknowledge your telegram of January 26th. I am aware that your objective has always been to prevent Federal taxation of future issues of state and municipal securities, and I note that in this telegram you seek further to protect this, your real interest, by condemning the proposal to tax outstanding issues of state and municipal securities. I am familiar with the position you have so long maintained despite the fact that every Republican and Democratic administration for the past twenty years has sought to end reciprocal exemptions and despite the farther fact that within the past year both houses of Congress by overwhelming majority voted to prohibit exemption of future issues of Federal securities. I believe that now when Democracy itself is being challenged, it is unthinkable that some members of our democratic society through investment in state and municipal securities should be allowed to escape their share of the national burden and transfer it to their less fortunate fellows. Such an undemocratic privilege was never contemplated by the founders of America, and the continuance of this especially privileged class at this time is unspeakable. State and municipal officers, as the most intimate leaders of the people, are in a position to make a fine contribution to national morale and national unity by supporting this proposal. Many of them are doing so. I appreciate that it requires courage to reverse one's position. I am disappointed that you lack that courage.

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I wish to acknowledge your telegram of January 26th. I am aware that your objective has always been to prevent Federal taxation of future issues of state and municipal securities, and I note that in this telegram you seek further to protect this, your real interest, by condemning the proposal to tax outstanding issues of state and municipal securities. I am familiar with the position you have so long maintained despite the fact that every Republican and Democratic administration for the past twenty years has sought to end reciprocal exemptions and despite the farther fact that within the past year both houses of Congress by overwhelming majority voted to prohibit exemption of future issues of Federal securities. I believe that now when Democracy itself is being challenged, it is unthinkable that some members of our democratic society through investment in state and municipal securities should be allowed to escape their share of the national burden and transfer it to their less fortunate fellows. Such an undemocratic privilege was never contemplated by the founders of America, and the continuance of this especially privileged class at this time is unspeakable. State and municipal officers, as the most intimate leaders of the people, are in a position to make a fine contribution to national morale and national unity by supporting this proposal. Many of them are doing so. I appreciate that it requires courage to reverse one's position. I am disappointed that you lack that courage.

HOUSE OF REPRESENTATIVES 153
RULES COMMITTEE

Secretary
Secretary of the Treasury
Washington, D. C.

A copy of the enclosed evidently
has been sent to every House
Member and Senator. //

H. S. Shaw, Clerk

From: AUSTIN J. TOBIN,
111 Eighth Ave.,
New York City.

154
FOR RELEASE

CONFERENCE ON STATE DEFENSE
111 EIGHTH AVENUE NEW YORK CITY

CONFERENCE COMMITTEE

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Attorney General, New York

EARL WARREN
Attorney General, California; President,
National Association of Attorneys General

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Attorney General, Mississippi

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FRANK C. FERGUSON
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Oakland

HENRY F. LONG
Commissioner of Corporations and Taxa-
tion of the State of Massachusetts

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City Auditor, Springfield, Massachusetts;
Executive Committee, Municipal Finance
Officers Association

JAMES E. LAW
Mayor, Madison, Wisconsin; Executive
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ation

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Assistant General Counsel,
The Port of New York Authority

FOR IMMEDIATE RELEASE

STATE OFFICIALS DENOUNCE BERGENTHAUS'S
ATTACK ON OUTSTANDING BOND

Solicitor General Epstein Labels Repudiation
"Shocking, Unusual and Unsound"

FOR IMMEDIATE RELEASESTATE OFFICIALS DENOUNCE MORGENTHAU'S
ATTACK ON OUTSTANDING BONDS

Solicitor General Epstein Labels Repudiation
"Shocking, Immoral and Dishonest"

Henry Epstein, Solicitor General of the State of New York and Chairman of the Conference on State Defense, expressed shocked amazement today at the proposal of Secretary of the Treasury Morgenthau to levy a federal tax upon the income from outstanding state and municipal bonds which had been issued under the covenant that they were tax exempt. The Conference on State Defense, of which Mr. Epstein is the Chairman, is the organization through which the states and municipalities have presented their organized opposition to federal attempts to gain control of local financing.

Treasury Drops Mask

Mr. Epstein said, "Secretary of the Treasury Morgenthau has finally dropped the mask which has so far concealed the real objective of the Treasury toward the outstanding securities of states and municipalities. These securities were sold by the states and cities on the solemn assurances of immunity and the states received for them a price, of which all local taxpayers in the country have been the beneficiaries, based upon those honest representations.

"This statement," continued the Solicitor General, "coming as it does from the first fiscal officer of the United States Government, is not only shocking, but it probably will do more to destroy the confidence of the people of this country in the promises and good faith of their own government than anything that I can

(more)

STATE OFFICIALS DENOUNCE
MORGENTHAU (cont'd.)

2.

recall to this time. Every state, every county, every city, town and hamlet, in this nation, has outstanding obligations. Every one of these has been issued with the full recognition of the Treasury Department and the federal government that they were immune from federal taxation."

Treasury Assured Investors

"Indeed, as recently as last March 14th the Treasury Department in an official press release assured the holders of state and municipal obligations that they had no 'reason to fear the imposition of taxes on obligations now outstanding.' This same Treasury statement also assured the holders of our local bonds that 'Secretary Morgenthau has consistently voiced opposition to proposals which would subject the interest on outstanding state and municipal securities to federal taxes.'"

Every spokesman for the Treasury has repeatedly given these assurances and has indeed expressed their "indignation" at repeated warnings by the Conference on State Defense that the taxation of outstanding municipal bonds was the Treasury's real objective.

"In 1939," said Mr. Epstein, "Undersecretary John W. Hanes, speaking as the Treasury's representative before the Ways and Means Committee of the House, said 'that the Treasury did not even suggest that interest on outstanding issues be taxed.' And the report of the Special Senate Committee unanimously recognized the 'dire effects of taxing securities already outstanding.'"

Repudiation Held "Immoral, Dishonest"

Despite these representations of the Treasury Department, every holder of these securities, every insurance company, every bank, every pension and retirement system throughout the country is now faced with this brazen repudiation by the Treasury of the promises and assurances which have been made by our states and cities

(more)

STATE OFFICIALS DENOUNCE
MORGENTHAU (cont'd.)

3.

in good faith and which have been recognized and honored down to the present moment by the Federal Government itself. Such a repudiation is immoral, dishonest and is in flat contradiction of every principle of governmental integrity for which the Democracies are fighting today. It cannot but tend to destroy the confidence of every investor in the good faith of our government's entire fiscal policy.

"Further than this," concluded the Chairman of the Conference on State Defense, "this repudiation may well impose a moral obligation on every community, state and county in the country to make good every penny that will have to be paid out in taxes on these obligations. They sold them at a higher price, which the public obtained because their local securities were represented as tax immune. The Secretary of the Treasury in his statement today has dealt national defense and national morale a greater blow than any of the Axis powers, singly or together, have thus far been able to do."

#

JAN 26 1942

Dear Mr. Stam:

This is in reply to your letter of January 16, 1942, respecting the submission to you of material prepared by the Bureau of Internal Revenue relating to the improvement of the operation of the income tax laws, the closing of income tax loopholes, and the removal of tax inequities.

After careful consideration of the entire matter, I feel that the method of considering proposals for legislation discussed in my previous letter is the only practicable one which can be followed. As I there indicated, we have made it our practice to confer with you for the purpose of exchanging information and views prior to the presentation of material to the Committees of Congress. This practice is being fully followed in connection with proposals for revenue legislation in the current year.

- 2 -

This method of proceeding has enabled us to achieve an adequate interchange of views respecting revenue legislation. At the same time, I believe that such a course is the only one that is in keeping with the responsibility of the Treasury Department in such matters.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Colin F. Stam,
Chief of Staff,
Joint Committee on Internal
Revenue Taxation,
Washington, D. C.

File to Hampton
By Messenger 7 Hopkins #125
Photocopy file - H.M.C.

SSS:hdr

1-23-42

L. HENNINGSEN, JR.,
AL. HILLMAN, JR.,
JAMES L. HUGHES,
JAMES H. HUNTER,
ANDREW H. HUNTER, JR.,
ANDREW H. HUNTER, JR.,

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CHIEF OF STAFF
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ASST. CHIEF OF STAFF

Congress of the United States
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
Washington
January 16, 1942.

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

Dear Mr. Secretary:

Further reference is made to your letter of January 12, 1942, relative to our request, pursuant to section 5011 of the Internal Revenue Code, for suggestions prepared by the Bureau of Internal Revenue relating to the improvement of the operation of the income tax laws, the closing of income tax loopholes and the removal of tax inequities.

I recall that when the Joint Committee on Internal Revenue Taxation was first organized, it was one of my functions, as an employee of the Bureau of Internal Revenue, to collect suggestions from various sources in the Bureau of Internal Revenue, and even from the field, for improving the internal revenue laws. These suggestions, when compiled, were made available to the Staff of the Joint Committee on Internal Revenue Taxation as well as to the Staff of the Treasury Department. The suggestions were studied and joint discussions between the Staff of the Joint Committee and the Treasury were had for the purpose of deciding which suggestions should be presented to the various Congressional Committees. I believe the record will show that at no time has the Staff of this Committee attempted to embarrass the Treasury Department by representing that the views of the Bureau of Internal Revenue might be in conflict with those of the Treasury proper. The submission of data to the Staff of this Committee does not constitute a submission of data to the Congress. As an agency of the Congress, we continually receive information of a confidential character, which cannot be divulged to Committees of Congress, except upon specific request, based upon statutory authority and committee action.

Dear Mr. Henry Morgenthau, Jr., 2. January 16, 1942:

I hope that you will not let Mr. Sullivan's fear of a
single man obstruct or interfere with this well-established practice
which has been carried on, except during the last three revenue acts,
almost continuously since the creation of the Joint Committee on In-
ternal Revenue Taxation. It is, therefore, earnestly requested that
you reconsider the decision made in your letter of January 12, 1942,
and that the practice which has worked so satisfactorily in the past
be restored.

Respectfully yours,


Colin F. Stam,
Chief of Staff.

*I don't understand it
very well, but I think
it to be the best 1942 vs. 1941
proposed by the group. The one
especially the very high percentage*

Remel
162
January 26, 1942
E.P.G.

PROPOSAL FOR INDIVIDUAL INCOME TAX

Pay in 1942, tax on 1942 income, figured on basis of 1941 income, with end of year adjustment, additional payment or refund as required by any discrepancy between 1942 income actualized and 1941 income which was basis of calculation.

Waive all individual income tax on 1941 income.

Restore solvency and eliminate fear.

Make practical the retirement of people who should retire or be retired.

Make practical the taking of lower compensation this year than last, whether for Government service or business cost reduction.

COST TO THE TREASURY

Practically little loss of income in early years, the loss would be distributed over the life of the present income tax paying generation as individuals die or retire. Therefore, little inflationary danger.

Treasury has never considered taxes receivable as an asset and therefore their elimination would not remove an asset of record.

POLITICAL CONSIDERATION

Some such step will have to be taken some day as the problem will become progressively more acute. Might as well do it now.

Step would have wide support among vocal elements, therefore original source of suggestion should have careful consideration.

The few large income taxpayers who are already on an accrual basis will have an unexpected windfall. Steps should be taken in advance to secure in some cases agreement to the application of this windfall to private educational and philanthropic purposes. Very useful since the Federal Government has no way of aiding those institutions.

This step would assist in obtaining acceptance for new, higher, and unaccustomed forms of taxation.

January 26, 1942
11:55 a.m.

HMJr: Anybody that you say. You just.....

Secretary
Hull: There's two, just two. One from the Far East,
and then Dr. Feis.

HMJr: Well, who should he call up in the first
instance?

H: It would be all right to call - he can take
his choice. Whichever - which would you prefer,
Hornbeck or Hamilton?

HMJr: Anybody. Anybody that you say.

H: Yeah.

HMJr: Is - this man's an economist.

H: How's that?

HMJr: This man Southard's an.....

H: Yes. That's the reason I want Feis to be
present.....

HMJr: Well.....

H:so he could help to interpret and so on.

HMJr: Well, you just tell me who he should call, and
he'll go over and see them.

H: Tell him to call Feis and Hornbeck.

HMJr: Feis and Hornbeck.

H: And if Hornbeck's not in, Hamilton.

HMJr: I'll do that. And I'll tell him that as soon as
they have something or other, then I'd like to
sit down with you.

H: Yes. All right.

- 2 -

HMJr: I'd like to sit down with you then.

H: All right, Henry.

HMJr: Thank you.

H: Good-bye.

January 26, 1942
12:00 Noon

HMJr: Hello.

Operator: I have Mr. Southard. He's in Mr. Bell's office.

HMJr: All right.

Operator: Go ahead.

HMJr: Southard.

Mr. Frank Southard: Yes, Mr. Secretary.

HMJr: I just called up the Secretary of State and I told him Harry White was not here, that I wanted you to handle the Chinese matter for me.

S: I see.

HMJr: I asked him whom you should contact, and he said "Dr. Feis and Hornbeck."

S: I see.

HMJr: And if Hornbeck is not there - oh, what's the second man's name?

S: Feis - oh, Hamilton.

HMJr: Hamilton.

Please drop everything that you're doing and concentrate on this, because I don't want them to think that we're dragging our feet.

S: Yes.

HMJr: And when you have gotten as far as you can with Feis and Hornbeck or Hamilton, then I want to go over and see Mr. Hull about it myself.

S: During the day.

HMJr: Not today, no.

S: All right.

HMJr: You won't get together with them today, but I mean, I want you to see them today but you won't come to any understanding with them.

S: I see. Do you want me to carry this on until Mr. Coe's return? That is, if.....

HMJr: Well, I don't know when Coe comes back.

S: Tomorrow morning, Mr. Secretary.

HMJr: Well, you've started - you see it through now.

S: All right.

HMJr: If you start it, you see it through.

S: All right.

HMJr: Now, see it through for me.

S: Yes, I'll do that.

HMJr: And then report to me on it in the morning.

S: All right, I'll do that.

HMJr: Thank you.

S: Good-bye.

January 26, 1942
12:02 p.m.

HMJr: I think it would be good to take Bernstein,
the attorney, with you.

Mr. Frank
Southard: All right, I'll do that.

HMJr: Please.

S: Surely.

January 26, 1942
12:04 p.m.

Operator: Operator.

HMJr: Foley.

Operator: Right.

HMJr: Hello.

Operator: Mr. Foley.

Edward H. Foley: Yes, Mr. Secretary.

HMJr: Ed, I'm sending Southard and Bernstein over to see Feis and - oh, whatever - Hornbeck, on this Chinese loan business, see; and you're to tell Bernstein to go along with Southard.

F: Oh, my Bernstein; not E. M.?

HMJr: What? Your Bernstein?

F: It's my Bernstein. Harry's got a Bernstein, too, who works with Southard. I'll have Bernie go right over.

HMJr: I mean Bernstein, the attorney.

F: Right.

HMJr: Now be sure that I get the right one, though, won't you?

F: Okay.

HMJr: Call up Southard and tell him - save me - call up Southard and tell him I meant Bernstein, your Bernstein.

F: All right.

HMJr: Will you?

F: I'll do that.

HMJr: And Crowley called me Saturday. I've had a call in, but he's out.

F: I see.

HMJr: But now call up Southard and tell him it was your Bernstein.

F: All right, I'll tell him.

HMJr: Thank you.

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THE WHITE HOUSE
WASHINGTON

January 26, 1942.

MEMORANDUM FOR
H.M.Jr.

I still think that this can be worked out as soon as Fox gets here. If they don't want dollar notes, why don't we buy Chinese yuans and use them for paying for the equipment of Chinese troops in China itself. I would be wholly willing to go up to twenty or twenty-five million dollars a month on some such basis.

F.D.R.



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THE SECRETARY OF THE TREASURY
WASHINGTON

January 22, 1942

My dear Mr. President:

I am forwarding the inclosed correspondence from Mr. T. V. Soong. Naturally, I am disappointed in the contents.

What do you suggest as our next move?

Sincerely yours,

The President,
The White House.

Copies to: The Secretary of State
 The Secretary of War
 The Secretary of the Navy

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

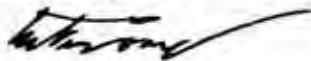
January 21, 1942

My dear Mr. Secretary:

During your absence from Washington I received the enclosed message for you from the Generalissimo.

Since Mr. Fox is due to arrive in Washington shortly, it occurs to me that you may like to have an opportunity of seeing him and hearing from him of the situation in China before you renew discussions with me. However I am at your disposal at any time, should you wish to see me earlier.

Sincerely yours,



T. V. Soong

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

CONFIDENTIAL

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The following information was obtained from a review of the records of the Office of the Inspector General, Department of the Interior, during the period from January 1, 1947, to January 31, 1948. It is being furnished to you for your information and for the information of the Bureau of Indian Affairs. It is to be understood that this information is being furnished to you in confidence and is not to be disseminated outside of your office.

The following information was obtained from a review of the records of the Office of the Inspector General, Department of the Interior, during the period from January 1, 1947, to January 31, 1948. It is being furnished to you for your information and for the information of the Bureau of Indian Affairs. It is to be understood that this information is being furnished to you in confidence and is not to be disseminated outside of your office.

CONFIDENTIAL

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The Generalissimo deeply appreciates Secretary Morgenthau's efforts which have materialized in a proposal that the U. S. Government would undertake to pay for the maintenance of part of the Chinese army in U.S. Dollar notes. After careful consideration, however, he doubts whether this scheme is practicable. Payment of Chinese soldiers in U. S. currency would tend to create a cleavage between the army and the general economic structure in China which may actually hasten the collapse of the Chinese currency. Before Mr. Fox left Chungking the Generalissimo had a long discussion with him in which he pointed out a number of reasons why he considered the scheme difficult of application and which he asked Mr. Fox to convey to Secretary Morgenthau.

The Generalissimo urgently requests that careful consideration be given to his original proposal that the United States grant to China a political loan of 500 million U.S. dollars, which would be the only means to prevent an impending economic collapse. This loan should be regarded in the light of an advance to an ally fighting against a common enemy, thus requiring no security or other pre-arranged terms as to its use and as regards means of repayment.

1/27/42

Re: H. Res. 388

I spoke to Congressman Somers about this today at Mr. Foley's request and told him the Secretary did not want him to go ahead at this time. I also told him that I wanted to see him and give him the Secretary's reasons. He told me he was going to New York and would get in touch with me next week.

(initialed) LJB

L. J. BERNARD

TO:

1 6

1/27/42

Re: H. Res. 388

I spoke to Congressman Somers about this today at Mr. Foley's request and told him the Secretary did not want him to go ahead at this time. I also told him that I wanted to see him and give him the Secretary's reasons. He told me he was going to New York and would get in touch with me next week.

(initialed) LJB

L. J. BERNARD



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

January 26, 1942

TO THE SECRETARY:

Here is a letter dated January 22, 1942, from Congressman Somers addressed to Larry Bernard of the General Counsel's office, regarding his resolution which would set up a committee to investigate the benefits which have resulted to the Government of China from extensions of credit by this Government, and the possibility of devising further ways and means of increasing and stabilizing trade with China.

I believe this is an attempt on the part of Mr. Somers to keep the Stabilization matters within his committee; that he hopes to do this through the means of this sub-committee and the passage of this resolution in the House.

I wonder if you do not want to call him personally and ask him not to push this resolution on the ground that the Treasury just does not have the time to make the studies that would be required. Furthermore, I doubt if we can show any benefits to China through the extension of credits except to enable China to carry on the war.

Somers wants an early reply

SWB

*To Stephens for Secy
1-26-42- 2:55 p.m.*



HOUSE OF REPRESENTATIVES U. S.
Committee on Coinage, Weights and Measures
Washington, D. C.

January 22, 1942

Mr. Lawrence J. Bernard,
Treasury Department,
Washington, D. C.

My dear Mr. Bernard:

Enclosed is the Resolution I referred to yesterday during our telephone conversation.

I would appreciate it if you could get an informal opinion of the Department as to whether they would approve of it. Let me say, relative to the stabilization feature, that the word "investigate" would not imply any distasteful probing but is meant to be nothing more than a right to review so that we can recommend a policy of stabilization in the future. Such policy would be necessary if we are to promote trade between the two countries during the reconstruction period which must follow the termination of this war.

With that realization, I am most hopeful that the Treasury will approve and offer its aid in delving into this problem.

I would like the privilege of discussing it with whoever in the Department will pass on its merits.

Sincerely yours,

(s) Andrew L. Somers

Andrew L. Somers.

77TH CONGRESS
1ST SESSION

H. RES. 388

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 12, 1941

Mr. SCAMERS of New York submitted the following resolution; which was referred to the Committee on Rules

RESOLUTION

1 *Resolved*, That there is hereby created a select committee
2 to be composed of three Members of the House of Represent-
3 atives to be appointed by the Speaker, one of whom he shall
4 designate as chairman. Any vacancy occurring in the mem-
5 bership of the committee shall be filled in the same manner in
6 which the original appointment was made.

7 The committee is authorized and directed to investigate
8 (1) the benefits which have resulted, during the existing
9 national emergency, from extensions of credit made by the
10 Government of the United States, or any agency thereof, for
11 the purpose of aiding in the stabilization of China's currency,
12 (2) the possibility of devising further ways and means of

1 increasing and stabilizing trade with China, and (3) the
2 transportation problems related to the foregoing matters.

3 The committee shall report to the House (or to the Clerk
4 of the House if the House is not in session) as soon as prac-
5 ticable during the present Congress the results of its investi-
6 gation, together with such recommendations as it deems
7 desirable.

8 For the purposes of such investigation the committee is
9 authorized to sit and act during the present Congress at such
10 times and places, whether or not the House is sitting, has re-
11 cessed, or has adjourned, to hold such hearings, to require the
12 attendance of such witnesses and the production of such books,
13 papers, and documents, and to take such testimony, as it
14 deems necessary. Subpenas shall be issued under the signa-
15 ture of the chairman of the committee or any member desig-
16 nated by him, and shall be served by any person designated
17 by such chairman or member. The chairman of the com-
18 mittee or any member thereof may administer oaths to
19 witnesses.

January 26, 1942
12:56 p.m.

HMJr: Hello.

Operator: Mr. Crowley. Go ahead.

HMJr: Hello.

Leo
Crowley: Hello, how are you? I called you Saturday
afternoon and they said you were out in
Cleveland.

