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July 16, 1942
11:30 a.m.

GROUP

Present: Mr. Buffington
Mr. Foley
Mr. Thompson
Mr. Kuhn
Mr. Graves
Mr. Gamble
Mr. Odegard
Mr. Sullivan
Mr. Bell
Mr. Schwarz
Mr. White
Mr. Blough
Mrs. Klotz

H.M.JR: How are you all?

I thought you were going up to Boston.

MR. BUFFINGTON: I got as far as Philadelphia.

H.M.JR: What happened?

MR. BUFFINGTON: Well, I couldn't get a reservation the night I wanted to go to Boston, and a matter came up in Philadelphia which I thought was more important. I would like to go to Boston next Monday.

H.M.JR: Mr. Thompson?

MR. THOMPSON: The soldiers have moved from the Treasury to the new barracks.

H.M.JR: Have they moved? Wasn't I invited to the opening?

MR. THOMPSON: They apparently didn't have any opening, just quietly stole away.

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H.M.JR: After what I went through they should have invited me to the opening.

MR. THOMPSON: Murray tells me that the officers in charge want to thank you for helping to arrange for them to have movies here, but they won't be able to continue that because they need more men to guard the new building. There wouldn't be enough off to keep having the movies.

H.M.JR: They are going to discontinue?

MR. THOMPSON: Yes. They might be able to ask for the privilege later if they get a better condition.

H.M.JR: Well, let's see, it has been--

MR. THOMPSON: But they appreciate very much what you did.

H.M.JR: But I thought surely I would be invited to the opening. Of course you have no use for the space. If anybody wants any space here is a chance to ask for it.

MR. THOMPSON: Sub-basement.

MR. BELL: They are also discontinuing the dances they had every month.

MR. THOMPSON: They seem to change the assignments every week or so. They don't let them stay around very long.

Corporal Thomas Adair reported. Professor Welch probably will bring him to see you.

H.M.JR: I want to meet him. Make a note of that, Mrs. Klotz, that Corporal Thomas--

MR. THOMPSON: Thomas Adair.

H.M.JR: Grand. I want to meet the boys. Why don't we have Welch and these two boys come in around four o'clock?

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MR. THOMPSON: That is all.

MR. BELL: We took quite a lot of money out of the market yesterday. It apparently didn't disturb them very much because they were preparing for it over a period of a week. We took about nine hundred million dollars. Ordinarily that would be very disturbing, but apparently it wasn't. We got eight hundred million dollars cash on the two percent and we took over about a hundred and fifty millions on Treasury bills.

H.M.JR: I didn't feel the shock up in the country at all. (Laughter)

MR. BELL: I didn't think you would.

H.M.JR: In fact, my raspberries went up to twenty cents.

MR. BELL: Maybe that was the reason.

MR. SULLIVAN: That farm bloc. (Laughter)

H.M.JR: Don't talk about giving them the raspberry. (Laughter)

MR. BELL: Yesterday an employee told me that an individual came to him and told him that he had gone to a bank to fix the account of this lady and her husband, making it joint, to get a lock box, joint, and also a savings bond co-ownership. Her husband was going in the Army and they wanted it so that she could handle it. The bank advised against it, saying that if her husband should be taken prisoner their accounts would be blocked, and she would have to go through a lot of red tape to get it unraveled.

Now, that is opposed to what we are doing in the Savings Bond promotion by encouraging everybody to go to co-ownership, and I think it is going to interfere if it gets around with the allotment plan of the Army and Navy - payroll allotment plan.

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H.M.JR: Why don't you talk with the Foreign Funds boys?

MR. BELL: Well, I just got this last night and I thought it really ought to be considered, I think very seriously, and probably an interpretative decision ought to be put out on it.

MR. FOLEY: I think so if there is that impression.

MR. BELL: This is the only case I heard of, but I think if the Army and Navy got hold of it they wouldn't want to go ahead with their payroll allotment because they are encouraging their people to have co-ownership of bonds.

The Bank of America has put in an application for a branch at the same place in Los Angeles as they did before. The situation hasn't changed, so Delano is recommending against it. Do you want to approve that now or do you want to consider it carefully? (Paper handed to the Secretary.)

H.M.JR: I thought a branch a month keeps a Giannini away. (Laughter)

MR. BELL: I don't believe they have got a branch a month.

H.M.JR: Is this turning them down?

MR. BELL: Yes. Doesn't that satisfy you? Maybe we had better consider it. (Laughter)

H.M.JR: Is Delano in the hospital or on his way to the hospital?

MR. BELL: No, he has been to the hospital. He is back. (Laughter)

MR. FOLEY: He hasn't recovered from the last one. (Laughter)

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MR. BELL: He just got out. I hope he doesn't go back.

H.M.JR: I hope so for his health's sake and for poor Cy Upham. (Laughter)

MR. BELL: Up to the eleventh we had sent out wires to the Federal Reserve Banks covering fifty-five hundred stores of your retail crowd, which is about three hundred more than the fifty-two hundred that they said were included in the list. We since have also sent out a list covering about four hundred radio stations. I understand the deadline is the twenty-third.

H.M.JR: No, that is when they start operating.

MR. BELL: Well, I think they will all be supplied with bonds, providing that they get their qualifications into the banks in that time.

Do you want to sign a circular eliminating collateral altogether?

H.M.JR: Do you recommend it?

MR. BELL: I have to, I think, in view of the retail stores.

MR. ODEGARD: That is a story. You ought to have some photographs.

MR. BELL: Photographs will come after the war.

H.M.JR: We ought to have Abbott and Costello here.

MR. BELL: There are going to be a lot of headaches in this.

I would like to see you right after this, if I may, on a matter which is rather urgent, very important.

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H.M.JR: Be long?

MR. BELL: Two minutes.

H.M.JR: O.K.

Mr. Graves?

MR. GRAVES: In fairness to Mr. McCarty I would like you to know that that press release did not come from his department.

H.M.JR: Didn't come from his department?

MR. GRAVES: He had nothing to do with it. It came from Mr. Duffus' organization. It was intended merely for distribution in those cities in that itinerary.

H.M.JR: He said that. But why should Duffus get out press releases?

MR. GRAVES: Well, the advance people who are going on that itinerary have to have a certain amount--

H.M.JR: I mean, you have got a press section with about thirty people over there.

MR. GRAVES: I think you are right. I didn't think that was the procedure.

MR. KUHN: This wasn't a regular Treasury release. It didn't go to the papers of the country.

H.M.JR: They went down to my press room and I had to personally take it at my press conference. It was very disagreeable.

MR. GRAVES: I brought it up now simply--

H.M.JR: I, personally, have got to stand here and just explain it and all the rest of that business. I

went into it with Harold. I mean, it is very unpleasant. It did go from a section of the Treasury to the Treasury press room.

MR. GRAVES: That is correct. I simply wanted you to know that it was not McCarty who was at fault.

H.M.JR: Well, he is the head. He is supposed to handle newspaper releases. I don't know what Duffus is getting out a newspaper release for.

MR. GRAVES: That is right. I think we ought to change that practice, but in any event Mr. McCarty was blameless in this particular matter.

You asked me to speak to you this morning about a cartoon which you sent me. I can't pronounce the name of the cartoonist.

MRS. KLOTZ: Szyk.

H.M.JR: I want to get him for the Treasury.

MR. GRAVES: We, as you know, have a group that works on that, and I will see that they contact--

H.M.JR: This is one of the times that I am going to be boss, see? I have tried to get this man for six months and I can't get anywhere with my group so I want to get him and then we will supply ideas. I want him, definitely. I mean, I have said it over and over again and I can't get anywhere. Now I am making a definite request, see, group or no group.

MR. GRAVES: Yes.

H.M.JR: I mean the stuff that I saw, the stuff, the posters that the Advisory Council - whatever they got, is just - I mean, it has got no - we are just six months behind the times, and here is this man - he is here. Did you see that cartoon?

MR. GRAVES: Yes, you sent it to me.

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H.M.JR: Didn't you get a story out of that?

MR. GRAVES: Well, personally, I don't happen to like that cartoon or that man, so I didn't get any story out of it.

H.M.JR: Well, I do - one of the rare instances that I am asking you--

MR. GRAVES: Yes, sir, we will do it.

H.M.JR: Over the dead body of Mr. Kuhn.

MR. BELL: Another rare instance. (Laughter)

H.M.JR: We have got - after all, let the board supply the ideas and let this fellow do the drawings, see? We have got to have the editorial Board give him the ideas, and let him execute them.

MR. KUHN: He did one ad for the New York committee which I believe is being sent out nationally.

H.M.JR: Well, let's take him on a trial basis for a month or so, Harold, and see what we can get out of it.

MR. GRAVES: Yes. I suppose you know, of course, that we have had these editorial cartoons done by a great many--

H.M.JR: I don't like any of them.

MR. GRAVES: I merely mention that as indicating the method we would ordinarily use in getting this man to do some cartoons, if it is cartoons you want. I thought it was.

H.M.JR: Yes, I mean, I don't think that we are hitting the bell, I mean, I think this man has unique qualities and I would like to try him out.

MR. GRAVES: Yes.

H.M.JR: What else, Harold?

MR. GRAVES: That is all I have.

H.M.JR: One of these rare instances--(Laughter)
Chick?

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MR. SCHWARZ: You may be interested in the fact that I am losing a good secretary tomorrow, Miss Hight. The Treasury is contributing one of the eight women chosen in the District for the Officers - Women's Army Officers Corps.

H.M.JR: Congratulations. Something new to worry about. What is her name?

MR. THOMPSON: Miss Hight.

H.M.JR: She is going out to be an officer?

MR. SCHWARZ: Yes, Des Moines. We not only have to worry about losing men, but women now.

H.M.JR: See if I can give you the story in the Irving Berlin show - I don't know. The fellow is a soldier, and he says he doesn't want to go home. He says, "Why don't you look forward to going home to the loving arms of your wife, sitting there, waiting for you in your nice apartment?" "No, I don't want to go home." He says, "Why not?" "What am I going to do? I go home and she is a first lieutenant." He says, "I don't know what to do," so he says, "Can't you go and see her mother about it?" "No." "What is her trouble?" "Well," he says, "She is a captain." (Laughter)

MRS. KLOTZ: I want to see the show.

MR. KUHN: A good show, Mr. Secretary?

H.M.JR: Yes. I stayed behind and spoke to the cast - a wonderful show. It is coming to Washington. I strongly recommend it.

MR. GRAVES: If you were through I was going to--

H.M.JR: Chick is through; he has done his boy scout deed. He is giving his woman to the Army. (Laughter)

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MR. SCHWARZ: One of them.

MR. GRAVES: There is another matter I would like to speak about. Mr. Rex Hayes of Coca-Cola was with us for quite a long time on Tuesday. I saw him; Mr. Gamble saw him; Mr. Odegard and Mr. Kuhn saw him. He, I think, will do anything that we ask him to do. He has some doubt as to his own qualifications to help us, but he is coming again on Tuesday, and I am going to spend time with him again over in our shop in the Sloane Building. If you would--

H.M.JR: I would like very much to see him.

MR. GRAVES: If you care to have me bring him in, I will be glad to do it. I think it might be best, if it will suit your convenience, to invite him in late rather than early in the day so that we can have time--

H.M.JR: I have got Barthelomew and Welch at three. How about three-thirty?

MR. GRAVES: Fine.

H.M.JR: And Hayes.

MR. GRAVES: Rex Hayes.

MR. KUHN: Ralph.

H.M.JR: Odegard?

MR. ODEGARD: I am still looking for an educational director.

H.M.JR: I can't hear you.

MR. ODEGARD: I say I am still looking for an educational director. Everyone has run out so far.

H.M.JR: Do you need a lantern? (Laughter)

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MR. ODEGARD: I need more than that now; I need a shotgun.

MR. SULLIVAN: Give him Dano. (Laughter)

MR. ODEGARD: I think, however, I have some ground for being optimistic now.

H.M.JR: I can't hear you.

MR. ODEGARD: I say, I have some ground for being optimistic that we will have someone by the middle of August.

H.M.JR: Peter, have you ever looked over any of the forty-eight State educational commissioners?

MR. ODEGARD: Yes.

H.M.JR: Any one of the forty-eight any good?

MR. ODEGARD: We have considered several of them. Most of them are unavailable. It is very difficult to get people.

H.M.JR: They couldn't get leave of absence?

MR. ODEGARD: No.

H.M.JR: Have you tried? Did you go to the governor and ask for leave of absence?

MR. ODEGARD: No, we haven't tried that.

H.M.JR: You give me the name of a good one, and I will write the governor and ask the governor to give the fellow a leave of absence for a year.

MR. ODEGARD: I prefer to wait on that until we see whether or not Mr. Carr is going to come. He is going to let me know. He is writing today. Unfortunately he is in Los Angeles.

H.M.JR: Think that over. If Carr doesn't work out as a good director, pick the commissioner of education in any State, progressive, and I will write the governor and ask

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him to give him a year's leave of absence. That is the kind of fellow you want, isn't it?

MR. ODEGARD: Yes, someone like that.

H.M.JR: Anything else?

MR. ODEGARD: That is all.

H.M.JR: Roy?

MR. BLOUGH: Not this morning.

H.M.JR: Ted?

MR. GAMBLE: Yes, sir, we have five hundred and twenty-three radio stations in this morning.

H.M.JR: Good.

MR. GAMBLE: Two hundred and twenty-nine of them are the largest stations in the country; thirty-one of them are fifty-thousand-watt stations.

H.M.JR: How many?

MR. GAMBLE: Thirty-one are fifty-thousand-watt stations, and two hundred and twenty-nine out of the five hundred and twenty-three are the largest stations in the country. I think you should read some of these telegrams that have come in. They are very interesting.

H.M.JR: I would like to.

MR. GAMBLE: We had a call this morning from the people in Baltimore saying they were planning a series of full-page newspaper ads, were setting aside special programs for leaders in their State, like the governor to have a fifteen-minute program every week, that is, he would be selling bonds - interesting people in this bond program, and there are many ingenious suggestions in many of these telegrams. I think you should see some of them.

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H.M.JR: I wish you War Bond people, Graves and his special assistants, would have something for me by Monday, if possible, to put into my talk before the Tax Committee - George, you see - something for me Monday, and I hope to get - what I would like to do, if you can sell it to me, is to ask the Committee to let us continue for the rest of the year, if I can clear it with the President.

MR. GRAVES: Fiscal year?

H.M.JR: Calendar year - the rest of this calendar year.

MR. BELL: Why do you ask them?

H.M.JR: Why?

MR. BELL: Yes. Aren't we contemplating continuing?

H.M.JR: I first have to get the President to say O.K. I talked with the President today about the War Bond situation, and he said there isn't a day passes that either Wallace or Miss Perkins doesn't needle them on compulsory savings, which gets back to that thing I spoke to Gamble about in New York. We don't do enough promotional work here in Washington, and if you could by any chance have something for me, Ted, by Monday--

MR. GAMBLE: We will have it.

H.M.JR: If you could have something for me by Monday. You fellows ought to - whatever spare time you have, if you will put your heads together so that you can come together - I mean, something like the General Motors, only for five minutes instead of for half an hour, that I could just tell my story to the President and the rest of the people on War Bonds - graphic something, but something not - do it in three minutes, and it would be that much better - but I need something.

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MRS. KLOTZ: When are you going on the Hill?

H.M.JR: Wednesday or Thursday. And, you see, I haven't read Senator George's statement, but he said something on this thing.

MR. SULLIVAN: I know what is in the Senator's mind and the approach that will take care of it. The only reason the Senator is interested in compulsory savings is he thinks there should be wide distribution so that there will not be political pressure for repudiation, and I explained to him that we were getting that wide distribution through the pay-roll allotment plan. But that is the basis of his interest in it.

H.M.JR: Well, if you can, write out something and send it in to Graves, will you?

MR. SULLIVAN: Yes, sir, I will talk to him.

H.M.JR: Today?

MR. SULLIVAN: Yes, sir.

H.M.JR: Anything else?

MR. GAMBLE: We have completed this schedule of twelve meetings in the Federal Reserve Banks, the labor-management meetings. They have all been set up now.

H.M.JR: Would you give that schedule to Mrs. Klotz, please?

MR. GAMBLE: I will leave it now. The first meeting is in Richmond, July 30. All of the men who are going to take part in these twelve meetings are going to be present at this first meeting in Richmond on July 30. The next meeting is in Atlanta.

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H.M.JR: Why am I not invited?

MR. GAMBLE: I was going to suggest that you select some date here that would be convenient for you and attend one or more of these meetings.

MR. BELL: Atlanta would like to have you come on the eleventh. They called me and asked me if there was a possibility.

H.M.JR: What I hope to do is leave here on the seventh of August, to be gone for one week. That is the only thing I am planning. That is after our next financing. We will work that out together.

MR. BELL: I told Atlanta that I didn't think you could attend on the eleventh.

MR. GAMBLE: New York is on the fourteenth of August.

H.M.JR: Anything else?

MR. GAMBLE: There were six hundred and sixty-eight cities reported by this morning that they are having these--

H.M.JR: Ted, let me ask you - take six hundred and sixty-eight cities, what would be - just a guess, a conservative guess, see, of what each of those cities would sell over and above the usual amount?

MR. GAMBLE: Well, if the amount - of course their estimates - if you discount them fifty percent, we ought to sell fifty million dollars extra on that date.

H.M.JR: Is that all?

MR. GAMBLE: I say if you discount the reports that we have in where cities have set quotas for themselves.

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H.M.JR: But I mean that seems awfully small to me. What is the smallest city?

MR. GAMBLE: The smallest city will be a town of two hundred or three hundred people.

H.M.JR: Wouldn't they be good for a million dollars?

MR. GAMBLE: No, sir.

H.M.JR: I mean if this little town up in New Jersey did six hundred thousand dollars with twenty-five thousand population, wouldn't a town of two hundred and fifty thousand do a million dollars?

MR. GRAVES: Two hundred and fifty people.

MR. GAMBLE: I said these go down into small communities, small towns. It is difficult to estimate. A city like Boston has pledged themselves to ten million. I think Boston will sell the ten million; Cincinnati, eight million.

Those who have set definite quotas for themselves run well over a hundred million dollars for that day, but we have our tongue in our cheek about the amount of bonds that they are going to sell - that is, taking their optimistic figures. On the other hand, a town like Sacramento, California, with over a hundred thousand people, only set a quota for themselves of three hundred thousand dollars, and they might well do what Vineland, New Jersey, did - I mean, proportionately. Vineland only set some two hundred and fifty thousand and sold six hundred and sixty-one thousand dollars' worth, as I recall the figure, on that day.

H.M.JR: Anything else?

MR. GAMBLE: That is all I have, sir.

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H.M.JR: Ferdie?

MR. KUHN: Mr. Secretary, Elmer Davis saw the President yesterday. Following that visit I got a call from his office saying that they think it is very important that the statement on wage policy that seems to be coming should be accompanied by a lot of publicity about what the Government is doing to cut down on excess profits, to scrutinize tax returns, and to renegotiate contracts.

They understand our position, that the tax bill isn't finished and we can't always put out the stuff, but they want to put it out and they have very good facilities for doing it. I think we ought to give them all the help we can to get the information on what the excess profits rates will do.

H.M.JR: Who is the man that contacts us on that?

MR. KUHN: A man named Lubell, who is writing most of their anti-inflation stuff in all fields, price control, and so on. The man who contacts us, who is responsible to the Treasury for Elmer Davis, is Feller, who wants very much to see you. Mr. Davis would like him to see you.

H.M.JR: I hear he is quite a fellow.

MR. KUHN: Quite a fellow. But I talked to Randolph Paul about this, and he said he thought it was a good idea and that I should ask you.

H.M.JR: What is this Feller's background?

MR. KUHN: Yale Law School. He taught at Yale Law School.

H.M.JR: I would like to meet him.

MR. KUHN: He is very active.

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H.M.JR: I have given him two appointments, none of which he could keep.

MR. KUHN: He would like very much to come this week, if he can.

H.M.JR: I could see him at ten o'clock tomorrow.

MR. KUHN: O.K., I will call him.

H.M.JR: How do you spell Feller?

MR. ODEGARD: F-e-l-l-e-r.

H.M.JR: Anything else?

MR. KUHN: Yes. Will that be all right if we make our information available to them for that purpose, to get out stories?

H.M.JR: Well, I can't - I can't give a snap - I want Paul--

MR. KUHN: Paul says it is all right. He asked me to bring it up to you.

H.M.JR: In what form would you make it available?

MR. KUHN: They would come over here to get information as to what excess profits rates of various kinds would do, and they would put it out to the labor press, for example, to show labor that we are really getting after corporate profits.

H.M.JR: O.K.

MR. KUHN: I have a list of about forty towns in which these little steel companies have plants, and I think we ought to make a special drive to get them in on War Bonds.

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H.M.JR: Well, you know - who did I talk with confidentially about that?

MR. GRAVES: You talked to me.

H.M.JR: Steel - are you talking - oh, that was coal.

MR. KUHN: This is the wage increase they got this morning.

H.M.JR: That is all right.

MR. KUHN: I have those posters you wanted in various cities. (Posters handed to the Secretary.)

H.M.JR: Just leave them here on my desk. I haven't got time now. Just leave them.

MR. KUHN: Loretta Young wants to come in and shake hands with you today.

MRS. KLOTZ: Isn't that nice.

MR. BELL: She has sold a lot of bonds, hasn't she?

H.M.JR: Would four-thirty be too late for her?

MRS. KLOTZ: Never too late. (Laughter)

H.M.JR: Kuhn and Loretta Young. Incidentally, why should we pay somebody to look after her? There is a chance for a volunteer.

MR. SCHWARZ: It would be a pleasure. (Laughter)

MR. KUHN: That is all.

MR. BUFFINGTON: Purcell is about ready to call a meeting, resulting from our last meeting in Mr.

- 20 -

Bell's office. Before doing it I think it might be helpful if you could see him alone for a little bit. He has that order drawn, and not in a form that I think would be acceptable to you.

H.M.JR: Well, next week - Purcell is another one of these ambitious boys with not enough to do.

MR. BUFFINGTON: There was nothing in that memorandum of particular interest.

H.M.JR: Graves and - how about four o'clock Tuesday?

MR. BUFFINGTON: I was going to be away Tuesday.

H.M.JR: I can't do it today or tomorrow.

MR. BUFFINGTON: All right, sir.

H.M.JR: Are you going to be here Monday?

MR. BUFFINGTON: Yes, sir.

H.M.JR: Make it tentatively Monday. This is tentative, three o'clock - tentative. If he is going to come down just for that you had better tell him not to.

MR. BUFFINGTON: I think he is usually here on Monday. I will check to be sure.

H.M.JR: Anything else?

MR. BUFFINGTON: No, sir.

MR. GRAVES: Did you say you wanted me at that thing?

H.M.JR: This?

MR. GRAVES: Yes.

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H.M.JR: No, I was just looking here - no.

MR. SULLIVAN: I saw Mr. Bane yesterday. You recall he wired. I talked with Roy and Harold Groves, and we all felt that it would be better not to start this committee until after the study is ready, and that will be around the fifteenth of September. He is preparing a letter that he wants to clear with you. That letter is addressed to the President, suggesting in behalf of the Council of State Governments that such a Federal committee be appointed. He wants you to help him on the membership, the size of the committee. He thinks five or six will be enough. That will be the last of the week anyway, and we can clear it then.

The Commissioner has not been well. He can hardly talk. He is better today, but the doctor tells him if he doesn't get out in the dry air for a couple of weeks that he is going to have an awful lot of trouble. He wants to leave tonight.

Now, as you know, there are teams from Mr. Blough's shop and from the Bureau in the field working on this problem of the adequacy of the business equipment, office machinery, and the Commissioner is willing to leave that in the hands of Mr. Cann. Norman knows the Commissioner's attitude, and we can get him on the phone, and I think it would be well to let him leave tonight.

H.M.JR: O.K.

MR. SULLIVAN: Mr. Kanne, who is the Collector of Internal Revenue and the bond administrator from Hawaii, is here. I didn't know if you wanted to see him or not.

H.M.JR: They say he will be here two weeks.

MR. SULLIVAN: He will be here until the twenty-seventh, anyway.

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H.M.JR: No more this week - next week.

MR. SULLIVAN: Mr. Taylor asked that we set up a procedure within the Treasury Department so that if there were any State or municipal laws or ordinances that were interfering with Treasury work we could work through that committee to handle the matter. I set up a procedure and cleared it with Ed, and I am contemplating sending a memorandum to the head of every bureau in the Treasury. I had written a letter to Wayne - I didn't know whether you wanted it for your signature or not - and I made myself the clearing agent on that because you asked me to sit on that committee.

H.M.JR: Good.

MR. SULLIVAN: And then on the request of Nelson Rockefeller for a clarifying letter on advertising by our exporters in South America, I have that ready, saying that that type of advertising, protecting the future markets, if done in reasonable extent - in reasonable amounts and proper proportion to the size of the company and their earnings, is quite all right. I haven't been able to clear this with Harry. You remember he raised a point.

H.M.JR: Harold?

MR. SULLIVAN: With Harry - Harry White.

H.M.JR: Let Kuhn take a look at it.

MR. KUHN: Raymond Moley has a piece in Newsweek praising the Treasury's statement on advertising policy. He said that it is admirable and very helpful.

H.M.JR: Who said so?

MR. KUHN: Raymond Moley.

H.M.JR: Oh, Gawd, I am worried! How many lives does one live in one's lifetime?

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MRS. KLOTZ: Nine. (Laughter)

MR. BELL: That is a cat. (Laughter)

H.M.JR: What else?

MR. SULLIVAN: That is all.

H.M.JR: Foley, this is for the record and for you and Foreign Funds. You may or may not be familiar with it, but I had a letter from Judge Lehman in Albany, asking me to forward a request to Foreign Funds permitting the J.D.C. to communicate with Jewish refugees in Shanghai. I asked the Foreign Funds to write a memorandum, which they did, and, as I remember, they turned me down - didn't turn me down, they turned down the J.D.C.

I wasn't satisfied. I asked Sumner Welles to look into it. He did look into it and reported back that he found that the Treasury was opposed to it, and that - leaving the inference, with me at least, that they might be willing to do something if it wasn't for the Treasury. So I said I would have our people get in touch with Pehle. I found Pehle was out of town. I talked with Schmidt and told him we should go into this thing and look into it.

Then I got to thinking about it. I sort of found myself in the position that I said I never would be in, sort of pleading a case before my own court. I called up Judge Lehman and said that here I was, having decided this thing finally, and I was pleading a special case before the Treasury and myself, a position I said I never would put myself in, particularly these cases - the Jewish refugees. I asked Foreign Funds to handle them without me. He said my position was entirely correct and he understood it perfectly.

So in view of that, I think I am going to tell Welles the same thing. I am going to call him up.

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But you - and I am going to ask Mr. Bell, so he can sit in on this thing - and Foreign Funds - they had better decide it on the merits.

MR. FOLEY: I remember the incident, and I talked to John Pehle.

H.M.JR: But I would like Mr. Bell to sit in on it. After you come to a conclusion, let me know.

I did say this to Schmidt, "Use your heart a little bit, don't have it all head", but I sort of found myself, for once, letting my emotions run away with me.

So you boys will just have to consider it. I explained to the Judge that we have had the case of the Quakers and the Occupied and Unoccupied France, and the case of the Vatican about sending money into Germany, and all these cases, and so far we haven't bent on any of them.

MR. FOLEY: That is right. This is a communication to occupied territory that they want to send. John takes the position that if we permit this communication to be sent there that we will have established a precedent that will lead to a granting of other requests of a similar character, and he doesn't think that that would be wise.

H.M.JR: Well, as I say, it is setting a precedent. I always said from the days of Professor - what is his name, of Columbia?

MR. FOLEY: Chambers.

H.M.JR: Chamberlain - I always personally kept out of it, but these things just make you sick to your stomach.

MR. BELL: Isn't the Red Cross doing that through the international organization?

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MR. FOLEY: Yes, they are, but they are the only ones.

MRS. KLOTZ: Why should they be an exception?

MR. FOLEY: They have been the ones that have been singled out by the State Department as the sole agency.

MR. BELL: They have treaties, too - there are treaties involved.

H.M.JR: Well, anyway, look into it and handle it for me, will you?

MR. FOLEY: Yes.

H.M.JR: Will you communicate that to Foreign Funds, what I said here?

MR. FOLEY: Yes.

In view of the articles that appeared in The News over Martha Strayer's by-line about me last week I would like to read, with your permission, to the group here a letter that I got from the local draft board.

"Dear Mr. Foley:

"I have read two newspaper releases to the regular meeting of our Draft Board concerning your case and have been instructed to advise you that you were classified in 2-A by our Board on the above date without claim by you, your employer, or by anyone else, for occupational deferment.

"The statements in the above-referred to newspaper releases are not accurate, and they are denied by this Board.

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"For your information, you are advised that it was the judgment of our Board that you, having been appointed by the President of the United States and confirmed by the Senate for a responsible position vital to the war effort, that the interest of the country would be better served by so classifying you. This is a function of the Draft Board.

Very truly yours,

Chairman."

H.M.JR: That is very fine. I am delighted.

MR. FOLEY: I have a letter from Shields, Robert H. Shields, who is the solicitor of the Agricultural Department. He says that he would like to tender a position to Donald Sherbondy. Sherbondy is one of our lawyers in Foreign Funds getting sixty-five hundred dollars.

I have talked with Sherbondy, and he wants to go. Shields wants to make him Associate Solicitor. They have reorganized their legal division over there along the lines that we have patterned ours after, and this job will pay him eight thousand dollars. He is anxious to take it.

I think, after talking to him, in fairness to him, I should tell Shields he can go.

H.M.JR: O.K.

MR. FOLEY: You asked me to find out about that plan up in Syracuse. Here is a letter from Father Ryan. (Letter dated July 13, 1942, from Father Ryan, handed to the Secretary.)

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H.M.JR: Talking of Father Ryan, when am I going to get the report on Bishop Shields' complaint?

MR. GRAVES: That, you remember, was taken over by Mr. Gaston, who has assigned it to Mr. Harney; and Mr. Harney, I happen to know, is working on it.

H.M.JR: Well, will you tell him I am getting a little impatient. It can't take so terribly long.

MR. GRAVES: Yes.

Mr. Secretary, you recall saying that you wanted to see me and my group next Monday. Do you want to put that down for a particular hour?

H.M.JR: I am indefinite about Monday, but when you go out tell Stephens that the first appointment I give will be to your group.

MR. GRAVES: Thank you.

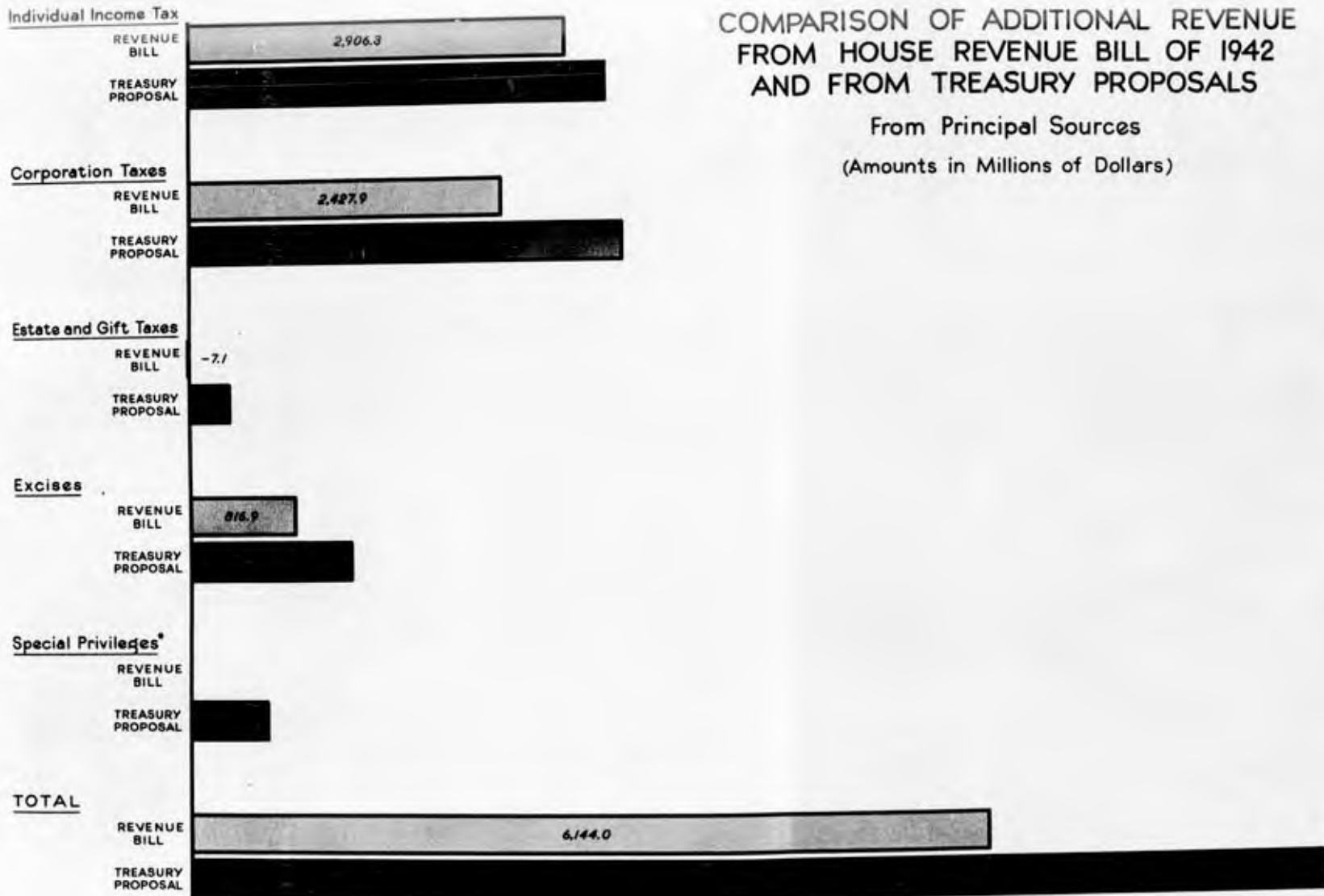
July 16, 1942

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The President read this and said, "Bring this with you when I see George."

COMPARISON OF ADDITIONAL REVENUE
FROM HOUSE REVENUE BILL OF 1942
AND FROM TREASURY PROPOSALS

From Principal Sources
(Amounts in Millions of Dollars)



*Joint returns; interest on State and local obligations; and percentage depletion

July 18, 1942.

Dear Donald:

Thank you for your letter of July 11, with the enclosed copy of a statement issued in connection with the appointment of Directors of the Smaller War Plants Corporation. I am glad to have this information and appreciate your sending it to me.

Sincerely,

(Signed) Henry

Honorable Donald M. Nelson,
Chairman, War Production Board,
Washington, D. C.

GEM/dbs

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WAR PRODUCTION BOARD
WASHINGTON, D. C.

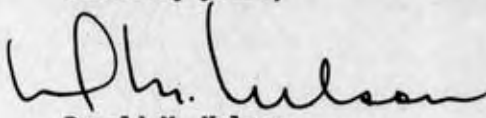
OFFICE OF
DONALD M. NELSON
CHAIRMAN

July 11, 1942

My dear Mr. Secretary:

I am enclosing a copy of the full text of the release in which the Directors of the Smaller War Plants Corporation were announced. I felt sure you would probably be interested in this statement.

Sincerely yours,


Donald M. Nelson

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



ADVANCE RELEASE: For SATURDAY MORNING Papers, July 11, 1942

WPB-1513

WAR PRODUCTION BOARD

Donald M. Nelson, Chairman of the War Production Board, today announced appointment of a board of directors for the Smaller War Plants Corporation, following passage by Congress of legislation providing for establishment of the Corporation.

Members of the Board are as follows:

Lou E. Holland of Kansas City, Mo., who will also serve as Deputy Chairman on Smaller War Plants, War Production Board, in line with the Congressional provision for appointment of such an official to make surveys and studies of the war production facilities of smaller plants. Head of the Double Rotary Sprinkler Corporation and of the Holland Corporation, Mr. Holland has served as president of the Kansas City Chamber of Commerce and as president of the Associated Advertising Clubs of the World; more recently, he has been president of Mid-Central Associated Defense Industries, Inc., a pool of 32 concerns organized in July, 1941, to spread war work. This is reported to have been the first pool to get a war production contract.

James T. Howington of Louisville, Ky., since Sept. 1941 district manager of the WPB field office in Louisville. From 1930 - 1941 he was a vice-president of the Girdler Corporation of Louisville, manufacturers of forged steel fillings for welded piping.

William S. Shipley of York, Pennsylvania, chairman of the Board of the York Ice Machinery Corporation, and past-president of the American Society of Refrigerating Engineers and the York Manufacturers Association. He was a moving spirit in the "York Plan", one of the pioneer war work pools in the United States.

Albert M. Carter of Murphysboro, Ill., director and past-president of the First National Bank of Murphysboro. He is president of a small company which mines kaolin, near Anna, Ill. He served as Assistant State Auditor in Illinois from 1935-1940. Mr. Carter is past-president of the Murphysboro Chamber of Commerce and of the Rotary Club and is a former Illinois State Commander of the American Legion.

Samuel Abbot Smith, of Boston, president of the Thomas Strahan Company of Chelsea, Mass. This concern, with which he has spent his entire business career, manufactures wall paper. It has 85 employees. Mr. Smith is vice-president of the Smaller Business Men's Association of New England.

In announcing these appointments, Mr. Nelson issued the following statement:

"With this legislation and through the newly created corporation, additional smaller manufacturing plants in this country can be brought into war and other essential production.

"We are going to do all that we can to bring into that kind of production as many more small plants as possible. In this field, I believe that the corporation will be useful and will provide an effective approach. The men appointed as

(OVER)

directors are completely sympathetic to the purposes of the legislation passed by Congress. Wherever the conversion of any plant will effectively increase the supply of essential goods which must be made under our war program, we will do all that we can to effect that conversion.

"I believe that the greatest usefulness of this Corporation will be found in its operations along these lines:

"1. By effective and persistent work to confine the manufacture of relatively simple war items to the smaller factories, using the facilities of large plants exclusively to make those complicated and difficult items which cannot be made in the small plants.

"2. By a very great extension of sub-contracting, both through the use of pools and through much greater emphasis on the farming-out of manufacture of bits and pieces by large corporations which hold prime contracts.

"3. By the conversion of small plants to essential civilian production. In our war program we cannot make a sharp distinction between military and civilian production; the distinction rather is between goods which must be produced in a total war economy, and goods which such an economy can get along without. I am convinced that a substantial number of small plants whose present production is not essential to our war economy can be extremely useful in the production of other kinds of goods.

"Some work has already been done along all of these lines, of course. Now, however, for the first time it will be possible to prosecute a broad, effective, well-integrated campaign in this direction.

"The Smaller War Plants Corporation has a capitalization of \$150,000,000. It has the power to accept prime contracts from war procurement agencies. It can take these prime contracts and split them up, sub-contracting with small business firms for the production of component parts. It will be able to deal effectively with pools, not only because it can itself take these prime contracts, but also because it can help provide the pools with engineering and financial assistance, can help manufacturers to rehabilitate old machinery, and in certain cases may be able to help manufacturers acquire vitally needed new machinery.

"Under able and energetic direction, the Corporation I am confident will perform an extremely useful function.

"We must not, of course, expect this Corporation or the legislation under which it will operate to be a panacea which will solve all of the problems of small businessmen. It is unfortunately very likely that the number of small business firms which we can help in this war will be smaller than the number we cannot help.

"We are fighting a war, and the War Production Board is a war agency. As far as the placement of war orders is concerned, the controlling factor must be the ability of the manufacturer to deliver what the Army and Navy want, at the time when the Army and Navy want it, and according to the Services' specifications. What we have in the Smaller War Plants Corporation is a mechanism to help us increase the total quantity of essential goods needed in this war, rather than a relief agency. If it should unfortunately develop that outright relief measures for small businesses are necessary, it must be realized that a mechanism other than the Smaller War Plants Corporation must be found for extending such relief.

"The men selected for the Directorate of the Corporation are men familiar with the small business field, men who are thoroughly aware of the need for enabling small business to play its full part in the war effort. We are going into this job with the determination to make this new machinery work. I believe that we shall get excellent results.

"The War Production Board now has local offices in 112 manufacturing centers throughout the United States, and regional offices in San Francisco, Seattle, Denver, Kansas City, Dallas, Chicago, Detroit, Minneapolis, Cleveland, Boston, Philadelphia, New York City and Atlanta. In a very short time these offices will be staffed and ready to handle the problems of smaller plants, and our operations on this front will be handled almost entirely on a decentralized basis. Inquiries should be directed to these offices rather than to Washington, and manufacturers should plan to visit them, or to send their representatives to them, rather than coming to Washington."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 16 1942

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with the existing instructions, there is submitted herewith a summary report of activities and accomplishments carried on by the Legal Staff for the month of May 1942.

Attachment.

Smith

TREASURY DEPARTMENT

JUL 16 1942

LEGAL STAFF
OFFICE

SUMMARY REPORT ON ACTIVITIES AND ACCOMPLISHMENTS
IN THE OFFICE OF THE GENERAL COUNSEL
MAY, 1942.

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

1. Anderson, Clayton & Company. Early this year settlement negotiations in this case were broken off and it was re-set for hearing before the Board of Tax Appeals. The proposed deficiency in tax was in excess of \$6,200,000. and involved the application of the taxing provisions of section 104 of the Revenue Act of 1932, to the undue accumulations of earnings and profits to avoid imposition of surtaxes on the corporation's shareholders. A settlement of the case has now been agreed upon which will net the Government, in round figures, \$4,000,000. This will obviate the necessity of a trial which might have continued over a period of months and in which there were certain issues of first impression and of controversial nature.

2. Peter B. Kyne. Peter B. Kyne, author of many best sellers, including Cappy Ricks, Kindred of the Dust, The Pride of Palomar, The Go-Getter, Never the Twain Shall Meet, and Comrades of the

- 2 -

Storm, has reached an agreement with the Bureau of Internal Revenue, whereby the Bureau has agreed to accept \$3,500. in payment of \$33,464.65 in delinquent taxes, covering the years 1922, and 1929 to 1936. Mr. Kyne, who has been ill, has not produced any work of consequence in over ten years. The Bureau accepted his offer because of his complete inability to pay a greater sum and because it was deemed not likely that Mr. Kyne's earning ability could be restored to that of the days when he was paid as much as \$5,000 for a single story. Mr. Kyne, in his statement to the Bureau, said:

"A certain quality of robustness and joyous humor made my work popular once but I can not be joyous or humorous or robust when I am in almost constant pain. I can not be funny in a world gone mad. I will be 60 years old on my next birthday and I am not sufficiently optimistic to think that I could possibly in the few years I may with good luck survive, look forward even with remote confidence to paying my obligations."

3. Park & Tilford, et al. Park & Tilford and others (including D. A. Schulte, Inc.) were transferees of certain transactions in 1933 involving sale of properties to National Distillers Products Corporation. In 1939 the Acting Secretary approved a formula of settlement of tax claims for 1933 in the Schulte 77B

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reorganization. Under the formula the payment of \$350,000 would release and cancel all claims against Schulte as a transferee as well as certain percentages of total tax claims against certain transferors involved in the 1933 sale. Applying the formula to Park & Tilford and other transferees, it has been found that the total tax liability due would be \$679,652. The Commissioner has decided to settle the entire matter on the cash payment of \$600,000 within thirty days, thus disposing of sixty Board cases. This settlement is in line with the relief given in the comparable Michigan Steel Corporation case, but here no deduction will be allowed to any transferee for any part of the payment made as contribution or interest or on any other ground. No interest is to be assessed or collected on the \$600,000 lump sum, and no part of the payment is to be subject to refund.

4. Tax Evasion of Herbert Glassman. Glassman, President of the Sun Cab Company, Baltimore, Edward Ostrow, Treasurer of the Sun Cab Company, and Joseph Zucker, accountant and instructor in accountancy at Benjamin Franklin University in Washington, were indicted some time ago in connection with the evasion of income taxes approximating \$50,000 in the years

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1934 to 1938. On May 20, 1942, Glassman was convicted in Baltimore on a five-count indictment and Zucker was convicted of aiding and abetting. Ostrow's case has not as yet been tried. The chief point of evasion was that income from rebates on gasoline sold to taxicab drivers had not been reported, as was also the case of rebates on the purchase of new automobiles; also involved was the non-reporting of income from insurance commissions and from the sale of used cars.

5. Suggested Reciprocal Treatment of Income Tax on Foreigners by the United States and Mexico. The State Department transmitted a translation of a note from the Mexican Ambassador in which it was stated that Mexico imposes an income tax on foreigners only upon income derived "from sources of wealth or business transacted in Mexican territory," and the Ambassador suggests that a study be made of the possibility of granting reciprocity insofar as the United States is concerned. The Chief Counsel's Office has submitted suggestions for reply to the effect that it would be undesirable to enter into negotiations which would be restricted solely to this matter, and stating in the event, however, that Mexico should wish to enter into negotiations looking toward a treaty or convention

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having a broader scope concerning income taxation, representations to that effect would be favorably received by the Treasury Department.

6. Refund of Tax Paid on Tires and Tubes. In connection with the plan of the Office of Price Administration for rescinding sales of all tires and tubes remaining in the hands of dealers and jobbers, and the reimbursement by the manufacturer of the purchase price plus handling charges incurred by the dealer or jobber, the Chief Counsel's Office approved a proposed letter from the Commissioner to the Rubber Manufacturers' Association, whereby it is proposed to make prompt refund to the manufacturers of 95 percent of the sales tax paid on such rescinded sales (without interest) and to retain 5 percent as a protection to the Government against possible errors.

7. Proposed Addition to Bankruptcy Act to Cover Voluntary Adjustment of Railroad Obligations. The Reorganization Section studied the proposed addition to the Bankruptcy Act of Chapter XV on the subject of "Voluntary Adjustment of Railroad Obligations." Several suggestions were made for protecting the United States in proceedings authorized under the proposed amendment. The suggestions, with supporting data, were presented

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by the Treasury to the Special Subcommittee on Bankruptcy and Reorganization of the Committee on the Judiciary of the House of Representatives. Several of the suggestions have been approved while others have been eliminated. Those which are not approved by the Subcommittee will be submitted to the proper committee in the Senate when its hearings on the bill are held. The major change in the amendment which was approved by the House Committee involved the elimination of that portion of the Act which provided that no income would be deemed to be realized by reason of the modification or cancelation of indebtedness of a petitioner under the Act.

8. Establishment of Claims Division. During the month, the Reorganization, Bankruptcy and Receivership Section and the Compromise Section, which sections had previously functioned directly under the Chief Counsel, and the Processing Tax Section of the Appeals Division, were consolidated in a new division designated as the Claims Division.

The following work was done under the supervision of Assistant General Counsel Cairns:

9. Foreign-Trade Zones. Two meetings of the

- 7 -

Committee of Alternates of the Foreign-Trade Zones Board, attended by Mr. Chambers as the Secretary's representative, were held during May to consider applications for permission to establish zones at Houston, Texas, and Jersey City, New Jersey. The Houston application was found to comply substantially with the formal requirements of the Board, and arrangements were made for a public hearing at Houston, as the next step in the usual procedure for determining whether the zone should be established. The application for a zone at Jersey City did not comply with the Board's requirements, but the petitioner, the Western Hemisphere Corporation, was granted further time to perfect the application.

10. Refunds of Duties on Importations. A letter to the Comptroller General was prepared by Messrs. Chambers and Wolf of this office in collaboration with officials of the Bureau of Customs and the Treasury Department, pertaining to a case wherein the General Accounting Office had questioned refunds of duties on importations of zinc concentrates. The letter stated the position of the Department, that officers of the General Accounting Office have no authority

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to review determinations of collectors of customs with respect to quantity of imported merchandise or to make disallowances in accounts of collectors although, in the judgment of the officers of the General Accounting Office, the determinations of the collectors are not in accord with law. The conclusion was based upon the provision in section 514 of the Tariff Act of 1930 (U.S.C., title 19, sec. 1514), that such determinations of collectors are "final and conclusive upon all persons (including the United States and any officer thereof)", and opinions of the Attorney General.

11. Liability of Car Owners Participating in Transportation Sharing Plan. An opinion addressed to Mr. Thompson, which was prepared by Messrs. Meyer and Blakeman, and signed on May 14, 1942, discussed the liability of the driver to his guests when accident occurs or suit is brought in Maryland, Virginia, or the District of Columbia. If accident occurred in Virginia, driver is by statute liable only for gross negligence. Right of personal representatives to recover for pain and suffering and for wrongful death discussed. It is concluded that participants in the Transportation Sharing Plan probably may

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execute a valid release to the driver covering ordinary negligence.

12. Effect of Goldstein and Goldman Cases on Department Policy re Wire Tapping and Use of Concealed Listening Devices. An opinion addressed to Mr. Gaston, which was prepared by Messrs. Feidler, Gilmore, and Blakeman, and signed on May 15, 1942, analyzed two opinions announced by United States Supreme Court on April 27, 1942. (1) Goldman case involved "detectaphone", may open way for complete recording of telephone conversation, and hence requires modification of OP. No. 445, June 28, 1940, to Mr. Irey; (2) Goldstein case validates testimony "induced" by wire-tapping; (3) Goldman case specifically reaffirms Olmstead case, and holds that use of detectaphone is not an unreasonable search and seizure.

13. Production of Opium Poppies. The Collector of Internal Revenue at Portland, Oregon, received three applications for registration in Class 1 under the Federal narcotic law as producers of poppy seeds. The Commissioner of Narcotics, upon the advice of this office, issued instructions that such registration was not required for the purpose of producing poppy seed.

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Later, the Attorney General of Oregon rendered an opinion holding that, under the Oregon narcotic law, no person could produce opium poppies for any purpose without first securing a license from the Department of Health. This opinion reversed a former opinion. Moreover, the Narcotics Bureau has been given to understand that the State Department of Health will not issue any such licenses.

14. Use of Government Patents. There was submitted to Mr. Cairns a memorandum addressed to Mr. Lavender from Dr. V. Bush of the OSRD on the subject of issuing licenses to private manufacturers, under a government patent, for manufacturing an apparatus for drying blood plasma. This memorandum was given consideration in the light of Treasury Department experience with a similar prospective licensing agreement for the manufacture and sale of the substance Methyldihydromorphinone for which a patent is held by the Secretary of the Treasury. In both cases there exists a necessity for allowance to the patent licensee of certain research and development expenses recouped from sales, and the question is involved whether a government officer can issue a license under such a patent that will not be revocable at will. In considering the Methyldihydromorphinone case, the

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conclusion was reached that under an opinion of the Attorney General, an irrevocable license could not be issued by the Secretary of the Treasury in the absence of special enabling legislation. A letter to Dr. Bush was prepared by this office communicating this information.

The following work was done under the supervision of Assistant General Counsel Bernard:

15. Interdepartmental Committee on Investigation (for description see April 1942 report, item 25). Mr. Spingarn, who has been helping Mr. Gaston in connection with his work on this Committee, represented the Treasury Department at the regular meeting of the Committee on May 5. Mr. Spingarn also prepared a draft of a letter for Mr. Gaston's signature to Mr. Edwin D. Dickinson, Executive Secretary of the Committee, acknowledging a letter which outlined what the committee was prepared to do in its field, and briefly advising Mr. Dickinson of the Treasury's own procedures in connection with the handling of un-American activity cases. At Mr. Gaston's request, Mr. Bernard attended a meeting of this Committee on May 26 in Mr. Dickinson's office.

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16. Board of Legal Examiners (for description see July 1941 report, item 15). Mr. Bernard, as alternate for Mr. Foley, attended meetings of the Board of Legal Examiners on May 9 and 19. He sat on the Examining Committee of the Board on May 13, 15, and 30. Three applicants (attorneys) were examined. Mr. Shea of this office also attended a meeting of the Examining Committee on May 29.