HMJr: Cleveland and Detroit.

C: Say, now sometime this afternoon or tomorrow,
if you have a few minutes' time, if you'd give
me a ring I'd like to talk with you. I had a
long, long talk about that thing there.....

HMJr: Yes.

C:and there won't be anything done right
away, but I think I ought to tell you all
about our conversation. I'm sure it will be
interesting to you.

HMJr: I'd like to hear it.

C: Well, any time now that you can, today or
tomorrow, why you call me, and I'll come right
over.

HMJr: Well, why not let's set an appointment for
tomorrow?

C: Fine.

HMJr: How's ten o'clock?

C: Fine, I'll be there.

HMJr: Ten o'clock.

C: Yeah.

HMJr: Thank you.

C: Good-bye.

DRAFT OF SECRETARY MORGENTHAU'S BROADCAST
FOR THE INFANTILE PARALYSIS CAMPAIGN,
JANUARY 26, 1942.

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Tonight I should like to speak to you for a very few minutes, not as Secretary of the Treasury, but as an old friend and neighbor of Franklin Roosevelt. (I am going to speak in a personal way and with a personal theme, not to praise him, because he needs no praise, but for a different reason.) I feel very deeply that it will help our country to surmount the dangers and obstacles of this hour if all of us remember how Franklin Roosevelt conquered the obstacles that at one time shadowed his whole life.

(It is almost thirty years now since Mrs. Morgenthau and I first became neighbors of the Roosevelts in the Hudson Valley.) It is more than twenty years since the President was stricken with infantile paralysis. The

very first year that he went to Warm Springs, we went with him. It did not take us long to discover that he had brought a new spirit to Warm Springs ~~with him.~~ Even in the very first winter ~~at Warm Springs,~~ we saw that the patients there had a certain cheerful optimism, a kindly and helpful relationship toward one another, an attitude toward life which subsequently came to be known as the "spirit of Warm Springs." In reality that was the spirit of Franklin Roosevelt. He blew the breath of life and courage into that place through the example he set, through the reserves of courage that he summoned. He had already made up his mind that he had "nothing to fear but fear itself."

He never spoke to me then about the disease that struck him, nor has he spoken about it since. He was fighting his fight alone. He was determined to show that

he could take it, with the same gay and grim spirit that the people of London showed when a different kind of scourge fell upon them.

In later years when Franklin Roosevelt had re-entered state politics in New York, we went on a number of campaign trips together. That, too, was ^{an inspiration to all of us.} ~~a rewarding experience.~~ He was always cheerful when others grumbled, he was always optimistic when others had their doubts. I remember particularly one ^{cold autumn} day when he spoke 14 times from an open car, ~~on a cold autumn day.~~ This was the stricken man whom we had accompanied to Warm Springs only a few years before. He was winning his fight. He was waging his war with every ounce of energy and determination ^{within him.} ~~that he could summon.~~

This determination to beat all hardships, to conquer all handicaps, ^{is being} ~~can be~~ created in these United States ^{day by day.} ~~today.~~

Mr. Hitler, Mr. Mussolini, and Mr. Mikado, I want you to take a look at the spirit of Warm Springs, for that is the spirit of America today and it is something which you can never beat, no matter how long you try.

Many times in those early days at Warm Springs the road ahead must have seemed dark and painful to Franklin Roosevelt, yet the word "impossible" had been struck out of his dictionary. Nothing was impossible to him, and he proved it.

In the same way the road ahead of our country must seem dark at times. We as a nation have been struck a ~~crippling~~ blow while we were not looking. Our whole world has been stricken with the disease of conquest and tyranny which we shall have to stamp out before we can live in peace and happiness ^{and well-being} again. But if anyone should ever have

his doubts, if anyone should suppose for one moment that

the job is too big for us, let him look ~~at~~ the example

~~of the~~ *remember think of the kind*
and then carry on

of Franklin Roosevelt, who has ~~conquered the powers of~~

~~evil single-handed.~~

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○ As Draft "A" was being discussed and revisions made, the pages were given to the typist to make this Draft "B".

DRAFT OF SECRETARY MORGENTHAU'S BROADCAST 187
FOR THE INFANTILE PARALYSIS CAMPAIGN,
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Roosevelt, yet the word "impossible" had been struck out of his dictionary. Nothing was impossible to him, and he proved it. He is proving it today and every day.

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Reading Copy of
Secretary Morgenthau's talk on behalf of
"President's Birthday Celebration" under
the auspices of the Infantile Paralysis
Campaign, broadcast at 10:45 p.m., EST.,
January 26, 1942.

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Pause

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GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

January 26, 1942.

TO: Secretary Morgenthau

FROM: E. H. Foley, Jr.

Treasury representatives, assisted by technical advisers from the Office of Scientific Research and Development, have been making a thorough investigation of Schering Corporation which is a \$3,000,000 concern with 400 employees. Prior to 1937 Schering Corporation was a directly owned subsidiary of Schering A.G., one of the largest industrial enterprises in Germany, having approximately 30,000 employees. The American company is today controlled by the German concern through nominal Swiss ownership.

Schering Corporation is producing (in most instances is the sole source) pharmaceutical products which are indispensable in the treatment of our soldiers and the general public. The most important of these products is one for the treatment of shock, especially shock resulting from severe burns and wounds. The use of this preparation is reported by Schering Corporation to have saved the lives of thousands of British soldiers after Dunkirk.

- 2 -

The research work of Schering Corporation is conducted under the direction of Dr. Schwenk, who is a chemist of outstanding ability. Research is now under way which gives promise of resulting in discoveries of even greater importance to our war program and to our national health than the products at present being manufactured. The United States Government has a large group of scientists conducting research along certain lines parallel to those being conducted by Dr. Schwenk and his staff. The successful conclusion of this work will be of the greatest importance to our air forces as it relates to preparations which increase the endurance of aviators. The technical advisers made available by the Office of Scientific Research and Development state that the experience and ability of Dr. Schwenk and the use of the laboratories of Schering Corporation are vitally needed in this work.

At the present time the experience of Dr. Schwenk and of his staff and the facilities of Schering

Corporation are to a marked degree lost to the Government and to the Nation. The technical advisers state that the Government does not dare use Dr. Schwenk or the laboratories of the Corporation because of the German connections of the Corporation and the affiliations of certain of its German personnel. In addition, dominating patents held by the corporation, so long as they are in control of personnel of dubious loyalty, may stand in the way of essential developments in the medical field.

In fact, the technical advisers even fear for the actual production of the products now being manufactured by Schering. It is considered imperative by them that questionable personnel be removed and a trusted scientist assigned to work closely with Dr. Schwenk in order to obtain the value of his essential knowledge needed in the production of items now produced by Schering.

Until recently, when the Treasury Department took steps to stop the practice, Schering Corporation and other subsidiaries of Schering A.G. in South America, were used as tools to obtain dollar exchange to facilitate the operations of the Nazi regime. The

- 4 -

purported sale of Schering Corporation in 1937 to Swiss fronts for the Nazis was arranged in such a manner as to assure the continuance, until stopped by the Treasury Department, of the flow of dollar exchange to the Nazis. In addition, until stopped by the cooperative action of the Treasury Department and other government agencies, Schering Corporation was engaged in steps to assist in holding the pharmaceutical market in South America for the German economy until the war was over, and in supplying dollar exchange through South America to the Nazis. During this period certain prominent personnel from Schering A.G. of Germany came to the United States to direct the activities of Schering Corporation. That personnel at present dominates the corporation.

In order to protect the source of supply of the vital medical products made by Schering Corporation and to enable the United States Government to utilize this corporation and its expert personnel for the development of preparations vital to our war effort, the Treasury Department proposes that the following

- 5 -

persons be suspended from further activities in Schering Corporation:

1. Dr. Julius Weltzien - President; salary approximately \$60,000 a year; former president of Schering A.G. of Germany; entered the United States in May 1938.
2. Mr. Martin Bernhardt - Head of legal and comptrolling departments; salary, \$9,400 a year; former Vice-Chairman of Schering A.G. of Germany; entered the United States in March 1938.
3. Mr. Ernst Hammer - Manager of promotion; salary approximately \$22,000 a year; formerly in the South American department of Schering A.G. of Germany; entered the United States in January 1932.
4. Mr. Hans Erdmann - In charge of engineering and maintenance departments; salary, \$10,000 a year; formerly designer of chemical equipment for Schering A.G. of Germany; entered United States in August 1929.

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5. Dr. Erich Putter - Director of biological laboratory; salary, \$6,600 a year; formerly director of bacteriological research for Schering A.G. of Germany; entered United States in July 1938.
6. Dr. Gerhard A. Fleischer - Research chemist; salary, \$4,300 a year; worked for Schering A.G. of Germany during vacations and came directly to United States through Schering A.G. after graduation in February 1937.
7. Miss Frida Friderici - Secretary to Dr. Schwenk, Director of Research; born in United States, but educated in Germany where her family is now living; reported to be of pro-Nazi tendencies; has in her custody all confidential scientific matters of the corporation.
8. Miss Henrietta Lange - Secretary to Dr. Weltzien; entered United States in 1923.

If this action meets with your approval we will take the necessary steps to put it into effect.

Approved:
JAN 28 1942

H. M. Guthrie 9.11.7h
Secretary of the Treasury

PERSONNEL TO BE SUSPENDED FROM
SCHERING CORPORATIONDr. Julius Weltzien.

Dr. Weltzien was born in Germany in 1889. He states that his mother is Jewish. He was graduated with the degree of Doctor of Laws from the University of Frankfurt in 1912.

He began to work with Schering A.C. of Germany prior to the last war. During the last war he was a second lieutenant in the German Army. At the conclusion of the war he returned to Schering A.C. and became vice-President of that concern in 1921. In 1926 he became President. About 1937 Schering A.C. and its parent company, which was engaged in mining and other enterprises, were merged and Dr. Weltzien became President of the combined concern. He is reported to have directed the establishment of agencies of Schering A.C. in practically every country in the world and is said to be an outstanding authority on foreign trade.

Dr. Weltzien was a close friend of Strausser who, prior to 1933, was second in command of the Nazi Party. In 1933 Strausser broke with Hitler as a result of Strausser's attempt to form a government in corroboration with the trade unions. Dr. Weltzien then gave him a job with Schering A.C. In 1934 Strausser was arrested, either in the offices of Schering A.C. or on his way home, and was shot in the streets of Berlin. Dr. Weltzien was also arrested, but was soon released. He is probably one of the very few associates of Strausser who is alive today.

Dr. Weltzien states that for several years Schering A.C. had to supply a set quota of foreign exchange to the German Government. By 1937 the resources of its subsidiaries to supply the required amount of foreign exchange were exhausted. Schering

- 2 -

A.G. was then directed by Goering's organization to sell the American subsidiary, but to arrange the terms of the sale so that approximately the same amount of foreign exchange would be transferred from the American company to Germany each year. Dr. Weltzien states that he discussed this with a friend who is an official of Ciba, Basle (pharmaceutical manufacturers), and the negotiations were then undertaken with the Swiss Bank and with Ciba. During the course of the negotiations, the suggested terms were submitted from time to time to Goering's department and were changed to meet that department's approval.

Dr. Weltzien reports that he was asked by the Swiss Bank to take over the presidency of the American firm as they wanted someone they knew to be in charge. He states that he had been considering leaving Germany for some time because of conditions there, and therefore he readily accepted the position. Although it is possible that Dr. Weltzien may not be a Nazi, he obviously believes sincerely in the supremacy of the German economy, and his loyalty and ties are basically with Germany.

It is also inconceivable, in light of Dr. Weltzien's background, that he could have left Germany with the ease that he did without having first come to some understanding with the German Government. Undoubtedly his departure was consented to with the understanding that he would ensure that foreign exchange would continue to be transmitted to Germany and that his skill and experience would be utilized in maintaining German markets in case of war. It is to be noted in this connection that his mother and a brother and sister are still in Germany.

- 3 -

Martin Bernhardt.

Bernhardt was born in Germany in 1886, and is at least part Jewish. He studied law at the University of Breslau, Germany. After he was discharged from the army in 1917, he went to work for the parent company of Schering A.G. of Germany and continued to work for that company for twenty years. He became Vice-Chairman of the company and was in charge of personnel.

He arrived in the United States in 1938 at approximately the same time as Dr. Weltzien. It is reported by employees of the Schering Corporation that on his arrival he immediately assumed a dominating role in Schering operations and became Dr. Weltzien's most trusted associate. It is reported that this led to conflict with Dr. Stragnell, who complained of Bernhardt's activities. Evidently, since that time Bernhardt has operated in a much quieter manner. Bernhardt is ostensibly in charge of the legal department, but it is doubtful that his services are of much value due to his lack of knowledge of law as practiced in the United States. It is felt that he came to the United States with the understanding that he would be one of the forces to continue the policies of Schering A.G. of Germany in the American concern and that essentially he is a watch-dog for the German company.

Ernst Hammer.

Hammer was born in Alsace Lorraine in 1903. He began to work for Schering A.G. in the Latin American department in 1925, and took an active part in the establishment of the South American

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agencies of Schering A.G. In 1929 he was sent to Chile and in 1930 was transferred to Schering Corporation in the United States. He spent two years in the United States studying promotional work. His salary during this period was paid by Schering A.G. of Germany. In 1932 he re-entered the United States on an immigrant's visa and received his final papers in 1937.

It is apparent that Mr. Hammer was sent here by the German company to ensure the continuance of its policies, and it is believed that his ties and loyalties are to Schering A.G. of Germany. He has a brother, two aunts, and an uncle still in Germany. It is curious that Schering A.G. should send a man from Germany to conduct its promotional work, as a man to conduct such activities could easily have been obtained in the United States. Hammer attempts to explain this by stating that he underwent a course of training in the scientific aspect of Schering's products before going to Chile. This assertion has little or no value, as the products now being manufactured and marketed by Schering A.G. of Germany had not been developed at that time. In fact, at the time that he came to the United States, Schering Corporation of the United States was handling only minor pharmaceutical products of a standard variety.

Hans Erdmann.

Erdmann was born in Germany in 1898. He worked for Schering A.G. of Germany from 1922 until 1929, designing chemical equipment. He came to this country in 1929, but did not join the Schering Corporation until 1934. He received his final citizenship papers in 1936. He is now in charge of the engineering and

maintenance departments of Schering Corporation. At the present time, Erdmann has a mother and sister in Germany. He is a close associate of the Weltzien-Bernhardt clique.

Dr. Erich Putter.

Dr. Putter was born in Germany in 1892 and was graduated with the degree of M.D. in 1916. During the last war he was a lieutenant in the medical corps of the German Army.

He was employed by Schering A.G. of Germany in 1924 as under-director in the bacteriological field, and was later made director. He states that fearing trouble because his ancestry is not entirely "Aryan", he asked Dr. Stragnell and Dr. Weltzien for a job with Schering Corporation of the United States. He and his family came to this country in April 1938. His mother and a sister are still living in Germany.

He is at the present time director of the biological laboratory of Schering Corporation, and is conducting research work in the bacteriological field. Dr. Putter is in a position to ascertain the nature of all developments in the Schering laboratories. It is felt that because of his long association with Schering A.G. of Germany and because of his German background, it would be exceedingly inadvisable to allow him to remain with the Schering Corporation if it is to engage in work of a secret and confidential nature.

Dr. Gerhard A. Fleischer.

Dr. Fleischer was born in Germany in 1911 and received his Ph.D. from a university in Danzig in 1936.

- 6 -

During his summer vacations he worked for Schering A.G. of Germany doing research work. He met Dr. Stragnell in 1936 and accepted a position with Schering Corporation in the United States, entering this country in February 1937. He has a sister in Berlin and a sister in the Dutch East Indies. His mother is deceased and he does not know where his father is. He is at the present time in charge of research work on protein hormones.

The technical advisors made available by the Office of Scientific Research and Development feel that due to Dr. Fleischer's German background and former connection with Schering A.G., work of a confidential nature could not be turned over to the laboratories of Schering Corporation until he is removed.

Miss Frida Friderici.

Miss Friderici was born in 1908 in New York City. She returned to Germany in 1913 and re-entered the United States in 1930 on a United States passport. Her mother, two sisters, and numerous other relatives are now living in Germany. Her husband, Arthur Ziehm, was born in Germany, but is now a citizen of the United States. He was formerly a motion picture distributor of domestic and foreign films. He distributed German films, but Miss Friderici states he discontinued this distribution either in 1936 or 1937. He served in the United States Army during the last war.

Miss Friderici was employed by the Schering Corporation in May 1938 as secretary to Dr. Schwenk. In this capacity, she has custody of practically all

- 7 -

confidential scientific matters of the corporation. Miss Friderici's background is essentially German and she is reported by other employees to be strongly pro-Nazi in sympathies.

Miss Henrietta Lange.

Miss Lange was born in Germany in 1912. She came to the United States in 1922. In 1930 she returned to Germany for a visit and in 1933 she went to Germany for the purpose of relearning the German language. She applied for her first papers in April 1940. She has an uncle and aunt, and their children, still living in Germany.

Miss Lange is a close associate of one Mahr, who is a skiing instructor. Mahr is of German birth, but has been a citizen of the United States for nine years. Several anonymous letters have been received accusing Miss Lange of Nazi activities. She states that these letters were probably written by a former suitor of hers who became extremely jealous when she shifted her affections to Mahr.

Little reliance is placed on the statements in the anonymous letters, but it is believed that because of her German background, her connection with the German skiing group, and her position as secretary to Dr. Weltzien, it is essential that her relations with the corporation be severed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 26 1942

TO Secretary Morgenthau

FROM Mr. Foley

The Pilot Reinsurance Company, of New York City, was organized in 1925, with capital provided by two German reinsurance companies and one Italian insurance company. The president and the vice president of the new company were recently naturalized citizens of German origins. The president, Mr. Carl Schreiner, was also a director of Munich Reinsurance Company, which furnished over one-half of the capital for the new corporation, and ever since its organization the Pilot Reinsurance Company, under the domination of Mr. Schreiner, has been operated primarily in the German interest. The directors of the Munich Reinsurance Company were active in the Nazi movement from its inception. They helped finance the party, and the chairman of the board, who is also a director of Pilot Reinsurance Company, took a leave of absence from his post to act as Hitler's Secretary of Commerce from 1933 until 1938. In 1939 and 1940 the shares of Pilot Reinsurance Company owned by the two German companies were transferred to various Dutch, Swiss and Swedish holding companies. Mr. Schreiner, a complete Nazi sympathizer and ardent supporter of Hitler, has been in Europe since April 1940. During his absence the company has been operated by the vice president, Mr. A. F. Sadler, as to whose loyalty there is very serious question. Apart from the officers, there are only five employees, all of whom have German backgrounds.

Pilot Reinsurance Company has assets of about \$3,500,000 and at present has only five reinsurance treaties outstanding. Since June 14, 1941, it has been operating under 15 and 30 day licenses. The board of directors requested a long term license and submitted a plan for "Americanization" of the corporation, which in effect would have enabled some of the directors to organize a new company

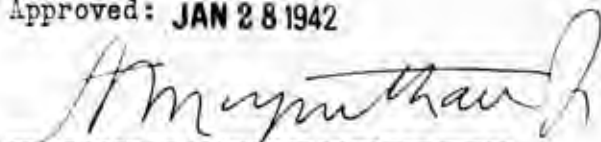
- 2 -

using German capital. With its antecedents and personnel it seemed desirable to compel Pilot Reinsurance Company to liquidate.

Mr. Louis Pink, Superintendent of Insurance for the State of New York, was called upon for an opinion on the importance of the company to the market. Mr. Pink informed us that, although there is a general shortage in reinsurance facilities and this company is a "good little company" which could be Americanized by putting one of his men in charge, he felt that whether the company "lives or dies will not have any substantial effect upon the conditions". After clearing the matter with Dean Acheson, Assistant Secretary of State, and Mr. Leo T. Crowley, the decision was reached to grant the Pilot Reinsurance Company only a liquidating license at the expiration of its current 15-day license. This is perfectly consistent with our treatment of the one large Italian insurance company and the two Italian banks. This liquidation will take place under the supervision of the New York Superintendent.

8.11.76.

Approved: JAN 28 1942



Secretary of the Treasury.



TREASURY DEPARTMENT
WASHINGTON

213

January 26, 1942.

MEMORANDUM FOR THE SECRETARY:

In accordance with your request on Friday, I am handing you the attached chart showing the organization of the Defense Savings Staff.

I am not completely satisfied with this chart, and it will need some revision. It is however sufficiently accurate for practical purposes.

My oculist says that the eye is much better, and he has discharged me except for an occasional check-up.

GRAVES.