17. Transfer of Processing Tax Board functions (for description see April 1942 report, item 24). In connection with the proposed transfer of the functions of the Processing Tax Board to the Board of Tax Appeals, this office made a study of the scope of the proviso in Title I of the First War Powers Act, 1941, relative to the transfer of functions, "that the authority by this Title granted shall be exercised only in matters relating to the conduct of the present war," and concluded that this limitation does not preclude the transfer.

18. Conflicting Claims Bill, H.R. 6442. On May 22, 1942, Mr. Bernard appeared before a subcommittee of the House Committee on the Judiciary and testified in favor of H.R. 6442, a Bill to provide for the orderly payment of conflicting claims

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and demands against the United States, and for other purposes. He was accompanied by Mr. Shea. A draft of a committee report recommending passage of the bill was prepared in this office and sent to the Clerk of the Judiciary Committee. Also a number of memoranda containing factual and background material on this bill were prepared in this office.

19. Return of families of Treasury employees from Hawaii (for description see April 1942 report, item 31). This office prepared a memorandum on evacuation of dependents of Treasury officers and employees from Hawaii or other outlying areas. It was concluded therein that no clear authority exists for paying expenses of such evacuation, but it is possible that certain existing funds could be used if the emergency were acute.

20. Maloney Amendment to S. 2250 (for description see April 1942 report, item 33). This bill, to create a Smaller War Plants Corporation, as it passed the Senate, contained an amendment by Senator Maloney in Section 4(e) which was unsatisfactory to the Treasury because it limited the authority of the Secretary of the Treasury with respect to designation of Government depositories. In the bill, as reported to the House on May 13, the Maloney amendment was

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deleted and language which we proposed was incorporated in Section 4(e) and in a new Section 9. Section 9, if it is enacted, will accomplish much that we sought to accomplish by our proposed "Government Depository Act of 1941."

21. National Housing Act - provisions for insurance payments in cash. Mr. Shea of this office rewrote a draft of a bill to provide (1) for the making of mortgage insurance payments in cash in lieu of debentures, and (2) for the borrowing of money from the Secretary of the Treasury when funds of the Housing Administrator are insufficient to make such payments, which draft was received from Mr. Bovard, General Counsel, Federal Housing Administration.

22. Treasury Decision - taxability of dividends. An examination of a proposed Treasury decision, amending existing regulations so as to provide for the taxation of dividends or gain from shares of stock of Federal instrumentalities in accordance with the provisions of the Public Debt Act of 1942, was made by Mr. Shea of this office.

23. Cafeteria in Treasury Building. The Chief Clerk raised the question of the Secretary's authority to grant a license to operate a cafeteria in the Main

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Treasury Building. It was suggested that the Public Buildings Administration, exclusively, has the space allotment function. A memorandum was prepared by Mr. Rupert of this office concluding that, although the matter is not entirely free from doubt, the Secretary does have the authority to grant such a license.

24. Compensation payable to per diem employees.
In response to questions presented by Mr. Charles Bell, this office prepared (1) a memorandum concluding that where we are paying a per diem employee at the rate of \$22.22, and on Monday he works ten hours and on the following day only six hours, such employee would be entitled to only one day's pay for the ten hours worked on Monday and three-fourths of a day's pay for six hours worked on Tuesday; and (2) a memorandum concluding that the basis on which a per diem employee should be paid for work performed on Saturday depends on whether or not such employee is in the pay status at the close of business on that day; and that if the employee is in a pay status at that time, he is entitled to the benefits granted under the Saturday half-holiday law, but, if not in a pay status, he shall be given no benefit under the law and would be entitled to only one-eighth of a day's pay for each hour worked.

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25. Designation to administer oaths. A memorandum was prepared in this office by Miss McDuff advising Mr. Marks that the power to designate an assistant national bank examiner, employed in the office of the Fifth Federal Reserve District, to administer oaths, required by law or otherwise, to accounts for travel or other expenses against the United States is vested in the Secretary of the Treasury. A draft of a formal designation for that purpose was also prepared and submitted to Mr. Marks.

26. Dismissal of indictment. There was prepared by Mr. Ranta of this office a letter to Assistant Attorney General Berge, advising that this Department would interpose no objection to the dismissal of the subject indictment against Sidney Marcus for forgery of a Government check in view of the fact that the offense was committed over eight years ago and the defendant has not been apprehended.

27. Compromise Cases. We prepared the final recommendations in two compromise cases during the month. In connection with the offer made by the Minnesota Power and Light Company to convey certain property to the United States in compromise settlement of a claim against it, arising out of an occupancy trespass consisting of flooding 346 acres of Government

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land situated in the Superior National Forest, Mr. Bernard sent a letter to the Solicitor of the Department of Agriculture, stating that the file disclosed that the only demand made upon the Power Company was for the payment of a claim in the sum of \$19,276, and that the Department of Agriculture now states that the claim amounts to the sum of \$1,576.59, based on loss of rental during the time which the land was flooded. It was further stated therein that the Treasury Department is of the opinion that there can be no basis for compromise until demand has been made on the Power Company for the payment of the claims of the Government aggregating \$1,576.59 and an offer has been made by the company in compromise thereof. The file was returned with the letter.

28. War Savings Campaign. Mr. Rupert of this office attended Department War Savings Campaign Committee meetings and worked out plans for the prosecution of the campaign in the General Counsel's Office.

29. Congressional Action on other Treasury-sponsored Legislation.

(a) Relief of First National Bank, Huntsville, Texas. S. 2309, our bill for the relief of the First

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National Bank of Huntsville, Texas, which was passed by the Senate in March, was reported on May 25, 1942, by the House Committee on Claims (Rept. No. 2157) with an amendment.

The following work was done under the supervision of Assistant General Counsel Tietjens:

30. Financing: (a) Savings Bond Regulations (for description see April, 1942, report, item 44(c)).

Messrs. Tietjens, Cunningham, Fuller and Coe continued their work on revised drafts of the regulations.

(b) Farm Credit Administration. A conference was held with officials of the Farm Credit Administration regarding proposed changes in the drafts of a memorandum of procedure (in the nature of an agreement between the Federal Farm Mortgage Corporation and the Treasury) and regulations governing Federal Farm Mortgage Corporation securities, which were forwarded to the Corporation by the Under Secretary on October 2, 1941. This conference represented a continuation of one held on April 16 on the same subject in which several administrative officials of the Bureau of the Public Debt participated. A complete agreement was reached except with respect to two points on

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which the representatives of FCA reserved further consideration. Mr. Cunningham attended the conference.

(c) Payroll Allotment Plan. Mr. Tietjens attended a meeting in Mr. Graves' office with representatives from Mr. Bartelt's office, Mr. Broughton's office, and Mr. Bell's office, to discuss proposed changes in the Treasury Payroll Allotment Plan. The changes were designed to make the plan more elastic. Messrs. Cunningham, Reeves and Tietjens participated in several conferences and assisted in general with legal problems involved in the Payroll Allotment Plan.

(d) Home Owners' Loan Corporation Bonds of Series G and Reconstruction Finance Corporation Notes of Series S. On May 27th, Mr. Gault and Mr. Dean of the Federal Home Loan Bank Board brought over for preliminary examination draft of an Order for the issue of a new series of HOLC bonds to be issued in interim form and held by the Secretary. This was later presented formally for approval. On May 23rd, this office passed upon the circular, text and press release for a new issue of notes offered in exchange for the above notes and bonds.

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31. Gifts and Donations Under Second War Powers Act. (a) Space to Office of Scientific Research and Development. Letters were prepared for the signature of the Secretary of the Treasury accepting upon behalf of the United States donations by Harvard University of certain space at Dumbarton Oaks and by the Carnegie Institution of Washington of certain space in the Institution's Administration Building, for use by the Office of Scientific Research and Development. Mr. Reeves and Mr. Tietjens worked on this.

(b) Funds for Purchase of Airplanes to be Used in Training Norwegian Flyers. At the request of Mr. Bartelt, this office considered the question of whether under Title XI of the above Act, the Secretary of the Treasury would be authorized to accept certain funds, being collected by an organization of Swedish-Americans called "Wings for Norway", with the condition that such funds be used through the Lend-Lease Administration in the purchase of airplanes to be turned over to Norwegian air training centers in Canada. It was concluded that there is ample authority for the acceptance of such funds, and Oscar Cox advised that so far as Lend-Lease is concerned, they

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would cooperate in carrying out the proposed plan of the donors. Messrs. Reeves and Tietjens worked on this with representatives of Mr. Bartelt's office.

(c) Handling of Donations of Property Other than Money. Messrs. Tietjens and Reeves conferred with Mr. Schoeneman and several representatives of the Bureau of Accounts and the Procurement Division with a view to working out uniform procedure for handling donations. This was necessary because of the increasing number of administrative problems raised by the large number of donations which have been received since the outbreak of war. A draft procedure to be followed in connection with the acceptance and disposition of such donations is being prepared.

32. Thompson v. Deal. Various documents which are to be used in connection with the above case which was scheduled for trial May 25th (postponed till October), in the United States District Court for the District of Columbia, were collected for transmittal to the Department of Justice. This case involves a class suit brought by certain cotton producers against the Manager of the National Surplus Cotton Tax Exemption Certificate Pool of 1935, and other Federal officers

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to recover amounts paid for tax exemption certificates, and enjoin payment to producers who had deposited such certificates in the pool. Mr. Reeves worked on this.

33. City of Detroit Bonds. The Treasury has accepted the City of Detroit's offer of \$1,800,000 for the Interim Receipt representing City of Detroit bonds which was transferred by the RFC to the Treasury several years ago. This amount represents the principal of the bonds; the Treasury has waived the interest. Mr. Tietjens worked on this matter with Mr. Heffelfinger and Under Secretary Bell.

34. First National Bank-Detroit Receivership (for description see April 1942 report, item 54). Members of this office have continued to have conferences with counsel for the Receiver of the above bank and representatives of the stockholders' committee, with reference to the legal problems involved in the various phases of the proposed sale of the remaining assets of the Receivership to a liquidating corporation. It is likely that these conferences will continue off and on during the early summer. Messrs. Barse and Anderson are handling this.

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35. Philippine Securities and Currency (for description see April 1942 report, item 48).

(a) Release of Government Checks. This office advised the Bureau of Accounts concerning various legal problems arising in connection with the release of Government checks which were taken into custody for safekeeping by High Commissioner Sayre and which are now being held in that Bureau. Mr. Reeves and Mr. Tietjens worked on this.

(b) Release of Gold Bullion Received by High Commissioner Sayre. This office is considering a request by representatives of Marsman & Company, Inc., Manila, P.I., for the release of certain gold bullion which was turned over for safekeeping to High Commissioner Sayre and is now being held in custody by the San Francisco Mint. Marsman & Co., Inc. contend that by virtue of the existence of interlocking and managing directorates, stockholdings and management contracts, they are authorized to receive any funds resulting from the relinquishment of control by the Treasury Department of gold bullion received by High Commissioner Sayre from certain Philippine mining companies. From the records available, it does not

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appear certain that Marsman & Company has clear title to all of the gold bullion for which it is making claim, and these records indicate that part of such gold bullion may be subject to liens by Philippine banks. The San Francisco Mint has been requested to forward by airmail any files that it may have relevant to this matter. Messrs. Reeves and Tietjens are working on this with Under Secretary Bell's office and Mr. Nisonger of Mr. Bartelt's office.

The following work was done under the supervision of Assistant General Counsel Bernstein:

36. Currency Restrictions - Amendment of General Ruling No. 5. General Ruling No. 5 was amended to extend to currency the treatment now being accorded securities imported into the United States. It will be remembered that General Ruling No. 6A had extended this treatment to currency emanating from blocked areas and Proclaimed List nationals, and the amendment to General Ruling No. 5 had the effect of putting currency from all parts of the world on this basis. This represented a further step in the Treasury Department program to deprive the Axis and its satellites of the use of the dollar in financing its activities all over the world.

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It is interesting to note that South and Central American countries, notably Brazil, Mexico, and Costa Rica, have adopted regulations which complement this action. Even at this early date, it is clear that this amendment to General Ruling No. 5 was of significance. All currency, upon importation into this country, is forwarded immediately to a Federal Reserve Bank, as fiscal agent of the United States, where it is thereafter held or delivered to a domestic bank, to be held, until such time as the Treasury Department has authorized its release. Messrs. Luxford, DuBois and Rains worked on this.

37. Hearings - General Ruling No. 13. As Foreign Funds Control developed into an aggressive weapon of economic warfare, situations arose making apparent the necessity for some type of public announcement with respect to hearings. Accordingly, General Ruling No. 13 and a related press release were issued. This ruling calls attention to the fact that any interested party is entitled to file an application for the unblocking of accounts or other property on the ground that there is no blocked interest therein, and that a hearing may be had upon

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such application. Messrs. DuBois and Sherbondy handled this matter.

38. Patents (for description see February 1942 report, item 26; March 1942 report, item 53; April 1942 report, item 66). On May 8, Public Circular No. 5A was issued. This public circular announced the policy of the Treasury Department to deny licenses for filing and prosecution of patents in enemy territory and payment of any fees in connection with such patents, and similarly to deny licenses for the filing and prosecution of patents in the United States by enemy nationals, except in cases in which prior approval has been obtained from the Alien Property Custodian. This circular was cleared in advance with the Alien Property Custodian and the Patent Office, and also discussed with representatives of the British. The British have adopted a similar policy as have also the Canadians and other dominions of the British Empire. Messrs. Luxford, Aarons and Murphy worked on this.

A member of this office, Mr. Kehl, attended conferences and worked with representatives of the Alien Property Custodian and of the Anti-Trust Division

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of the Department of Justice on a program for handling applications concerning assignment of United States patents and patent applications held by blocked nationals.

39. Insurance Problems (for description see March 1942 report, item 54). Instructions were drafted prohibiting American insurance companies from granting reinsurance to local Latin American insurance companies which do business with Proclaimed List Nationals or Axis insurance companies. In that connection a study was made of reports from United States Missions in South America dealing with the feasibility of putting such a program into effect, and a conference held with British representatives on the policy to be adopted with respect to payment of life insurance premiums of enemy nationals. Mr. Kehl handled this problem.

40. Proposed Documents (for description see April 1942 report, item 58(b)). This office is presently engaged in work on a public document relating to the effect of freezing control as a legal defense. This problem has arisen in the case of Brown v. Morgan, and particular emphasis has been placed upon the necessity of relying on the prohibitions contained in the Order

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or of first applying for a Treasury Department license. Consideration has been given to the legal effect of the prohibitions contained in the Order with a view toward issuing a document on this subject by Messrs. Luxford, Golding and Zarky.

With the issuance of General Ruling No. 11, the question of sending various types of notices to enemy areas, as well as to blocked areas, has assumed importance. There are two major classes of notices involved, i.e., corporate meeting and indenture notices and notices incident to legal or court proceedings. We are canvassing the possibility of having corporations which feel they must in some manner comply with statutory provisions relating to the sending of notices of meetings, etc. transmit such notices to special censorship station or the like where they may be given appropriate attention. Likewise, consideration is being given to the issuance of a general license permitting the mailing of notices of proxy, etc. to persons in blocked, non-enemy territory. Messrs. Luxford, Murphy, Daum and Zarky are working on this matter.

41. Hawaiian "Scorched Earth" Program, (For description see February 1942 report, item 30; March 1942 report, item 46; April 1942 report, item 62). The plan

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for the marking of currency and securities in Hawaii, described in previous reports, has been presented to other interested government agencies, i.e., War, Navy, and Interior Departments, and its broad outlines telegraphed to General Emmons in Hawaii. This matter is now awaiting word from Hawaii.

42. Fugitive Funds. The Foreign Property Census reports were set up to reveal the amount of assets in this country on two dates - June 1, 1940 and June 14, 1941, and a third date, July 26, 1941, in the case of China and Japan. After filing, a study was made of these reports and cases selected in which a discrepancy in the assets reported on each date was noted. A program is presently under way pursuant to which questionnaires will be sent to persons holding property which has thus been depleted. Complementing this is a procedure designed to furnish an explanation for increases in the various property holdings of neutral countries. This is a further step in our program to ferret out foreign assets, and to determine the existence of persons who may be cloaks for Axis nationals. Messrs. Luxford, Murphy, and Arnold are working on this.

43. Census Reports (for description see January 1942 report, item 45; February 1942 report, item 39;

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March 1942 report, item 49). A memorandum was prepared on the uses of Form TFR-300, tracing its history and development with suggestions for future use. Particular analysis was given to the tracing of declines and increases in bank accounts and to the control of American corporations by foreign stockholders. Messrs. Reeves and Arnold prepared this paper.

Other problems of property reports are being studied with members of Mr. Pehle's staff in connection with interned aliens, persons blocked, ad hoc, persons who seek to qualify as generally licensed nationals under General License No. 42, and American-owned property held abroad. Messrs. Reeves and Arnold are making this study.

44. Admiralty Problems. Conferences were held with representatives of the Maritime Commission and Department of Justice concerning admiralty problems relating to foreign ships libeled within the jurisdiction of the United States, with particular reference to the Estonian steamship HARJURAND. Mr. Reeves attended the conferences.

45. Foreign Funds Control Planning Committee. This Committee was designed as a liaison unit, composed

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of representatives of Legal, Monetary Research, and the Administrative staffs. Its purpose is to study various significant problems which have arisen in connection with the administration of Foreign Funds Control, and to work out programs designed to meet them. Thus, for example, the Committee initiated the "Fugitive Funds" program, a program designed to promote a uniform ad hoc procedure, programs pursuant to which the banks will police or monitor various accounts which are questionable, a program for obtaining reports from interned aliens, etc. Regular meetings are held, and plans formulated by sub-committee are presented to the Committee for consideration. Messrs. Luxford and Sherbondy worked on this matter.

46. Alien Property Custodian (for description see April 1942 report, item 57). Work has continued in connection with the revision of the Executive Order setting up the Office of the Alien Property Custodian. Further conferences have been held and negotiations pursued with the intention of arriving at an agreeable compromise. Since direct negotiations "bogged down" the matter was presented to the President and is now being studied at the White House. This

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office prepared several memoranda, drafts of orders and participated in the negotiations. Messrs. Luxford and DuBois are working on this.

47. Foreign Ownership of American Corporations.

Pursuant to a request embodied in a memorandum from the President to the Secretary, this office is preparing to study the methods by which foreign ownership in American corporations might be curtailed or regulated. It is felt that ample authority exists under the present statute to meet this situation, and steps have already been taken in this direction. Mr. Luxford is making this study.

48. Military Occupation Problem. As the possibility of this country's assuming temporary occupation of various parts of the world, Martinique, etc., increased, this office cooperated in a preliminary study of various financial problems which might arise. No further action has been taken, however, since the Secretary felt that it was a State Department matter.

Moreover, this office participated in the editing of a document written by Mr. Feilchenfeld, which deals with certain problems of military occupation. This book was edited in order to make it available to

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interested governmental agencies. Mr. Luxford, Mr. Brenner, Miss Klein and Miss Goode worked on this.

49. Censorship (for description see March 1942 report, item 48; April 1942 report, item 64). The close cooperation which has existed between the Office of Censorship and this office has been exemplified during the month of May by the issuance of further documents designed to meet certain problems which have arisen. For instance, representatives of this Department, acting as consultants at the District Postal Censorship stations, have raised certain problems of administration and policy which have been adjusted on the basis of documents issued either by Censorship or Foreign Funds Control, or both. A confidential circular has been released to the Federal Reserve Banks making uniform the program of licensing communications to enemy nationals. Likewise, the Censorship has issued instructions relating to the treatment of Treasury Department licenses which may be issued. Messrs. Murphy and Rains worked on this.

50. General License No. 1. This license, which permits payments into blocked accounts, has been receiving careful scrutiny by the Federal Reserve Banks

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and the Foreign Exchange Committee. On the basis of a memorandum submitted to this Department, this Office has given study to the issuance of clarifying interpretations and the possibility of amending the license to meet certain of the problems which have arisen. Messrs. Luxford, Golding and Daum handled this matter.

51. Directive Licenses. Active steps were taken this month to perfect the system of directive licenses designed to meet the problem of congestion in warehouses, docks and other transportation facilities caused by merchandise destined to foreign countries but which could not be shipped because of the outbreak of war. We collaborated with Mr. Pehle's staff in preparing Confidential Circular No. 146, which advises the Federal Reserve Banks of the nature of this program and prescribes a form of directive license which contains such terms and conditions as were deemed necessary in order to provide legal safeguards. This office also participated in considering each case in which directive licenses have been issued. A memorandum was also prepared on the constitutional aspects of directive licensing. In addition, we suggested to the Office of Price Administration, the Board of Economic Warfare, the Army, and the Office of Defense Transportation that

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they write letters to the Treasury Department outlining the necessity of a program of this nature. Satisfactory letters have thus far been received from Office of Price Administration, the Army, and Office of Defense Transportation. Messrs. Aarons, Cook, Edelman and Luxford worked on this.

52. Investigation of West Coast Business Enterprises. A member of this staff and members of the administrative staff have been making a survey of west coast business enterprises which are under Treasury supervision or in liquidation. Mr. Edelman is working on this.

53. Interpretations - Legal Review. Correspondence was handled which involved questions of interpretation of the Executive Order, Regulations, rulings, and licenses. Miss Hodel, Miss Klein, Miss Goode and Mr. Brenner worked on these matters.

Examination was made of applications for licenses involving litigation, including the preparation of rulings on the legal sufficiency of documents submitted and of memoranda of recommendations. Messrs. Reeves and Wolf made these examinations.

54. Latin America (for description see January 1942 report, item 37; February 1942 report, item 55; March 1942 report, item 61; April 1942 report, item 74).

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(a) Argentina. A study was made and a memorandum prepared showing that Argentina is being actively used by the enemy to undermine our program of economic warfare. On the basis of this study, it was suggested that the freezing control Order be extended to cover the assets and transactions of Argentina and her nationals. This freezing proposal was discussed with representatives of the Board of Economic Warfare and the State Department and was rejected in view of the position of the State Department. Messrs. DuBois and Rains worked on this.

A second program has been receiving consideration and various steps proposed which would meet this situation within the limits of the existing controls. A special memorandum, covering this alternative program, has been prepared and is now under discussion. Messrs. Luxford and DuBois worked on this program.

(b) Program for Sending Men to Latin America.

A program for sending men to Latin America was discussed with the State Department and the Board of Economic Warfare. As a result, State Department is sending out a number of representatives to the various Latin American countries to act as advisors to the

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Missions and to the local governments in an effort to obtain the cooperation of the local governments in setting up and effectively administering local freezing controls, etc. These representatives are to attend training schools conducted by the Foreign Funds Control, State Department and the Board of Economic Warfare prior to their departure. Two weeks of this training period will be devoted to attending a freezing control school conducted by Foreign Funds Control and starting on June 3. This office has done considerable work in preparing for the conduct of this school, including the preparation of a dossier of documents, speeches, etc., designed to explain our freezing control program in this country and to explain the steps which we have taken in the field of economic warfare in Latin America. Messrs. DuBois, Murphy and Rains worked on this.

In connection with this program for sending men to Latin America, a central committee has been set up with its offices in the State Department, composed of representatives of the State Department, Treasury and Board of Economic Warfare to be charged with the responsibility of working on all problems arising in connection with our Proclaimed List program

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in Latin America and arising in connection with the freezing control measures adopted or to be adopted by the Latin American countries. Representatives of these Departments sitting on the committee will work in close contact with our Missions and with the men to be sent to the field. Important questions coming before this committee will, of course, be cleared by the representatives on the committee with their respective Departments. Messrs. DuBois and Mann are working on this.

(c) Latin American Freezing Control Conference.

This office is doing considerable work in preparation for the coming conference on June 30 of the freezing control representatives of all of the American Republics. This conference was convoked by Resolution of the Inter-American Financial and Economic Advisory Committee pursuant to Resolution VI adopted at the Rio Conference. We will attempt at this conference not only to give the representatives of the various countries a full picture of what we are doing in this country in an effort to get them to take similar steps, but we will also attempt to get appropriate resolutions passed at the conference

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which will serve not only as a basis for urging the Latin American countries to take certain steps, but also as a springboard which will enable us to take certain steps in the field of economic warfare vis-a-vis Latin America. Mr. DuBois is working on this matter.

55. Foreign Decrees. A study was made by Mr. DuBois concerning what steps should be taken by this Government to implement the foreign decrees of the recognized governments in exile of the Netherlands, Belgium and Norway. This matter has been discussed with representatives of State Department and the Alien Property Custodian.

56. American Firms in Neutral Territory Trading with Enemy Territory. (For description see April 1942 report, item 75). A study is being made as to what standard of conduct this Government should lay down with respect to the question of subsidiaries and affiliates of American firms in neutral European countries trading with enemy territory. This matter has been the subject of discussion with representatives of the State Department and the Board of Economic Warfare. Mr. DuBois is handling this matter.

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57. Certifications pursuant to Section 25(b) of the Federal Reserve Act, as Amended (for description see January 1942 report, item 47; February 1942 report, item 51; March 1942 report, item 66; April report, item 77). The appropriate documents were prepared in connection with the issuance of licenses and certifications, relating to the use of certain assets of friendly blocked governments and their central banks by the recognized representatives of such governments. Mr. DuBois handled this.

58. Seditious and Axis Propaganda Newspapers and Other Publications. The question of seditious and Axis propaganda publications is being handled by a subcommittee of the Censorship Policy Board. This subcommittee is composed of representatives from the Post Office Department, Department of Justice, War Department, and the Office of Facts and Figures. During the month of May a procedure was developed whereby the Treasury Department under the powers of the Executive Order will assist in this work. In instances where the assistance of Treasury is desired, the Department of Justice will submit the facts to Treasury. If Treasury finds on the basis of the facts submitted that the particular concern comes within the

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Executive Order, the accounts of the particular concern will be blocked and an investigation will be conducted. In some instances it may be found that there is reasonable cause to believe that particular concerns are acting on behalf of a foreign government as a result of the material that has been published even though there is no financial interest or control.

The investigations will be carried out in close cooperation with the Justice Department and with the F.B.I. In general it will be attempted during the course of such investigations to ascertain the connections with other seditious or Axis propaganda publications or with other Axis organizations, the sources of material published, the sources of funds, the history of employees and contributors, and the possibility of any sabotage or espionage activities. During the course of an investigation, however, no action will be taken to interfere with the particular newspaper or other publication.

When an investigation has been concluded, the facts that have been obtained will be submitted to the Department of Justice. In many instances Treasury will undoubtedly be requested to leave the accounts of

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particular concerns blocked and in some instances, where it is determined to allow a publication to continue, to keep Treasury representatives on the premises. Mr. Sherbondy and Mr. Clay are working on this matter.

59. Silver (for description see February 1942 report, item 57; March 1942 report, item 70; April 1942 report, item 78). We participated in the hearings before the Senate Silver Committee on the proposal for the use of silver certificate silver for industrial purposes. In accordance with the agreement reached at the Committee hearings a bill was prepared authorizing the leasing or lending of silver held as security for silver certificates, the suspension of redemption of silver certificates in standard silver dollars, and the melting of standard silver dollars. This bill was prepared at the request of the Special Silver Committee of the Senate and was presented to that committee. Miss Hodel and Mr. Brenner worked on this.

There was executed during this month the contract prepared in this office for the leasing by the Treasury Department of the free silver to the Defense Plant Corporation. The Reconstruction Finance Corporation

guaranteed the obligations of the Defense Plant Corporation. We also prepared a report to Congress pursuant to the provisions of U.S.C. title 40, sec. 303a, on the contract between the Treasury and the Defense Plant Corporation leasing "free silver". Miss Hodel, Mr. Brenner, and Mr. DuBois worked on this matter.

This office cooperated with the Opinion Section in the preparation of an opinion relative to the Government's authority to lease security silver bullion to war production plants and its authority to sell "free silver". Miss Hodel and Mr. Brenner of this office worked on the opinion.

60. Spanish Silver Cases (for description see April 1942 report, item 79). In cooperation with the Bureau of Accounts, this office worked out a method for paying the fee of Henry L. Stimson for services rendered in these cases. This was done after the Department received proper certification from the Attorney General pursuant to R.S. 365. Miss Hodel and Mr. Brenner handled this problem.

61. Philippine Gold. This office cooperated with Mr. Tietjen's office in working out some of the problems arising in connection with the Philippine gold brought to the United States by Commissioner Sayre.

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Mr. Aarons and Miss Hodel worked on this.

62. Stabilization Agreements. A memorandum was written by Miss Goode, taking the view that stabilization agreements with foreign countries are not required to be published under the provisions of the Act of June 12, 1895, as amended. (U.S.C., title 1, sec. 30).

63. China (for description see April 1942 report, item 82). A study is being made of methods whereby the United States may secure bonds sold by the Chinese Government to nationals of China. The proposal would be a significant aspect of the financing of the Chinese war effort. Mr. Daum is making this study.

64. Iceland Agreement. The \$2,000,000 stabilization agreement with Iceland, in the drafting and negotiating of which this office participated, was signed by the Secretary and Thor Thors, the Iceland Minister on behalf of Iceland and the Iceland Central Bank.

65. Bolivian Agreement. We participated in the drafting and negotiating of the stabilization agreement with Bolivia and the Central Bank, copy of which draft agreement was delivered to the Bolivian Ambassador for consideration by his Government.

66. World Stabilization Fund and World Bank. This office participated in discussions with Treasury

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people and representatives from other departments on Harry White's plan for a world bank and world stabilization fund and proposal for a conference of representatives of the United Nations.

67. Federal Reserve Notes and Reduction of Coinage and Currency. This office worked with D. W. Bell's office and the Federal Reserve Board on a program for the issuance of present stocks of Federal Reserve gold clause bank notes and also for a program of inducing the public to reduce the amount of coinage and currency they carried around in pockets, keep in dressing tables, etc.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 16 1947

TO Secretary Morgenthau
FROM Mr. Foley

For your information, there is attached a copy of the summary and conclusions of an investigation of the national defense program made by the House Committee on Military Affairs. This general report presents an outline of the committee's activities, under H. Res. 162, 77th Congress, during the first year of its existence.

Some of the items which should be of particular interest are marked in red.

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Attachment

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

INTERIM GENERAL REPORT

OF THE

COMMITTEE ON MILITARY AFFAIRS HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

PURSUANT TO

H. Res. 162

(77th Congress)

A RESOLUTION AUTHORIZING THE COMMITTEE ON
MILITARY AFFAIRS AND THE COMMITTEE ON
NAVAL AFFAIRS TO STUDY THE PROGRESS
OF THE NATIONAL DEFENSE PROGRAM



See pages 7, 11, 15, 22, 23, 66 to 75, 198,
201, 204, 213, 222, 249, 291.

JUNE 23, 1942.—Ordered to be printed, with illustrations

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

GUTHRIE AND THE DOLLAR-A-YEAR MEN

When the Office of Production Management was created in January 1941, industry was called upon to lend some of its most capable and trusted executives to assist without compensation in the administration of the various phases of the national defense program. Industry's response has been a generous one and the men whom it has loaned are donating their services at the present time in various official capacities in the War Production Board and other Government agencies directly concerned with the war effort. These executives usually obtain leave from the industry with which they were associated and still retain their business and financial connections. They have become known "unaffectionately" as dollar-a-year men and have constantly been the target of much criticism which upon investigation has proved for the most part to be without foundation.

At various hearings which this committee has held in connection with the national defense program and the war effort, some of the most satisfactory information has been secured from the dollar-a-year men who have on many occasions indicated a splendid grasp of the over-all picture and problems with which the Nation is confronted today. The committee has found in its investigations of charges affecting dollar-a-year men that in by far the greater majority of cases their loyalty to Government interests has remained unaffected and the services rendered to date by the dollar-a-year men have been extremely useful and in many cases indispensable to the conduct of the war program. The committee does not wish to convey an impression that it is giving a clean bill of health to each and every dollar-a-year man who is serving the Government in the present emergency and there have been some few instances in the past where the actions and decisions of the dollar-a-year men have given rise to the suspicion that they might have been prejudiced by selfish interests. Fortunately, however, as far as the progress of our war effort is concerned, the committee has found in cases addressed to its attention that this is the exception rather than the rule.

In March 1942 the committee held a series of hearings regarding the charges made by Robert R. Guthrie, a dollar-a-year man and chief of the Textile, Clothing, and Leather Goods Branch of the War Production Board, that there was a lack of cooperation, insubordination, and unwillingness on the part of some dollar-a-year men in the War Production Board to divorce their private interest from the public welfare. Several high officials of the War Production Board, as well as the dollar-a-year men named by Guthrie, were heard by the committee. No attempt was made to minimize any of the charges made by Guthrie and investigation of the charges and countercharges made during the course of the testimony was complete and thorough. The evidence established that there was a sharp and divided conflict of opinion between Guthrie and the dollar-a-year men named by him but there was lack of proof that this was significant of anything other

than strong convictions on the part of those whose duty it was to offer technical advice, together with a lack of proof that they intend to serve any interest other than that of the Government. The committee, however, found evidence of confusion, red tape, and lack of a clearly defined authority who could make and enforce decisions in the textile and related branches of the War Production Board. It also found evidence of a definite failure on the part of Guthrie's subordinates in the Textile Branch to cooperate with him and his aides in the problems confronting the Branch. There was no question with respect to the sincerity of Guthrie and his aides as far as the immediate curtailment of civilian production and conversion of industrial production was concerned, regardless of the collateral circumstances, and while the committee was sympathetic with the position taken by Guthrie in this respect it nevertheless felt that the question of collateral consequences surrounding conversion and conservation were for the most part disregarded by Guthrie.

The committee does not feel that it is possible to depend solely upon Government career men and college professors without practical experience in industry at so serious a time as this without the assistance of those experienced in the world of business and without the specialized knowledge of executives and technicians of a high caliber. Constant sniping at the dollar-a-year men in the form of innuendoes and unsupported charges will certainly not contribute to the morale of those men who have made personal sacrifices to assist the administration in the prosecution of the war effort and will most certainly cause the general public, bewildered enough over the multitude of issues arising out of the war effort, to speculate why a successful businessman desiring to contribute to the Nation's war effort becomes an overnight threat to national security when he goes to work for the Government for a dollar a year.

RENEGOTIATION OF WAR DEPARTMENT CONTRACTS

Savings of hundreds of millions of dollars through renegotiated prices on War Department contracts will result from the inclusion of a renegotiation clause in all contracts in excess of \$100,000, now required by legislation recently recommended by the Committee on Military Affairs in connection with its investigation into excessive costs of war materials. This is assured by reductions in contract prices already effected, although only one or two branches of the War Department used the renegotiation clause prior to the enactment of the Sixth Supplemental National Defense Appropriation Act, approved April 28, 1942. The waste of public money through the lack of such safeguards in the past has been discussed elsewhere in this report.

A total of \$321,953,082.70 has been recaptured on contracts aggregating \$2,206,346,878.73, based on incomplete reports received by the committee from various branches of the War Department covering voluntary price reductions and adjustments effected during the short period that the renegotiation clause has been required. The committee's analysis of the dollar results shows that the reductions in contract prices average 16% percent of the original contracts with the savings on some contracts soaring as high as 25 percent.

TOTAL SAVING EQUALS COST OF 6,600 TANKS

More than 6,600 tanks at \$50,000 each could be purchased with the money saved on the original contract prices in the committee's preliminary tabulation, showing the important effect of better and closer bargaining on the part of the War Department.

While two or three of the War Department branches reported the use of a renegotiation clause or some method providing for contract price reductions prior to enactment of the new law, the committee was prompted to conclude that actual renegotiations were instituted infrequently.

In the Army Air Forces alone savings of \$242,954,739 in contract prices for aircraft have been made on contracts since the first of this year. With those original contracts totaling \$1,750,355,578, the savings resulting from renegotiation of contracts in accordance with the new law total \$39,546,191. Voluntary price reduction, a system employed by the Air Forces for several years, accounted for \$203,408,548, the balance of this initial saving of money ascertained by the committee.

SAVINGS EQUAL COST OF 1,500 BOMBERS

The \$242,954,739 saved on original contract prices by the Army Air Forces equal the cost of more than 1,500 light bombers at \$160,000 each.

The compilation submitted by the Army Air Forces was dated May 19, 1942, and an accompanying memorandum reported to the committee that since April 28, 1942, the effective date of the mandatory provision, approximately 300 contracts containing the present price renegotiation clause have been renegotiated or are awaiting signature. It is shown that reductions range from \$9,000 on a contract price of \$101,404 to \$42,000,000 on an original contract calling for \$210,923,021.

The contracts included in the compilation of the Air Forces are those that contain clauses providing for renegotiation of price in fixed price contracts "after certain quantities had been delivered or upon the exercise by the Government of its option for additional quantities and those cost-plus-a-fixed-fee contracts which provided for a switch to a fixed price contract after certain designated quantities had been delivered," according to the explanatory memorandum.

The Ordnance Department reported "savings to the Government" of \$46,132,239.70 on contracts totaling \$259,220,334.73 renegotiated as of May 12, 1942. These dollar results of renegotiated contracts for tanks and combat vehicles, artillery, ammunition, and small arms are reported on the basis of the "undelivered balance."

Three operating divisions of the Ordnance Department have renegotiated contracts, the results being reported as follows:

1. Tank and Combat Vehicle Division.

Continental Motors Co. had contracts with the Ordnance Department on which there was an undelivered balance of \$48,202,821.43 at the time of renegotiation. The savings which resulted to the Government through renegotiation amounted to \$11,993,082.71. At the time of this renegotiation, the Continental Motors Co. also had contracts with certain prime contractors manufacturing tanks on a cost-plus-fixed-fee basis. The savings resulting from the reduction in price of Continental engines sold to these prime contractors were reflected in a lower cost of tanks to the Government. The undelivered balances and savings on these contracts are:

Contractor	Undelivered balance	Savings
International Harvester	\$17,883,680	\$4,405,920.00
American Locomotive	11,680,392	2,922,348.00
Pacific Car & Foundry Co.	8,285,576	2,066,394.00
Lima Locomotive	5,775,528	1,445,882.00
Pressed Steel Car Co.	11,680,392	2,922,348.00
American Car & Foundry Co.	36,136,152	9,018,296.40
	91,539,720	22,809,138.40

The Eclipse Machine Division of Bendix Aviation Corporation had contracts with the Ordnance Department showing the total undelivered balance of \$196,664. Contracts were renegotiated with a saving to the Government of \$14,799.36.

The Massey-Harris Co. has a cost-plus-a-fixed-fee contract on which the fixed fee was originally \$1,600,000. Through renegotiations \$287,500 was saved by the Government.

Westinghouse Electric & Manufacturing Co. had contracts on which the undelivered balances amounted to \$7,750,725.23. By

renegotiation savings to the Government of \$1,943,461.23 were effected.

Mack Manufacturing Co. had contracts on which there was an undelivered balance of \$9,040,416. By renegotiation savings to the Government of \$717,608 were effected.

2. Artillery Division.

The Byron-Jackson Co. had three contracts amounting to a total of \$3,999,698.64. Through renegotiation savings to the Government of \$1,504,189.79 were effected.

3. Small Arms Division.

Buffalo Arms Corporation had contracts which amounted to \$29,126,199.43. By renegotiating savings to the Government of \$775,455.21 were effected.

Remington Arms Co. has a contract amounting to \$67,764,090, on which savings amounting to \$6,026,985 were effected by renegotiation.

575,000 GUNS EQUIVALENT TO SAVINGS

The total of \$46,132,239.70 saved on the undelivered balances or original contract prices by the Ordnance Department equals the cost of more than 575,000 Garand rifles at \$80 each.

The Corps of Engineers reported that the renegotiation clause was first inserted into contracts about April 15, 1942, just prior to the approval of the mandatory provision. Its report stated that no contracts have been renegotiated as yet "but it is planned to list all contracts of considerable money value with a view of selecting those which seem to be either excessive in price or involve the manufacture of some new item on which previous accurate price data are not available." Contracting officers of the Corps of Engineers have been instructed "to insert a renegotiation clause in all future cost-plus-a-fixed-fee and lump-sum contracts, and to report all cases to this office in which there appears to have been or will be realized an excessive profit," according to the report, dated May 18, 1942.

That fundamental change was patterned on December 16, 1941, when the Construction Division of the Quartermaster Corps was transferred to the Corps of Engineers. Accomplished by special legislation sponsored by the committee, it was the forerunner of the numerous improvements in construction procedure and contractual policy made by the War Department in response to the committee's recommendations.

The Signal Corps traced dollar savings aggregating \$42,365,104 to renegotiation of contracts originally calling for \$196,770,966. It explained, however, that due to the method employed in the adjustment of prices on old contracts at the time of fixing prices on repeat orders and the fact that no records have been kept in most instances of the dollar amount of such adjustments it is impossible to give the total dollar results.

The renegotiation clause was first used in a Signal Corps contract on April 2, 1942. The report of the Signal Corps gave two principal reasons for not using renegotiation clauses hitherto. They are:

1. The Signal Corps dealt repeatedly with the same concerns. Adjustments on one contract, in the event of excessive profits, would

be made in fixing the price of a repeat order. This procedure involved a minimum of paper work. Now, however, that the Signal Corps is dealing with an increasingly large number of suppliers, not all of whom will receive repeat orders, renegotiation clauses will be helpful.

2. Until a few months ago, most Signal Corps procurements were on the basis of competition. Even where contracts were let without competition, prices were generally obtained from other sources for purposes of comparison.

The Services of Supply reported that up to the present there has been no renegotiation of contracts by the Operating Division. A renegotiation clause was first used by the Motor Transport Service about April 1, 1942. Such clauses were not used by any other sections of this office, it was reported, until approximately May 1, 1942, after which date all contracts in excess of \$100,000 have included a renegotiation clause in accordance with title IV of the Sixth Supplemental National Defense Appropriation Act, 1942. Approximately 100 to 125 contracts of the Quartermaster Corps have contained a renegotiation clause up to the present time.

The Chemical Warfare Service also reported that no renegotiations having been carried out to date under any contract containing a renegotiation clause. This service first used the renegotiation clause in contracts on May 2, 1942. It reported that the procedure for renegotiations under contracts is to require the contractor to submit written notice of renegotiation after the manufacture of part of the contract and to submit detailed figures for each item of expense.

The Office of the Surgeon General reported actual dollar results realized to date have been \$1,200 but it advised the committee that several large contracts for medical supplies and equipment are now under price renegotiation which is expected to result in savings of approximately \$500,000. The Surgeon General said 38 contracts have been negotiated since April 28, 1942, that provide for price renegotiation.

The committee is awaiting reports from other branches of the War Department, including the Quartermaster General and the Transportation Service. As the committee pursues this very important phase of its investigation, interim reports will be submitted to the House of Representatives with a view to detailing dollar savings accomplished through the renegotiation clause as a safeguard in War Department contracts in excess of \$100,000.

LAND-GRANT RATES

In conformity with the policy decided upon more than 90 years ago when the westward trek was beginning, railroads in exchange for land grants were required to handle all Government property and troops at 50 percent of the regular charge. In the final analysis, the roads acquired some 130,000,000 acres valued originally at 97 cents an acre and in return built approximately 21,500 miles of track.

Eventually the railroads sought to be relieved of the low rates arguing that they long since had paid the full value of the land. Shippers doing business with the Government also complained contending that competitors served by land-grant railroads could undercut their prices because of the low freight rates. The Transportation Act of 1940, passed by the Congress, abolished the land-grant rates on Government civilian supplies and provided they should apply only to materials destined for the armed forces. The question of the application of land-grant rates to contractors supplying defense contracts and military needs was brought into sharp relief by the committee's investigation surrounding the delays in connection with the construction of an Army airport at Eglin Field, Fla.

The Eglin Field project concerning which a special committee of the Military Affairs Committee under the direction of Hon. Dow Harter of Ohio held lengthy hearings, is a Florida W. P. A. project sponsored by the War Department and the funds used were from an allotment of \$25,000,000 made by the President for use in designated national defense projects. Invitations to bid were issued for the supplying of various quantities of asphalt to be used in the paving of runways at Eglin Field; Allied Materials, Inc., of Atlanta, Ga., and the Pan American Petroleum Corporation, of Tallahassee, Fla., were the low bidders. The award for the asphalt would have been made to the Pan American Petroleum Corporation, which apparently was the low bidder, for delivery by barge except for the contention made by the Allied Materials, Inc., that they should receive the benefit of land-grant freight rates on their bid to deliver the asphalt by rail. An application was made to the Secretary of War for a ruling regarding land-grant freight rates and on April 8, 1941, the Secretary of War ruled that the asphalt for Eglin Field, Fla., was military material moving for military purposes, and that land-grant freight rates were applicable. The Allied Materials, Inc., as a result of the ruling was given the award for the asphalt runways at Eglin Field and a storm of controversy arose over the entire question of land-grant freight rates.

The committee conducted its investigation into the over-all picture surrounding land-grant freight rates and found that up to the initiation of this inquiry land-grant rates had not been used by the Government on cost-plus-a-fixed-fee contracts, and figures developed by the committee indicated a loss to the Government of approximately \$7,500,000 because of this fact. Policies and procedures were at once developed and as a result of the committee's action full advantage of the reduced rates has since been taken by the Government.

The committee's conclusions concerning the testimony heard by it on the subject of strategic and critical materials were briefly set forth in the Interim Report dated July 21, 1941, as follows:

(1) *Failure on the part of Congress, the administration, and the public to initiate a stock-pile program at an earlier date.*

For several years only a minority of Government officials, technical organizations, and far-sighted Members of Congress have had sufficient vision to foresee the present situation in respect to raw materials. Only through persistent effort was this minority successful in helping to enact legislation which we now have in Public 117 and Public 604.

Emphasis over the past few years has been made on social reform rather than national security. As a nation we seem to have forgotten that without national security social reform might well prove meaningless.

It is quite obvious that the mind of the administration, Congress, and the Nation was primarily geared to matters pertaining to the struggle with the depression. Therefore, the pleas and programs of those who saw the gathering storm and the necessity for a rearmament plan went unheeded. When it became possible to get this program under way, its urgency was then so imperative that it was crowded upon the Army and Navy and those departments of Government charged with the synchronization of our industrial capacity with our rearmament program, so rapidly that it was impossible for them to absorb it efficiently. It is obvious that neither Army and Navy nor the Office of Production Management could estimate their requirements, especially of aluminum, until they were aware of the number, design, and size of planes to be constructed.

Even after the enactment of legislation the Congress made but a feeble protest against the parsimony of the Budget Bureau in allowing but an initial appropriation of \$10,000,000.

Consider this figure in the line of present estimates which run into the billions.

(2) *Failure to entrust to a responsible head the full authority to carry out the will of Congress in the legislation enacted.*

It was painfully apparent throughout the testimony given before this committee that a lack of coordination and absence of a responsible head with authority and power to fix responsibility in this as well as in other matters has been largely responsible for the deficiencies we now are experiencing all along the line. The administration has been too prone, when difficult problems arose, to easily dispose of them by creating another board, only to add to the confusion of the assortment of agencies we now have. We are now plagued with and will continue, evidently, to be harassed because of the absence of a coherent organization.

We are overblessed with boards and committees and with a legion of liaison officers feeling the necessity for consulting first with this or that agency. All of this has resulted in a deadly consuming of time and in the end we still have a divided authority.

(3) *Failure of a sense of urgency on the part of officials of purchasing organizations.*

In spite of our supposed ingenuity as traders, we have persisted in using outmoded methods of purchasing while the Axis Powers were adopting a realistic approach.

In the case of the Procurement Division of the Treasury, it might be stated this agency is hampered for the following reasons:

1. Statutory restrictions placed upon it by Congress itself.
2. Failure of prompt appropriations.
3. Too rigid specifications presented to it by various Government organizations.
4. Delays in requests for purchases by various advisory agencies.

The result of all this has been that as of June 14, 1941, but 60 percent of the appropriations have been obligated and of the purchases made a distressing number of deliveries have yet to be made.

However, we believe that if the Procurement Division had promptly asked for alleviation of such restrictions as have been imposed upon it in the past, knowing full well the urgency of the situation, such relief, no doubt, would have been granted.

(4) *The delay in establishing conservation methods and the use of substitutes for fear of creating unemployment.*

We do not wish to single out the automotive industry as an example because we realize fully its vital part in our industrial and civil life, but this industry was too long allowed to consume sorely needed defense materials in this first year of our defense effort. This industry has had a decided impetus during 1940-41 and has used raw material in a quantity exceeded only by the boom year of 1929. Since the needs of this industry are those almost identical with the furtherance of the defense program, some vision was needed by our Government officials to restrict automotive activity.

Our Government agencies are not amateurs in the methods of propaganda but they have failed in that they did not long ago begin educating the public as to the necessity for not squandering the materials used in our defense effort.

(5) *Unwarranted delays in building plants and facilities for the conversion of raw materials into finished products.*

We have long known that the present war is a total war and a war of movement rather than position. We know that this war is a deadly consumer of machine and material, and our experts in industry and government have been too complacent in allowing us to have no fear of a shortage for our wartime needs.

It should have been foreseen a long time ago that this Nation, which is wholly dependent on sources half-way around the world for crude rubber, should have made some effort to promote the synthetic-rubber industry. Only at this late date have steps been taken to improve this situation. The four plants that have been authorized to be built by Government funds and operated by private industry are pilot plants that cannot produce results in appreciable quantities for some time to come.

There has also been neglect in increasing the facilities for the making of pig iron and steel, principally because we could not or would not give definite assurance to industry as to what it might expect from a wartime expansion of its plants. The situation in regard to aluminum is more critical still. The aluminum industry relies on power—electric power. The unwillingness of some Government officials to provide hydroelectric energy from its own dams in such an emergency as exists today is at least short-sighted. Whatever may be the merits of any

EGLIN FIELD, FLORIDA

By letter dated February 25, 1941, the district engineer, Corps of Engineers, United States Army, advised a representative of the Work Projects Administration in Florida of the plans and specifications for the runways to be constructed at Eglin Field, Valparaiso, Fla., and included the following:

It is suggested that the asphalt be advertised for bids for delivery by rail, f. o. b. Crestview, Fla., and by barge at Eglin Field landing, Weekly Bayou, Fla., and an evaluation should be placed on haul to the field from both delivery points for the purpose of award.

Pursuant to this, the Work Projects Administration issued a request to the Procurement Division, Florida office, requesting the purchase of asphalt with the two alternate delivery points, but omitting any reference to an evaluation on the haul to the field. The State procurement office on March 21 issued an invitation to bid on the furnishing of 3,600,000 gallons, with alternate delivery points on barges at Eglin Field landing; in railroad cars at Crestview, Fla.; and at point of origin. Nothing was said in the invitation as to evaluation of the haul from Weekly Bayou or from Crestview, and nothing was said about whether land-grant freight rates or commercial freight rates would be used in evaluating the bids at point of origin.

The Eglin Field project is a Florida W. P. A. project, sponsored by the War Department and the funds used were from an allotment of \$25,000,000 made by the President, for use on designated national-defense projects. The question as to whether land-grant freight rates were applicable on purchases of material from this allotment for military projects had been raised by letter to the War Department dated March 18, 1941, which was the ultimate basis of a determination by the Judge Advocate General dated May 8, 1941, holding that land-grant rates were applicable in all projects sponsored by the Army and paid for out of this allotment.

When the bids were opened on March 31, it appeared that Allied Materials, Inc., was low bidder followed by Pan American Petroleum Corporation. After commercial freight rates had been computed and added to the figures in the original bid, the bid appeared as follows:

1. Allied Materials, Inc., f. o. b. Crestview, Fla.	235,080
2. Pan American Petroleum Corporation, f. o. b. Crestview, Fla.	251,640
3. Shell Oil Co., f. o. b. Crestview, Fla.	255,240
4. Pan American Petroleum Corporation, f. o. b. barge, Weekly Bayou.	250,200
5. Texas Co., f. o. b. barge, Weekly Bayou.	270,360
6. Standard Oil Co. of Louisiana, f. o. b. barge, Weekly Bayou.	290,880

Allied Materials, Inc., confined its bid to point of origin and delivery by rail at Crestview, while Pan American bid on delivery by barge at Eglin Field as well as point of origin and delivery by rail at Crestview.