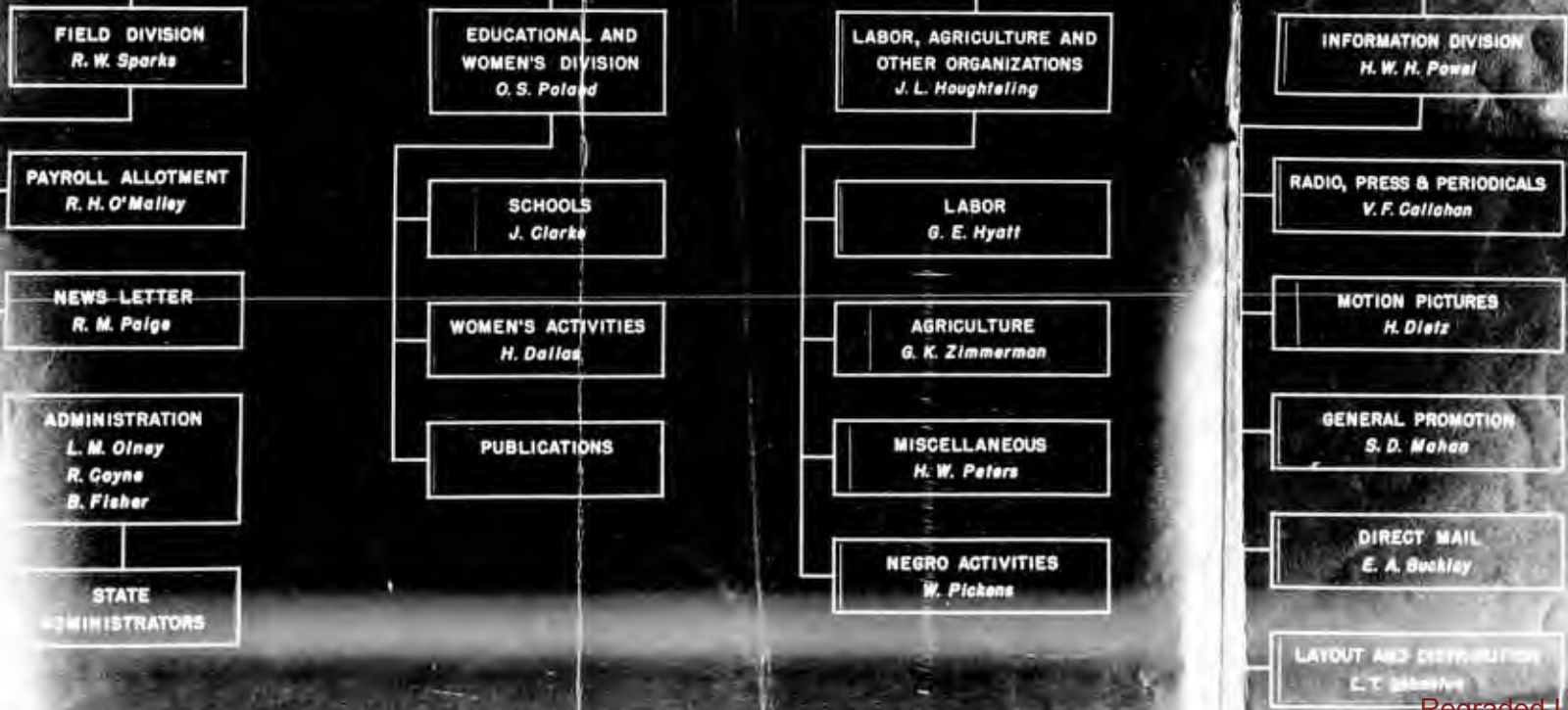
ORGANIZATION, DEFENSE SAVINGS STAFF

THE SECRETARY OF THE TREASURY
Henry Morgenthau, Jr.

CONSULTANTS
B. M. Edwards
P. H. Odgaard
T. R. Gamble
G. F. Milton

ASSISTANT TO THE SECRETARY
Harold N. Groves

DEFENSE SAVINGS STAFF
Executive Director - E.W. Sloan



January 26, 1942.

Mr. Gava H. Morris, Jr.,
Assistant to the Secretary.

Sir:

Treasury Department Circular No. 657, dated April 15, 1941, as amended, prescribing regulations governing agencies for the issue of Defense Savings Bonds, Series E, provides:

" * * "The Secretary of the Treasury may, at any time, designate issuing agents other than those hereunder designated, the employment of which shall be subject to qualification as herein provided, except as may be otherwise specifically authorized by the Secretary." * * "

You are hereby authorized, as Assistant to the Secretary, in my behalf to designate issuing agents for the sale of Defense Savings Bonds, Series E, under the above authority, and to instruct Federal Reserve Banks and their branches with respect thereto.

Very truly yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

crs/m

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 26, 1942

TO Secretary Morgenthau

FROM Dave H. Morris, Jr.

SUBJECT: Digest of eight (8) replies to Night Letters sent Wednesday, January 21st, to first twelve (12) qualifying corporate Issuing Agents

Swift & Company:

They have requisitioned \$7.781²⁵ bonds, which is about one week's requirements. An increase is expected and the plan should work smoothly.

Chicago-Great Western R.R. Company:

Slowness is admitted in the requisitioning of bonds. They expect to requisition bonds shortly and favor the plan.

Chicago-Indianapolis & Louisville Railway:

The Payroll Allotment Plan has been in effect since July 15, 1941. About 700 of 2,200 employees are at present participating. Difficulties are not anticipated.

The Cain-Sloan Company:

They want to cooperate and are qualified as issuing agent, expecting to fill customers' requests for bonds. Cain-Sloan planned to pay for bonds and sell them to customers. As they understand rules, they do not permit this; they have not requisitioned bonds. They, however, expect to accommodate employees through purchase from local bank or post office.

Tom Huston Peanut Company:

They understood from the Federal Reserve of Atlanta that a shortage of bonds exists and decided to wait for a substantial order to accumulate, before ordering any.

- 2 -

Chicago & Eastern Illinois Railroad:

They understood from the Federal Reserve of Chicago that C.E. & I. could act as issuing agent if the number of bonds were sufficient to warrant such designation. They then advised them that they would act as issuing agent when the number of bonds exceeded 75 per month. Their last requisition was several days ago. Twenty-two (22) bonds were ordered, but an increase is expected. Many employees buy bonds directly. If desired, they would be glad to start issuing bonds, regardless of the number and already have certificate of qualification, etc.

Chicago & North Western Railway Company:

Pleased with being able to issue bonds as soon as payment is made, they feel that this definitely expedites the sale of the bonds.

Louis Pizitz Drygoods Company:

One hundred Per Cent (100%) of the employees are buying bonds, either for cash or through payroll deductions. Each week, they expect to requisition the number of bonds paid for by their employees. This eliminates carrying on hand a number of blank bonds. They would welcome any further suggestions.

Conclusion:

It does not seem that any follow-up need be made, except in the case of the Cain-Sloan, Tom Huston Peanut Company and Chicago & Eastern Illinois Railroad, which I am following-up.

J. H. King

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UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Twenty-one Business Days of January 1942 and December and November 1941
 (November 1-27, December 1-24, January 1-24)
 On Basis of Issue Price

(Amounts in thousands of dollars)

| Item | Sales | | | Amount of Increase | | Percentage of Increase | |
|-------------------------|------------------|------------------|------------------|--------------------|------------------|------------------------|------------------|
| | January | December | November | January | December | January | December |
| | 1942 | 1941 | 1941 | over December | over November | over December | over November |
| Series E - Post Offices | \$128,428 | \$ 73,206 | \$ 35,014 | \$ 55,222 | \$ 38,192 | 75.4% | 109.1% |
| Series E - Banks | <u>388,500</u> | <u>153,483</u> | <u>65,947</u> | <u>235,017</u> | <u>87,536</u> | <u>153.1</u> | <u>132.7</u> |
| Series E - Total | 516,928 | 226,688 | 100,961 | 290,240 | 125,727 | 128.0 | 124.5 |
| Series F - Banks | 57,043 | 22,389 | 17,160 | 34,654 | 5,229 | 154.8 | 30.5 |
| Series G - Banks | <u>221,015</u> | <u>116,098</u> | <u>96,408</u> | <u>104,917</u> | <u>19,690</u> | <u>90.4</u> | <u>20.4</u> |
| Total | <u>\$794,986</u> | <u>\$365,174</u> | <u>\$214,529</u> | <u>\$429,812</u> | <u>\$150,645</u> | <u>117.7%</u> | <u>70.2%</u> |

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

January 26, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - January, 1942
On Basis of Issue Price

(In thousands of dollars)

| Date | Post Office Bond Sales Series E | Bank Bond Sales | | | | All Bond Sales | | | |
|--------------|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | Series E | Series F | Series G | Total | Series E | Series F | Series G | Total |
| January 1942 | | | | | | | | | |
| 1 | \$ 3,982 | \$ 10,229 | \$ 1,964 | \$ 7,605 | \$ 19,798 | \$ 14,211 | \$ 1,964 | \$ 7,605 | \$ 23,780 |
| 2 | 4,802 | 10,736 | 2,056 | 7,779 | 20,571 | 15,538 | 2,056 | 7,779 | 25,373 |
| 3 | 4,457 | 9,557 | 1,278 | 5,453 | 16,289 | 14,015 | 1,278 | 5,453 | 20,747 |
| 5 | 9,684 | 26,724 | 3,240 | 13,704 | 43,668 | 36,408 | 3,240 | 13,704 | 53,352 |
| 6 | 6,711 | 7,659 | 1,341 | 6,778 | 15,778 | 14,369 | 1,341 | 6,778 | 22,489 |
| 7 | 6,748 | 21,267 | 3,692 | 18,832 | 43,790 | 28,015 | 3,692 | 18,832 | 50,539 |
| 8 | 7,509 | 21,297 | 3,821 | 12,871 | 37,989 | 28,806 | 3,821 | 12,871 | 45,498 |
| 9 | 5,746 | 12,359 | 1,798 | 4,765 | 18,923 | 18,105 | 1,798 | 4,765 | 24,669 |
| 10 | 4,398 | 16,031 | 1,858 | 6,355 | 24,244 | 20,429 | 1,858 | 6,355 | 28,641 |
| 12 | 10,187 | 37,483 | 3,830 | 14,353 | 55,666 | 47,670 | 3,830 | 14,353 | 65,853 |
| 13 | 7,902 | 15,059 | 2,507 | 11,944 | 29,510 | 22,961 | 2,507 | 11,944 | 37,412 |
| 14 | 4,706 | 19,939 | 3,701 | 14,293 | 37,933 | 24,645 | 3,701 | 14,293 | 42,639 |
| 15 | 6,444 | 16,597 | 2,243 | 13,283 | 32,123 | 23,041 | 2,243 | 13,283 | 38,567 |
| 16 | 5,721 | 26,239 | 4,319 | 14,078 | 44,637 | 31,960 | 4,319 | 14,078 | 50,358 |
| 17 | 4,830 | 6,933 | 759 | 3,008 | 10,700 | 11,763 | 759 | 3,008 | 15,530 |
| 19 | 8,835 | 39,000 | 3,946 | 16,599 | 59,545 | 47,835 | 3,946 | 16,599 | 68,380 |
| 20 | 5,155 | 10,549 | 2,285 | 10,551 | 23,385 | 15,703 | 2,285 | 10,551 | 28,539 |
| 21 | 4,886 | 19,375 | 3,538 | 15,566 | 38,479 | 24,261 | 3,538 | 15,566 | 43,365 |
| 22 | 5,161 | 22,257 | 3,973 | 9,850 | 36,080 | 27,418 | 3,973 | 9,850 | 41,241 |
| 23 | 5,908 | 23,392 | 2,652 | 8,004 | 34,048 | 29,300 | 2,652 | 8,004 | 39,956 |
| 24 | 4,655 | 15,820 | 2,239 | 5,344 | 23,403 | 20,476 | 2,239 | 5,344 | 28,058 |
| Total | \$128,428 | \$388,500 | \$ 57,043 | \$221,015 | \$666,558 | \$516,928 | \$ 57,043 | \$221,015 | \$794,986 |

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

January 26, 1942.

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

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

Regraded Unclassified

Unfilled Orders for Savings Bonds at the
Federal Reserve Banks and the Post Office Department
January 12 to date
(In thousands of pieces)

| | : Unfilled : : orders at : : opening of : : business : | New orders : received : today : | Bonds : manufactured : today : | Unfilled : orders at : close of : business : | Stock of : bonds : on hand* : | IBM : deliveries : this day : |
|------|---|---------------------------------------|--------------------------------------|---|-------------------------------------|-------------------------------------|
| Jan. | | | | | | |
| 12 | 541 | 859 | 595 | 805 | 236 | 625 |
| 13 | 305 | 425 | 630 | 598 | 236 | 650 |
| 14 | 598 | 622 | 670 | 550 | 236 | 685 |
| 15 | 550 | 660 | 750 | 455 | 231 | 1,000 |
| 16 | 455 | 773 | 775 | 426 | 204 | 750 |
| 17 | 426 | 672 | 800 | 298 | 204 | 1,000 |
| 18 | 298 | none-no mail | none-closed | 298 | 204 | 800 |
| 19 | 298 | 204 | 800 | 202 | 704 | 825 |
| 20 | 202 | 204 | 800 | 86 | 1,184 | 1,000 |
| 21 | 86 | 411 | 800 | 59 | 1,546 | 875 |
| 22 | 59 | 697 | 800 | 86 | 1,676 | 1,000 |
| 23 | 86 | 569 | 800 | 50 | 1,871 | 1,000 |
| 24 | 50 | 727 | 800 | 28 | 1,822 | 1,000 |

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

January 26, 1942

* Bonds in Washington vaults only.

Stock of Series E Savings Bonds on Hand 1/
January 15, 1942 to date
(In thousands of pieces)

| | : Stock on hand : beginning : of day | : Sales : this day | : Bonds : manufactured : this day | : Stock on hand : close of : day | : IBM : deliveries : this day |
|---------|--|-----------------------|---|--|-------------------------------------|
| Jan. 15 | 6,569 | 320 | 750 | 6,999 | 1,000 |
| 16 | 6,999 | 445 | 775 | 7,329 | 750 |
| 17 | 7,329 | 163 | 800 | 7,965 | 1,000 |
| 18 | 7,966 | none-closed | none-closed | 7,965 | 800 |
| 19 | 7,966 | 665 | 800 | 8,101 | 825 |
| 20 | 8,101 | 218 | 800 | 8,683 | 1,000 |
| 21 | 8,683 | 337 | 800 | 9,146 | 875 |
| 22 | 9,146 | 381 | 800 | 9,565 | 1,000 |
| 23 | 9,565 | 377 | 800 | 9,988 | 1,000 |
| 24 | 9,988 | 263 | 800 | 10,525 | 1,000 |

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

January 26, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post Offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

2

7232 ✓
File

THE WHITE HOUSE
WASHINGTON

January 26, 1942.

Dear Henry:

It seems to me this should be
used in training youth for industry and
not scrapped.

Affectionately,

E. F. [unclear]

- 276 machine shops with 15,884 youth in training
- 286 sheet metal shops with 11,333 youth in training
- 234 welding shops with 7,030 youth in training
- 27 foundry shops with 705 youth in training
- 87 forge and blacksmith shops with 828 youth in training
- 85 radio shops with 2,667 youth in training
- 36 electrical shops with 884 youth in training
- 129 automotive maintenance and repair shops with 5,315 youth in training
- 12 aviation service shops with 798 youth in training
- 282 patternmaking, joinery and ship carpentry shops with 10,062 youth in training
- 61 industrial and heavy-duty sewing shops with 7,095 youth in training

420,000 NYA trained youth secured employment in industry during the calendar year 1941.

On defense training projects the average training period is 3 months; on regular projects it is about 5 months. Turnover in defense training projects is, therefore, about 75,000 every 3 months.

TREASURY DEPARTMENT

224

INTER OFFICE COMMUNICATION

DATE January 26, 1942

TO Secretary Morgenthau

FROM Mr. Haas 

Employment under the Work Projects Administration increased from 1,017,000 to 1,020,000 during the week ended January 13, 1942.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

| Week ending 1941 | Number of Workers (In thousands) |
|---------------------|-------------------------------------|
| June 4 | 1,442 |
| June 11 | 1,423 |
| June 18 | 1,410 |
| June 25 | 1,368 |
| July 2 | 1,172 |
| July 9 | 1,030 |
| July 16 | 1,016 |
| July 23 | 1,025 |
| July 30 | 1,036 |
| August 6 | 1,041 |
| August 13 | 1,042 |
| August 20 | 1,043 |
| August 27 | 1,045 |
| September 3 | 1,043 |
| September 10 | 1,037 |
| September 17 | 1,035 |
| September 24 | 1,033 |
| October 1 | 1,032 |
| October 8 | 1,037 |
| October 15 | 1,040 |
| October 22 | 1,044 |
| October 29 | 1,047 |
| November 5 | 1,050 |
| November 12 | 1,056 |
| November 18 | 1,058 |
| November 25 | 1,060 |
| December 2 | 1,063 |
| December 9 | 1,060 |
| December 16 | 1,055 |
| December 23 | 1,046 |
| December 30 | 1,041 |
| January 6 | 1,017 |
| January 13 | 1,020 |

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

| | Number of Workers (In thousands) |
|-----------|-------------------------------------|
| 1939 | |
| July | 2,200 |
| August | 1,842 |
| September | 1,790 |
| October | 1,902 |
| November | 2,024 |
| December | 2,152 |
| 1940 | |
| January | 2,266 |
| February | 2,324 |
| March | 2,288 |
| April | 2,092 |
| May | 1,926 |
| June | 1,665 |
| July | 1,701 |
| August | 1,691 |
| September | 1,704 |
| October | 1,779 |
| November | 1,821 |
| December | 1,878 |
| 1941 | |
| January | 1,895 |
| February | 1,867 |
| March | 1,708 |
| April | 1,560 |
| May | 1,464 |
| June | 1,368 |
| July | 1,036 |
| August | 1,045 |
| September | 1,033 |
| October | 1,047 |
| November | 1,060 |
| December | 1,041 |

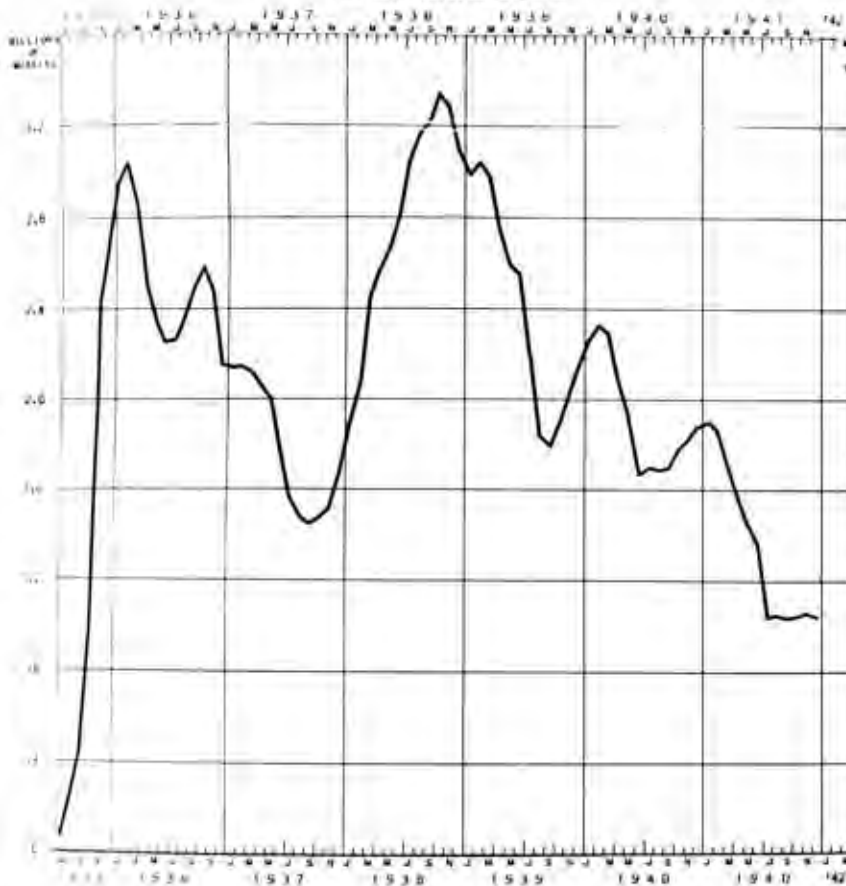
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

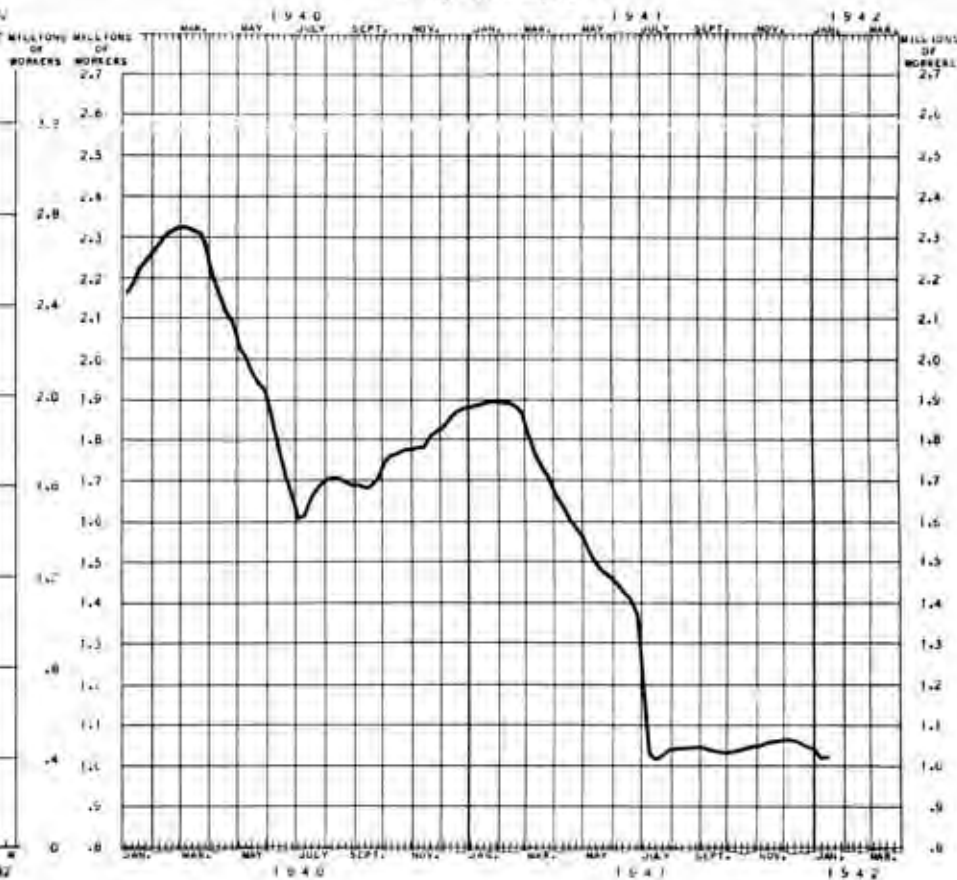
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

228

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 26, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending January 24, 1942

Summary

(1) The price control bill as revised in conference still retains inflationary potentialities. In addition to permitting prices of most agricultural products and of related manufactured goods to rise to ceilings above present levels, it requires the raising of ceiling levels based on parity as prices of goods bought by farmers increase. On the other hand, farm prices will not necessarily reach ceiling levels, since supply and demand influences will still be effective. The Department of Agriculture's program for expansion of production is likely to be a stabilizing factor.

(2) Basic commodity prices rose moderately higher last week, with farm products leading the advance. Cotton advanced steadily during the week to new 12-year highs. Increased speculative activity was noticeable, stimulated by the high minimum ceilings in the price bill on cotton, wheat and corn.

(3) The general price level continues to rise. The BLS all-commodity index in the week ended January 17 rose 0.6 to 95.6, the highest point since September 1929. Since our entrance into the war, the index has risen 3.7 percent.