Notwithstanding the fact that Allied Materials, Inc., was low bidder by the sum of \$16,560 for delivery at Crestview, Fla., and notwithstanding the fact that Allied Materials, Inc., bid was \$15,120

lower than the Pan American bid for delivery from barges, W. E. Harkness, Florida State procurement officer, advised Allied Materials, Inc., by telegram dated April 2, that Pan American was the low bidder. Mr. Harkness stated during the course of his testimony that he had made the award to Pan American because he was of the opinion that it would cost more than \$18,000 to move the asphalt from the railhead at Crestview, Fla., to Eglin Field, not including possible demurrage charges, cost of supplying tank cars, etc.

When Allied Materials, Inc., was advised of the above determination by Mr. Harkness, it entered a protest, stating that the Louisville & Nashville Railroad Co. and the regional administrator of the W. P. A. had advised them that land-grant freight rates were applicable on the movement of this material from Mount Pleasant, Tex., to Crestview, Fla., which would bring the cost of the material f. o. b. cars, Crestview, Fla., considerably lower. This protest was overruled by Mr. Harkness on April 3 on the grounds that he was under definite instructions not to use land-grant freight rates in computing costs for the purpose of making awards.

The record indicates that following the rejection of the protest by Harkness, representatives of the Allied Materials, Inc., came to Washington and approached members of the Georgia congressional delegation, including Senator George, Representatives Ramspeck and Camp. Allied Materials, Inc., reported to these Members of Congress that they were low bidders, that land-grant freight rates did apply, and that they were entitled to an award. At the request of one or more of these Members of Congress, the Administrator of the Federal Works Agency requested the Secretary of War under date of April 5, 1941, to make a determination in connection with the specific material to be used at Eglin Field, without waiting for a formal reply from the previous letter requesting a blanket determination. On April 8, 1941, the Secretary of War held that the asphalt for Eglin Field, Fla., was military material moving for military purposes and that land-grant freight rates were applicable. On April 9, the Federal Works Agency advised the Procurement Division of the determination of the Secretary of War, and invitations to bid on hauling of asphalt from Crestview and Weekly Bayou to Eglin Field were issued on April 11, with the opening set for April 16, 1941. In this connection, Senator George has requested that the following self-explanatory letter be included in the record:

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
July 16, 1941.

HOB. ANDREW J. MAY,
Chairman, Military Defense Investigating Committee,
1310 House Office Building, Washington, D. C.

DEAR CHAIRMAN MAY: In the course of the committee's inquiry into defense contracts, W. E. Harkness of the State of Florida, and other citizens of that State, have joined in stating that I intervened in behalf of the Allied Materials Co., a Georgia firm, in competition with the Pan American Petroleum Co., in the award of a contract for asphalt for Eglin Field, Fla.

I am acquainted with the Honorable Millard Caldwell, formerly a Member of the Congress from the State of Florida, one of the witnesses who appeared before your committee. I have no personal acquaintance with any other witness who has referred to me directly or indirectly before your committee. With a strange unanimity they have all agreed upon a statement, which is not in accord with the facts. For the sake of the record I herewith set forth my entire connection with the matter.

On April 3 or 4 Hon. Charles D. Redwine, a reputable citizen of Georgia, called me over long-distance telephone from Jacksonville, Fla. In substance, he advised that an official inquiry had been made of the Comptroller General's office regarding the application of land-grant rates to described property, to wit, asphalt. I stated to Mr. Redwine that I could not give him an accurate opinion unless I was in possession of all of the facts. Immediately I called the Comptroller General's office. From this office I received the following letter advice:

"Referring to our telephone conversation of today, relative to the awarding of a contract by the Procurement Division, Treasury Department, for the purchase of asphalt for use by the W. P. A. in the construction of a road to an Army base in Florida, I find that no question is pending in this office at this time relative to the matter."

Following this information, I wired the Honorable Charles Redwine the following:

"Comptroller General's Office advises your matter has not yet reached them. The rule is that military property moving for military purposes has the advantage of land-grant rates. I believe your case is within this rule, as I understand your phone statement."

Subsequently, Mr. Redwine, and others interested, called at my office in the Senate Office Building, Washington, D. C. Then in possession of the facts, I confirmed the opinion stated in my telegram quoted above. Upon the facts in the case there can be no doubt that land-grant rates applied in the matter in controversy.

The Honorable A. Sidney Camp, a Member of the Congress from Georgia, in whose district Mr. Redwine lives, called upon me and I advised him that beyond any reasonable doubt land-grant rates would apply to the shipment of asphalt to the Florida field.

In the meantime I had received telephone calls and wires from reputable citizens of Georgia requesting me to urge approval of the Pan American Petroleum Corporation bid. To these telephone calls, and wires I advised the following:

"I have made no recommendation regarding the award of contract for asphalt for Egin Field. The only question submitted to me was whether land-grant freight rates apply upon movement of asphalt. I do not know what decision has been reached."

I called upon no official of the Government regarding this matter. After Mr. Redwine's visit to me in Washington I went to my home in Georgia for a few days' vacation. I gave to the matter no further thought. While in Georgia, and on April 23, 1941, Mr. Redwine called me over long-distance telephone. He stated to me that the matter was still open and would be considered on April 24 by Mr. A. J. Walsh, of the Procurement Division, Treasury Department.

From Columbus, Ga., on April 23, I sent the following wire to Mr. Walsh:

"Let me strongly urge adjustment Allied Materials, Inc., bid on Florida base absolutely on its merits. I deplore political interference in Government contracts and will defend openly and publicly any decision you make on its merits. Understand effort being made today to upset bids heretofore submitted."

I did not retain a copy of this wire. It has been furnished to me by the Director of the Procurement Division, Treasury Department, at my request. It speaks for itself.

These are the facts in the matter so far as I am concerned and they could have been known to any of the witnesses who have appeared before your committee upon inquiry at my office.

I will thank you to incorporate this letter in the record of your hearings.

Sincerely yours,

WALTER F. GEORGE.

After tabulation of the bids for hauling from Crestview and from Weekly Bayou, the net cost to the Government delivered at the airfield, was as follows:

Allied Materials, Inc., via rail.....	\$224,853.12
Pan American Petroleum Corporation, via rail.....	274,078.09
Shell Oil Co., via rail.....	272,603.52
Pan American Petroleum Corporation, via barge.....	250,560.00
Texas Co., via barge.....	270,720.00
Standard Oil Co. of Louisiana, via barge.....	291,240.00

At this point, representatives of the Pan American Petroleum Corporation filed a protest, and Millard Caldwell, attorney for Pan

American, testified that he found it necessary to enlist the assistance of Senator Pepper of Florida, since he was of the belief that it was only because of the intervention of the members of the Georgia congressional delegation that the determination as to the applicability of land-grant freight rates had been secured. Representatives of the Procurement Division in Washington testified that because of the unusual number of Members of Congress who were interested in the outcome of the protests, it was determined to hold up the award until representatives of both Allied Materials, Inc., and Pan American Corporation had an opportunity to present their views, and on April 22 a conference was held in the office of the Director of Procurement. Senator Pepper of Florida, and Attorney Millard Caldwell, representing the Pan American Petroleum Corporation, were heard by the Director of Procurement, Clifton E. Mack, in the presence of Procurement officials, Harry B. Dycke and A. J. Walsh. According to the testimony of the various witnesses in this connection, Senator Pepper stated that, in his opinion, no award should be made and that the only fair thing to do was to reject all bids and readvertise. The reasons for his views as reflected by the testimony were substantially as follows:

1. At the time bids were requested, land-grant freight rates were an unknown factor and were not determined to be applicable until after bids were opened.

2. That it was necessary to take bids on hauling from Crestview to Egin Field to give a rounded-out figure, thereby causing unfair competition.

3. The invitation did not provide for any definite starting date or time after award for shipments to begin.

4. That the conditions of the invitation did not conform to existing Army contract, which stated that the asphalt was to be unloaded by the construction contractor from barges at Weekly Bayou.

According to the testimony of Mr. Dycke, Senator Pepper stated definitely that he would guarantee that the Government would save money by readvertising and that Pan American would quote a lower price. Mr. Dycke further testified that the fact that a higher bidder subsequently offered to reduce the price originally quoted was never a consideration in the making of an award.

On April 24, a conference was held in the Office of the Director of Procurement with representatives of Allied Materials, Inc. According to the testimony, the representatives of Allied Materials, Inc., were advised that a protest had been filed and a request made that all bids be rejected and the needs readvertised. Testimony reflects that Allied Materials, Inc., gave the following reasons, in substance, why they felt that the award should be made to them:

1. That they submitted their bid in good faith on an advertisement issued by the Procurement Division and that they were lowest bidder in any way the bids were evaluated.

2. That even if the advertisement were incomplete as to the applicable freight rates, they as bidders should not suffer by reason of failure of the contracting officer to follow the proper procedure.

3. That they were prepared to execute the contract if awarded to them and that they would deliver the quantity and qualities of asphalt called for.

4. That, as low bidder, they should be given the award and to readvertise was unfair.

On April 25, 1941, Allied Materials, Inc., was advised that it had been awarded the contract as the lowest bidder. On April 26, W. E. Harkness, State Procurement Officer, formally advised the State W. P. A. office of the award to the Allied Materials, Inc., and on the same date, Roy Schroder, State administrator, W. P. A., acknowledged receipt of the award with the statement that as soon as the desired information regarding specifications could be obtained from the Army, Allied Materials, Inc., would be advised to begin shipments. However, the record reveals that on April 25, Lieutenant Colonel Teale, district engineer, United States Army, had wired the W. P. A. that there would be no change in the specifications.

In the meantime, according to the testimony before the special committee, Allied Materials, Inc., during the period of April 25 to April 30, had made a series of requests of the various W. P. A. authorities in Florida to issue the necessary shipping instructions, advising, at the same time, that they were in a position to make the continuous and necessary shipments required under the contract. Finally, on April 30, the record reveals that officials of Allied Materials, Inc., advised Howard O. Hunter, acting commissioner W. P. A., by letter, of their several unsuccessful attempts to secure shipping instructions, stating in the letter that unless shipping instructions were issued by the following day, the entire matter would be presented to the appropriate committee of the House of Representatives. This letter was answered on the same day (April 30) by Perry A. Fellows, chief engineer, W. P. A., who wired Allied Materials, Inc., that it would be impossible to give shipping instructions since he had been advised by the W. P. A., Florida office, that it had not received purchase orders from the Procurement Division nor had it received information from Army engineers as to the specifications.

The testimony of Mr. Fellows, as well as that of other W. P. A. officials, was in some conflict with respect to the above. Mr. Fellows testified that he received the information from Roy Schroder, Florida W. P. A. administrator, who was present in his office on April 30, at the time he sent the telegram, while Mr. Schroder, on the other hand, denies that he gave the information to Fellows, testifying that Fellows received the information by telephone from the Florida W. P. A. State office. Various W. P. A. officials who testified before the special committee claim they had no knowledge of the telegram of April 25 sent by Lieutenant Colonel Teale. These same W. P. A. officials testified that the W. P. A. did not receive the purchase orders from the Procurement Division until after April 30, although these same purchase orders were dated April 25 and 28, respectively. Mr. Harkness substantiated the fact that the W. P. A. did not receive the purchase orders until after April 30, but testified that he had forwarded the purchase orders to Allied Materials, Inc., on April 25 and 28, but had withheld issuing copies of these orders to the W. P. A. until after April 30.

On April 28, 3 days after the contract award to Allied Materials, Inc., and during the period when, according to the testimony, Allied Materials, Inc., was attempting, without success, to secure shipping instructions from the W. P. A., Mr. Fellows, R. L. McDougal, assistant commissioner, W. P. A., and former W. P. A. regional director for the Southeastern States (including Georgia, Florida, and Alabama), and Mr. Schroder conferred with Senator Pepper at the latter's office in

Washington. According to the testimony of these witnesses, Senator Pepper was advised that it would be impossible to cancel the contract of Allied Materials, Inc., inasmuch as an award had already been made. However, it was pointed out during the conference that Allied Materials, Inc., might be further delayed by reason of a threatened injunction suit and that in view of the national emergency, it might be well for the Army to negotiate a contract in order that work might commence immediately. The record reveals that the afore-mentioned conference in Senator Pepper's office was a "heated one," with references made by Senator Pepper to the promotions of Mr. Schroder and Mr. McDougal and the necessity for Senate confirmation of Mr. Schroder's promotion.

On April 29, the day following the conference in the office of Senator Pepper, Mr. Fellows wrote a memorandum to the War Department stating that an injunction suit had been instituted to restrain the performance of the W. P. A. contract with Allied Materials, Inc., and suggesting that in view of the delay which would result from the filing of the injunction suit and in view of the requirements of the War Department for immediate delivery of the asphalt, it would appear to be in the best interests of the Government for the War Department to purchase immediately, under a negotiated contract, the asphalt necessary for the main field, approximately 1,800,000 gallons.

On the evening of April 30, the day following Mr. Fellows' memorandum to the War Department, telegraphic invitations to bid were sent to three companies by the War Department for the purchase of 1,800,000 gallons of asphalt for delivery by barge at Eglin Field, Fla. The bids were made returnable at 11 o'clock the following morning, May 1, 1941, at which time it was found that the Pan American Petroleum Co. of Tallahassee, Fla., was the low bidder, the only other bidder being the Standard Oil Co. of Louisiana. In the meantime, Allied Materials, Inc., had not received its invitation to bid and therefore filed an immediate protest with the War Department. It was then learned that invitation to bid for the Allied Materials, Inc., was sent by telegram to Mount Pleasant, Tex., where the refinery supplying its asphalt was located, rather than to its general offices in Atlanta. As a result of this error, Allied Materials, Inc., did not receive the invitation.

Testimony concerning the "wrong address" of Allied Materials, Inc., was in some conflict, but it was apparent that the Engineer Office had made every effort to secure the correct address, even to the extent of attempting to obtain it from the Atlanta Telephone Co. and from Dun and Bradstreet. Lieutenant Colonel Newman of the Corps of Engineers testified that the erroneous address was given by telephone either by the Florida W. P. A. or the Florida procurement office. The testimony, however, was clear in establishing the fact that the proper address of Allied Materials, Inc., was on file with the Florida State office of both the W. P. A. and the Procurement Division for some time prior to the invitation for bids under the Army contract on May 1.

Testimony developed the fact that the law firm of Caldwell, Meginniss & Parker, Tallahassee, Fla., advised the War Department and the W. P. A. by telegrams on April 28 that suit was being filed to restrain the issuance of purchase orders to Allied Materials, Inc., under its W. P. A. contract; however, the record reveals that the only

steps taken in this connection were the serving of notices of application for injunction on various State officials of the W. P. A. and Procurement Division. Attorney Millard Caldwell testified that no application, as a matter of fact, had been filed in the Federal court at any time, and, further, that he was aware at the time the notices were served that his client could not benefit by such a suit.

Harry B. Wirin, assistant general counsel, W. P. A., stated in his testimony that he had advised the W. P. A., upon receipt of the telegram of April 28 mentioned above, to withhold any action under contract with Allied Materials, Inc., until some determination had been made by a court of proper jurisdiction. Mr. Wirin testified that he did not know until he arrived in Florida for the purpose of appearing for the Government that no suit had actually been filed.

Fred T. Bridges, vice president of Allied Materials, Inc., testified that on May 2 he engaged in a series of conferences in Washington, with various W. P. A. and United States Army Engineer Corps officials, with a view to determining whether some solution might be worked out whereby Allied Materials, Inc., could receive its shipping instructions under its W. P. A. contract. According to Mr. Bridges, he was advised that if Allied Materials, Inc., withdrew its protest against the proposed award to Pan American Petroleum Corporation by the War Department of a contract for 1,800,000 gallons of asphalt, shipping instructions would be given to Allied Materials, Inc., at once. Mr. Bridges testified that he felt the only way he could obtain shipping instructions was to agree to the compromise suggested by the W. P. A. officials, with the result that he withdrew his protest against the Army award to Pan American with the understanding that Allied Materials, Inc., would secure immediate action under its W. P. A. contract.

Lt. Col. James B. Newman, United States Engineer Corps, denied in his testimony that the corps was a party to any compromise, but stated that it was imperative, in view of the long delay in securing asphalt for Eglin Field, to proceed at once with deliveries and that he was agreeable to any solution that might expedite the delivery of asphalt to Eglin Field. In this connection, Colonel Newman testified that he had several conversations with the office of Senator Pepper and admitted in substance that Senator Pepper's office had advised him that they were agreeable to the compromise and that they didn't care how much materials were brought from Allied Materials, Inc., if Pan American made delivery of 1,800,000 gallons of asphalt.

The record further indicates that on May 3 the Army award for 1,800,000 gallons of asphalt was made to the Pan American Petroleum Corporation; that Allied Materials, Inc., received shipping instructions under its W. P. A. contract; and that Attorney Caldwell advised the United States attorney at Jacksonville that he would not file the threatened injunction suit.

Mr. Bridges testified that certain conditions were part of the compromise, including the agreement that the contractor would take 100,000 gallons daily from each of the vendors, but that this agreement was not carried out so far as the Allied Materials, Inc., asphalt was concerned, with the result that Allied Materials, Inc., was put to substantial additional expense.

Mr. Bridges also testified that all forms of technicalities were invoked to the detriment of Allied Materials, Inc., after it received shipping instructions on May 3, all of which, according to Mr. Bridges, were part of a plan to embarrass and delay Allied Materials, Inc., and cause the firm to incur additional expense, by reason of its insistence that it was low bidder and entitled to original award.

The record reveals, in connection with the above, that Allied Materials, Inc., was subjected to a series of delays by reason of technical demands made upon it by Capt. Le Baron C. Colt, United States Army resident engineer, at Eglin Field. Captain Colt, on the other hand, in his testimony claimed that he was merely following the strict letter of the contract and law with respect to this entire matter. However, it was developed that the technicalities were enforced only in the case of Allied Materials, Inc., and at no time were invoked in connection with Pan American Petroleum Corporation. For example, Allied Materials, Inc., was not permitted to unload asphalt from tank cars because the chemical analysis prepared by an established and well-known private testing laboratory was not in affidavit form. Captain Colt insisted on sending samples to a laboratory of his selection at Mobile, Ala., which gave him a report that the material did not meet specifications. Further samples were then sent to a laboratory at Birmingham, Ala., which advised Captain Colt by telephone that the material did meet specifications. The Mobile laboratory later admitted that its determination that the material did not meet specifications was an "error." In connection with asphalt furnished by Pan American, Captain Colt testified that he accepted the material on the basis of a telephonic report from a Florida laboratory. He could not explain why he had not required this report to be in affidavit form. It was further brought out that he had kept carefully written notes as to the hour and minute of all negotiations or discussions affecting Allied Materials, Inc., but that he could not even remember approximate dates in connection with Pan American shipments.

During the hearings on the Eglin Field project, a controversy in connection with the purchase of asphalt for the Pensacola Municipal Airport came to the attention of the committee. The same principals were involved, and the facts appeared to be that the bid of Allied Materials, Inc., for delivery by rail of 1,024,500 gallons in tank cars at Goulding, Fla., was \$133.18 lower than the bid of Pan American Petroleum Corporation in tanks at Pensacola. Despite this fact, W. E. Harkness made the award to Pan American, subsequently giving several reasons of dubious validity, including the allegation that it was cheaper to load trucks from the Pan American tanks than it would have been to load from tank cars, and that the difference was more than enough to offset the lower price bid by Allied Materials, Inc., plus the additional cost of hauling from the Pan American tanks which were 1.6 miles farther from the field itself than from the railhead at which Allied Materials, Inc., would store the asphalt.

The record shows that on May 1, 1941, Senator Pepper called W. E. Harkness by long-distance telephone to discuss Harkness' pending promotion; that on the same evening Harkness called his superior officer, A. J. Walsh, in Washington, to discuss the promotion and also to discuss the Pensacola Municipal Airport asphalt award; that at

about 9 o'clock the following evening, May 2, Harkness mailed A. J. Walsh a memorandum recapitulating the bids and other factors involved in the Pensacola Municipal Airport award and requesting telephonic instructions; but that on the following morning, May 3, he rejected the low bid of Allied Materials, Inc., and made the award to Pan American Petroleum Corporation despite his statement to his superior officer that he would await instructions from Washington before making an award, and despite the fact that Allied Materials, Inc., had filed written protest.

FINDINGS OF THE COMMITTEE

After careful consideration of all the evidence, the special committee found that there was a delay of approximately 30 days in the construction of Eglin Field and that, coming at a time of grave national emergency when the best efforts of the entire Nation are being directed toward speed, with literally millions of dollars being spent for overtime wages and for methods of operation necessitated only by the crucial international situation, such a delay was unreasonable, unwarranted, and unjustified. It is the finding of the special committee that the delay was caused in the first instance by incomplete and inadequate specifications in the invitations to bid, and that the responsibility therefor lies with the Florida State offices of both the W. P. A. and the Procurement Division, and with the Procurement Division in Washington for failure to properly control its employees' actions.

As a result of the indefinite and incomplete specifications, and uncertainty as to the application of land-grant freight rates, each of the two parties felt it was low bidder and therefore secured the assistance of its representatives in Congress. Because of the unusual nature and number of congressional inquiries the Procurement Division, in Washington, held up the award for the purpose of hearing the protests, and it is the finding of the special committee that the delay in pursuing the investigation was unreasonable.

The special committee deplored most strongly the fact that any Members of Congress would exert sufficient influence, and that an established Government agency would be so susceptible to such influence as to cause unwarranted delay in the completion of a project so essential in the development of the national defense.

The special committee found that a portion of the delay was caused by the necessity for settlement of the land-grant freight-rate question, and that this delay could have been avoided if the Judge Advocate General had acted more promptly in making his determination based on the original request of March 18, 1941.

The final period of delay was caused by W. E. Harkness when he arbitrarily delayed the issuance of shipping instructions from April 25 to 30, and the special committee was of the belief that this delay, together with the threat of an unwarranted injunction suit by attorneys for Pan American, was part of a deliberate and successful attempt to compel the Army to make an emergency purchase under circumstances which made it practically certain that Pan American Petroleum Corporation would receive the award.

In connection with the award for the Pensacola Municipal Airport, the special committee also found that the basic cause of controversy was the failure of W. E. Harkness to advise bidders in advance of the

"contingent liabilities" which would be considered in making the award, and that the further action of Mr. Harkness in making the award to Pan American Petroleum Corporation without giving opportunity to Allied Materials, Inc., to be heard, and despite the fact that he had advised his superior officer in Washington that he would not make the award until instructions were received, was not warranted. It was apparent that Mr. Harkness had considerable personal feeling in the matter and that he was aware of the fact that Senator Pepper, who had nominated him for a better job, was desirous of having an award made to Pan American. The special committee most strongly deplored the fact that any Member of Congress would permit, even by inference, an employee of the Government to believe that his promotion to a better position was contingent upon the securing of a Government contract by a particular corporation.

There appeared to be for investigation, however, a much broader question back of all these instances of delay and indecision; that is, the extent to which any other agencies of the Government, in or out of the War Department, should be able to influence or control the needs of the Air Corps. It was apparent that in the Eglin Field case the delay would not have occurred had not the W. P. A. and the Procurement Division been involved, and a considerable amount of testimony in executive session pointed to controversy between the Air Corps and the constructing agencies within the Army as to technical needs and specifications, which at least in some instances resulted in delay longer than existed in the Eglin Field case.

(See appendix for exhibits.)

STRATEGIC AND CRITICAL MATERIALS¹

This committee's first activities concerned materials and in furtherance of these, a questionnaire was directed to those Government organizations concerned with the purchase, production, and conservation of strategic and critical materials. Hearings were held in executive session over a period from May 19 to June 5, 1941, inclusive, at which testimony was heard from officials of the organizations above mentioned.

Oral testimony covered more than 1,000 pages and replies to the questionnaires approximately a like amount. As before stated all oral testimony was given in executive session, and transcripts of this testimony were furnished only to members of the committee, the War Department, and the Office of Production Management.

The answers to the questionnaire are invariably marked "Confidential" and for that reason this report will be couched only in general terms. So much has been published in recent years on strategic and critical materials that no useful purpose would be served by repetition.

INTRODUCTORY

It is the purpose of this report to deal briefly with the present position of the United States with regard to the strategic and critical raw materials needed for national defense, with particular emphasis on the accumulation of Government stock piles of these materials.

All of the testimony given by Government experts before this committee in executive session indicates a realization of a serious situation. The present unlimited national emergency has drawn into sharp focus a picture which a handful of forward-looking Members of Congress and Government officials have endeavored to bring to a complacent public, Congress, and administration, during the past 5 years. During the years of the depression the Nation has geared its thinking mainly to domestic issues. Little attention has been paid to warnings of our foreign-service representatives and news correspondents, that in a world where brute force is now the dominant national policy, we could remain untouched in spite of our favorable geographical position and supposedly unlimited natural resources.

It is a common form of misinformation long employed by propagandists and wishful thinkers that this country lacks no vital needs that cannot be supplied within its borders. This misinformation has not only been harmful to the industrialized economic position but is a menace to the institution of an adequate program for national defense.

Obviously no nation is completely self-sufficient in raw materials. While this country is more richly endowed with wealth of minerals than most other nations, it is certainly deficient in certain materials.

It is understandable that private industry, which must have a profit to survive, should seek raw materials in foreign markets whenever both quality and price redound to its interest. It is likewise

¹ Issued as an interim report, filed July 21, 1941.

understandable that domestic producers seeking a share of the world markets should urge the granting of subsidies and tariffs to enable them to compete with low wage scales of foreign countries. In times of peace this is wholly desirable but too often extravagant claims of these producers have led Representatives in Congress from their areas to take at least a short-sighted position to the detriment of the national program.

Subsidies and tariffs to encourage production of raw materials may be feasible under certain circumstances but to date have not been wholly successful. Naturally if domestic resources of a mineral are either insufficient or nonexistent—nickel or tin—or our climate is not suitable for the growth of a specific plant—rubber, cinchona, and abaca—neither tariff nor subsidy can assure its production in commercial quantities.

Of all the factors which govern national policies there is none so important as the possession of certain raw materials, for without these no country can long sustain an armed conflict.

All previous estimates, born of the first World War experience, have of necessity been discarded in this present day of blitzkrieg and massed aerial warfare. The destruction wrought by modern mechanical monsters on land and super fortresses in the air calls for astronomical figures in acquisition of raw materials.

All the experts testifying before this committee admitted that their estimates had to be regarded as temporary and should be on a day-to-day basis and subject to change due to the new weapons constantly being introduced on the European battlefields.

It is a sad commentary on the wisdom, judgment, and initiative of the industrial and political leaders of this richest and most resourceful Nation on earth that, in the first year of her defense effort and nominally at peace, rationing of civilian supplies, priorities, price control, conservation, and substitution are found necessary.

Over and over again voices have been raised in the interest of an adequate reserve of raw materials for national defense. The records of hearings before House Military Affairs and Appropriations Committees are replete with testimony urging the necessity for such an effort. Among the individuals so testifying these names are outstanding: General Rutherford, Gen. C. T. Harris, and Major Heiss, of the Army; Captain Daubin, of the Navy; Drs. Furness, Finch, and Fieldner, of the Bureau of Mines; Dr. Feis, of the State Department; and Dr. C. K. Leith, of Mineral Policy Committee of the National Resources Board.

Realistic consideration given to this testimony by Members of Congress who held similar views belatedly resulted in the following legislation by the Congress:

I. LEGISLATION

1. *Tin Protection Act.*—This act, approved February 15, 1936, provided for the protection and preservation of domestic sources of tin and was the first move in the direction of conserving the domestic supply, although its primary purpose was more concerned with foreign economic sanctions than domestic protection. Under it, exports of tin scrap are subject to export licenses beginning in April 1936.
2. Public, 117, was approved June 7, 1939. Previous to this bill a step in this direction was made by the inclusion of an addition of

\$3,500,000 in the Navy appropriation of 1938 for an accumulation by that Department of reserve supplies of strategic and critical raw materials. Additional funds amounting to \$500,000 in each of the next 2 years, were provided in a similar manner and by early 1941 over \$4,000,000 had been expended under the Navy Department program.

Public, 117, of which Mr. Faddis, of Pennsylvania, now chairman of Special Committee No. 3, was the author, provides as follows:

To provide for the common defense by acquiring stocks of strategic and critical materials essential to the needs of industry for the manufacture of supplies for the armed forces and the civilian population in time of a national emergency, and to encourage, as far as possible, the further development of strategic and critical materials within the United States for common defense.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the natural resources of the United States in certain strategic and critical materials being deficient or insufficiently developed to supply the industrial, military, and naval needs of the country for common defense, it is the policy of Congress and the purpose and intent of this Act to provide for the acquisition of stocks of these materials and to encourage the development of mines and deposits of these materials within the United States, and thereby decrease and prevent wherever possible a dangerous and costly dependence of the United States upon foreign nations for supplies of these materials in times of national emergency.

Sec. 2. To effectuate the policy set forth in section 1 hereof the Secretary of War, the Secretary of the Navy and the Secretary of the Interior, acting jointly through the agency of the Army and Navy Munitions Board, are hereby authorized and directed to determine which materials are strategic and critical under the provisions of this Act, and to determine the quality and quantities of such materials which shall be purchased within the amount of the appropriations authorized by this Act. In determining the materials which are strategic and critical and the quality and quantities of same to be purchased, the Secretaries of State, Treasury, and Commerce shall each designate representatives to cooperate with the Secretary of War, the Secretary of the Navy, and the Secretary of the Interior in carrying out the provisions of this Act.

Sec. 3. The Secretary of War and the Secretary of the Navy, when they deem such action appropriate because the domestic production or supply of any of the above materials is insufficient to meet the industrial, military, and naval needs of this country, shall direct the Secretary of the Treasury, through the medium of the Procurement Division of his Department and from the funds authorized by the provisions of this Act, to make purchases of such materials in accordance with specifications prepared by the Procurement Division of the Treasury Department and approved by the Secretary of War and the Secretary of the Navy, and to provide for the storage and maintenance, and, where necessary to prevent deterioration, for the rotation of such materials. To accomplish such rotation the Secretary of the Treasury, with the approval of the Secretary of War and the Secretary of the Navy, is authorized to replace acquired stocks of any such material subject to deterioration by equivalent quantities of the same material in such manner as he deems will best serve the purposes of this Act. The Secretary of the Treasury is empowered to meet, out of the funds authorized in this Act, expenses necessary to accomplish such rotation. The Secretary shall include in his annual report to Congress a detailed statement of expenditures made under this section and the method of rotation employed. The materials so purchased shall be stored by the Procurement Division of the Treasury Department on military and naval reservations or in other locations approved by the Secretary of War and the Secretary of the Navy.

Sec. 4. Materials acquired under this Act, except for rotation to prevent deterioration, shall be used only upon the order of the President in time of war, or when he shall find that a national emergency exists with respect to national defense as a consequence of the threat of war.

Sec. 5. Purchases under this Act shall be made in accordance with Title III of the Act of March 3, 1933 (47 Stat. 1520), but a reasonable time (not to exceed one year) shall be allowed for production and delivery from domestic sources and in the case of any such material available in the United States, but which has not been developed commercially, the Secretary of War and the Secretary of the Navy, may, if they find that the production of such material is economically

feasible, direct the purchase of such material without requiring the vendor to give bond.

Sec. 6. For the procurement, transportation, maintenance, rotation, and storage of the materials to be acquired under this Act, there is hereby authorized to be appropriated the sum of \$100,000,000, out of any money in the Treasury not otherwise appropriated, during the fiscal years June 30, 1939, to and including June 30, 1943, to be expended under the joint direction of the Secretary of War and the Secretary of the Navy.

Sec. 7. (a) That the Secretary of the Interior, through the Director of the Bureau of Mines and the Director of the Geological Survey, is hereby authorized and directed to make scientific, technologic, and economic investigations concerning the extent and mode of occurrence, the development, mining, preparation, treatment, and utilization of ores and other mineral substances found in the United States or its territories or insular possessions, which are essential to the common defense or the industrial needs of the United States, and the quantities or grades of which are inadequate from known domestic sources, in order to determine and develop domestic sources of supply, to devise new methods for the treatment and utilization of lower grade reserves, and to develop substitutes for such essential ores and mineral products; to explore and develop, on public lands and on privately owned lands, with the consent of the owner, deposits of such minerals, including core drilling, trenching, test pitting, shaft sinking, drifting, crosscutting, sampling, and metallurgical investigations and tests as may be necessary to determine the extent and quality of such deposits, the most suitable methods of mining and beneficiating them, and the cost at which the minerals or metals may be produced.

(b) For the purposes of carrying out the provisions of this section there is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated, for each of the fiscal years ending June 30, 1940, 1941, 1942, and 1943, the sum of \$500,000, of which amount \$350,000 shall be appropriated to the Bureau of Mines and \$150,000 to the Geological Survey.

Pursuant to the above legislation there has been appropriated to continue available until expended a total of \$70,000,000 enacted as follows:

Public, 361, 76th Cong., approved Aug. 9, 1939.....	\$10,000,000
Public, 442, 78th Cong., approved Mar. 25, 1940.....	12,500,000
Public, 667, 76th Cong., approved June 25, 1940.....	47,500,000

Under Public, 361 and Public, 442, invitations to bid were prepared and forwarded to the individual and corporations who had originally requested an opportunity to bid on Government requirements of strategic and critical materials. Awards were made to the lowest bidders complying to the lowest terms and proposals. Under Public, 667, Seventy-sixth Congress, invitations to bid were prepared in the usual manner on chief commodities and the balance under consideration were negotiated frequently with the assistance of the State Department and offers received were compared with market quotations on same, where available. If not available, offers were analyzed and advice obtained from the Bureau of Mines, Office of Production Management; and before acceptance of offers they were approved by the Director of Procurement, the Coordinator of Defense Projects, and the Secretary of the Treasury.

3. *Public, 664, approved June 26, 1940.*—The increasing difficulties in obtaining raw materials from foreign sources and the actual severance of many lines of supplies and the realization by Congress that the Procurement Division was not geared in the methods necessary for prompt action in competition with Axis buyers, led to an amendment to the Reconstruction Finance Corporation Act. This amendment, known as Public, 664, and section 5 of this act provides as follows:

Sec. 5. Section 5c of the Reconstruction Finance Corporation Act, as amended (U. S. C., 1934 edition, Supp. V, title 15, sec. 606b), is hereby amended by adding at the end thereof the following new paragraphs:

The committee's chief concern in this investigation has been centered largely in inquiries as to progress under Public, Nos. 117 and 004. A questionnaire, of which mention has previously been made, developed a mass of material. A brief summary follows:

GOVERNMENT ORGANIZATIONS CONCERNED WITH THE PURCHASE, PRODUCTION, AND CONSERVATION OF STRATEGIC AND CRITICAL MATERIALS

The following Government organizations are concerned with purchase, production, and conservation of strategic materials and their pertinent functions and interrelation of functions of each are here briefly summarized:

1. *Army and Navy Munitions Board.*—Public, 117 designated the Army and Navy Munitions Board as the agency through which determination of kind, quality, and quantities of materials to be acquired and stored was to be made. On April 29, 1939, the Army and Navy Munitions Board appointed a committee designated "Specifications and Storage Committee for Strategic Materials," of two to study and submit recommendations regarding specifications for the procurement of strategic and critical materials and for the storage of the emergency stocks. The interested supply arms and services of the War Department and the interested Bureau and Offices of the Navy Department designated representatives as advisers to this committee. On June 15, 1939, the Army and Navy Munitions Board asked the Secretaries of State, Treasury, Commerce, and the Interior to designate a representative to cooperate with the Army and Navy Munitions Board in carrying out the provisions of section 2 of the act. By agreement among the Secretaries of War, Navy, and Agriculture consummated August 29, 1939, the Army and Navy Munitions Board is charged with the administration of all activities relative to inspection, acceptance, shipping, insurance, placing in storage, surveillance during storage, and rotating of stocks. Inasmuch as the major portion of our stock was to be stored at depots under control of the Quartermaster General, it was deemed advisable to have the actual administration of activities connected with the receipt, storage, rotation, and shipping performed by the Quartermaster General's office.

2. *Procurement Division of the Treasury.*—Under the act the Procurement Division of the Treasury Department was charged with the responsibility for the procurement, transportation, maintenance, rotation, and storage of the materials to be acquired under this act. To effectuate the policies as set forth therein there was established under the direct supervision of the Director of Procurement the Strategic and Critical Materials Section.

The functions of this organization are as follows: To maintain liaison between the Procurement Division and the War, Navy, and Interior Departments, and to cooperate with these Departments and representatives of the State and Commerce Departments, Maritime Commission, and Office of Production Management in determining which materials are strategic and critical. The quantity and quality of such materials to be purchased, and in arranging for transportation of the same; to prepare specifications for strategic and critical materials which are approved by the Secretary of War and the Secretary of the

Navy; to prepare invitations to bid and to make awards; to negotiate contracts with the approval of the Secretary of the Treasury without reference to section 3709 of the Revised Statutes; to arrange for the storage of strategic and critical materials on military and naval reservations or in other approved locations; to arrange for inspection of materials; to pay vendors' invoices; to maintain inventory records of the quality and quantity of strategic and critical materials stored at each base; to arrange for periodic inspections and inventories, arrange for rotation of materials to prevent deterioration and initiate action to replenish stocks suffering deterioration; to maintain a complete record of all financial operations covering the receipt and disbursement of the funds appropriated; to collect, compile, analyze, and maintain records of statistical data pertaining to price fluctuations and the supply sources of strategic materials.

There has been established a policy in connection with the acquisition of strategic and critical materials to purchase material from domestic sources or new importations of foreign material. The policy has also been not to compete with industry for available supplies and to absorb only surpluses beyond industry's requirements for two reasons: 1. Competition between industry and the Government would tend to raise prices and in most cases would not make additional supplies available, and 2, the absorption of these strategic and critical materials into stock pile and the taking of it away from industry would in all probability necessitate industry's calling on the stock pile at an early date.

3. *The Reconstruction Finance Corporation.*—Pursuant to the enactment of Public, 117, the Reconstruction Finance Corporation created the following companies and corporations:

(a) The Metals Reserve Company was set up on June 28, 1940, with a capital of \$5,000,000. This company is managed by a board of six directors appointed by the Reconstruction Finance Corporation.

The purpose of the Metals Reserve Company is to acquire and carry a reserve supply of strategic and critical materials in connection with the national defense program. Their procedure of operation followed is:

1. President defines a material as being strategic or critical.
2. Office of Production Management recommends quantity of the material Metals Reserve Company should purchase.
3. Metals Reserve Company purchases at current prices the quantity of such material available considering the requirements of industry and governmental departments.
4. The material is stock-piled by Metals Reserve Company.
5. When the material is required to be used for defense, the President and the Federal Loan Administrator request Metals Reserve Company to make the material available to industry or governmental departments.
6. The Office of Production Management is advised of all requests to purchase material received by Metals Reserve Company.
7. Office of Production Management recommends to Metals Reserve Company the quantity and the party to whom the material is to be sold.
8. Metals Reserve Company sells the material to the recommended party in the amount indicated by the Office of Production Management.

caused a tremendous controversy in and out of the Halls of Congress for a period of 20 years. The present unsatisfactory situation as regards the Government stock pile is in a large measure the result of these claims.

After the close of the War, 1917-18, domestic producers asked Congress for a protective tariff on the grounds that a domestic supply was essential in time of war, and that the wartime experience indicated that a substantial manganese industry could be developed. It was stated that a duty of 1 cent per pound of metallic manganese, "the domestic mines will be able to supply from 50 to 75 percent annual requirements during the first few years, and eventually the domestic mines would be able to supply the entire yearly requirements." Congress established the 1 cent duty in the Tariff Act of 1922, but the results in terms of domestic production were far less than promised. At no time since the imposition of the tariff has the domestic industry contributed over 11 percent of the domestic metallurgical requirements and the average for 16 years (1923-38) was only 5 percent, despite the fact that the protection offered by the tariff ranged from 50 to 100 percent ad valorem. Moreover, within recent years (since 1935), American producers have had the added protection of a price differential applicable to Government purchase under the "Buy American Act."

In view of the fact that the overwhelming preponderance of high-grade ore must come from foreign countries and the delivery of it is subject to the hazards of shipping as well as the lack of shipping available, it is easily understandable why the situation in regard to manganese is of definite concern to those charged with the procurement of this basic material.

CHROMIUM

Chromium is one of the most important strategic materials, both because of its essential uses for which there is no satisfactory substitute, and because of the fact that all of this material must be imported. Chromium imparts a hardness and resistance to corrosion which makes it particularly useful for steel, in armor plate, and generally for exposed surfaces.

Consumption of chromite reached over 550,000 long tons in the United States in the peak year of 1937, and the steel industry accounted for three-quarters of the total. On September 1, 1940, the Advisory Commission to the Council of National Defense recommended the purchase of all grades of chromite in amounts greatly above our 1937 consumption. On April 28, 1941, Metals Reserve was further authorized to buy as much domestic chromite as possible, more than the stock-pile recommendations, if necessary, to achieve maximum annual rate of production.

There are no known substitutes for chromium in its essential uses in the metallurgy of steel. However, certain known essential uses, such as stainless steel for decorative purposes are rapidly being eliminated, and some percentages of chromite can be saved by cutting down the use of chrome pigments and dies, chromium tanning, chromium plating, and other relatively known essential chromite products. As soon as domestic production of grain magnesite is adequate, it may be possible to substitute some magnesite for chromite in refractories.

There are extensive chromite deposits in the United States, but the ore is off-grade and not adaptable to metallurgy usage. Domestic production has thus far been insignificant, and this found mainly in California. The same difficulty applies to chromite as does to manganese because of the shipping situation. Due to the present situa-

tion in the Mediterranean areas, little reliance can be placed on Turkey or Greece as chromite suppliers, while the long haul from South Africa and New Caledonia makes these extremely important sources vulnerable. The Philippines have been of importance as a source of both grades of the ore, and Cuba can be counted on only for the refractory grade.

QUARTZ CRYSTALS

Commercial-grade crystals are used in the manufacture of lenses, radios and electrical equipment, numerous precision instruments, and for ornamental work. Essential uses are in radio and telephone equipment for both military and civilian purposes, both of which require almost perfect crystals for satisfactory performance. There is no satisfactory substitute for quartz crystals in this type of equipment. Satisfactory substitutes are available for other uses. Quartz crystals free from defects are found almost wholly in Brazil and it is from that source that these materials must come. The rapid expansion in our aircraft program has brought the need for these perfect crystals to fantastic figures. Previous to the present emergency, comparatively small amounts of these crystals were used in the United States. At the present time the recommendations for Government stock pile will be many times the normal needs of industry.

The problem as regards shipping of this commodity at the present time is an important one. The principal trouble in acquisition stems from the fact that the specifications dictated by industry and adopted by the Bureau of Standards have been entirely too rigid. As a consequence, the Procurement Division has rejected large quantities of this material, of a grade that the Axis Powers seem able to use advantageously. A considerable revision in specifications should be of aid in ameliorating the situation. It is suggested that rigorous measures be undertaken to revise our purchasing methods of the important raw material as it is indispensable in communication between airplanes and between airplanes and ground forces.

TUNGSTEN

Tungsten is the heaviest of the base materials and has the highest melting point and greatest elasticity of all the metals. Its ability to withstand tension makes it especially adapted to use in the production of alloy steels where large stresses and strains are an important consideration. Tungsten is also essential in the alloys used in armor-piercing bullet cores.

Tungsten is found in widely scattered areas throughout the world, and China is the principal world source of the ore of wolframite from which tungsten is made. Considerable tungsten is also made from scheelite and recently the Navy Department has released its reserve to industry to overcome a temporary shortage threatening to hold up defense production. On June 12, 1941, the Priorities Director issued a general preference order covering the distribution of high-tungsten content tool steel and industrial channels in which was stipulated that a customer for high-speed steel may not purchase tungsten if molybdenum type would serve as well. It also provided that during a 3-month period a customer for high-speed steel may purchase the tungsten steel only to the extent that he buys an equal amount of

upon the Army and Navy and those departments of Government charged with the synchronization of our industrial capacity with our rearmament program, so rapidly that it was impossible for them to absorb it efficiently. It is obvious that neither the Army and Navy nor the O. P. M. could estimate their requirements, especially of aluminum, until they were aware of the numbers, design and size of planes to be constructed.

Even after the enactment of legislation the Congress made but a feeble protest against the parsimony of the Budget Bureau in allowing but an initial appropriation of \$10,000,000.

Consider this figure in the line of present estimates which run into the billions.

(2) *Failure to entrust to a responsible head the full authority to carry out the will of Congress in the legislation enacted.*

It was painfully apparent throughout the testimony given before this committee that a lack of coordination and absence of a responsible head with authority and power to fix responsibility in this as well as in other matters, has been largely responsible for the deficiencies we now are experiencing all along the line. The Administration has been too prone when difficult problems arose, to easily dispose of them by creating another board, only to add to the confusion of the assortment of agencies we now have. We are now plagued and will continue, evidently, to be harassed because of the absence of a coherent organization. We are overblessed with boards and committees and with a legion of liaison officers feeling the necessity for consulting first with this or that agency. All of this has resulted in a deadly consuming of time and in the end we still have a divided authority.

(3) *Failure of a sense of urgency on the part of officials of purchasing organizations.*

In spite of our supposed ingenuity as traders, we have persisted in using our outmoded methods of purchasing while the Axis Powers were adopting a realistic approach.

In the case of the Procurement Division of the Treasury, it might be stated this agency is hampered for the following reasons:

1. Statutory restrictions placed upon it by Congress itself.
2. Failure of prompt appropriations.
3. Too rigid specifications presented to it by various Government organizations.

4. Delays in requests for purchases by various advisory agencies. The result of all this has been that as of June 14, 1941, no more than 60 percent of the appropriations have been obligated and of the purchases made a distressing number of deliveries have yet to be made.

However, we believe that if the Procurement Division had promptly asked for alleviation of such restrictions as have been imposed upon it in the past, knowing full well the urgency of the situation, such relief, no doubt, would have been granted.

(4) *The delay in establishing conservation methods and the use of substitutes for fear of creating unemployment.*

We do not wish to single out the automotive industry as an example because we realize fully its vital part in our industrial and civil life, but this industry was too long allowed to consume sorely needed

defense materials in this first year of our defense effort. This industry has had a decided impetus under the past year and has used raw material in a quantity exceeded only by the boom year of 1929. Since the needs of this industry are those almost identical with the furtherance of the defense program, some vision was needed by our Government officials to restrict automotive activity.

Our Government agencies are not amateurs in the methods of propaganda but they have failed in that they did not long ago begin educating the public as to the necessity for not squandering the materials used in our defense effort.

(5) *Unwarranted delays in building plants and facilities for the conversion of raw materials into finished products.*

We have long known that the present war is a total war and a war of movement rather than position. We know that this war is a deadly consumer of machine and material, and our experts in industry and Government have been too complacent in allowing us to have no fear of a shortage for our wartime needs.

It should have been foreseen a long time ago that this Nation, which is wholly dependent on sources half-way around the world for crude rubber, should have made some effort to promote the synthetic-rubber industry. Only at this late date have steps been taken to improve this situation. The four plants that have been authorized to be built with Government funds and operated by private industry, are pilot plants that cannot produce results in appreciable quantities for some time to come.

There has also been neglect in increasing the facilities for the making of pig iron and steel, principally because we could not or would not give definite assurance to industry as to what it might expect from a wartime expansion of its plants. The situation in regard to aluminum is more critical still. The aluminum industry relies on power—electric power. The unwillingness of some Government officials to provide hydroelectric energy from its own dams in such an emergency as exists today, is at least short-sighted. Whatever may be the merits of any controversy between so-called monopolies and the administration, this committee finds, that during an emergency of this kind, this fact is outstanding, that this is no time to squabble over monopoly nor attempt to place blame, when planes are so sorely needed.

THE EFFECT OF SHIPPING SHORTAGES IN THE PROGRAM FOR THE ACQUISITION OF STRATEGIC AND CRITICAL RAW MATERIALS

A number of the most important strategic raw materials required by the United States for the defense program, as well as for normal civilian use, present a major transportation problem. Chrome ore, manganese ore, and crude rubber involve large tonnages and long shipping hauls. Practically all of the rubber and a large part of the chrome and manganese ores must move to this country from the Far East. Tin comes largely from this same area, but presents an easier shipping problem because of its shipment as pig tin, a form which has less bulk and more desirable stowage characteristics than other major strategic raw materials.

The history of the shipping situation in regard to rubber is a glaring example of the ineffectiveness of our present set-up in the handling

Lieutenant Governor Murphy, was to make a speech in Kalamazoo on November 6, he agreed to meet Clapp in Muskegon on November 7 and go with him to the offices of the Brunswick-Balke-Collender Co.; that accordingly he did meet Clapp and went with him to the offices of said company where they met and talked with S. B. Withington and E. E. Widdis; that he, Murphy, recommended that Clapp be employed and upon being asked what he thought the compensation should be, stated he thought it should be \$1,000 in view of the expenses that would be entailed in going to Washington and doing other things necessary in connection with obtaining national defense contracts; that there was also some talk of \$2,000 a month; that at no time did he intend to include himself or refer to himself in connection with employment as he was Lieutenant Governor of the State of Michigan and it would be impossible for him to accept such employment or to live in Washington for that purpose; that any recommendations he made related solely and exclusively to Clapp; that he could understand how it might have been understood by Widdis or Withington that he was referring to himself, but at no time did he so intend, as his interest was confined solely to the proposed employment of Clapp; that he had never expected nor discussed in any way with Clapp any division of compensation or commission that he might receive; that he, Lieutenant Governor Murphy, had never received any fees or commissions of any kind in connection with the awarding or the negotiation of national defense contracts for any company; that prior to Clapp's approaching him on the subject of national defense contracts for the Brunswick-Balke-Collender Co., he did not know that Brunswick-Balke-Collender Co. might be in a position to accept such contracts and that so far as any contract for parachute flares was concerned, he had absolutely nothing to do with it, nor had he even heard of any such contract in connection with the Brunswick-Balke-Collender Co. or any other company in Michigan or any other State.

Hon. Albert J. Engel appeared before the committee and submitted extracts from the Congressional Record containing the statement he had made on the floor of the House of Representatives relative to the allegations regarding Lt. Gov. Frank Murphy and stated that he had also turned over said data relative thereto to the Senate Special Committee to Investigate the National Defense Program.

After having carefully considered all evidence and testimony submitted at the hearing on February 9, it was the conclusion of Special Committee No. 3 that in the absence of any evidence showing that Lt. Gov. Frank Murphy, of Michigan, had received any fee, or compensation of any kind, in connection with the awarding or negotiation of a national defense contract or contracts, or participated in any way in the awarding or negotiation of any national defense contract or contracts, it was not within the province or jurisdiction of the Committee on Military Affairs of the House of Representatives to make any findings or recommendations relative to Lt. Gov. Frank Murphy in connection with the allegations contained in the press release issued by Representative Engel.

GUTHRIE AND THE DOLLAR-A-YEAR MEN¹

On March 14, 1942, the press generally throughout the country gave prominence to an announcement that Robert R. Guthrie had tendered his resignation as Chief of the Textile, Clothing, and Leather Goods Branch of the War Production Board. The reasons made public by Mr. Guthrie for such action, in which two of his aides participated, were lack of cooperation, insubordination, and the unwillingness of some dollar-a-year men to divorce their private interests from the public welfare.

The committee, feeling that such accusations at this time were of sufficient gravity to warrant further examination, proceeded without delay to investigate the attending circumstances. Public hearings were held March 19, 20, 21, 23, 24, and 26 in Washington. Executive sessions concerning certain aspects of Guthrie's charges were also held.

The sole purpose of the hearings, as outlined by the chairman, was to ascertain the truth or falsity of the allegations made and to fix the responsibility for any actions or attitudes that might tend to impede the Nation's war effort.