(4) As a result of the recent upsurge in consumer buying, the gain in department store sales over year-earlier levels widened to 45 percent in the week ended January 17 from 31 percent in the previous week. Stocking up of woollens, rubber goods, sugar, and other types of merchandise expected to be in short supply, has strongly contributed to the sales upturn.

(5) Freight carloadings have risen substantially since the first of the year, and have already reached levels not attained last year until early May. In order to speed up equipment construction, SPAB has approved a program to turn out 36,000 freight cars in the 3 months ending April 30.

Price control bill raises prices further

Rising prices for farm products in the last few days are largely attributable to the price control bill. The bill, as revised in conference, is still inflationary in nature, and is so considered by traders in the commodity markets. Speculative activity has accordingly increased, and the volume of futures trading in the cotton and grain markets last week was the highest since the week immediately after our entry into the war.

The price bill is inflationary in several respects: (1) It permits prices of agricultural commodities to rise to ceilings which in most cases are above present market levels. (2) It forbids ceilings on manufactured goods, made in substantial part from farm products, below the equivalent ceilings for the latter. This would apparently eliminate the present ceilings on cotton textiles. (3) It requires a stepping up of ceiling levels based on parity, as prices increase for goods bought by farmers. Prices of goods bought will themselves inevitably increase as a direct result of the bill, since 51 percent of the change in parity levels depends directly on changes in costs of items produced on the farm or made from farm products: (a) food, a substantial part of which is home grown and valued at farm prices, (b) clothing, in which cotton and wool are predominant, and (c) feed, livestock, and seed used in farm production.

A notable instance of the inflationary effect of the price control bill is seen in the case of cotton, a product entering into a wide variety of industrial and defense uses, as well as having an important effect on the cost of living. The inclusion of the price average for the period 1919-1929 as one ceiling basis raises the ceiling on cotton to 21.47 cents at the farm (32 percent above the 16.23 cents farm price in December). The 1919-1929 period includes the peak of the World War inflation, and in the case of cotton, it also includes the severe boll weevil years of 1921 to 1924, when cotton prices rose nearly to World War levels.

The effect of the price bill on living costs --- a key factor in the inflation problem --- may be judged from the fact that 44.4 percent of the BLS cost-of-living index is made up of food and clothing.

Farm prices, of course, will not necessarily reach ceiling levels. Since supply and demand factors will still be effective, the Department of Agriculture's program for expanded production in 1942 is likely to have an important stabilizing influence. The present program for Government sales of cotton, wheat, and corn will also tend to restrain price advances.

Price control bill provisions

The conference price bill provides that the Secretary of Agriculture must approve any action taken with respect to agricultural commodities, and that no ceiling price may be established on any farm product below the highest of the prices determined on the following bases:

- (1) The average market price on October 1 or December 15, 1941.
- (2) The average price during the period July 1, 1919 to June 30, 1929.
- (3) 110 percent of parity prices as determined by the Department of Agriculture.

For commodities other than farm products, the standards for price ceilings are prices prevailing during the period from October 1 to October 15, 1941.

The following table shows for each of a selected group of farm products the farm price on December 15, 1941, and the approximate minimum ceiling price. In the case of beef cattle, and rice, the farm price on December 15 was already higher than 110 percent of parity and higher than the 1919-1929 average.

| Commodity | Farm price December 15, 1941 | Approximate minimum ceiling price | Ceiling as percent of farm price |
|-------------------|------------------------------------|--|--|
| Cotton, lb. | \$0.1623 | \$0.2147 | 132 |
| Wheat, bu. | 1.022 | 1.400 | 137 |
| Corn, bu. | .669 | 1.016 | 152 |
| Rice, (rough) bu. | 1.439 | 1.439 | 100 |
| Potatoes, bu. | .827 | 1.245 | 151 |
| Apples, bu. | 1.09 | 1.52 | 139 |
| Hogs, cwt. | 10.21 | 11.44 | 112 |
| Beef cattle, cwt. | 9.38 | 9.38 | 100 |

Price rise further stimulated

Announcements of heavy Government requirements of commodities for war uses, together with official statements predicting further price advances, were additional bullish influences in the commodity markets last week. As a result, the BLS index of basic commodity prices advanced to a new peak for the war period, and the Dow-Jones futures index reached a new high since the index was first computed in October 1933.

The BLS all-commodity index in the preceding week (ending January 17) advanced to 95.6, the highest point since September 1929. The rise was again due to broad price advances in farm products and foods. (See Chart 1.) The all-commodity index has risen 3.7 percent since our entrance into the war, 18.6 percent since a year ago, and 27.5 percent from the pre-war level of August 1939. The component index for prices of farm products has risen 11.0 percent since our entrance into the war, 41.2 percent from the level of a year ago, and 65.2 percent since August 1939.

Basic commodity index at new high

The upward movement in basic commodity prices last week was confined almost entirely to domestic farm products. (See Chart 2.) New peaks since the August 1940 low were reached by cotton, lard, corn, wheat, and flaxseed. Slight declines occurred in prices for rosin, barley, steers, and butter.

Cotton prices advanced steadily last week to new highs since 1928. Under the operation of the flexible ceiling plan, prices for print cloth and yarns were raised to higher levels twice during the week. The rise in prices for raw cotton was stimulated in part by the large volume of cotton textile contracts being let by the Government for war goods. Another strengthening factor was the announcement that the entire quota of 300,000 bales of cotton which the CCC can sell in any one month was taken up shortly after the recently announced selling program became effective, while total applications amounted to 1,160,000 bales.

Department store sales gain widens

Although January usually is a dull month for retail trade, consumer buying this year has been stimulated by the rising price trend and fears of shortages in various types of merchandise. Merchants report that the latter factor has been especially prominent in recent buying, with consumers stocking up on woolen and rubber goods as well as sugar and other articles which are expected to be in short supply. According to one source, retailers claim that the big impetus to the fear buying in recent months has come from Washington announcements relating to materials shortages.

The latest upsurge of consumer buying carried department store sales to 45 percent above year-earlier levels in the week ended January 17, as compared with a 31 percent gain in the previous week. (See Chart 3.) The widest advances were shown by the Philadelphia and Cleveland districts, with increases of 60 percent and 58 percent respectively over the corresponding period of 1941.

Industrial production index still rising

Industrial production during the first half of January, as in the previous month, has shown a less than seasonal decline according to Federal Reserve Board comments. Additional data relating to industrial production in December confirm an FRB adjusted index of 168 for that month and an average of 156 for the full year. The last mentioned figure compares with an average of only 123 in 1940.

Reference to Chart 4 will disclose that the rise in production last year was led by industries making transportation equipment (including aircraft and ships) and machinery. The smallest percentage gains occurred in the output of fuels and in metal mining.

The high expansion in aircraft production and shipbuilding, which highlighted last year's outstanding advance in the transportation equipment group, will be extended further during the current year. Thus, despite the very heavy volume of contracts previously awarded, the Maritime Commission announced at the beginning of last week that contracts had been negotiated for the construction of 632 additional merchant vessels costing \$1,100,000,000. Coincident with the announcement, it was indicated that around 850,000 workers are expected to be employed in shipyards by the end of this year. Some appreciation of the magnitude of this expansion may be gathered from the fact that shipbuilding employment at the beginning of 1939 was less than 100,000.

Steel plate production speeded

Due to the very heavy demand from shipbuilding as well as other industries, further steps have been taken to speed up the production of steel plates. Thus the OPM recently requested plate producers to operate on a full 168 hour, 7 day week basis. Moreover, greater use of continuous strip mills is being sought for making plates, and steps are being taken to simplify orders.

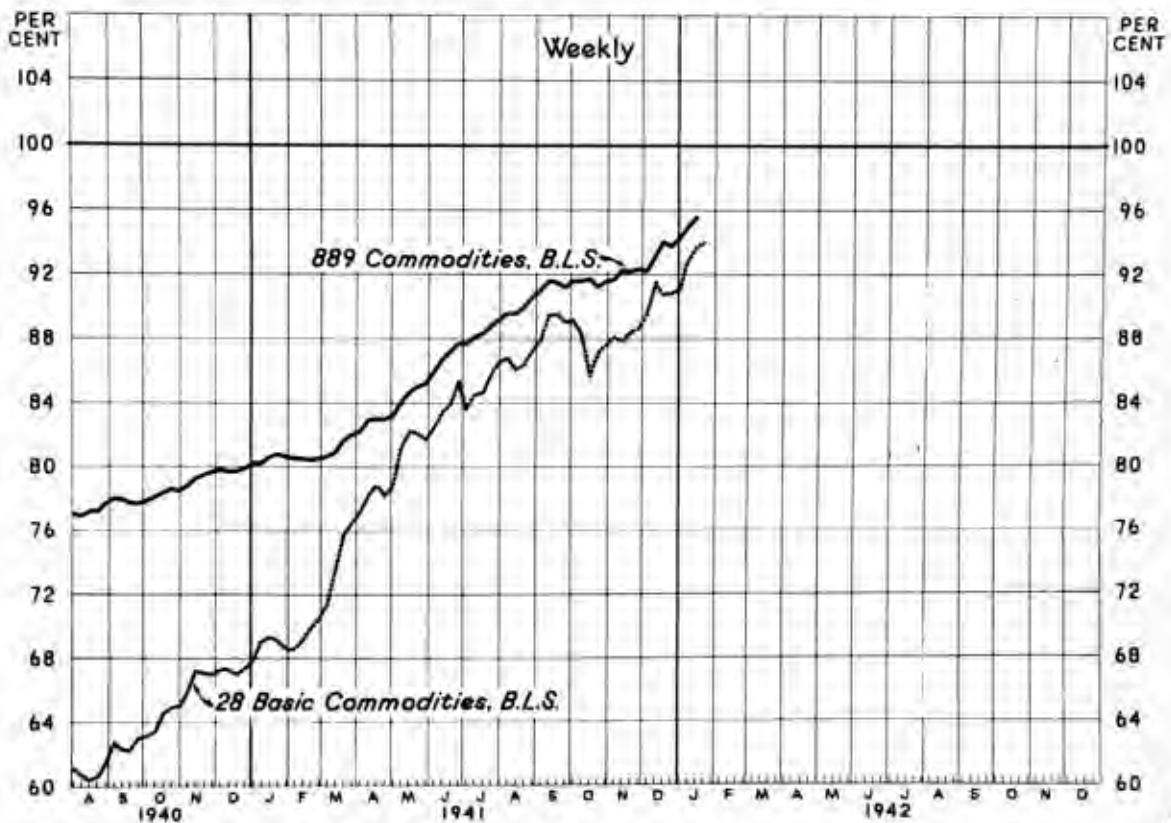
- 6 -

Lack of steel plates has been an outstanding factor in the lag in freight car building during the past year. In order to step up production, SPAB earlier this month approved a program designed to enable producers to turn out 36,000 freight cars in the three months ending April 30. In doing so, SPAB estimated that weekly freight carloadings would rise to the 1,000,000 car level by May.

Although last fall's peak in carloadings was only 923,000 cars, the above expectation may not be excessive in view of the recent loadings trend. (See Chart 5.) Freight carloadings have risen rapidly since the beginning of the year and by the week ended January 17 had reached 811,000 cars, a gain of 15 percent over the corresponding week of 1941. Last year carloadings did not cross the 800,000 level until May, when the spring upturn in traffic was well under way. The Association of American Railroads last week placed an embargo on all traffic destined for inter-coastal steamship transportation, a move necessitated by Government action suspending normal inter-coastal shipping.

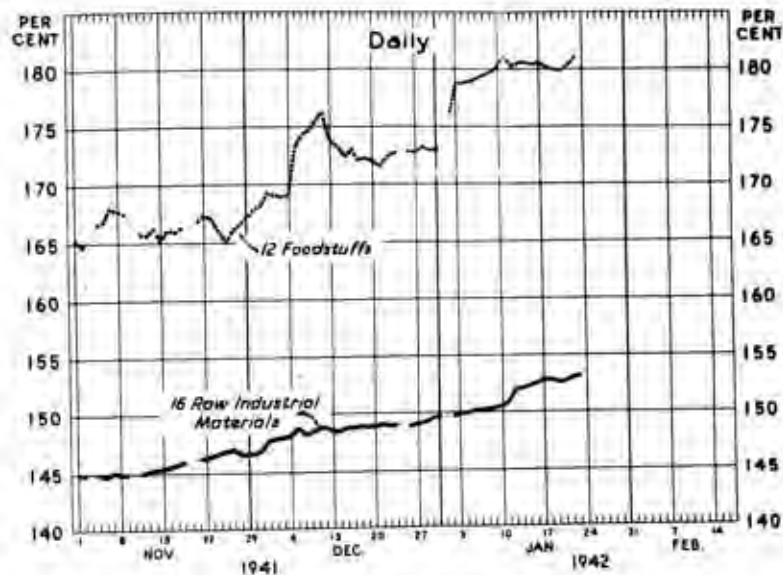
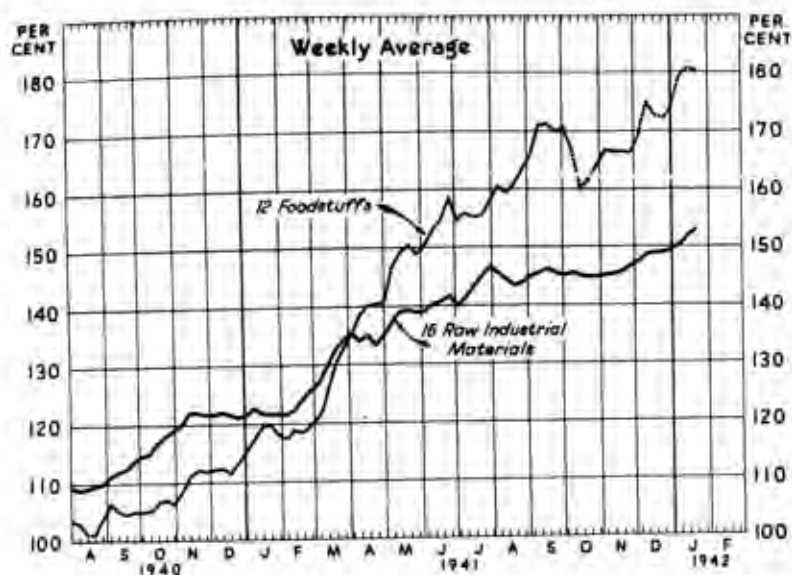
COMMODITY PRICES AND COST OF LIVING

1926=100

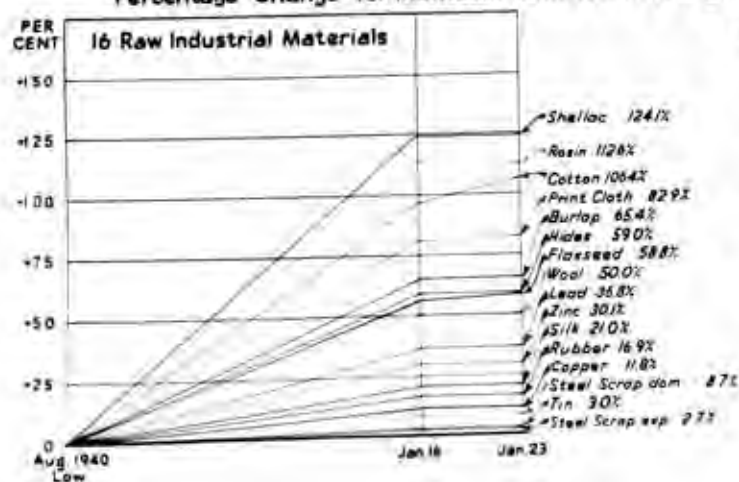


MOVEMENT OF BASIC COMMODITY PRICES

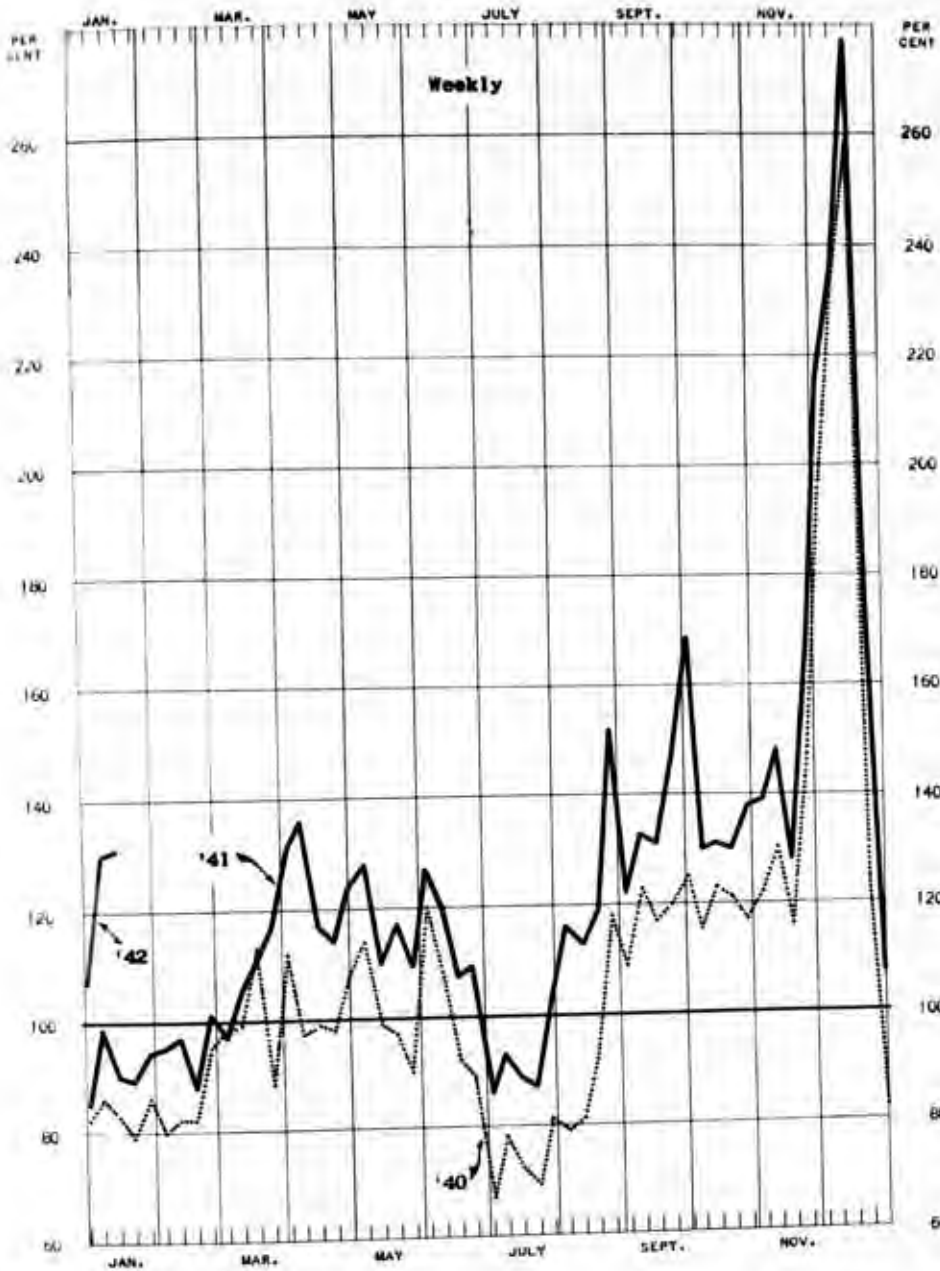
AUGUST 1939=100



Percentage Change for Individual Commodities, August 1940 Low to January 16, and to January 23, 1942



DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

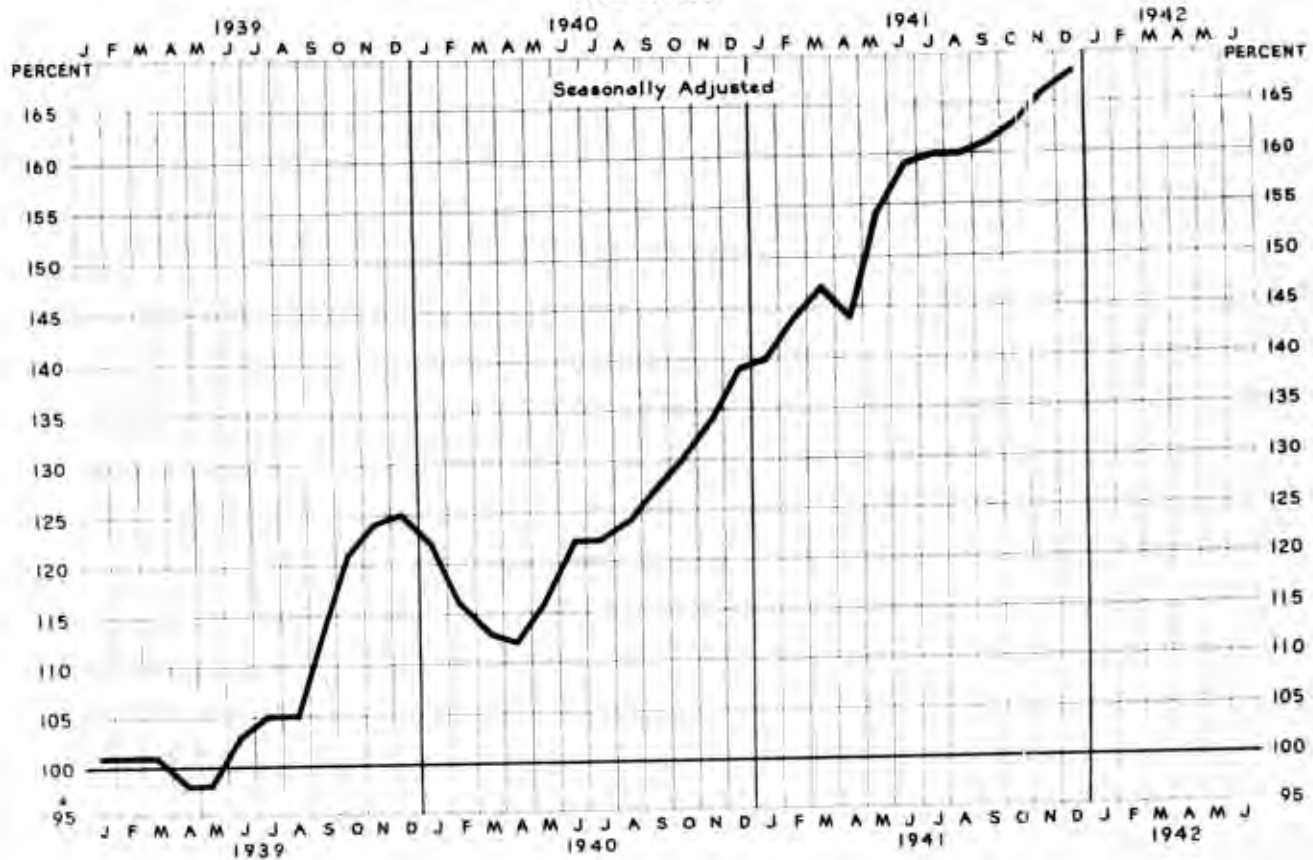


Office of the Secretary of the Treasury
Division of Research and Statistics

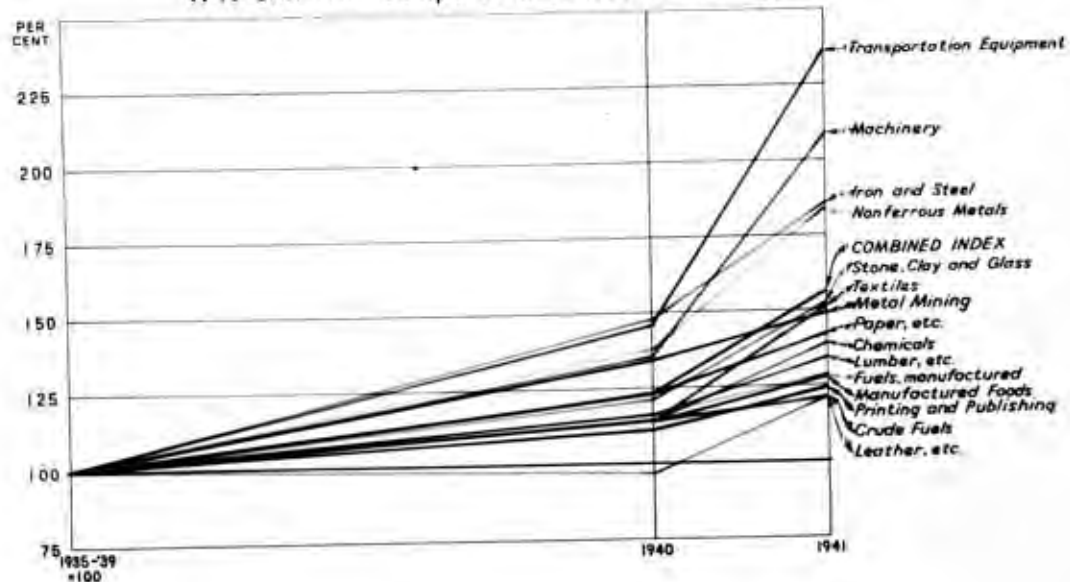
C - 390

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

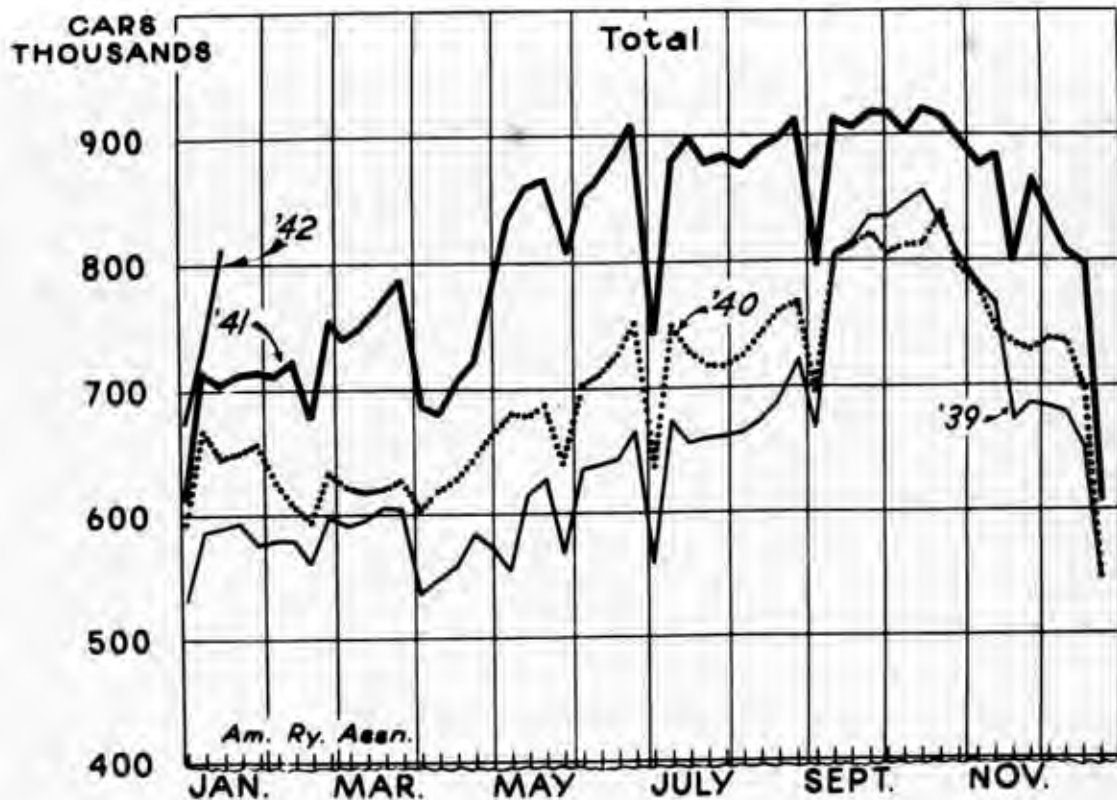
1935-39=100



Selected Components
1940 and 1941 Compared with 1935-39 Average



FREIGHT CAR LOADINGS



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

C-417

238

Chart 5

2004

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 26, 1918

TO Secretary Morgenthau

FROM Mr. Coe

Subject: The Control of U. S. Currency outside of our Territory

1. As you know, the British Government about a year after war was declared imposed an embargo on the import and export of pound sterling currency. Since then, pound sterling notes have exchanged abroad at black market rates involving heavy discounts (for example at present \$2.00 to \$3.00 per pound sterling in the United States). The question of whether the United States should adopt similar currency control measures is apparently rapidly coming to a head.

2. The Spanish Exchange Institute in December asked whether we would permit shipment to the United States of American currency acquired by the Institute. The United States Ambassador in Madrid argues that it might be better to allow this currency -- supposedly innocently acquired -- to come to the United States than to risk it falling into the hands of the Germans. In late December the Institute sharply dropped its buying rates for U. S. currency. The State Department in January informed our Ambassador in Madrid that the question of currency control was being discussed with the Treasury and that no arrangement could be made with Spain in the meantime. On January 22 the Exchange Institute in Spain informed our Ambassador that purchases of U. S. currency would be discontinued within eight days.

Brazilian Exchange authorities have urged the United States to adopt a currency control policy.

3. Monetary Research and Foreign Funds Control are examining various aspects of the problem of controlling dollar currency now held outside of the United States, in anticipation of State Department requests for Treasury opinion on this matter. Among the elements of the problem may be mentioned the following:

- (a) Virtually a complete embargo on the export and import of our currency would prevent our enemies from getting the full value of their holdings of dollar currency when they sell them on neutral markets.
 - (b) The principal difficulty of such an embargo lies in Latin America where many countries depend on dollar currency as an important or even major element in their monetary circulation, and in all of which the prestige of the dollar might be seriously affected if the negotiability of dollar currency is impaired. Also the armed forces frequently need to use sizable quantities of U. S. currency outside of the United States.
 - (c) Actual use of dollar notes as an international currency would, of course, be impossible if an embargo is put in force unless some special form of, say, Pan-American dollar could be devised for circulation in this hemisphere. The use of the dollar as an international money of account and its acceptability as a foreign exchange instrument should not be materially affected by a mere embargo on currency.
4. This memorandum is designed merely to bring you up to date on the status of the problem of currency embargo.

Treasury Department 241
Division of Monetary Research

Date.....3/3/42.....19

To: Miss Chauncey

From: Mrs. Wall

For your files. Mr. White showed it
to the Secretary at 5:15 p.m. 1/26/42.

Treasury Department
Division of Monetary Research 242

Date January 26, 1942 rg

To: Secretary Morgenthau
From: Mr. Southard

Attached is a file of incoming and outgoing cables relating to the Stabilization Fund Resolution introduced at Rio.

The State Department (Mr. Livesey) assures me that he has made a very careful search of their cable files and that there are no cables other than these which mention in any way the Stabilization Fund proposal.

I have summarized these cables in chronological order for your convenience.

TREASURY DEPARTMENT

213

INTER-OFFICE COMMUNICATION

DATE January 26, 1942

to Secretary Morgenthau
from Mr. Southard
Subject: Cables and telephone conversations from and to
Rio relating to the Stabilization Fund Resolution

I have been assured by Mr. Livesey in the State Department that no other cables than those listed below are in State Department files relating to the Stabilization Fund proposal:

(1) Mr. White to you (No. 9, January 14, 1942).

This cable contained substantially our original draft of the resolution (including the United Nations aspects) and asks for your approval and that of Berle, Eccles and the President.

(2) Mr. Welles to Messrs. Berle and Livesey.

This cable requests Berle and Livesey to do what they can to expedite your reply to No. 9 above.

(3) You to Mr. White (No. 9, January 15, 1942).

This is your reply to incoming No. 9 above, stating that you do not want any resolution introduced at Rio because it will not be possible to have prior conversations with the United Nations.

(4) Mr. Welles to you (No. 19, January 17, 1942).

This cable contains a briefer re-draft of the Stabilization Fund proposal but still including reference to the United Nations. Mr. Welles asks your approval, arguing that clearance with the British or other United Nations is unnecessary.

(5) You to Mr. Welles (No. 24, January 17, 1942).

You informed Mr. Welles that you feel it essential to give Great Britain and other United Nations a chance to react to the proposition and possibly even to consult Congressional Committees and that therefore there should be no formal presentation at Rio.

(6) You to Mr. White (by phone, January 17, 1942).

I understand that you informed Mr. White that if the Resolution could be confined solely to the American Republics you would be willing to see it introduced.

(7) Mr. Welles to you (No. 22, January 18, 1942).

Mr. Welles forwarded to you the draft revised in accordance with your instructions so as to eliminate all reference to the United Nations but explained that he hoped that the Conference would include representatives of other countries since there would be ample time to sound them out before the Conference meets.

(8) You to Mr. Welles (No. 30, January 19, 1942).

You approved the above draft provided the phrase "settlement of public and private international debts" is deleted from among the objectives of the proposed Stabilization Fund.

(9) No. 53, January 26, 1942.

This cable lists the resolutions thus far approved at Rio, including No. 5 on the Stabilization Fund. It states that the resolution as introduced was in "substantially the same form cleared in Washington". So far as I can learn, the actual final text of the Stabilization Resolution is not available in Washington.

Attachments

C
O
P
Y

345

TRB

GRAY

Rio de Janeiro

Dated January 14, 1942

Rec'd 10:35 p.m.

Secretary of State,
Washington.

TRIPLE PRIORITY

9, January 14, 9 p.m., (SECTION TWO).

"Resolution on the stabilization fund of the united and associated nations. Whereas, one. In the attainment of the economic objectives of the Atlantic Charter the more effective mobilization of foreign exchange resources is of indisputable importance and such mobilization should be of assistance in the war of freedom and liberation which the united nations are conducting and for the defense of other free and sovereign nations associated with them; and

Two. The united nations and other nations associated with them can cooperate in creating an organization to promote stability in foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of artificial barriers to the free movement of goods, help correct the maldistribution of gold, strengthen monetary systems and facilitate the settlement of public and private international debts;

The third meeting of consultation of the Ministers of Foreign Affairs of the American Republics resolves:

One. To recommend that the Governments of the American Republics participate with the Governments of the united nations in a special Conference of Ministers of Finance or their representatives, to be called for the purpose of considering the establishment of a stabilization fund of the united and associated nations;

Two. To recommend that participation in the conference shall be open to all nations that subscribe to the objectives of the Atlantic Charter;

Three. To recommend that the conference, in considering the establishment of such a fund, shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation; Four. To recommend that among the conditions requisite to participation in the fund there be included in the deliberations of the conference the following: cooperation in adopting harmonious policies looking toward the gradual adoption of free foreign exchanges with reasonable stability in foreign exchange rates, the removal of arbitrary and discriminatory restrictions on international transactions, and the maintenance of monetary policies that avoid serious inflation or deflation."

(END OF MESSAGE).

WELLES

HTM

Copy:bj:l-16-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: January 14, 1942, 9 p.m.

NO. : 9, Section One

This message is in strict confidence from Mr. White for the Secretary of the Treasury.

The wish was expressed by Mr. Welles to present a resolution, similar to the attached draft, on International stabilization, if you and anyone else you feel necessary approve the presentation of the resolution.

It is my suggestion that if you desire the presentation of the draft at this Conference you have Berle and perhaps Eccles approve it. Since there is some importance attached to this matter and the eventual calling of a conference of associated and united nations is implied, you may even want the draft or merely the idea approved by the President before you recommend it to be submitted here. The statement was made by Mr. Welles that the idea (was ?) of a stabilization fund for the period after the war has in general been approved by the President, but Welles did not indicate that the specific proposal was known to the President.

The pertinent rules of the conference require unfortunately that resolutions must be submitted by

noon on January 16 (Friday). Since it was first necessary for me to discuss the idea in general terms with some of the financial representatives of the other American republics in order to ascertain the prospects of favourable reception at the present Conference I have not been able to send you this message sooner. For rather obvious reasons the general idea was enthusiastically received by those with whom I have discussed the matter.

In view of the fact that the resolution only calls for participation in a conference which would be called to consider the establishment of a fund and in view of the very general terms in which the resolution is stated, the clearance of the phraseology of the draft should not take very long. It is of course possible that the President may consider some other time more appropriate for the initiation of the idea. That question has been discussed with Mr. Welles and he decided that it would be all right for the United States Government to submit it here if you approve the resolution. It is possible that you will feel that there is not time to clear the matter in a way which would be satisfactory to you. If this is the case it is probably better that some other time be selected to advance a proposal for the establishment of a stabilization fund. In the opinion of Mr. Welles the submission of the resolution here would be very helpful but postponement is to be preferred to difficulties. A reply before Friday noon would be appreciated whatever your decision may be.

Copy:bj:lc:1/15/42

WELLES

PARAPHRASE OF TELEGRAM SENT

TO: American Delegation, Rio de Janeiro, Brazil

DATE: January 15, 1942, 5 p.m.

NO.: 9

Reference is made to telegram no. 9 sent by the Delegation at 9 p.m. on the 14th of January, 1942. This telegram is transmitting a message from the Secretary of the Treasury to Mr. White.

It is the feeling of the Secretary of the Treasury that the suggestion of a Stabilization Fund of the United and Associated Nations should be discussed with others who belong to the United Nations as well as informally at Rio before you make a formal proposal. No arrangement of discussions within your deadline can be made here. Therefore, it is the feeling of the Secretary of the Treasury that a resolution for a Stabilization Fund should not be brought up at the Conference in Rio de Janeiro.

WILL
(FL)

PANAPHRASE OF TELEGRAM RECEIVED

350

FROM: ANDELGAT, Rio de Janeiro, Brazil.

DATE: January 17, 1942, 10 a.m.

NO. 1 19.

SECTION ONE.

The following is confidential from Welles for the Secretary of the Treasury.

Reference is made to telegram No. 9, 5 p.m., dated the 15th of January.

I appreciate fully that it is difficult to clear the resolution in a time so brief as was indicated in my earlier telegram. However, I have succeeded in having the deadline for the presentation of the resolution extended to Monday. Personally I do not feel that a prior clearance on this matter with the British or any other Government is necessary. It would be most helpful, in view of developments at the conference, if the resolution could be presented by the United States and I hope that you can find it possible to give your approval to it.

Following is a redraft of the resolution on simpler lines:

WELLES

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

Rio de Janeiro

Dated January 17, 1942

Rec'd 10:15 a.m.

Secretary of State,
Washington.

TRIPLE PRIORITY

19, January 17, 10 a.m. (SECTION TWO)

Resolution on the stabilization fund of the
United and Associated Nations.

WHEREAS:

One. In the attainment of the economic objectives
of the Atlantic Charter a more effective mobilization
of foreign exchange resources is of indisputable
importance, and would be of assistance in the struggle
against oppression;

Two. The nations which are combined in a
common effort to maintain their political and economic
independence can cooperate in creating an organization
to promote stability in foreign exchange rates,
encourage the international movement of productive
capital, facilitate the reduction of artificial and
discriminatory barriers to the movement of goods,
help correct the maldistribution of gold, strengthen
monetary systems, and facilitate the settlement of
public and

-2- #19, January 17, 10 a.m. (SECTION TWO) , from Rio de Janeiro

public and private international debts and the maintenance of monetary policies that avoid serious inflation or deflation;

Three. Participation by the American Republics in the common effort more effectively to mobilize and use their foreign exchange resources would contribute to the realization of the economic objectives set forth at the first and second meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana.

WELLES

NPL

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

Rio de Janeiro

Dated January 17, 1942

Rec'd. 10:41 a. m.

Secretary of State,
Washington.

TRIPLE PRIORITY.

19, January 17, 10 a. m. (SECTION THREE)

The Third Meeting of Consultation of the
Ministers of Foreign Affairs of the American
Republics.

RESOLVES:

One. To recommend that the Governments of the
united nations in a special conference of Ministers
of Finance or their representatives to be called for
the purpose of considering the establishment of a
stabilization fund of the united and associated
nations;

Two. To recommend that participation in the
conference shall be open to all nations that sub-
scribe to the objectives to the Atlantic Charter;

Three. To recommend that the conference in
considering the establishment of such a fund shall
formulate the plan of organization, powers and
resources

-2- #19, January 17, 10 a.m.(SECTION THREE), from Rio de Janeiro.

resources necessary to the proper functioning of the fund, and shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation.

(END OF MESSAGE).

WELLES

NFL

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255

PARAPHRASE OF TELEGRAM SENT

TO: American Delegation, Rio de Janeiro, Brazil
DATE: January 17, 1942, 10 p.m.
NO. : 24

This is a confidential message from Secretary Morgenthau for the Under Secretary of State Welles.

Reference is made to telegram no. 19 sent by the Delegation at 10 a.m. on the 17th of January, 1942. It is still my feeling that there should be no formal presentation at Rio of the idea of a stabilization fund. Since your telegram of the 15th of January, I have been considering the matter and more than ever before I believe this strongly.

In order to assure success, it may be desirable to discuss this question with the appropriate committees in Congress as well as to give Great Britain and other United Nations a chance to react to the proposition.

HULL
(AAB)

Copy:bj:1-19-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: ANDELSAT, Rio de Janeiro, Brazil.

DATE: January 18, 1942, 7 p.m.

NO.: 22.

SECTION ONE.

FROM THE UNDERSECRETARY OF STATE AND THE SECRETARY OF THE TREASURY, in reply to the Department's telegram no. 24, January 17, 10 p.m.:

Appended is a new draft of the resolution which, I believe, may satisfactorily cover the points mentioned in your cables to me regarding the wording of the earlier draft.

In this new draft you will note that no reference is made to nations other than the American Republics. There is nothing in the resolution committing the United States to a meeting which need necessarily include the Finance Ministers of nations other than the American Republics although it is to be noted that, when called, the meeting referred to in the new draft would include representatives of other countries and may be so interpreted by some. Before the calling of the conference there will of course be ample time for sounding out other governments and their participation therein assured beforehand.

I would appreciate it if you could have your reply and any possible suggestions regarding further changes telephoned rather than cabled in view of the fact that Monday noon Rio time (which is two hours earlier than Washington time) January 19 is the absolute deadline. Today morning White will stand by in his room at the Copacabana Palace to receive any telephone messages from Washington.

S:RSB

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

Rio de Janeiro

Dated January 18, 1942

Rec'd. 10:50 p. m.

Secretary of State,
Washington.

TRIPLE PRIORITY

22, January 18, 7 p. m. (SECTION TWO)

Resolution on the stabilization fund of the
united and associated nations.

Whereas

One. A more effective mobilization and
utilization of foreign exchange resources would be
of assistance in the struggle against aggression
and would contribute to the realization of the
economic objectives set forth at the first and
second meetings of the Ministers of Foreign Affairs
of the American Republics at Panama and Habana; and

Two. The American Republics which are combined
in a common effort to maintain their political and
economic independence can cooperate in the creation
of an organization to promote stability in foreign
exchange rates, encourage the international movement
of productive capital, facilitate the reduction of
artificial and discriminatory barriers to the movement
of goods,

-2- #22, January 18, 7 p.m. (SECTION TWO), from Rio de Janeiro.

of goods, help correct the maldistribution of gold, strengthen monetary systems, and facilitate the settlement of public and private international debts and the maintenance of monetary policies that avoid serious inflation and deflation:

Resolves

One. To recommend that the Governments of the American Republics participate in a special conference of Ministers of Finance or their representatives to be called for the purpose of considering the establishment of an international stabilization fund;

Two. To recommend that the conference in considering the establishment of such a fund shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, and shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation.

(END OF MESSAGE)

WELLES

JRL

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259

PARAPHRASE OF TELEGRAM SENT

TO: American Delegation, Rio de Janeiro

DATE: January 19, 1942, 2 p.m.

NO. : 30

This message is in strict confidence from the Secretary of the Treasury for the Under Secretary of State.

Reference is made to telegram no. 22, sent by the Delegation at 7 p.m. on the 18th of January, 1942. The new resolution with the two changes as follows is found satisfactory, in confirmation of a conversation on the telephone with Mr. White:

First. "Resolution on an international stabilization fund" in the way the title is to read.

Second. "The settlement of public and private international debts", a phrase in section two, should be crossed out.

It is hoped that the resolution will prove to be of assistance.

The work of the Department of the Treasury makes it desirable that Mr. White come back to Washington as quickly as possible and not go on to Buenos Aires, Argentina.

MULL
(ARB)

Copy:bj:l-20-42

FROM: American Delegation, Rio de Janeiro, Brazil.