The evidence upon which this report is based consisted of the testimony of Robert R. Guthrie, Chief, Textile, Clothing, and Leather Goods Branch of the Bureau of Industry Branches, War Production Board; Marshal Hale, Jr., Deputy Chief, Textile, Clothing, and Leather Goods Branch, War Production Board; George P. Doherty, executive assistant, Textile, Clothing, and Leather Goods Branch, War Production Board; Alexis Sommaripa, Chief, Textile, Clothing and Leather Goods Section of the Division of Civilian Supply, War Production Board; Leon Swayzee, labor consultant, Labor Division of the War Production Board; J. A. Rice, textile consultant, Division of Purchases, War Production Board; Kenneth Marriner, wool consultant, War Production Board; Thomas Evans, deputy State director of Pennsylvania Contract Distribution Service, War Production Board; Charles W. Carroll, General Utility Committee, War Production Board; Harold Stein, assistant deputy director, Division of Civilian Supply, War Production Board; Marshall Dodge, executive assistant to the Chief, Bureau of Industry Branches, War Production Board; and Philip D. Reed, Chief of the Bureau of Industry Branches, War Production Board.

In the second interim report submitted by Special Committee No. 3 on February 11, 1942, to the House of Representatives, it was stated among other things that:

While it is true that the dollar-a-year man may retain his interest in certain firms and corporations, the committee believes that in by far the greater majority of cases his loyalty to Government interests has remained unaffected, and that the services rendered to date by the dollar-a-year men have been extremely useful and in many cases indispensable to the conduct of the war program.

It is the feeling of the committee that there has been no evidence submitted during the course of the hearings on the charges made by Guthrie which would cause it to recede from its findings regarding the

¹ Issued as an interim report, filed June 16, 1942.

conduct of dollar-a-year men in general as indicated from the language above.

By this statement the committee does not wish to convey the impression that it is giving a clean bill of health to all dollar-a-year men for there have been some few instances in the past where the actions and decisions of the dollar-a-year men have given rise to the suspicion that they might have been prejudiced by selfish interests. Fortunately, however, as far as the progress of our war effort is concerned the committee has found this to be the exception rather than the rule.

While the committee does not believe the general charge made by Guthrie that the dollar-a-year men named by him were influenced by their own selfish interests is supported by the evidence, it does, nevertheless, feel that there is evidence of a definite failure on the part of some of these men to cooperate at various times with Guthrie, particularly those in the Textile Branch.

The evidence was clear in establishing the fact that there was a widespread clash of personalities involved, particularly in the Textile Branch, and the evidence is clear too, in establishing that serious and sharp differences of opinion had arisen from time to time in the discussion of the various problems attendant to prompt conversion to war production of the industries involved and as to the final shut-down orders which should be issued. The existence of this unfortunate situation probably formed the basis for Guthrie's general charge of "selfish interests" and by the same token probably formed the basis for the charges that he (Guthrie) was "suspicious of industry."

The committee was impressed with Guthrie's sincerity and there was no question but that he favored the immediate and drastic action of curtailing civilian production and at the same time advocated the conversion of industrial production to the war effort, regardless of collateral consequences.

The day-to-day operations of the War Production Board center in the branches. There are, in all, some 43 branches. Of these, 24, relating chiefly to manufacturing industries, are grouped within a Bureau of Industry Branches. An additional 14, relating to the principal strategic and critical materials, are grouped in the Materials Division; and the Production Division has 5 additional branches which concentrate specifically on expediting production of designated military products. Each of these branches has a branch chief. The bureau chiefs supervise the work of the branch chiefs under them, and report in turn to the directors of the major divisions of the War Production Board. Guthrie was one of these 43 branch chiefs. In addition, he was for a brief time an assistant bureau chief within the Bureau of Industry Branches.

The organization of these branches follows a pattern, which is illustrated by the Textile, Clothing, and Leather Goods Branch, of which Guthrie was branch chief. The branch chief is a business executive drawn from an industry other than those under his immediate jurisdiction. Under him, in the branch, are a number of technical experts drawn from the industries themselves. These experts are subordinate to the branch chief, and, in the last analysis, can act only through him. Responsibility for decisions and major recommendations to his superiors rests with him. In addition, each branch has assigned to it representatives from the principal staff divisions of the War Production Board, notably the Labor Division, the Division

of Civilian Supply, the Division of Statistics, and the Legal Division. The personnel of these divisions is drawn largely from the universities, the professions, and the ranks of organized labor. Their background is different and their slant upon problems often tends to be different from that of men drawn from industry.

Guthrie's failure during the course of his testimony to emphasize his duties and responsibilities in the organizational pattern described above proved to be an omission which made it difficult for the committee to understand the reasons for his lack of experience and knowledge concerning the vital industries over which he had jurisdiction. If Guthrie had been specific in his testimony that a branch chief is a business executive drawn from an industry other than those under his immediate jurisdiction and fully relies in the absence of personal knowledge on the technical advice of various consultants when making a decision affecting the industries involved, the occasion for the question asked Guthrie, "Is there anyone over there (War Production Board) that knows less than you do about these things?", would perhaps have not arisen.

Guthrie, in his testimony before the committee, described himself as the former owner and operator of a small department store in Paducah, Ky., besides stating that he had served on the board of directors in New York City of the Allied Stores Corporation, Childs (Restaurant) Co., and the White Sewing Machine Co. Guthrie also, according to his testimony, held memberships in the New York Cotton Exchange, the Commodity Exchange, and the Coffee and Sugar Exchange.

Guthrie stated that he was summoned to Washington by the then Office of Production Management in May 1941, for service without pay, and that his first assignment was to assist the War Department in setting up an organization for the operation of the Army post exchanges. Subsequent to this, according to Guthrie, he was asked in August 1941 to head the Textile, Clothing, and Leather Goods Branch of the Bureau of Industry Branches, War Production Board.

After the creation of the War Production Board in January 1942 a new Bureau of Industry Operations was set up and Mr. Philip D. Reed, chairman of the board of General Electric, was appointed chief. Mr. Reed, in the meantime, appointed Guthrie as one of his assistant chiefs, although Guthrie retained his position as chief of the Textile, Clothing, and Leather Goods Branch.

Guthrie testified that for a period of several months from the time of his appointment he struggled for an all-out war effort and had insisted on the maximum conversion to war production of the industries which came under his jurisdiction and the maximum conservation of materials, particularly radios, refrigerators, wool, cotton duck, and nylon. Guthrie stated that his all-out effort to convert and conserve was opposed by certain dollar-a-year employees of the War Production Board, both in the subordinate and superior positions whose industries might be affected. The men named by Guthrie in this connection were Philip D. Reed, chairman of the board of General Electric, chief of the Bureau of Industry Branches, War Production Board, who was Guthrie's immediate superior; J. A. Rice, A. D. Juilliard Co., textile consultant, Division of Purchases, War Production Board; Kenneth Marriner, wool merchant, Boston, Mass., wool consultant, Textile, Clothing, and Leather Goods Branch, War Production Board; Thomas Evans, president of Merchant & Evans

Co., Philadelphia, Pa., deputy State director, Contract Distribution Service, War Production Board; J. W. Proctor, Wellington Sears & Co., consultant, Cotton Duck Division, Textile, Clothing, and Leather Goods Branch, War Production Board; Frank Walton, Catlin-Farish Co., Chief, Cotton Section, Textile, Clothing, and Leather Goods Branch, War Production Board. Guthrie testified, in response to a specific question, that he was not undertaking to make any general charge against dollar-a-year men as a class but was merely relating specific experiences. He further testified that he knew of no concrete instances of dollar-a-year men using their positions to obtain contracts and knew of no person who could furnish information in this connection.

Following a series of disputes with subordinates and superiors and a lessening of authority through a division of duties, Guthrie on March 14 brought the matter to the attention of Mr. Donald M. Nelson and asked to be heard. According to Guthrie, he advised Mr. Nelson that he proposed to submit his resignation and thereafter did so.

Mr. Philip D. Reed, chairman of the board of General Electric and Chief, Bureau of Industry Branches, War Production Board, who was Guthrie's immediate superior and who, more than anyone else, was a target for the charges preferred by Guthrie, testified before the committee that he selected Guthrie as Assistant Bureau Chief because on short acquaintance Guthrie had given the impression of being quick and effective and assured Reed that his Textile Branch was so excellently organized as to require a minimum of attention. A month later, according to the testimony of Reed, he began to question the wisdom of Guthrie's appointment as Assistant Bureau Chief because of information which had reached him concerning the seriously demoralized condition of the Textile Section of Guthrie's branch. Reed testified that when he learned of the serious difficulty that Guthrie was having with his personnel in the Textile Section, he had a long talk with him and frankly informed him what his shortcomings were. According to Reed, Guthrie belittled the difficulties in his branch and insisted that he could easily restore peace and quiet. Reed stated that at no time did Guthrie indicate that he wished to discharge or replace any individual in his branch, nor did he ask for assistance in solving any personnel problems that confronted him. Finally after a series of disputes and because of the inability to secure cooperation from Guthrie, Reed stated that it was decided to constitute the Textile Branch as a separate branch. According to Reed, Guthrie could have remained as Chief of the Clothing and Leather Goods Branch after he had been retired from the post of Assistant Chief of the Bureau of Industry Branches but that instead he elected to resign.

The following is a review of the specific charges made by Guthrie, together with the testimony of the various witnesses involved.

RADIOS

Guthrie testified that following his appointment on January 25, 1942, as Assistant Chief of the Bureau of Industry Branches, War Production Board, headed by Philip D. Reed, chairman of the board of the General Electric Co., which manufactures both radios and mechanical refrigerators for civilian use, he learned that aluminum

and other war essential materials were being used extensively in radio sets. Guthrie stated that he became convinced that industrial conversion to war production was being retarded and directed as a result that the supply of critical materials be shut off altogether in March and the production of civilian radio sets cease at an early date. Notwithstanding the fact, according to Guthrie, that some airplane factories were operating at less than capacity because of the shortage of aluminum, his decision to curtail at once was not approved by his superiors. According to Guthrie, the amount of aluminum per month that the radio industry got for civilian sets amounted to "just about three large bombers per month."

Reed on the other hand testified that the aluminum shipped for civilian radio sets during the months of December 1941 and January and February 1942 constituted only six one-hundredths of 1 percent of the total aluminum production in the country during that period. Reed further testified that the continuance of some civilian radio production under a program of curtailment and conversion was in accordance with a letter dated January 9, 1942, from Under Secretary of War Robert P. Patterson to William S. Knudsen, then Director General of the Office of Production Management. In this letter Secretary Patterson stated that it was essential that all existing radio manufacturing facilities of the United States be kept going on commercial production to the extent necessary to hold together their operative forces until such time as the load of national defense requirements could be placed on these facilities. Secretary Patterson suggested that commercial production be curtailed gradually and that suitable quantities of materials for radio production be allotted to the industry to keep it going until it could assume its share of national defense orders. According to Reed, the action taken by the branch in connection with radios was consistent with the purpose and intent of Secretary Patterson's letter and that a final curtailment order was issued prohibiting any radio manufacturer from producing sets after April 22, 1942.

REFRIGERATORS

Guthrie testified that when the program for the refrigeration industry came up for consideration, he was asked by Reed to call a staff meeting which would be attended by a Mr. Thomas Evans, whose judgment should be accepted, as Evans knew the refrigerator business thoroughly. Evans is president of the Merchant & Evans Co., of Philadelphia, engaged in the manufacture of commercial refrigeration machinery. Guthrie testified that Evans was not a sworn official of the Government at the time he attended the meeting as a consultant and that he proposed a plan under which the production of refrigerators would continue into the summer. Evans' proposals, however, according to Guthrie, were not accepted, and the representatives of the Labor Division, Civilian Supply, the branch chief, and Guthrie agreed that the refrigeration industry should be shut down as of March 31, 1942, and forced to convert their plants to the war effort as quickly as possible. Guthrie testified that this proposed action was opposed by Reed, who ordered a second meeting called and stated that it was his desire that Evans should be allowed to dictate the terms of the order.

At the second meeting, which was also attended by representatives of the Labor and Civilian Supply Branches, Evans suggested, according to Guthrie, a plan under which the production of refrigerators would be nominally stopped but each manufacturer allowed to appeal with the understanding that his appeal would be granted and his production allowed to continue into the summer. According to Guthrie's testimony, this proposal was so unsatisfactory to the Labor Division and Civilian Supply representatives that a strong memorandum of protest was subsequently written by Leon Henderson, Administrator, Office of Price Administration. Following receipt of Mr. Henderson's memorandum another meeting was called in which it was stated that the proposal suggested by Evans could not be defended and that a new order would have to be written. As a result of this, according to Guthrie, a new plan was written and put into effect whereby the manufacture of refrigerators would stop as of April 30, with no right of appeal.

Mr. Harold Stein, assistant to the Deputy Director, Division of Civilian Supply, War Production Board, testified that while he did not attend the first meeting wherein it was decided that the refrigeration industry was to cease production on March 31, 1942, he was advised by his immediate superior that this agreement had been embodied in a formal order which would be passed on at a later conference. He further testified that he attended the second meeting in Guthrie's office wherein Evans suggested his plan that each manufacturer be allowed to appeal after the production of refrigerators had been nominally stopped, with the understanding that the appeal would be granted and production allowed to continue into the summer. According to Stein, he was "surprised and disturbed" concerning the proposals made by Evans and upon leaving the meeting prepared a memorandum for the signature of Mr. Henderson, protesting against the proposal outlined by Evans. Stein testified that he was impressed with the fact that Evans was thoroughly sincere in his desire to do the right thing but was unfamiliar with the basic policies of the War Production Board and he was unwilling to recognize the salutary effect of setting a definite shut-off date in the fairly near future and adhering to it.

Evans testified that he was president of the Merchant & Evans Co., of Philadelphia, and that since November 19, 1941, he has been acting as a Deputy Director of the Contract Distribution Branch of the War Production Board in Pennsylvania. According to Evans, on February 7, 1942, Reed requested him to come to Washington to act as an adviser and consultant in the settlement of the domestic refrigeration program and conversion. Evans testified that he had at an earlier date engaged in the manufacture of domestic refrigerators but had discontinued this 2 years ago and was now engaged only in the manufacture of commercial refrigeration.

Evans disputed Guthrie's charge that he was not a sworn official of the Government by stating that he had come to Washington in the nature of a transfer or loan from the War Production Board in Pennsylvania. With respect to the first meeting attended by Guthrie, Evans, and representatives of the Labor and Civilian Supply Branches of the War Production Board where Evans' proposal that the production of refrigerators should continue into the summer was overruled, and the agreement reached that the industry should be shut down as

of March 31, Evans testified in substance that it was his feeling at the time that the group was acting too hastily in the absence of adequate statistics from which to determine the number of refrigerators which would be required for a Government stock pile. According to Evans, it was his thought that more accurate information should be obtained before attempting to fix a shut-down date.

With respect to the second meeting, regarding which Guthrie had testified that Reed had telephoned him to state that Evans should be allowed to dictate the terms of the order, Evans testified that he was sitting in Reed's office when he (Reed) called Guthrie on the phone and that no such statement was made by Reed.

Evans stated that at the second meeting and at the meetings held thereafter, the discussions were "full and free" and that a closing date of April 30 was set on the manufacture of refrigerators. He also stated that he was present at the various conferences and meetings in the capacity of an impartial consultant and did not undertake to issue orders of any kind.

Reed in his testimony on this subject, stated that inasmuch as he and Mr. J. S. Knowlson, Director, Division of Industry Operations, were identified to some extent with the refrigerator industry, they did not wish to take part in planning the curtailment program, and suggested Evans in order that Guthrie might have the benefit of the experience and knowledge of someone well informed on the refrigerator industry. Reed denied that he gave instructions that Evans should be allowed to dictate the terms of the order affecting the refrigerator industry, and stated that the reason he selected Evans was because he was an able, public-spirited man, thoroughly familiar with the domestic refrigerator industry, and neither engaged nor interested in it. According to Reed, any differences of opinion that had initially existed as to the terms of the refrigerator order were of no real significance and the shut-down date of April 30, ultimately decided upon after considering all elements of the problem, was only 30 days later than the earliest suggested shut-down date. Further, according to Reed, an analysis of the military, lend-lease, export, and essential civilian requirements of refrigerators for 2 years indicated that continuance of production until April 30 was both reasonable and proper.

WOOL

The Textile Branch of the War Production Board has jurisdiction over wool, cotton duck, carpets, and nylon, among other major products. There are approximately 42 consultants on the staff of this branch from industry, together with various consultants from divisions like the Division of Civilian Supply and the Labor Division of the War Production Board. Four of these consultants, Kenneth Marriner, wool consultant; J. A. Rice, textile consultant; Frank Walton, Chief, Cotton Section; and J. W. Proctor, consultant, Cotton Duck Division, were criticized by Guthrie.

Guthrie testified that shortly before Pearl Harbor he raised the question of the security of the Nation's wool position with Rice, who was of the opinion that it presented no real danger, and that even after Pearl Harbor, as late as December 17, Marriner was of the opinion that no conservation order for wool need be issued. Late in December, according to Guthrie, he recommended and secured ap-

proval of a conservation order affecting wool for the first quarter of 1942. This order was made effective on January 4, 1942, with the support of the Division of Civilian Supply, the Labor Division, and the Conservation Division over the opposition of Marriner and Rice.

Guthrie testified that in the middle of February when the curtailment order for the second quarter of 1942 came up for consideration, Marriner and the wool consultants composed an order affecting no further cut in civilian consumption. Guthrie stated, however, that he directed an order issued to further reduce consumption of wool, particularly of military grades and asked for a consideration of mandatory blending of the fabrics in making civilian woolen fabrics. The order drafted by the Wool Section, however, contained no provision for any of these things, according to Guthrie, and he did not force the issue at the time because of the indications of lack of confidence in him by Reed and the showing of open hostility and insubordination by the wool consultants. Guthrie stated, however, that the Labor Division insisted upon a program for mandatory blending and secured the approval of J. S. Knowlson, Director, Division of Industry Operations. Despite this approval, however, Guthrie testified that Marriner continued his opposition to the detriment of the entire mandatory blending program.

Mr. Alexis Sommaripa, Chief of the Textile, Clothing, and Leather Goods Section, Division of Civilian Supply, War Production Board, testified that he came to the War Production Board from the Du Pont Co., where he was manager of the fabric development department. He stated that he was with the Du Pont Co. in various capacities concerning textiles for a period of 16 years and secured a leave of absence without pay from the Du Pont Co. in order to assist the War Production Board in the organization of its Textile Division. He stated he was not a dollar-a-year man but rather a full fledged employee of the War Production Board under civil-service regulations. Sommaripa's testimony revealed that he possessed a wide, varied, and excellent background in the field of textiles and showed that he had made three trips abroad for the Du Pont Co. to investigate textile conditions in Germany and Italy in 1935.

Sommaripa testified that Guthrie was "an extremely courageous man" whose attitude was that it was necessary to take considerate and definite action. Sommaripa stated in substance that Guthrie's approach and consideration of the wool situation was correct and that his insistence on a program for mandatory blending was not only correct but necessary. Sommaripa testified that he felt that Marriner "very much resented interference" and while he emphasized Marriner's difference of opinion regarding the necessity for conservation, he refused to say that Marriner had on any occasion stood in the way of the conservation program.

The committee gathered from the testimony of Guthrie and Sommaripa that Guthrie relied more on Sommaripa for advice in connection with the wool program than he did on wool consultants from industry like Marriner. This situation perhaps caused a great deal of resentment on the part of the wool consultants from industry with a resultant possible attitude of suspicion of their actions on the part of Guthrie.

Mr. Kenneth Marriner, a prominent Boston wool merchant, testified that he came to the War Production Board in July 1941, as a

consultant on wool at Mr. Nelson's request. He stated that none of the companies with which he was associated is a manufacturer, as the term is understood in the industry; since these companies make no fabrics or yarns of any kind, they are not in a position to secure any Government contracts. Marriner denied that he was motivated by any selfish interest during the course of his employment by the War Production Board and stated that Guthrie always appeared ready "to believe the worst." Marriner testified in substance that he was at no time opposed to curtailment but merely differed with Guthrie and his aides regarding the necessary degree of curtailment and the methods which should be followed in bringing it about. Marriner stated that he did not question the program of mandatory blending and was of the opinion that the matter should be handled on a case-by-case basis rather than on an industry-wide basis.

Mr. Phillip Reed, Guthrie's superior and Chief of the Bureau of Industry Operations, testified in connection with this subject that due to certain outstanding characteristics of Guthrie which began gradually to reveal themselves, the morale of Guthrie's branch disintegrated, culminating in a threatened mass resignation that reached the ear of Mr. J. A. Rice and subsequently came to his (Reed's) attention.

COTTON DUCK

Guthrie testified that there was a substantial deficit in the production of cotton duck in relation to military requirements and that this deficit could and should be made up by converting mills now producing civilian fabrics to the production of duck. Guthrie stated it was his conviction that the mobilized resources of the carpet industry should be put to work on duck manufacture and that he directed the consultant on duck, Mr. J. W. Proctor, dollar-a-year man on loan from Wellington Sears & Co., which is a large duck distributor, to undertake this conversion at once. According to Guthrie, Proctor evaded his order with the result that the carpet industry had not at that time been given its chance to utilize its resources for war production.

Proctor did not appear before the committee as a witness but J. A. Rice, textile consultant, Division of Purchases, testified that there was no opposition to the conversion of the carpet industry to the manufacture of duck and that the carpet industry, as well as the upholstery and drapery industry, had already received contracts from the services for approximately 10½ million square yards of cotton duck. Rice testified in substance that the failure to convert the carpet industry more promptly to the manufacture of cotton duck was due to a lack of Government orders, but pointed out that the contracts which had been placed for 10½ million square yards of cotton duck were placed prior to Guthrie's resignation, with some of them being placed as far back as January. Rice also testified that there was some delay in conversion of the carpet industry because carpet looms are not suitable for all types of cotton duck.

NYLON

Guthrie, in his testimony before the committee on this subject, stated that the total production of nylon in the United States, except for less than 2 percent, is now going into the production of yarn for

parachutes. According to Guthrie, these requirements will exhaust the nylon capacity of the country for an indefinite time in the future, yet the nylon capacity was not converted fully to the production of parachute yarn until February. Guthrie stated that he had been unable to obtain information about the military requirements for nylon through J. A. Rice, the Purchase Division staff member advising the Quartermaster Corps on textile procurement, and testified that the only manner in which he was able to arrive at estimates concerning textiles for the armed forces was by "reading the newspapers." Guthrie testified that he knew the stocks of silk in the country would not be adequate to fulfill military requirements for parachutes for the next few years but Rice and the head of the Textile Section, Mr. Frank L. Walton, whom Guthrie accused of being a poor administrator, advised him against stopping production of nylon for hosiery and the stock-piling of nylon yarn for parachute construction. As late as the 1st of February Guthrie stated that Rice advised him against a curtailment of nylon production for hosiery and only a week later the Air Corps was demanding the entire nylon capacity. Guthrie testified that nylon production should have been converted to military purposes long before the 1st of February and even without Army and Navy orders being immediately available the nylon yarn should have been stock-piled.

Mr. Alexis Sommaripa, Chief of the Textile, Clothing, and Leather Goods Branch, Division of Civilian Supply, testified before the committee that, in his opinion, Guthrie's order for the conservation of nylon was correct. Sommaripa testified that by converting nylon into war uses without delay, even though there might be no immediate need for it, it would obviate the necessity for expanding plants later on. Sommaripa stated that any nylon is valuable because the raw material is made only at one plant and that means a danger of bombing or sabotage concerning which no chances should be taken in times like the present. Sommaripa testified that Guthrie's recommendations for the stock piling of nylon were finally accepted and he stated, when asked why he thought Rice opposed the curtailment, that Rice was working up a program which he (Rice) expected to put into operation later on.

Mr. J. A. Rice testified that for several months he had been the representative of the War Production Board Purchases Division assigned to the Quartermaster General. Rice denied Guthrie's charges that he withheld information concerning the needs of the armed forces and stated that until the armed forces gave him permission to release estimates and other data he was unable to provide Guthrie or anybody else with the information. Rice testified that as soon as he was authorized to release figures and estimates he did so without delay. Rice denied Guthrie's charge that he opposed a conservation order affecting nylon and testified that at a meeting attended by Col. A. A. Kessler, Air Corps, Messrs. Ramsdell, Carey, and Miles, of the du Pont Co., it was decided a mandatory freezing order on nylon yarn would not be necessary because the Air Corps requirement would automatically take nylon production out of the market within the period of about 1 week. Rice testified that he learned from time to time of the dissatisfaction on the part of the commodity men in Guthrie's branch, and that he had heard rumors of several of them wanting to resign. Rice testified that in view of

the tremendous textile program which was ahead, he became convinced that the Textile Branch under Guthrie was in a demoralized state, with the result that he complained to his superiors, Mr. Douglas MacKeachie, Director, Division of Purchases, and Mr. Sydney Wynberg, assistant to the Chairman, War Production Board.

FINDINGS

1. That there was a sharp and divided conflict of opinion between Guthrie and the dollar-a-year men named by him, but there is lack of proof that this was significant of anything other than strong convictions on the part of those whose duty it was to offer technical advice, together with a lack of proof that they intended to serve any interest other than that of the Government.

2. That it is not possible to depend solely upon Government career men and college professors without practical experience in industry at so serious a time as this, without the assistance of those experienced in the world of business, and without the specialized knowledge of executives and technicians of a high caliber.

3. The committee feels that in most instances men drawn from industry, whether as dollar-a-year men or compensated for their services, have rendered valuable, sincere, and conscientious service to the war effort. They have brought to the production program a wealth of knowledge and experience the necessity of which should be obvious. It cannot be expected that such men should sever all connections with the business world; nor should they be subjected to criticism or suspicion solely because of existing or former industry connections.

4. That the committee was impressed with the sincerity of Guthrie and his aides, and that there was no question but that they favored the immediate curtailment of civilian production and conversion of industrial production to the war effort, regardless of collateral effect.

5. That while the committee, as shown by its long campaign to impress the public with the necessity for the conservation and stock piling of strategic and critical materials, is sympathetic with the views advocated by Guthrie in that regard, it nevertheless feels that the question of collateral consequences surrounding conservation and conversion were for the most part disregarded by Guthrie.

6. That there was abundant evidence of confusion, red tape, and the lack of a clearly defined authority who could make and enforce decisions in the textile and related branches.

7. That the committee appreciates the fact that Mr. Donald M. Nelson holds a high and responsible office and in the interest of good administration necessarily must rely on the judgment of his departmental chiefs, and it deplors the publicity attendant upon Guthrie's resignation and charges which have attracted far greater attention than they justify.