DATE: January 26, 1942, 2 p.m.

NO.: 53.

The consultative meeting, in addition to recommending the severance of diplomatic relations with the Axis powers and which I have already reported, has already approved a number of resolutions which embody practical and specific measures. The following resolutions are included:

1. Financial and commercial relations to be severed with Axis powers. (Terms practically the same as terms drafted in Washington). Although Argentina made a reservation applying the measures of control to all non-American territories and Chile made a reservation of its sovereign rights they both supported the basic objectives of the resolution and the substance therein;

2. Strategic material production for supplying the continent's essential defense needs;

3. Principles and practices regarding priorities, allocations, and price controls entirely consistent with our own are approved;

4. Maritime and other ^{Communications} supervision to be improved-- defense requirements emphasized.

5. A resolution concerning stabilization fund which is in practically the same form cleared in Washington.

6. Resolution supporting Inter-American Development Commission.

7. Resolution

7. Resolution which urges the Inter-American Bank's establishment at an early date.

8. One resolution of major importance embodying all points previously agreed to in Washington on the control of subversive activities and other resolutions which are similar. (The resolution on subversive activities is entirely satisfactory to Smith of Justice).

9. Japanese aggression condemned in resolution and condemnation extended to the other Axis powers.

The resolution which excludes Axis companies or Axis citizens from commercial and civil aviation has not been reported to the full committee, but the subcommittee has approved it. This applies also to the resolutions on the reorganization of the Inter-American Neutrality Committee, post war problems, public health and red cross. The Telecommunications resolution has been approved in principle but the full committee has not yet been approved. At a session of the full committee tonight (8 p.m.) it is probable that approval will be given these latter resolutions.

Please note that approval along the lines agreed upon prior to the delegation's departure have been given to many of the projects supported by the U.S. and that so far as the schedule here has permitted the remaining ones have progressed favorably.

WELLES

DEPARTMENT OF STATE

262

FINANCIAL DIVISION

January 25, 1942

State Department Telegrams to and from American Delegation
at Rio Touching on Stabilization Fund

Delegation's 9, January 14, 9 v.m. For the Treasury
from White.

Delegation's 10, January 14, FOR BERLE AND
LIVESEY requesting endeavor to expedite reply from Secretary
of the Treasury to Delegation's 9.

Department's 3, January 15, 5 p.m. From Berle and
Livesey reporting that Secretary of the Treasury is away
but Treasury is endeavoring to reach him.

Department's 9, January 15, 5 p.m. For White from
the Treasury.

Delegation's 19, January 17, 10 a.m. From Welles for
the Secretary of the Treasury.

Department's 24, January 17, 10 p.m. For Welles from
Secretary Morgenthau.

Delegation's 22, January 18, 7 p.m. For Secretary
Morgenthau from Welles.

Department's 30, January 19, 2 p.m. For Welles from
the Secretary of the Treasury.

Delegation's 53, January 25, 2 p.m.-- a summary of
resolutions already approved including item "(five) a
resolution concerning stabilization fund which is in
practically the same form cleared in Washington."

FD:FL:EMOB

HL

263 ~~P. D.~~

~~Notes~~

~~E. Dietrich~~

MEV

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

Rio de Janeiro

Dated January 26, 1942

Rec'd 8:12 a.m.

Secretary of State,

Washington.

56, January 26, 10 a.m.

FOR THE SECRETARY OF THE TREASURY FROM WHITE

Plans changed. Leaving Rio Saturday arriving Washington about Wednesday.

WELLES

WWC

January 26, 1942

Mr. Livesey

Mr. Southard

Please send as urgent the following cable from Secretary Morgenthau to Mr. Harry D. White, in Rio:

"Return to Washington as soon as possible."

PAS/efu
1/26/42

TELEGRAM SENT

HRL

GRAY

January 26, 1949

11 p.m.

AKDELGAT,

RIO DE JANEIRO, (BRAZIL).

URGENT

82

FROM SECRETARY MORGENTHAU TO MR. HARRY D. WHITE.

QUOTE. Return to Washington as soon as possible.

END QUOTE.

HULL
(FL)

FD:FL:ME

January 26, 1942.

My dear Mr. Secretary:

I have your letter of January 23rd, which tells of the forthcoming visit of the Brazilian Minister of Finance, Dr. Arthur de Souza Costa, to this country. I shall be very glad to see the Minister when he reaches here, and to discuss matters of mutual interest during the course of his stay in Washington.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

File - H.M.C.

*By [unclear] 5-20
copy of incoming copy of this
let to [unclear] office*

GEF/abw



DEPARTMENT OF STATE
WASHINGTON

January 23, 1942

In reply refer to
RA 033.3211/307

My dear Mr. Secretary:

Ambassador Caffery at Rio de Janeiro has reported confidentially that the Brazilian Minister of Finance, Dr. Arthur de Souza Costa, will probably be coming to Washington at an early date to discuss matters of general interest to his Department with the authorities of this Government.

He will probably bring a letter from President Vargas to President Roosevelt.

You will, of course, remember him from his visit to the United States in 1937.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

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BRITISH EMBASSY,

WASHINGTON, D.C.

SAFE HAND

W.T. 1031/AA/13/42

26th January, 1942

Dear Mr. Dietrich,

With reference to the decree published by the Government of Costa Rica under which German, Italian and Japanese subjects are compelled to file with the Co-Ordination Bureau a sworn declaration of all their assets, earnings, etc., our Charge d'Affaires in San Jose has been informed by the Minister of Finance that once the information demanded under this decree is in his possession, he will be in a better position to appraise Axis commercial and industrial interests with a view to tightening his control over them.

A month prior to the declaration of war by Costa Rica, enemy firms withdrew 1-1/2 million colones from the local banks and it is expected that the decree will reveal the whereabouts of this money. The Minister also stated that in the three local banks there were deposits on account of askimarks estimated at about one million colones and that he was considering taking appropriate steps for the acquisition of this sum for the benefit of the State.

Yours sincerely,

(Sd) E. V. PALI

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 273,
Washington, D.C.
EVP:OSB

Copy:ec:1-27-42

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

(FT HILLS)
 MANILA

Dated January 26, 1942

Rec'd 1:13 a.m.

Secretary of State

Washington.

30, January 26, 1942 a.m.

FOR THE TREASURY DEPARTMENT.

13

In addition to \$10,895,151.13 cancelled United States Treasury checks paid and held by the Treasurer of the Philippine Government mentioned in my telegram December 28, I have accepted three boxes said to contain approximately 7000 such checks sent here by Philippine Treasury without mail subsequent to my departure from Manila. Audit by men under the command of Lieutenant-Colonel W. A. Enos, Finance Department, United States Army shows that the total is \$27,496,596.86. This auditing has been approved as satisfactory by the commonwealth. Lists showing details regarding each cheque will be mailed as circumstances permit. I recommend that total of \$37,701,747.09 be credited immediately with subsequent adjustments if necessary when the lists are received.

ECR
 HTH

SAYRE

Treasury Department
Division of Monetary Research

270

Date...February 3,.....1942

To: Secretary Morgenthau

From: Mr. White

You may be interested in the attached cable which refers to a loan of 300,000,000 rubles by the Russian Government to the Polish Government for the maintenance of the Polish army in Russia. It also mentions a similar agreement with the Czechoslovak Government.

MR. WHITE
Branch 2058 - 2144

C
O
P
Y

271

TRB

GRAY

(Moscow)
Kulbyshv

Dated January 26, 1942

Rec'd 6:19 p.m.

Secretary of State,

Washington.

73, January 26, noon.

Embassy's B, January 4.

The local press of January 25 reports the signature in Kulbyshv on January 22 of an agreement between the Soviet and Polish Governments in accordance with which the former extends to the latter a further loan of 300 million rubles, to be used for the maintenance on Soviet territory of the Polish army.

The press also reports the signing on the same date of a similar agreement between the Soviet and Czechoslovak Governments whereby a loan, unspecified as to amount, is extended by the Soviet Government to the Czechoslovak Government for the maintenance in the Soviet Union of Czechoslovak brigades.

TRUSTON

REF

Copy:bj:2-2-42

372

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 26, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|----------|
| Sold to commercial concerns | £103,000 |
| Purchased from commercial concerns | £ 47,000 |

Open market sterling remained at 4.03-3/4, and there were no reported transactions.

The Canadian dollar discount widened to 12% by noontime, returning to 11-3/4% during the afternoon. Yesterday's final quotation was 11-5/8%. The Post Office, which was a buyer late last week, reportedly appeared in the market this afternoon and purchased 100,000 Canadian dollars.

The Venezuelan bolivar, which has been quoted at .2675 for several days, advanced to .2700 today.

In New York, closing quotations for the foreign currencies listed below were as follows:

| | |
|--------------------------|-------|
| Argentine peso (free) | .2362 |
| Brazilian milreis (free) | .0516 |
| Colombian peso | .5775 |
| Mexican peso | .2065 |
| Uruguayan peso (free) | .5250 |
| Cuban peso | Par |

There were no gold transactions consummated by us today.

The State Department forwarded cables to us reporting the following shipments of gold:

| | |
|-----------|--|
| 1,450,000 | from Chile, shipped by the Central Bank of Chile to the Federal Reserve Bank of New York, disposition unknown |
| 350,000 | from England, shipped by the Westminster Bank, London, to the Chase National Bank, New York, for sale to the New York Assay Office |
| 1,810,000 | Total |

In London, spot and forward silver remained at 23-1/2d and 23-9/16d respectively, equivalent to 42.67¢ and 42.78¢.

-2-

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

CONFIDENTIAL

D

274

BRITISH EMBASSY,
WASHINGTON, D. C.

January 26th, 1942

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 30

Information received up to 7 a.m., 25th January, 1942.

1. NAVAL

One of H.M. submarines torpedoed and sank an Italian salvage vessel off TUNISIA.

22nd. Two naval auxiliaries which were attacked by enemy aircraft off NORTH SUMATRA shot down a four-engined aircraft.

Between 19th and 24th following ships reported sunk or damaged by enemy submarines:

- A. Off U.S. Atlantic Coast and in NEWFOUNDLAND area, five ships totalling about 28,000 tons.
- B. Off BURMA. A small Panamanian ship and another unknown vessel.
- C. 340 miles S.S.E. of HALIFAX, one medium sized British ship
- D. 300 miles West of CAPE ST. VINCENT, one medium sized Spanish ship.

2. MILITARY

LIBYA. 22nd and 23rd. The enemy seized the opportunity to push along the AGHEILA to JEDABYA Road, which was lightly held and reached JEDABYA on the afternoon of the 22nd, and then moved a column of about 30 tanks and 400 M.T. through ANTELAT towards SAUNNU. A second column of about 150 M.T. including armoured vehicles and guns followed up as far as ANTELAT where it seems to have remained. Air reported several hundred M.T. moving North-East on track JEDABYA to ANTELAT on morning 23rd. Our armoured and other forces were in touch with the enemy throughout the 23rd and at least three engagements took place in the ANTELAT-SAUNNU Area where enemy tanks and artillery were brought to battle by our columns. The situation is still confused and no decisive results have been reported. Large number of fires seen amongst enemy M.T. on track JEDABYA - ANTELAT.

PAR EAST. No further news of operations in BURMA or MALAYA, NEW BRITAIN and NEW IRELAND.

24th. No communication with Australian military forces at RABAUL and KAVIENI. Three enemy aircraft claimed brought down at each place between 21st and 22nd.

RUSSIA. North-East of BELLEV the Russians are making further progress westwards.

- 2 -

3. AIR OPERATIONS

WESTERN FRONT. Nothing of interest.

MEDITERRANEAN. 23rd and 23/24. Our bombers including Naval aircraft attacked at intervals a southbound Italian convoy consisting of four large merchant vessels escorted by one battleship, three cruisers and sixteen destroyers which was first sighted 170 miles North-East of MISURATA. Reports are not yet definite but a merchant vessel of about 20,000 tons was torpedoed and stopped, a destroyer was torpedoed, a cruiser was hit with bombs and near misses with bombs were scored on the battleship and two merchant vessels. Two of our aircraft are missing.

25th. Six Swordfish again attacked this large vessel at 1.30 a.m. and claimed hits with two torpedoes, this confirmed by screening Blenheim. Later each sighted convoy approaching TRIPOLI (L) but no trace of the large ship.

MALTA. 23rd/24th and 24th. A total of 82 aircraft attacked. Two of our aircraft were destroyed on the ground and seven damaged. HAL FAR aerodrome was cratered. Our fighters probably destroyed one enemy aircraft and damaged four.

BURMA. 24th. Seven enemy bombers, escorted by 55 fighters attacked two aerodromes near RANGOON. 17 of our fighters including two Hurricanes shot down all the bombers and six fighters, probably destroyed two fighters and damaged nine. All our aircraft returned safely.

MALAYA. 23rd. 30 enemy aircraft attacked SINGAPORE ISLAND. Three of our aircraft were destroyed on the ground. Hurricanes shot down one enemy bomber and probably destroyed another.

277

BRITISH EMBASSY,
WASHINGTON, D.C.

January 26th, 1942.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a
copy of the latest report received
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

MOST SECRET

(U.S. SECRET).

CPTEL No. 29.

Information received up to 7 A.M. 24th January, 1942.

1. NAVAL.

Aircraft reconnaissance on 23rd showed the TIRPITZ at Trondheim. A small Norwegian vessel was torpedoed off Christmas Island on the 20th and has been abandoned. On 21st a medium sized Greek vessel was sunk by mine off Singapore.

2. MILITARY.Libya.

By the evening of the 22nd enemy columns, estimated total strength about 8,000 men and 90 tanks, were advancing North and North East from Jedahya. Our troops have taken up positions South East, East and North of the town.

Malaya.

Situation 4.30 P.M. 23rd. Right. No change. Bersing area still held. Centre. Our forces were withdrawn South of Labis, where they were in contact with enemy including tanks. Left. Our forces who were cut off have not yet been able to extricate themselves. Pressure in the Batu Pahat Area has increased. The Japanese Guards Division has been identified on the Muar Front. About 400 Australians and many Indian troops returned from Jesselton after very bitter fighting.

Burma.

Demolition of Mergui Aerodrome has been completed and our withdrawal continues. More army personnel from Tavoy have arrived at Ye. East of Maulmein our forces are withdrawing but are not being pressed.

Russia.

The Russian converging movement towards Vyasma is making progress both from the North and from the South East.

3. AIR OPERATIONS.Western Front.

22nd. 1,300 ton enemy ship was hit by R.C.A.F. Hudson.
22nd/23rd. Munster. 65 tons. Good weather conditions. Large fires were started in the town and bombs straddled the railway station. A R.C.A.F. aircraft participated.

Libya.

22nd. A Squadron of Blenheims inflicted heavy damage on 400 closely parked U.T. South East of Achilla. Kittyhawks engaged 3 dive bombers, escorted by fighters, destroying 2 enemy aircraft and damaging 1. Two Kittyhawks are missing.

22nd/23rd. Wellington dropped over 10 tons bombs on Tripoli (L) Harbour. A naval vessel and a probable A.A. ship were hit.

Malta.

22nd/23rd and 23rd. A total of 83 enemy aircraft attacked, causing slight damage to ships in the harbor and to Mallia aerodrome. Two enemy aircraft were damaged by our fighters.

Regraded Unclassified

- 2 -

Burma.

23rd. Our bombers attacked a concentration of lorries near Mead. Enemy aircraft attempting to attack an aerodrome near Rangoon were intercepted by Tomahawks of the American Volunteer Group and Buffaloes, 9 enemy fighters and 3 bombers were destroyed and a further 12 enemy aircraft were probably destroyed. Several more were damaged. The other bombers jettisoned their bombs. We lost 2 fighters.

Malaya.

Singapore. 21st. Civilian air raid casualties reported 304 killed and 625 hospital cases. 22nd. Kluang aerodrome was raided but no damage caused.

Pacific Zone.

20th. More than 100 Japanese bombers and fighters attacked Rabaul (New Britain). 21st. 60 aircraft attacked Kewiong (New Ireland) and 50 attacked Salamoa (New Guinea) and other objectives in that area.

4. The arrival at Ferrol on 12th of an Axis ship with a valuable cargo from Japan probably represents a first attempt to bring urgently needed raw materials from the Far East to Germany.

TREASURY DEPARTMENT

280

INTER OFFICE COMMUNICATION

DATE January 26, 1942

TO Secretary Morgenthau
FROM Mr. Kamarek

Subject: Summary: O.C.I. Report. Interview with former American directors of General Motors' Opel plant in Germany.

1. Production

The Germans have an acute rubber scarcity. Since 1938, the army has urged Opel to achieve a production rate of 100 three-ton trucks per day. The capacity of the plant was large enough, but since it was never supplied sufficient tires and batteries, it could not produce more than around 80 a day. Lack of natural rubber cannot be completely offset by the use of the "Buna" synthetic rubber. Tires made from "Buna" require a 30 percent mixture of natural rubber. This is because "Buna" does not stick to the tire fabric. Tires are made so that 100 percent natural rubber is next to the fabric, whereas the treads are 100 percent "Buna".

German lubricating oils are of good quality for ordinary use. However, they contain a high percentage of tar, which gives very unsatisfactory results under extremely low temperatures. (Probably this is one of the German handicaps on the Russian front.)

Since August, 1939, no passenger cars have been produced. The passenger car plant was converted into making parts for bombers. Conversion began in August, 1939 and was completed ten months later in June, 1940.

2. Labor

The Nazi Party has a complete organization for spreading propaganda in the plants. The great majority of the workers show very little enthusiasm for Nazi propaganda. Initiative in this type of activity is entirely lacking on the part of the workers. The men show absolutely no spontaneous push to achieve greater production.

- 2 -

In 1939, rather serious labor trouble was experienced in the German coal mines. It is understood that since then, the situation in the mines has never been entirely satisfactory.

3. General

Bootlegging of food exists to some extent. In any case, the wealthy are able to fill in their diet with expensive, unrestricted foods, such as game, lobster, caviar, etc. This is not flagrant enough to have evoked any bad feeling.

The widespread notion that the average German is a stolid, squareheaded individual with a one-track mind, is wrong. In reality, he is very impressionable and very changeable. For this reason, the Nazi propoganda machine has to work in high gear all the time. The deepest impression the Germans have received is that if they lose the war, they will experience indescribable chaos and suffering.

COORDINATOR OF INFORMATION

WASHINGTON, D. C.

January 20, 1942

CONFIDENTIAL
COORDINATOR OF INFORMATION

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

My dear Mr. Secretary:

I am enclosing herewith a memorandum, "Interview with Former American Directors of the Opal Werke, Germany", which I hope may be of service to you.

Sincerely yours,

James P. Baxter, Sr.

James P. Baxter, Sr.
Deputy Coordinator

Enclosure

CONFIDENTIAL

NOTE:

The following facts will facilitate interpretation of some of the information supplied in Mr. Copelin's memorandum of January 9, 1942.

Before the war (as now), Opel's entire production of trucks was concentrated at the Brandenburg plant. Opel's entire output of passenger cars (110,000 units annually) was produced at the Ruesselsheim plant, where about 17,000 workers were employed on this activity. It is these men that were laid off when passenger car production was stopped in August, 1939.

The passenger car facilities and workers were subsequently converted to the production of the air craft parts referred to on page 3 of Mr. Copelin's report. In addition, the plant at R manufactures parts for the trucks made at B, as it did before the war.

CONFIDENTIAL

January 9, 1942

Coordinator of Information
Washington, D. C.Subject: Interview with former American Directors of the
Opel Werke, Germany.

Dear Sir:

Reference is had to conversation with Mr. Chandler Morse of your Office and to a letter of December 22, 1941 from Mr. Emile Despres regarding a proposed interview with Messrs. Osborne and Hoglund of General Motors Corporation.

The undersigned spent a number of hours with Mr. Osborne on January 2, 1942. Mr. Hoglund and Mr. R. K. Evans, Vice President of General Motors Corporation, another former General Manager of the Opel Company, were asked from time to time to check information on which Mr. Osborne was not quite sure of his memory. The questionnaire attached to Mr. Despres' letter was used as a guide during the interview in order to cover as much of the ground, in which you are particularly interested, as possible. This report of the interview will therefore follow very closely the questionnaire.

Production

1. Current passenger car production at the Opel Plant is zero. It is estimated that approximately 80 three-ton Blitz trucks are being produced daily at the Opel Plant at Brandenburg near Berlin. Monthly production is estimated at 2,000 units. These are all the military adaptation of the standard Blitz Commercial Truck, approximate specifications being 186" wheelbase, 4x2 drive, wood cargo body with troop seats, 85 H.P., six cylinder gasoline engine. This truck is the German equivalent of the Ford and Chevrolet 1-1/2 ton truck in the U.S.A.

The Brandenburg Plant has also been tooled to produce a four-wheel drive three-ton model for use as a cross-country troop and cargo carrier. Production was to start on this job in June, 1941. It is believed that possibly 250 per month of this model are currently being built.

CONFIDENTIAL

Interview. Directors Opel Werke
January 9, 1942

The complete manufacture of the above trucks is carried out at Brandenburg except for sheet metal, rear axle gears, and brake cylinders which are manufactured in the main Opel Plant at Ruesselsheim-am-Main.

The above production figures compare with pre-war production as follows: Passenger car production 10,000 units per month equals 110,000 per year, allowing for inventory time. Truck production, 1,750 per month equals 20,000 per year. Since the Munich meeting of September, 1938 all Opel truck production has been exclusively for the German Army except for small allotments for export.

All spare parts for Opel passenger cars and Blitz trucks except current production models are produced in the Ruesselsheim factory. According to latest reports this production is being maintained at approximately the pre-war rate which amounted to around 3,000,000 Reichsmarke monthly. This spare parts production requires the labor of 5,000 workmen.

In connection with Opel Blitz truck production at Brandenburg, it is interesting to note that since 1938 the Army procurement services have urged Opel to attain a production rate of 100 3-ton, 4x2 trucks per day. The factory is capable of meeting this rate but has never been able to obtain sufficient tires and batteries through the allocating authorities to turn out the production which the Army desires.

2. The principal non-automotive items manufactured in the Opel Plant at Ruesselsheim are the following:

Reduction gears for reducing the propeller speed for the Mercedes Liquid Cooled Craft Engine. (It is understood that the U. S. Air Corps is familiar with this engine and the reduction gear box. Samples are available at the Allison Motors Plant.) A separate plant was established at Ruesselsheim for the production of these reduction gears. Production started approximately July, 1939. The plant now employs 250 to 300 men per shift. It is understood to be working on two 12-hour shifts. It is estimated that production is 250 to 300 sets of gears per month, although in checking this figure with the Cadillac production department in Detroit, where similar gears are being produced for Allison, it would seem that production should be much higher, probably 450 sets per month. Mr. Osborne's guess at output of the Mercedes engine is that they are manufacturing 1,000 to 1,200 engines per month.

CONFIDENTIAL

Interview, Directors Opel Werke
January 9, 1942

In connection with the above activity there is of possible interest the fact that the German Government asked the Opel Company to furnish laboratory facilities for a University Professor who was considered the top gear man in Germany. These facilities were provided but the professor had a skiing accident in which he badly fractured both legs and was incapacitated for over a year, so Mr. Osborne's opinion is that little research has been carried out.

The production of the aircraft reduction gears was carried on concurrently with production of passenger cars and trucks at the Opel Plants. Coincident with the opening of the campaign in Poland in August, 1939 passenger car production was immediately stopped and 17,000 workers were laid off pending conversion of the Ruesselsheim Plant for the production of:

- a. Wiring harnesses
- b. Wing assemblies
- c. Tail surfaces
- d. Hydraulic landing gears
- e. Gasoline tanks

all for the Junkers Model U88 bombers. All of the 17,000 workers laid off had been reabsorbed by June, 1940. It is estimated that 100 units per month of the above assemblies were being turned out at that time. The Opel Plant also has under consideration a project for the manufacture of Ordnance fuses but it is not known whether production has been started.

3. Mr. Osborne was not prepared to hazard guesses as to the output of the above items by other automotive plants except as regards total truck production which will be found in a later paragraph.

4. Messrs. Osborne and Hoglund estimate total automotive registrations in Germany as of August, 1939 at 2,000,000 passenger cars. Of these a very small number were actually owned by the Army which in time of war expected to end effectively did requisition privately owned cars for their use. Of these 2,000,000 passenger cars, it is estimated that 45% were in the smallest class with a cylinder displacement up to one liter. These are almost completely useless for military purposes. It is estimated that 30% were in the 1.5 liter class of which 1/2 might be considered of some military value. Twenty per cent are believed to have been in the 2 to 2.5 liter class; in terms of body space and performance, these would approach the American Ford and Chevrolet. These were the most popular size with the German Army. The remaining 5% are in the over 2.5 liter category and were used only as Staff cars for the higher officers, etc.

CONFIDENTIAL

Interview, Directors Opel Werke
January 9, 1942

Messrs. Osborne and Hoglund would not hazard a guess as to quantities of light trucks in Germany. Many of these were of the three-wheel variety and even the four-wheel delivery van types were too light in construction to be of any military value.

They estimate total ownership of trucks three-ton (this German rating corresponds to the American Ford, Chevrolet class) and over at 300,000 units as of August, 1939. Of these approximately 70,000 were owned by the Army. This figure is based on Opel Blitz sales to the German Army which were approximately 9,000 units per year for the four years preceding hostilities and represented 50% of Army purchases of transport vehicles.

Based on German industry figures, 3% of truck production was of the heavy duty type of 5 tons and over. These include the big diesel tractor-trailer combinations which were a familiar sight on the German roads and have since been an important link in the German Military supply system. It is estimated that there are a total of 20,000 of these tractor units. These jobs are capable of carrying 8 to 10 tons on the tractor chassis and at the time tow a load of 10 to 20 tons. The principal manufacturers of these diesel units were Mercedes, Henschel, M.A.N., and Krupp.

According to Mr. Osborne, the German Army also used considerable quantities of 6x6 (six wheel, six wheel drive) heavy artillery tractors and "half-track" medium artillery tractors. He would not hazard a guess as to the quantities of these vehicles in the German Army. It is known, however, that both of these types have been very unsatisfactory in service. As an illustration of this Mr. Osborne cited the invasion of Austria, where so many of these special vehicles failed between the German border and Vienna that a great majority of the commercial trucks in Bavaria had to be requisitioned overnight and were sent into Austria to salvage the equipment which had failed. On his way back to Berlin, Hitler paid a personal visit to the Opel Plant and personally signed an order for 2,000 trucks as a compliment to the Opel Works for the high performance of the commercial vehicles which had gotten the Army out of a bad spot.

Messrs. Osborne, Hoglund, and Evans concurred that the maximum output of trucks three ton and up in Germany is 80,000 to 70,000 units per year. Their estimate of peak annual pre-war passenger car production is 243,000 units. This figure is based on Opel's allocated share of total German industry output as follows:

CONFIDENTIAL

Interview, Directors Opel Werke
January 9, 1942

| | | | | |
|--------------------------------------|--------|---|--------------|---------------|
| Opel production for German market | 80,000 | = | 40% of total | |
| Total German market | | | | 200,000 |
| Opel production for Export | 30,000 | = | 70% of total | |
| Total Export | | | | <u>43,000</u> |
| Total German production | | | | 243,000 |

Since returning to the U.S.A., a year ago, the writer has heard considerable discussion of the Standardization Program imposed on the German automotive industry by the government. This program does exist but the results effected up to August, 1939 were far less than is generally believed in this country. Like all matters affecting the German automotive industry the Standardization Program was controlled by General Von Schell of the Verkerministerium (Transport Ministry) in conjunction with the Automobilwirtschaftsgruppe (Industry Council) composed of representatives of the manufacturers. Much valuable work was accomplished in reducing the variety of components and accessories; for instance in 1936 there were 31 types of engine oil pumps used on German cars, whereas in 1939 there were only 5 or 6 standard types. However, the Germans were still far behind the U. S. Bureau of Standards and the S.A.E. in this connection.

In so far as the standardization of vehicle types is concerned, the first year in which this was to be effective was 1940 but actually nothing was done because of the war and the conversion of automotive plants to strictly military production. Although General Von Schell's powers on standardization were dictatorial, the approach up to August, 1939 was very gradual and persuasive rather than by mandatory decree. For instance, General Von Schell ruled in 1937 that truck users would be allowed a reduction in the annual tax if they purchased vehicles conforming to certain basic specifications desired by the Military Authorities. These specifications concerned loading height, angles of approach and departure, engine power, etc. In spite of the competitive advantages of building vehicles to meet these specifications, Messrs. Osborne and Hoglund point out that the three-ton Opel Blitz truck was the only vehicle built to take advantage of the reduced user's tax. Normally the annual tax on a truck of this size would be 300 Reichsmarks, which was reduced to 170 Reichsmarks.

5. The information regarding airplane production, supplied

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by Mr. Osborne, is based on a confidential statement made to him in June, 1940 by Dr. Hans Streck, Legationsrat, of the German Foreign Office whom he believes to be in a position to have authentic data. Dr. Streck's estimate of production at that time was 2,500 to 3,000 units per month of all types. The estimated available planes was 50,000 to 70,000 units, again of all types.

The Opel directors were not normally in a position to have information on the output of Ordnance items (in Nazi Germany it was more comfortable not to know certain things) but Mr. Osborne cited several examples to indicate the plentiful availability of anti-aircraft guns. One example was the production of the Opel Plant for which he estimates that 300 to 400 guns were placed in the Ruesselsheim Weisbaden district. The smallest of these were 37 mm's with a certain proportion of larger guns up to 90 mm's.

Mr. Osborne is unfamiliar with the situation regarding submarines. He pointed out that in view of the difficulty of obtaining batteries for military trucks, there must be a very tight situation on the lead required for submarine batteries.

With regard to petroleum inventory and output, Mr. Osborne cited a figure of 8,000,000 tons as being Germany's normal peacetime consumption. He understands that they planned a war-time consumption of 18,000,000 tons and that the production of synthetic petroleum products was 12,000,000 tons in 1940. Of course, a strict rationing of petroleum products has been in effect in Germany since before the war. However, it is interesting to note that according to Mr. Osborne the supply of diesel fuel has been more restricted than the supply of gasoline. It appears that all crude oils are not equally suitable for the quantitative production of diesel fuel and that the crude from Russian sources is considerably more satisfactory for diesel oil production than Roumanian crude.

With regard to lubricating oils the supply of these seem to be sufficient and the quality satisfactory under normal German operating conditions. However, according to Mr. Osborne, these lubricants contain a high percentage of tar which gives very unsatisfactory results under extremely low temperatures. I discussed with Mr. Osborne in some detail the apparent failure of German Motor Transport on the Russian front under winter conditions. It was distinctly his opinion that this was not due entirely to any fault of design or construction of the vehicles but almost entirely to the unavailability of suitable lubricants for extreme low temperature operation.

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With regard to synthetic rubber products, Mr. Osborne could not recall offhand much of the data on this industry. He stated that shortly before the war he had prepared a complete report on the subject for General Motors and would attempt to find a copy of it which he would be happy to submit to Colonel Donovan. Generally speaking on this subject Mr. Osborne pointed out that the greatest difficulty in manufacturing tires from synthetic rubber has been caused by the fact that synthetic "Buna" rubber will not stick to the tire fabric. It is therefore necessary to immix approximately 30% natural rubber with the synthetic product. This is done in such a way that the part of the tire tread in contact with the fabric casing is 100% natural rubber whereas the outer surface of the tire is 100% synthetic rubber. Apparently there has been great difficulty in securing the quantity of natural rubber required to fully utilize the German synthetic rubber capacity. Mr. Osborne was given to understand by representatives of the German tire manufacturers that the "Buna" rubber program was two years behind schedule in 1940. The two principal producing plants for "Buna" will be found listed at the end of this report in the list of critical plants.

Steel ingot production in the Reich is estimated by Mr. Osborne at 18,000,000 tons per year. Steel has been rationed to the automotive industry in Germany since 1937. The allocations for domestic passenger car production were constantly decreased until they were entirely discontinued in August, 1939. Mr. Osborne believes that the production of steel in Germany is being carried on at full capacity. Prior to the war, Germany absorbed approximately 30% of the Swedish iron ore output. With 100% of this ore now available to Germany, there is no reason to believe there may be a shortage of raw materials. As regards other metals, Mr. Osborne pointed out that apparently there was no shortage of aluminum, magnesium, and manganese. All of these metals are of course on an allocation basis but, for example, there has been no pressure from authorities to substitute other metals for aluminum pistons in German cars and trucks. On the contrary, many automotive parts, such as wiring harnesses, coils, etc., which were formerly made of copper are now being manufactured of aluminum.

Chromium, nickel, tin, and lead have all been under very strict allocation for a number of years and are very difficult to obtain with every effort being made to find substitute material.

It is believed that the supply of coal from German and occupied French, Belgian, Czechoslovak, and Austrian mines is adequate although Germany has had to assure the supply of the Scandinavian countries, Italy, and Switzerland which were formerly supplied largely from England. There has been, every winter since the war,

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an acute shortage of coal for domestic heating but it is believed that this is caused by a lack of transportation facilities rather than by a lack of coal at the mines. In 1939 rather serious labor trouble was experienced in the German coal mines and it is understood that this situation has never been satisfactory since then.

Labor Supply

1. The complete Opel labor records are available in General Motors New York Offices. Mr. Osborne has made a note to obtain complete data on this subject to submit to Colonel Donovan. Generally speaking, the employment at the Opel Blitz Truck Plant at Brandenburg increased from 1,500 to 3,000 and at the main Opel Plant at Rueselsheim, from 19,000 to 23,000 between 1937 and 1940. The new hands were recruited principally from agriculture and other trades. High wages in the Opel Plants attracted workers from other industries and while theoretically it is not possible for a German worker to change his job without permission from the authorities, Mr. Osborne states that in practice this has never been closely controlled. However, the labor rates in the Opel Plants were relatively so attractive in 1940 that the Government Labor Officials reclassified many jobs and effected an overall reduction of earnings in the Plants.

The new workers added to the force at the Opel Plant were trained by Opel. However, since the war there has been a noticeable lowering of the quality of the workmen employed. This has been caused principally by a higher ratio of young and inexperienced workmen and by the necessity of employing poor physical specimens. Very few women workers were employed in the Opel Plant on automotive production. Since aircraft material has been in production, the number of women workers has been increased but does not amount to a sizeable proportion of the total.

The only foreign workers employed by Opel are a group of 200 to 300 Czechs who were recruited by the German Labor Offices in Czechoslovakia and placed in the Opel Blitz Truck Plant at Brandenburg. These men have proved to be satisfactory productive workers but considerable trouble was experienced because of friction between these Czechs and the German workers. Consequently it has been necessary to keep the Czechs all together in certain departments and it has also been found necessary to erect barracks on the factory grounds to house them.

German labor law requires that manufacturers train a minimum ratio of apprentices to total employment. The Opel Plant at

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Ruesseleheim maintains an apprentice school for 1,200 fourteen to eighteen year old boys. It has been planned to increase this number to 1,800 but the space is not available and this project has been deferred until after the war. The apprentice training period lasts four years during which the apprentices are paid 30 Reichmarks per month. Mr. Osborne stated that Opel always has a long waiting list of boys who want to get into this school. Most of those accepted are sons of Opel workmen. Very complete facilities are available for the training in a special school section of the plant. Practically every type of productive machine is operated in the school and in addition, the apprentices are given classroom work in such subjects as arithmetic and mechanical drawing. The apprentices are never used to operate productive machinery in the plant proper but when added production is required in the plant, the apprentice machine tools are occasionally up to turn out production items.

2. In so far as Messrs. Osborne and Hoglund are aware there is no systematic plan for shifting men from the plant to the Army and back. On the contrary, since the invasion of Poland through the invasion of France and down to the present, the movement has been all one way; that is, from the plant to the Army. There have been a proportion of cases where men were discharged from the Army and returned to the Plant. In these cases the plant is bound to restore the man to the job he occupied when called to duty. In a very few instances, men who had been discharged have been recalled a second time to the Army but these were all special cases of Army interpreters and other specialized personnel.

3. The organization of labor in a German Plant is rather confusing because of the inter-relationship of Government and Party. There is an official Government labor organization under a Ministry of Labor which is responsible for the operation of employment bureaus and the administration of German labor laws. There is also the Nazi Party Labor Organization, the "Arbeitsfront" to which all employees belong and the primary job of which is the political education of the German workmen. Very frequently the Government and Party organizations fuse because the Government labor official for a certain Plant or a certain district will also be the Party labor representative for the same Plant or area. In the Opel Plant, the labor organization was as follows:

The top labor man in the Plant is the Betriebsfuhrer (Works Leader). Normally in a German factory this post is occupied by the head of the company. Since the Opel Company was under American management, it was necessary to have a German occupy this job. The Betriebsfuhrer was chosen by the company but had to be

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approved by the Nazi Party, specifically by the Gauleiter of the district. As a rule the Betriebsfuhrer would be a Party member although in the Opel Plant the treasurer of the Company was appointed to this post and he was not a member of the Nazi Party.

Under the Betriebsfuhrer is an elected group of employees known as the "Betriebsrat" (Works Council). In the Opel Plant at Rueselsheim, this consisted of ten men. These men are nominated by the Betriebsfuhrer and elected by the employees for a period of one year. No immediate choice of candidates is given to the employees; ten men are nominated and voted on; if one or more of them do not obtain a given percentage of the total vote they are not elected and alternate candidates are nominated.

The Betriebsrat is presided over by a Betriebsobman who is appointed by the Nazi Party. The company has absolutely nothing whatsoever to say about the choice of this functionary. Under the Betriebsrat the Plant is organized into 'Cells', on a more or less departmental basis. In other words 8 or 10 tool makers in a separate department would have their own Cell, whereas 200 workers in another department would also have one Cell. Each of these Cells has a Cell Obman. If a workman has any complaint, he goes to his Cell Obman who takes the matter up with the Departmental Foreman or Supervisor. If they can't settle the matter, it is taken up at the weekly meeting of the Betriebsrat (incidentally this meeting is held on company time and the company has no control of the time spent by Cell Obman on labor problems. In many instances it is necessary to engage an extra productive worker to take the place of one who is elected to the Betriebsrat or made a Cell Obman.) If the matter can still not be settled in the Betriebsrat, it is taken up with the Betriebsfuhrer for settlement with the General Management of the company. If the Management does not settle it to the satisfaction of the worker, the matter is referred to the Nazi Kreisleiter (District Labor Leader), whose decision is practically final although on certain major issues, appeal could be made to the Gauleiter and eventually to Party Headquarters in Berlin.

Of course in a German plant the types of complaints which the workers and management have to arbitrate are relatively restricted, inasmuch as no strikes are allowed under any conditions and no discussion of basic wage rates is allowed. Incentive wages may be discussed but a ceiling is placed on these by the labor authorities. (Consequently very few questions cannot be settled in the plant.) A majority of the labor representatives in the plant are Nazi party members. Mr. Osborne was unable to state whether any of those in the Opel Plant had formerly been Union officials.

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As can be seen from the above, the labor representatives are usually production workers or occasionally clerical employees who are chosen by their fellow workers. There are, however, certain individuals in the organization who are placed there by the Party organization whether the management likes it or not. These include the Betriebsobman referred to above and also members of the Gestapo and S. S. Corps and, if the plant has any military potentialities, as was the case with the Opel Plant, there is also an executive called the Wehrwirtschaftsführer (War Economic Leader) who is in charge of Plant protection against sabotage, bombing, etc., and is also supposed to keep up to date a plan for most effective use of the plant in war times. This individual need not keep the plant management up to date on his activities and reports directly to General Thomas, the head of the War Economic Ministry (Wehrwirtschaftsministerium) in Berlin.

As stated above, the labor organization in the Opel Plant had no power to discuss basic wage rates which are fixed by the Government Labor Offices. The average basic rate in the Opel Plant in 1940 was 90 pfennigs per hour. Through incentive rates applied on productive labor, the average pay of the hourly wage group of the plant was raised to 1.21 Reichsmarks per hour. Prior to August, 1939 basic rates had been somewhat higher -- Mr. Osborne could not cite the exact figure. At that time since Opel rates were out of line with rates for comparable trades in the same district the Government ordered reductions in both the basic rate and the maximum incentive wage. The average overall reduction was probably 10% although in some cases the reductions amounted to as much as 50% because of reclassification of certain types of labor. For example, certain operations performed by women workers on which the rate had been 1.20 Reichsmarks per hour were reclassified and a basic rate of 80 pfennigs per hour was established for these operations.

Mr. Osborne pointed out that in Germany the differential in wage rates for skilled and unskilled labor is considerably less than in this country.

Prior to August, 1939 the German hourly wage-earner was required to work 197 hours per month (approximately 45 hours a week), before receiving any overtime. These 197 hours of work could be required on any days including Sundays and holidays. At the beginning of the war in August, 1939, the work hours were changed to 10 hours per day, six days per week; in other words, a 60 hour week which could also include Sunday and holiday work. Overtime rates were figured by the company for the 15 hours extra work per week. This overtime was paid to the Government and not to the worker. In August, 1940 the work week was again changed to 12 hours x 6 days or 72 hours per week. Out of this the Government was paid the overtime for 15 hours and the worker the overtime for 12 hours. The overtime rate is 1-1/2 times basic rate.

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Based on American standards, the clothing of the German employee is very poor and since 1939 has been severely rationed. Rationing is done on a point system under which each person is given 100 points for a year's clothing needs. Since one suit takes 60 points and since the remaining 40 points would secure only approximately one shirt, two or three pairs of socks and two suits of underwear it would seem obvious that the rationing is below minimum requirements in order to enforce the uses of previously accumulated surpluses. The rationing system does not permit the purchase of any shoes -- a special permit is required for the purchase of shoes or even for reeling or other repairs. In Mr. Osborne's opinion, the clothing rationing causes as much unhappiness as any restriction in Germany and is particularly hard on young women who are restricted to a very inadequate supply of silk stockings, lingerie, etc. This incidentally is confirmed by the writer's own observations. Since 1937 and 1938 a few pairs of silk stockings in the luggage of a visitor to Germany has been an incredible "open sesame" into the homes of even very wealthy people. After the invasion of the low countries and France the avidity with which the highest ranking German Army Officers and party leaders cleaned out the shops of Amsterdam, Brussels, and Paris bespeaks volumes on their accumulated appetite for decent articles of clothing. These Germans were obviously flabbergasted by the stock which existed in the occupied countries of articles which to the people of these countries seemed matter of course. As examples; hosiery and lingerie and anything else made of silk; all woolen articles; all articles containing rubber, such as women's girdles, men's garters and suspenders, and the ordinary simple elastic used for children's clothing; and of course the abundant supply of such things as razor blades, needles, and probably most astonishing of all plenty of soap containing precious fat.

As regards the food supply in Germany, Messrs. Osborne, Hoglund, and Evans concurred that it is sufficient to maintain the health and efficiency of the population and the rationing causes little complaint. The writer believes that one of the principal reasons for so little complaint is the efficient working of the ration system. In most countries where food rationing exists there are two great sources of trouble: One, widespread bootlegging; two, bad distribution or an inadequate supply to afford each holder of a ration card the quantities to which he is entitled. The second trouble is the cause of the long lines of waiting people at the doors of food stores.

In Germany, bootlegging does exist to some extent and certainly the wealthy people are able to fill in their diet with expensive unrestricted food such as game, lobster, caviar, etc.

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But this is not sufficiently widespread to damage the morale of the population generally. As far as the working class is concerned, they very seldom have any difficulty in obtaining the food stuffs to which their rationing card entitles them. It is consequently rare to see a line of people waiting in front of a German food store.

The principal food items which a German misses in his diet are milk, butter, cream, and all fats of which he gets practically none. The egg ration is usually two eggs per week. Except during the local seasons there are no fresh fruits and practically speaking, no citrus fruits at any time. The meat ration has consistently averaged about one pound (500 grams) per week. This is probably 30 to 50 per cent less than the normal German meat consumption but has not been the cause of any particular complaint.

Mr. Osborne estimates that 40% of the hourly wage workers in the Opel Plant (8,000 to 10,000 men) were in the heavy worker category and were given double rations. As far as he can recall there were no heavier ration categories than this in the plant.

While it is true that the average German accepts strict food rationing quite complacently in his own country, the appetites of the Germans in the occupied territories were "kolossal". The writer lived with a German Nazi Party member in Paris from September through November, 1940; I obtained my food ration card through the French authorities and received the regular French ration (approximately 25 to 30% less than the basic ration in Germany). He obtained his direct from the German Authorities---his rations were almost exactly 14 times as great as mine. Obviously the German rations to Party visitors to Paris were designed to allow them to spread some largess among their "conquered friends". But there was many a German stomach ache caused by trying to make up for years of short rations of meat, butter, eggs, etc.

5. There was not only an attempt to use the Opel Plant as a political unit but effectively, the plant was a political organization. As will have been seen under the earlier remarks on the labor organization in the Plant, every individual employee is under the direct influence of the Nazi Party Labor Organization. While ostensibly this organization (the Arbeitsfront) is engaged in protecting the welfare of the workers and employees, in actual practice their primary job is the political education of the German people.

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On an average of once each month, a big political rally would be held in the plant attended by every member of the plant personnel. In between these big rallies there would be innumerable small group meetings. There would also be frequent "schools" conducted by Nazi Party Labor Organizers for plant foremen and employee supervisors. These schools purported to be of a technical character but actually a great part of their teaching was strictly political. As an example, a number of the teachers assigned to the Opel Plant made statements deprecating its American ownership and prophesying someday the German would "regain their birthright". In addition to the schools held in the plant, picked individuals from among the plant foremen and superintendents were sent to Nazi Labor Schools outside where they were deeply inculcated with the Nazi philosophy. The plants were constantly plastered with posters of the worst possible political type. Although this was an American owned plant, many of these posters which had to be put up were directly aimed at American Political figures, such as the President, various Senators, and others who made statements or speeches which did not meet with Nazi approval.

The plant had attempted to publish a house organ similar to the publications of American Companies but this publication was subjected to the censorship and re-editing of the local Nazi Party offices and quickly degenerated into a Party rather than a plant organ.

Whenever Hitler, Goebbels, or Goering made a speech of any importance whatsoever, production was stopped in the Plant and all members of the plant personnel had to gather around the loud speakers to listen to these speeches. In addition to the above activities there were plant chapters of various party organizations such as the "Hitler Jugend" (the Hitler Youth Organization); the "N.S.K.K." (The National Socialist Drivers Corps).

The Americans at the Opel Plant report that there was very little enthusiasm among the great majority of the plant personnel for these party activities and initiative in this connection was entirely lacking on the part of the workers. According to Messrs. Osborne and Hoglund there was certainly no spontaneous push from the men for greater production.

Of course the minor Nazi Officials show some initiative which they hope will mark them in the eyes of their superiors. However, most of this initiative was shown in devising ways to ingratiate themselves with the higher party officials and was more frequently deterrent rather than stimulating to production.

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6. There were no air raids of any military importance in the Ruesselsheim Wiesbaden area up to March, 1941. Consequently the effects of air raids could not be observed in the Opel Plant. However, Messrs. Osborne and Hoglund agree fully with the writer that the Germans as a whole are considerably more susceptible to the effects of air raids than other Europeans. Messrs. Osborne and Hoglund base their impression on the reaction of the Ruesselsheim Opel clerical employees who commute from Frankfurt am Main. Although this city was not bombed to any great extent air raid alarms were fairly frequent and the effect of loss of sleep seemed to be very marked on the limited number of people observed. The writer spent several nights in Antwerp during which the R.A.F. bombed the Port severely and the effects on the Germans were noticeably greater than on the Belgians.

At this point it might be well to record some remarks made by Messrs. Osborne and Hoglund regarding the German temperament. There seems to be a widespread impression that the average German is a stolid, square-headed individual with a one-track mind. I believe that most people who have lived in Germany will agree that in reality the average German is very impressionable and very changeable. These changes of viewpoint and attitude are so brusque and contradictory as to frequently astonish foreigners who have occasion to observe them. Certainly the German can blow hot and cold, optimistic and pessimistic more frequently and to a greater degree than any of the Latin or Anglosaxon peoples of Europe, and this undoubtedly accounts for some of the necessity for the ultra-intensive propaganda to which the German people are constantly subjected. Mr. Osborne feels that this question of German temperament should be a major consideration in directing propaganda to the German people. He feels that the one idea which has been most deeply impressed on them is that should they lose this war the consequences will be indescribable in chaos and suffering. At the proper time, he feels that use of a propaganda theme to dissipate this fixed idea would be extremely fruitful in alienating considerable numbers of Germans from the war effort.

7. No remarks

8. While the observations made above are essentially based on the Opel Works as a section of the German economy most remarks apply generally to all industrial plants of comparable size since the whole of German industry is organized by the same Nazi system.

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Technological Factors

1. The Opel Works was not confronted with any major technological problems because of the scarcity of certain materials. Automotive axle gears were changed from chrome nickel alloy to chrome manganese alloy. The new gears were found to be equally satisfactory. As pointed out earlier in this report, copper electrical windings were replaced by aluminum windings with no loss of quality.

Cutting tools and bearings were maintained at desired standards of quality.

In the case of both passenger cars and trucks, there has been a constant degeneration of quality since 1937 in the quality of trim material. This did not effect the functioning of the vehicle but particularly in export was the source of much customer dissatisfaction with German vehicles. One thing that was very noticeable on German vehicles, exported after the Munich conference of September, 1938, was the very bad inspection. In other words, the vehicles were full of minor defects in workmanship. Mr. Osborne attributes this to the transfer of the most capable workers to military production and to the loss of some good inspector personnel to the Armed Forces.

2. Opel's experience in technological questions was certainly typical of German automotive industry and in general of German industry as a whole. Government regulation of industry is carried out through a system of industry councils (Wirtschaftsgruppe) and the decisions worked out by these councils in conjunction with the proper Government authorities are mandatory on all members of the particular industry.

3. Approximately 5 per cent of German trucks were diesel powered. At peak production this would represent 3,000 to 3,500 trucks per year. In addition, a great majority of German power driven agricultural machines, building machinery and thousands of small industrial installations were diesel powered. From an operating standpoint these diesel engines were highly successful. However, as pointed out in the discussion on petroleum products, the proportion of diesel fuel required in Germany had reached a point where the most efficient use could not be made of available supplies of crude oil. In other words in refining a ton of crude on the basis of requirements too much diesel of specific grades was required and not enough gasoline. Consequently, according to Messrs. Osborne and Hoglund, there has been a tendency to discourage further diesel production and

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even some attempt to convert certain classes of existing diesels to injection type gasoline burning engines. Mr. Osborne was not able to advise just how far this program has been pushed nor has he any information to substantiate reports which indicate a widespread conversion of diesel motors to producer-gas.

4. Technically, gas burning motors have proved relatively successful as developed in Europe. In so far as the writer knows the best results obtained to date are approximately 80% of the engine efficiency of the gasoline operated engine. However, the system of operating a vehicle motor from gas compressed in tanks has not proven popular because of (a) shortage of equipment and materials for producing the tanks; (b) the bulk and weight of the tanks on the vehicle; (c) the transportation and handling difficulties involved in returning empty tanks to a properly equipped generating station for refilling with new gas.

The type of gas producing mechanism known generally in Europe as a "Gazogene" which is mounted on the vehicle or on a small trailer behind the vehicle and generates its own gas by burning a solid fuel such as charcoal, wood, or prepared bituminous coal, has been slightly more successful. The French and German Governments have both encouraged experimentation with this type of equipment. In neither country was there any appreciable production. Mr. Osborne and the writer estimate there were less than 1,000 gas-fuel operated vehicles in Germany. General Motors Assembly Plants in Denmark and Sweden have gone into the production of gas generating equipment for the conversion of both passenger cars and trucks. General Motors Overseas Operations undoubtedly have a number of reports on this subject which might be of interest to your office. In general it is the understanding that this gas producing equipment has been more successful in these two countries than elsewhere because of the ready availability of surplus wood for fuel. On the other hand, only the present abnormal economic conditions would justify the use of this equipment. The cost of the gas generating equipment for a Chevrolet truck in Sweden, for instance, is almost as much as the cost of the truck. Subsequently fuel cost is relatively cheap but it is understood that the maintenance of the gas-producing equipment is bothersome and costly and as previously stated the performance of the truck is reduced by 20 to 30 per cent.

The above covers the subjects outlined in the questionnaire which you furnished me. In talking to Messrs. Osborne, Hoglund, and Evans occasionally some German Industrial Plant would be

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mentioned which they considered especially critical in the Germany economy, particularly from the standpoint of war production. These plants are listed hereunder for whatever interest they may have:

| <u>Plant</u> | <u>City</u> | <u>Remarks</u> |
|---------------------------------------|---------------------------------------|---|
| Bergesche Stahl Industrie | Remscheid | Manufactures a large percentage of the precision steel forgings for the German Automotive and aircraft industries. |
| Bosch | Nuremberg | In so far as Messrs. Osborne and Hoglund know, this plant manufactures <u>all</u> aviation spark plugs for Germany |
| Mahlewerke (Electronmetall) | Bad Cannstatt near Stuttgart | Most important German manufacturer of aircraft and automotive pistons and aircraft radio cases. |
| The Becker Foundry | Leipzig (West) | Most important manufacturer in Germany of aluminum and magnesium castings for aircraft. |
| V.K.F. (Vereinigtekugellagerfabriken) | Schweinfurt | The German subsidiary of the Swedish Ball Bearing Trust. Has practically a monopoly on precision ball bearings for aircraft and automotive work in Germany. |
| Kruppwerke | Essen | Ordinance |
| Heinkel Fluegzuegwerke Plant 1 | Oranienburg (30 miles outside Berlin) | According to Mr. Osborne the largest aircraft factory in Germany. He has visited the plant personally as well as most of the other aircraft factories of Germany and states that this is incomparably the biggest and most complete |

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| <u>Plant</u> | <u>City</u> | <u>Remarks</u> |
|--|---|---|
| Plant 2 | Rostock | Smaller than the Granien- burg plant but vital to the German Air Force. |
| Junkers | Dessau | Still one of the most im- portant German Aircraft factories. |
| M.A.N. | Augsburg | Practically the sole pro- ducer of Diesel engines for submarines. |
| Tevis G.m.b.H. | Frankfurt am Main | Former manufacturer of electrical refrigerators and other appliances now the principal producer of many vital aircraft parts. |
| I.G. Farbenindustrie Continental Tire Co. | Near Frankfurt am Main (suburb) Hanover | { Germany's two principal { Buna Rubber producing { plants. |

Messrs. Osborne, Hoglund and Evans were of the opinion that each of the above plants produces such a large proportion of the total output of articles which they manufacture that the destruction of any one of these plants would be a most serious blow to the German war machine. If further information along this line is desired, Mr. Osborne suggested that Mr. Otto Mueller at present with Turnstedt Division of the General Motors Corporation at Trenton, New Jersey, knows more about the distribution of the manufacture of aircraft and automotive components in Germany than anyone in this country at the present time. Mr. Mueller is a naturalized American of German origin who served as an executive engineer at the Opel Werke for several years prior to August, 1939. His position was such that he had occasion to visit a great many German Plants and to be familiar with their productive capacity, processes, methods, etc.

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The writer will be pleased to discuss any phases of the above report or to make any further contacts in this connection which you may desire.

Attached for your information is a copy of a report on the Utilization of civilian automotive maintenance facilities by the German Army which may be of some interest.

Yours very truly,

Philip W. Copelin

Incl.
Copy of report

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CONFIDENTIAL

January 8, 1942

SUBJECT: Report on German Military Transport
TO: Colonel Russel A. Osmun
Office of The Quartermaster General

1. The Military Attache Reports which you recently forwarded to me are returned herewith. There is nothing that I can add on the specific subjects of German Army Motor Transport Organization described in these reports. There is, however, one important phase of German motor maintenance which is not mentioned and on which the following comments may be of interest.

2. Based on my observations in Germany and later in German occupied France and Belgium, I believe it can be said that a basic principle of German military maintenance operation is to utilize to the greatest possible extent the civilian facilities which are available. In Germany, prior to the invasion of the low countries, this was manifested as far as motor transport is concerned by the extensive use of private garages, service stations, and factory service departments for the maintenance of army vehicles. In the occupied territories, the invading armies were closely followed by "Kommissars" whose job was to organize the local automotive industry for the most effective utilization by the German Army.

3. These Kommissars are civilians attached to the automotive branch of the Ministry of Transport, (Verkehrs Ministerium). This Ministry is in direct control of the entire German automotive industry including its dealer organizations, independent garages, etc. The head of the Automotive Industry Branch is General Von Schell. While the organization is purely civilian, it is headed, like many other Government Departments in Germany, by an Army Officer who maintains his rank in the German Army. General Von Schell is to all intents and purposes the dictator of the automotive industry with full power to decide what models a given company may build, what quantities, at what prices they shall sell them, and any other pertinent question. Although not directly connected with the Army in any way, a very close liaison is maintained between General Von Schell's office and the Army General Staff regarding the utilization of the automotive industry in the service of the Army. When the German armies invaded the low countries and France, General Von Schell's authority was immediately extended to these territories and his staff took over the job of organizing the local automotive plants and other facilities.

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4. It was obvious that a thorough job of intelligence and minute preparation had been done prior to the invasion. As an example, the Kommissar appointed by General Von Schell to take over all General Motors operations in the low countries and in France was a former General Motors distributor for Germany who on one excuse or another had made frequent trips to General Motors Operations in Belgium and France over a period of years and was thoroughly familiar with their activities and potentialities. The Kommissar appointed to organize the Ford operations in the same countries was the German director of the Ford Plant in Cologne, Germany.

Another example of pre-war preparation will be of interest; for several years prior to 1939, the appointment of distributors and dealers in other countries by German car and truck manufacturers was closely watched by the German Transport Ministry and Military Authorities. This was particularly true of the countries adjacent to Germany such as Hungary, Bulgaria, Yugoslavia, and the Scandinavian Countries. Factory managements were under constant pressure to eliminate Jewish dealers (the only commercially successful ones in several of these countries), to appoint firms of marked pro-German sympathies, to extend beyond all reasonable commercial requirements the service facilities in the Balkans, etc. Approximately 70% of German automotive exports were products of the Opel Werke, a General Motors subsidiary. The distribution of Opel cars and trucks outside of Germany was entirely controlled by General Motors Overseas Operations, New York, through their various local assembly plants. This method of operation was a thorn in the sides of the German Authorities who were thus unable to exert the same pressure on the export Opel dealers that they exerted on the dealers for other German makes. Nevertheless, over a period of years they were able to influence the development of the major bases for a very sound automotive maintenance organization throughout Hungary and the Balkan Countries. This organization now undoubtedly is serving its purpose.

5. The German Kommissar took possession of the General Motors Plant in Antwerp, Belgium within 48 hours after the occupation of that city. The plant was not requisitioned but placed under "protective custody" (Sicherstellung), under the authority of the German Military decree which authorizes the Commanding General in any area to appoint a Kommissar or "Custodian" of any business whenever he considers it necessary or desirable in the interest of the Reich. Once appointed the Kommissar has full

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authority to operate the business as he sees fit and is, to quote the decree, "responsible only to the authority which appointed him".

6. Immediately upon occupation of the plant in Antwerp the Kommissar rehired approximately 800 of the 1,500 local workmen and employees, proceeded to clean up the plant, which had been somewhat sabotaged by the retreating Belgians and French, and to make a complete inventory of the materials on hand. Sales to civilians were naturally stopped immediately throughout the occupied territories. Every automotive dealer was required to submit an inventory of vehicles and spare parts on hand. With the complete capitulation of the Belgian Army a few days later all army automotive equipment and spare parts stores were taken over as prizes of war. The Army Motor Maintenance Corps (H.K.P.) immediately returned all General Motors spare parts to the General Motors Plant, placing them under the custody of the Kommissar while Belgian Army vehicles were sorted out according to their make and state of repair and arrangements made for their reconditioning.

7. The method of handling this reconditioning is interesting. Through pre-war intelligence the best equipped garages and service stations throughout Belgium had been spotted and their potential capacity estimated. These shops were immediately occupied by the German Army. The Kommissar then entered the picture and made the following proposals to the owners of each of these shops:

a. A contract could be signed employing the shop to work exclusively for the German Army.

b. The contract would be on a "cost plus" basis -- usually the owner would be required only to submit his payroll on which he was paid 110%. Any spare parts required would be furnished by the German Army or if available in the inventory of the shop would be billed at list price less 25%.

c. If the owner was agreeable he could remain in charge of his business -- a non-commissioned German Officer would be placed in the shop for liaison between the owner of the German Army personnel visiting the shop on business but otherwise there would be no occupation. The owner would be given full charge of the management.

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d. If the owner of the shop would not accept this proposition, a Kommissar would be appointed to run his business and he would be out in the cold.

8. Obviously the owners of most businesses in the occupied territories accepted the German proposition inasmuch as it afforded them a livelihood for themselves and permitted them to give work to their employees. In a number of instances the owners of shops had fled the country in advance of the German Armies; in these cases either the responsible employee remaining was placed in charge of the business under the above conditions or a Kommissar was appointed to run the shop.

9. In talking to the Kommissar of the General Motors Assembly Plant in Belgium, he mentioned several times the figure of 85,000 vehicles as the number which the German Army found as prizes of war or requisitioned from the civilian population in Belgium and Holland. Between June and September, 1940 all of these vehicles in addition to thousands of German vehicles were run through these shops and put in first-class running order. Obviously these shops were not 100% efficient. In the first place the German Army is cluttered up with an extremely non-descript lot of vehicles -- in one big shop in Paris I personally counted 118 different makes of German Army vehicles in the shop at the same time. Obviously this diversity of makes and models created a very tough spare parts problem for one thing and secondly it gave the workers who were unsympathetic to the Germans a good excuse for stalling by saying their tools wouldn't fit certain cars or that they didn't understand the functioning of certain makes. However, by enforcing a rigid discipline and by impressing on management and workers alike that the price of detectable sabotage was being shot against the nearest wall very excellent results were obtained.

10. It should not be deduced from the above that the German Army did not come equipped with its own maintenance facilities. Maintenance comparable to the first and second echelons in the United States Army were of course performed in the field and all indications were that they were very efficiently performed. However, their organization appeared to be set up on a basis whereby any vehicle which could not be promptly repaired in the field would be evacuated to one of the civilian shops mentioned above where it would be repaired and returned to a divisional or army pool.

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11. There was surprisingly little pressure for expediting vehicles through the shops except in the case of heavy duty trucks. I believe this was due to the fact that most civilian vehicles were prohibited on the road and there was always a large surplus of passenger cars and light trucks from which vehicles could be requisitioned when required.

12. Returning to the functions of the Kommissar in charge of General Motors Operations -- after an inventory had been accomplished, the Assembly Plant in Belgium was put in operation to build up approximately 2,100 Chevrolet trucks and some 800 or 900 passenger cars for which the materials were on hand. These were sold to the German Army. The Plant was then established as central headquarters for spare parts for American cars in the low countries and as a reconditioning plant for the British vehicles recuperated at Dunkirk.

13. It was estimated that after "cannibalizing" sufficiently to supply parts for damaged vehicles, approximately 16,000 British Military vehicles were recovered. Since there were no spare parts available on the continent for these British trucks and since the supply of spare parts for American vehicles was obviously limited, it was decided to establish a parts manufacturing center in the Antwerp General Motors Plant. Since, like all assembly plants, this one had very little machine tool equipment, tools were requisitioned from various factories throughout Belgium and installed in the plant.

14. As previously stated the same Kommissar who was put in charge of General Motors Operations in Belgium was subsequently charged with General Motors Operations in France. The pattern of his activity in that country was very similar except that for various reasons of convenience any unassembled material found in Paris was sent to the bigger plant in Antwerp and the Paris Plant turned into a repair shop.

15. The General Motors Kommissar employed a German staff of approximately 25 people in Belgium and France. These were all civilians and consisted of spare parts experts, shop superintendents, and General Administrative Executives. This personnel was all picked by the Kommissar from his own German organization. This staff and the Kommissar were paid by the local General Motors Companies in which they worked. As I stated previously, the Kommissar was assigned by General von Schell of the Ministry of Transport in Berlin and his actual

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local appointments were under the authority of the Commanding Generals of the occupied territories. Obviously the liaison between the Kommissar and the local Military Authorities was extremely close and to all appearances was very satisfactory.

16. It might be judged from the above that the system of contractual maintenance was used by the German Army only in occupied territory. This is not the case. It may be of interest to note that the Kommissar in charge of General Motors operations in the occupied territory was also contractor in Germany to the German Air Force for the repair and maintenance of military planes. In this connection he had constructed and operated two very large repair shops. According to his statements which were corroborated by Luftwaffe Officers with whom I spoke, all planes which were damaged beyond quick repair at Air Field shops were turned over to this organization. They dismantled the motors and returned these to the motor manufacturers for reconditioning and then completely reconditioned the fuselage, wings, undercarriages, etc.

SUMMARY:

17. In the third and higher echelons of motor maintenance, the German Army employs available civilian facilities and personnel to the greatest possible extent. This system of contractual maintenance has given satisfactory results in Germany, in her satellite states, and even in the occupied territories.

18. I attach hereto a copy of a further report on German economic conditions as related to the automotive industry prepared for the Coordinator of Information.

Philip W. Copelin

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Incls.

Military Attache Reports
Report to Coordinator of Info.

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G-2/2667-220; No. 612 M.I.D., W.D. 11:00 A.M., January 26, 1942.

SITUATION REPORT

I. Pacific Theater.

Philippines: The situation in Luzon remains stabilized, with some activity in the Subic Bay area. On last Wednesday, enemy aircraft bombed shipping at Cebu. The damage caused by this attack was limited to one small ship. In Mindanao the situation remains unchanged. Hawaii: No further reports of enemy activity. Malaya: There seems to be no substantial change in the situation. The British line appears to be somewhat stabilized. Burma: No further reports of importance on land or air activity. Australasia: The situation in the Australian Mandates is confused, though Japanese action is believed to be continuing. Apparently the Japanese convoy in the Macassar Straits is still being subjected to successful attacks by Dutch and American air and naval units. West Coast: No further reports have been received.

II. Eastern Theater.

Russian pressure continues in the area southwest of Seliger Lakes. Both sides report hard fighting along the eastern front.

III. Western Theater.

On January 25 the R.A.F. carried out further raids on Brest.

IV. Middle Eastern Theater.

Ground: Fighting continues in the triangle Agedabia-Antelat-Saunnu, apparently without decisive result.

Air: The R.A.F. attacked an Axis convoy in the Mediterranean with some success. Axis air continued to pound Malta.

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