APPENDIX

Special Committee No. 1

EGLIN FIELD, FLORIDA

Treasury Department Memorandum of Conference with Pan American Petroleum Corporation.
Treasury Department Memorandum of Conference with Allied Materials, Inc.
Telegram to War Department re Injunction Suit.
Letter from Procurement Division to Allied Materials, Inc.
Letter from Millard F. Caldwell, Attorney, to Hon. A. J. May.
Affidavits of Fred T. Bridges.
Affidavits of Charles D. Redwine.
Affidavit of H. P. Redwine.

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT,
PROCUREMENT DIVISION,
Washington, April 22, 1941.

MEMORANDUM FOR THE FILES OF CONFERENCE WITH REPRESENTATIVES OF THE PAN AMERICAN PETROLEUM CORPORATION:

Under date of April 22, 1941, a conference was held in the office of the Director of Procurement with representatives of the Pan American Petroleum Corporation in regard to the proposed award of a contract for the furnishing of a quantity of Cut Back Asphalt, Eglin Field, Valpariso, Florida, under bids opened March 31, 1941. Senator Pepper, of Florida, and Mr. Caldwell represented the Pan American Petroleum Corporation and were heard by the Director of Procurement, Mr. Mack; the Special Assistant to the Director, Mr. Dyeche; and the Chief of the Emergency Branch, Procurement Division, Mr. Walsh. There was also present Mr. Smith, the contractor for building the run-ways, etc., at the field.

There was discussed at some length the matter of the advertisement for bids, the procedure followed, and whether the advertisement was in accordance with Section 3709 of the Revised Statutes.

Senator Pepper stated that in his opinion no award should be made and that the only fair thing to do was to reject all bids and readvertise. The reasons for his views were stated in substance as follows:

1. That at the time bids were requested Land Grants rates were an unknown factor and it was not determined to be applicable until after bids were opened and had Pan American Petroleum Corporation known that Land Grant was for consideration it would have considered this in quoting its price.
2. That the advertisement was incomplete for the reason that it was necessary after the opening of the bids to issue a second advertisement for the transportation from Crestview, Florida, to Eglin Field, and, by reason of this, Allied Materials, Inc., were given an undue advantage over other bidders in submitting their bids and were given two chances to bid.
3. That the invitation to bid did not provide for any definite starting date or time after award for shipments to begin; that the provisions of the advertisement did not conform with an existing Army Engineers contract which stated that the material was to be unloaded by the Army contractor from barges at Weekly Bayou.
4. That it would be an impossibility for Allied Materials to perform the contract because there was not sufficient railroad siding to handle 100,000 gallons at a time and to keep the same amount on hand as required by the contract.

Mr. Caldwell also presented the views of the Pan American Petroleum Corporation which were in substance those of Senator Pepper and filed as a part of the record a three-page unsigned statement, going into some detail with respect to why no awards should be made on the present advertisement.

By way of summary, Senator Pepper stated that he was sure that the Director of Procurement would give the matter his most careful consideration and that he was definitely of the opinion that the only fair thing to do was to reject all bids and readvertise and if this was done he would guarantee that the Government would save money and that Pan American would quote a cheaper price. Senator Pepper and Mr. Caldwell thanked the Director for the time he had given the matter and stated that they hoped he would be favorable to their views.

The Director advised that he would give the views presented careful consideration and advise at a later date his determination in the matter.

[s] HARRY B. DYCHE,
Special Assistant to the Director.

OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT,
PROCUREMENT DIVISION,
Washington, April 25, 1941.

MEMORANDUM FOR THE FILES OF CONFERENCE—ALLIED MATERIALS, INC.:

Under date of April 24, 1941, 10 o'clock a. m., a conference was held in the office of the Director of Procurement with representatives of the Allied Materials, Inc., in regard to the proposed award of a contract for the furnishing of a quantity of Cut Back Asphalt, Eglin Field, Valpariso, Florida, under bids opened March 31, 1941.

Mr. Bridges, Mr. Redwine, with their attorney and several other gentlemen, appeared on behalf of the Allied Materials, Inc. and were heard by the Director of Procurement, Mr. Mack; the Special Assistant to the Director, Mr. Dyché; and the Chief of the Emergency Branch, Procurement Division, Mr. Walsh.

The Director of Procurement advised them that they had been requested to come to Washington as they were the low bidder for the furnishing of the materials and that a protest had been filed and a request had been made that all bids be rejected and the needs readvertised, and that before taking any final action in the matter it was desired to have their views and statements with respect to the protest. They were specifically advised as to the grounds of the protest. After being so advised, they requested to be allowed to give the matter of the protest further consideration and to have another conference later in the day. This was agreed upon and at 3 o'clock p. m. April 24, 1941, the same representatives called, together with Congressman A. Sidney Camp of Georgia. They discussed at some length the reason for the protest, the statements being that they submitted their bid in good faith on an advertisement issued by the Procurement Division, that they were the lowest bidder anyway you evaluated the bids, and regardless of whether shipment was made on Land-Grant or commercial rate that if the advertisement was incomplete as alleged that they as a bidder should not suffer by reason of failure of the Contracting Officer to follow the proper procedure, that they were prepared to execute the contract if awarded to them, that they would deliver the quantity and quality of asphalt called for, that they had arranged with the railroad company to build sufficient siding track to accommodate tank cars so that the required 100,000 gallons could be kept available at all times, that as the low bidder they should be given the award and to readvertise was unfair.

The representatives were advised that their views would be given consideration and that if they would call again at the office of the Director on April 25 at 10 o'clock a. m. they would be definitely advised of the action taken.

Accordingly, at 10 o'clock a. m. on April 25, 1941, the Allied Materials, Inc., were advised that they had been awarded the contract as the lowest bidder meeting the requirements of the advertised specifications.

[s] HARRY B. DYCHE,
Special Assistant to the Director.

NOTE.—The Assistant Director of Procurement, Mr. LeFevre, was present and took part in the conferences held at 3 o'clock p. m. April 24, 1940, and at 10 o'clock a. m. April 25, 1941.

COPY OF TELEGRAM APRIL 25, 1941

APR. 28, 1941—P. M.

QA370 25 DL—TALLAHASSEE, FLA. 28 332P

General THOMAS M. ROBBINS,
Corps of Engineers, U. S. Army, Washington, D. C.:

We are filing suit to restrain all action including issuance of purchase order under award to Allied Materials, Inc., on asphalt for Eglin Field, Florida.

CALDWELL MEGINNISS & PARKER.

TREASURY DEPARTMENT,
PROCUREMENT DIVISION,
Jacksonville, Florida, May 10, 1941.

ALLIED MATERIALS, INC.,
345 Hurt Building, Atlanta, Georgia.

GENTLEMEN: We wish to acknowledge receipt of your telegram of May 9, 1941, in which you state that you are low bidder on our Invitation No. 35-21,434, which covers 1,024,500 gallons of cutback asphalt to be delivered to Pensacola, Florida, and in view of which statement you protest the award to others than yourselves.

The award on this material has been made to the Pan American Petroleum Corporation, Tallahassee, Florida, as being the lowest and best bid, and the following reasons show how this office arrived at the decision that same was the lowest and best bid:

Bid of Allied Materials, Inc. rejected as same would require that the government issue government bills of lading to pay the freight charges which would not have to be done under bid of Pan American Petroleum Corporation. Cost of issuing bills of lading and paying freight charges is estimated at 5% of the freight charges or \$1,557.24, which added to bid of Allied Materials, Inc., would make the cost to the government under this bid \$65,322.12 and, therefore, this bid is higher than the bid of Pan American Petroleum Corporation.

The bid of Allied Materials, Inc., carry the following contingent liabilities which do not accrue to the bid of the Pan American Petroleum Corporation:

The freight charges used in evaluating this bid are estimated on the minimum weight of the material. Weight could be more than estimated, thereby increasing the freight charges to be added to the f. o. b. Mt. Pleasant, Texas price bid.

Freight charges on this material moving in tank cars, carries a minimum weight of the capacity of the tank car. Due to expansion of this material tank cars cannot be loaded to capacity and, therefore, freight charges would accrue on material not loaded into the car.

The government would be liable for demurrage on cars under the bid of the Allied Materials, Inc., whereas, no such demurrage could accrue under bid of Pan American Petroleum Corporation. Asphalt cannot be used during wet weather or in wet soil. Taking delivery in tank cars under the bid of the Allied Materials, Inc., would require from ten to twenty cars in transit at all times. In case of rain, cars could not be unloaded until dry weather, and the soil had become dry. Any cars in transit at time rain started, would go on demurrage until soil had dried out.

Taking delivery from tank cars under the bid of Allied Materials, Inc., would require government to pump and, if necessary, heat the material, into tank trucks; whereas, under bid of Pan American Petroleum Corporation, they would pump and, if necessary, heat the material, into the tank trucks.

Cost of hauling the material in tank trucks from either tank cars at Goulding, Florida, or from the Pan American Petroleum Corporation storage tanks at Pensacola, Florida, to the project site where material is to be used by the Government, would be the same.

We, also, wish to acknowledge receipt of your letter of May 5, 1941, in which you forwarded to us, the original of a lease entered into between yourselves and the L. & N. Railroad at Goulding, Florida, in connection with the above bid, but inasmuch as the award was not made to you, we are herewith returning the said lease for your files.

Very truly yours,

[s] W. E. HARKNESS,
State Procurement Officer.

Encl.

OFFICIAL

MR. BRANT HOLME
TROY NEW YORK

JULY 16, 1942

TELEPHONE CENTER BRUNSWICK 26 F 32

MR CLIFTON MACK DIRECTOR OF PROCUREMENT TREASURY DEPARTMENT HAS CIVIL SERVICE VACANCY KNOWN AS COMMODITY SPECIALIST GRADE TWELVE AT FORTY SIX HUNDRED DOLLARS. IF YOU ARE INTERESTED SUGGEST YOU CALL ON MR MACK AT NINE THIRTY MONDAY MORNING AT HIS OFFICE IN WASHINGTON FOR INTERVIEW. PLEASE TELEGRAPH ME WHETHER YOU WILL COME TO WASHINGTON

HENRY MORGENTHAU JR

TREASURY DEPARTMENT

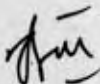
INTER OFFICE COMMUNICATION

DATE July 16, 1942

TO Secretary Morgenthau
FROM Mr. Thompson

Cliff Mack has a vacancy in what is known as a Commodity Specialist job in grade 12 at \$4,600, which could be used for Mr. Holme. These places have to clear Civil Service by our submission to the Commission of their Form 375. I would suggest that the attached copy of Form 375 be sent to Mr. Holme to fill out and return to us for Civil Service clearance. He should also fill out the enclosed application form.

If you would prefer, it might be suggested to Mr. Holme that he come to Washington, in which event Cliff will be only too glad to go over the matter with him, at which time he could fill out the necessary forms.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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Am

UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D. C.

TEMPORARY APPOINTMENT, TRANSFER, REINSTATEMENT, OR PROMOTION, ETC.
(NONCOMPETITIVE)

Any false statement in an application, or alteration of a voucher or certificate, or presentation to the Commission of any such paper, is a violation of the law and punishable as such. All answers must be in ink or typewriting. If more space is required, an additional sheet securely fastened to this form may be used. Answers on such sheet should be numbered to correspond to questions.

GIVE DATES AND PERIODS OF TIME REQUIRED IN YEARS AND MONTHS AS ACCURATELY AS POSSIBLE

1. (a) Give your name: _____ (b) Are you a citizen of the United States? Yes or No
 2. Give (a) the date of your birth: _____ (b) the place of your birth: _____

3. Give in the blanks below a detailed statement of your education, including dates:

(a) Grammar school: Attended from _____, 1 _____, to _____, 1 _____ Highest grade completed _____

(b) High school: Name and location _____
 Attended from _____, 1 _____, to _____, 1 _____ Highest grade completed _____ Were you graduated? _____

(c) College or university (Give both graduate and undergraduate work)

Name	Location	Dates of attendance (Give month and year)		Semester-hours credit received	Major subject		Degree conferred	Date of degree
		From	To		Name	Sem. hrs. in major		

(d) Specify here any specialized courses which you have completed in high school, college, or elsewhere, and indicate the credits received for each course: _____

(e) Have you ever been admitted to the bar? _____ Of what State? _____ When? _____

4. Furnish in the blanks below a complete, comprehensive statement, showing every employment you have had since you first began to work, including your present employment, and accounting for all periods of unemployment. List employments chronologically, beginning with the earliest.

Place of employment	Dates of employment (Month and year)	NAME AND ADDRESS OF EMPLOYER (Give street address and city and State. If unemployed, give your address at that time)	Yearly salary or net earnings	NAME OF POSITION AND DESCRIPTION OF DUTIES
1. City _____ State _____	From _____ To _____			
2. City _____ State _____	From _____ To _____			
3. City _____ State _____	From _____ To _____			
4. City _____ State _____	From _____ To _____			
5. City _____ State _____	From _____ To _____			
6. City _____ State _____	From _____ To _____			
7. City _____ State _____	From _____ To _____			
8. City _____ State _____	From _____ To _____			
9. City _____ State _____	From _____ To _____			

IF MORE SPACE IS REQUIRED, CONTINUE YOUR ENTRIES ON A SEPARATE SHEET ARRANGED AS ABOVE 14-607

**TEMPORARY APPOINTMENT, TRANSFER,
REINSTATEMENT, OR PROMOTION, ETC.**
(NONCOMMISSIONED)

Rating
 Application No.
 The applicant will accept all A.C.S. Board orders
 Position sought
 (Give exact title of position or examination)
 in the
 (Office in which the position exists)
 Present position
 (if now employed)
 (Title)
 (Department and bureau or office)
 N. B.—Applicant will write plainly full name (if a woman, stating whether she is or is not married) in the "Name of Applicant" space. This address must be printed on the applicant's post-office address until notification of change is made to the Commission in writing.
 Name of Applicant
 Number and Street
 Post Office
 County
 State or Territory
 Applicant will not fill the following blanks
 Kind of examination
 Place
 Date
 Application approved, 19 ..
 By whom approved

5. If you have any practical knowledge of a mechanical trade, name the trade or trades, and state the time you have worked at each, and when, where, and under whom giving places and dates. (If you have served an apprenticeship, so state.)

6. If not now employed, state how long you have been unemployed

7. Have you ever been in the United States military or naval service? If so, give name of organization and dates of enlistment and discharge
 (Yes or no)

8. (a) Have you ever filed an application with this Commission or its representative for any branch of the United States Government service?

(b) If so, give information indicated regarding each examination.	Name each position for which examined, or for which application was filed	In what city were you, or are you to be, examined?	Give the date of each examination (Month and year)	Did you pass? (Answer "Yes" or "No")

I, the undersigned, do solemnly swear (or affirm) that the statements made by me in answer to each and all of the foregoing questions are full and true to the best of my knowledge and belief. **SO HELP ME GOD.**

If female, prefix "Miss" or "Mrs."

(Signature of applicant)
 (Sign one given name, middle initial or initials, if you have any, and your surname)

THIS APPLICATION WILL NOT BE ACCEPTED IF THE JURAT OR OATH IS OMITTED

JURAT OR OATH

[The following oath must be taken before a NOTARY PUBLIC, or other officer authorized to administer oaths for general purposes, before whom the applicant appears in person.]

Subscribed and duly sworn to before me according to law by the above-named applicant, this of 19....., at city [or town] of county of and State [or Territory or District] of

(Signature of officer)
 (Official title)

APPLICATION FOR FEDERAL EMPLOYMENT

Answer every question clearly and completely. Use typewriter or print in BLACK ink. Black entries assure applying agencies clear photographic copies. Use printed side ONLY. Give all names used, such as maiden name: Mrs. Mary Louise Jones Doe. If you are applying for a specific United States Civil Service Examination, read the Examination Announcement carefully, follow all directions, and mail this application to the office named therein; if not, mail with an explanatory letter to the U. S. CIVIL SERVICE COMMISSION, WASHINGTON, D. C., unless otherwise directed. Notify same office of any change of address.

This space for agency use:

ANSWERS 1, 2 AND 3 IF APPLYING FOR A SPECIFIC EXAMINATION:

1. Place of examination (if a written test) or place of employment (if specified in announcement) _____

2. City and State _____

3. Name of examination: (See announcement for EXACT title) _____

4. Optional subject (if any): _____

AV. _____

The space for U. S. Civil Service Commission _____

To U. S. Civil Service Commission _____

Appro. Nonappro.

6. Mr. Mrs. Miss _____

(First) (Middle) (Last)

7. City or post office, and State _____

(R. D. or street number) _____

8. Date of birth (month, day, year): _____ 9. Age last birthday: _____ 10. Date of this application: _____

11. Legal or voting residence: _____

12. Telephone: _____ Business _____

13. Height without shoes: _____ Weight: _____

ft. _____ in. _____ lb.

14. Where were you born? _____ (Town) _____ (State or Country)

15. Are you a citizen of the United States? (Check proper box.) _____ Yes _____ No

16. Have you ever been arrested, or summoned into court as a defendant, or indicted, or convicted, or fined, or imprisoned, or placed on probation, or has any case against you been filed, or have you ever been ordered to deposit collateral for alleged breach or violation of any law or police regulation or ordinance whatsoever? _____ Yes _____ No

If so, list all cases without any exception whatsoever, under Item 16, page 4, giving in each case (1) the date, (2) your age at the time, (3) the place where the alleged offense or violation occurred, (4) the name and location of the court, (5) the nature of the offense or violation, (6) the penalty, if any, imposed, or other disposition. The above question includes arrests by military or naval authorities and disciplinary action imposed by courts martial, as well as in civil cases. If appointed, your fingerprints will be taken.

17. (a) Have you any physical defect or disability whatsoever? _____ Yes _____ No

(b) Have you ever had a nervous breakdown? _____ Yes _____ No

18. Do you advocate or have you ever advocated, or are you now or have you ever been a member of any organization that advocates the overthrow of the Government of the United States by force or violence? _____ Yes _____ No

If so, give complete details under Item 45.

19. Have you ever been discharged for misconduct or unsatisfactory service, or forced to resign from any position? _____ Yes _____ No

If so, state (under Item 45), when and where employed and give the name and address of your employer and the reasons for your discharge or forced resignation in each case.

20. Within the past 12 months, have you used intoxicating beverages? _____ Yes _____ No

If so, specify Occasionally. Habitually. To excess.

21. Are any members of your family or relatives (either blood or by marriage), employed by the United States Government excluding persons in the armed forces? _____ Yes _____ No

If so, give name, address, relationship, and branch of service of each such relative under Item 45.

22. Are you NOW employed by the Federal Government? _____ Yes _____ No

If so, _____ (Department or agency) _____ (Bureau)

23. If you ever are or have ever been so employed, give dates: _____ (Month) _____ 19 _____ (Year) to _____ (Month) _____ 19 _____ (Year)

22. (a) Were you ever in the U. S. military or naval service? _____ Yes _____ No

If so, give branch of service and date of last discharge: _____

Army. Navy. Marine. Coast Guard.

(b) Were all discharges granted under honorable conditions? _____ Yes _____ No

(c) Have you already established military preference with the Civil Service Commission? _____ Yes _____ No

If so, check kind of preference below: Veteran. Disabled. Wife of Disabled. Widow of Veteran. Veteran.

If you are applying for a specific examination, and wish to claim veteran preference in connection with it, attach C. S. C. (Preference) Form 14, together with the evidence specified therein.

23. Have you registered under the Selective Service Act? _____ Yes _____ No

If so, give address and number of local board: _____

If classified, give your classification _____ Your order number _____

24. (a) Are you now a member of any branch of military or naval reserve? _____ Yes _____ No

If so, give name of organization _____

(b) Are you now on active duty? _____ Yes _____ No

25. Give number of persons completely dependent on you, other than husband or wife _____

26. Would you accept short-term appointment? _____ Yes _____ No

6 Months. 3 Months. 1 Month.

27. (a) Would you accept appointment anywhere offered in the United States? _____ Yes _____ No

Give location preferences: _____

(b) Would you accept appointment outside the United States? _____ Yes _____ No

Give locations acceptable: _____

(c) Would you accept appointment in Washington, D. C.? _____ Yes _____ No

If so, and if you are applying for a specific examination, refer to the examination announcement to see if the Certificate of Residence (C. S. C. Form 12) is to be submitted. Proof of residence is required for many kinds of positions.

28. What is the lowest entrance salary you will accept? _____ \$ _____

You will not be considered for positions paying less. per _____

29. Are you willing to travel? _____ Yes _____ No

If so, specify: Occasionally. Frequently. Constantly.

30. How much notice will you require to report for work? _____

31. (a) Have you ever filled applications for any Federal civil service examinations? (If so, list them below.)

Titles of examinations	Examined in what cities	Month and year	Rating
.....
.....
.....

(b) Have you passed any State or other civil service examination (other than the above) within the last 5 years? If so, give details under item 45, Page 4.

32. EDUCATION: (a) Circle highest grade completed, elementary or high school: 1 2 3 4 5 6 7 8 9 10 11 12. Did you graduate?

Name and location of school	Dates attended		Years completed		Degrees conferred		Semester hours credit
	From—	To—	Day	Night	Title	Date	
(b) College or university.....
.....
.....
(c) Other.....
.....

(d) Undergraduate major subjects (20 or more semester hours)	Semester hrs.	Major subjects (graduate)	Semester hrs.
.....
.....
.....

33. Indicate your knowledge of foreign languages.

	READ Exc. Good Fair			SPEAK Exc. Good Fair			UNDERSTAND Exc. Good Fair		
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

34. Are you now a licensed member of any trade or profession (such as electrician, radio operator, pilot, lawyer, CPA, etc.)?

If not, have you ever been licensed?

Give kind of license and State.....

Earliest license (year).....

Most recent license (year).....

35. REFERENCES: List five persons, who are not related to you by blood or marriage, who live in the United States, and who are or have been mainly responsible in close direction of your work, or who are in a position to judge your work critically in those occupations in which you regard yourself as best qualified.

Full Name	Address (Give complete address, including street and number)	Business or Occupation
.....
.....
.....
.....
.....

36. May inquiry be made of your present employer regarding your character, qualifications, etc.?

38. EXPERIENCE: In the space furnished below give a record of every employment, both public and private, which you have had since you first began to work with your present position and work back to the first position you held, accounting for all periods of unemployment. Describe your field of work and position and, except for employments held less than three months, give your duties and responsibilities in such detail as to make your qualifications clear. Give name you used on pay roll if different from that given on this application.

PRESENT POSITION		
Place..... (City)..... (State).....	Exact title of your position.....	Salary: Starting, \$.....
From..... 19..... To..... 19..... (Month) (Year) (Month) (Year)	Duties and responsibilities.....	Per..... Final, \$.....
Name of employer:.....	
Address.....	
Kind of business or organization:.....	
Number and class of employees you supervised.....	
Name and title of your immediate supervisor.....	
.....	
.....	Machines and equipment you used.....	
.....	

Continued

Place (City) 19 (State) 19
 From (Month) (Year) To (Month) (Year)
 Name of employer:
 Address:
 Kind of business or organization:
 Number and class of employees you supervised:
 Name and title of your immediate supervisor:
 Reason for leaving:

Exact title of your position Salary: Starting, \$
 Per Final, \$
 Duties and responsibilities
 Machines and equipment you used

Place (City) 19 (State) 19
 From (Month) (Year) To (Month) (Year)
 Name of employer:
 Address:
 Kind of business or organization:
 Number and class of employees you supervised:
 Name and title of your immediate supervisor:
 Reason for leaving:

Exact title of your position Salary: Starting, \$
 Per Final, \$
 Duties and responsibilities
 Machines and equipment you used

Place (City) 19 (State) 19
 From (Month) (Year) To (Month) (Year)
 Name of employer:
 Address:
 Kind of business or organization:
 Number and class of employees you supervised:
 Name and title of your immediate supervisor:
 Reason for leaving:

Exact title of your position Salary: Starting, \$
 Per Final, \$
 Duties and responsibilities
 Machines and equipment you used

Place (City) 19 (State) 19
 From (Month) (Year) To (Month) (Year)
 Name of employer:
 Address:
 Kind of business or organization:
 Number and class of employees you supervised:
 Name and title of your immediate supervisor:
 Reason for leaving:

Exact title of your position Salary: Starting, \$
 Per Final, \$
 Duties and responsibilities
 Machines and equipment you used

If more space is required, use a continuation sheet (Standard Form No. 58) or a sheet of THIN paper, size 8 x 10 1/2 inches. Write on each sheet your name, full address, and examination title (if any). Use one side only. Enclose, unattached, with application.

BRANT HOLME

TEL. CENTER BRUNSWICK 26 F 32
MEHLES - MEAD R. F. D. 3, TROY, NEW YORK

Friday, July 10, 1942

Dear Henry:

Another current report from the man "left holding the bag".

The thing is still nebulous. Telephone conversations this week with Mr. R. Davis Halliwell and Mr. Burton E. Oppenheim (Textile, Clothing, Leather Goods Section of O P A) brought their desire and appreciation of my offer to tackle the Textile-bag price-administration gratis for three weeks pending developments but their reluctance to accept it in the face of "directives" from above them to cut even their present staffs. They felt that it would be inconsistent.

Meanwhile, telephone conversations with certain of the textile-bag industry develops that an Industry Committee is being considered to function temporarily. Where my services would fit into it is not yet clear but I am expecting some advice on that today or tomorrow.

To be prepared in the event that I cannot be placed in an O P A function but could, as I think, be valuable as a functionary in the Container Section (as a Textile Expert) of W P B, I have taken advantage of our family friend, Representative Mr. Harold Cluett, being home to discuss the matter with him. He will have an opinion by tomorrow on the progress and eventual outcome of the O P A appropriation and is also inquiring about W P B personnel for me. He seems to think that Mr. Weinberg would be the proper person thru whom to make my approach for a W P B appointment. What do you think about that approach? I recall your speaking of your interest in Mr. Donald Nelson's work,

I must desert the ranks of the "idle rich" as soon as possible. I am impatient to do it but at the same time place myself where I can be of greatest assistance in the present emergency. The problem is mine and I hesitate to impose on your patience but you know that I do appreciate your interest and counsel.

Ethel and Elinor join me in love to you all.

Faithfully yours,

Brant



TREASURY DEPARTMENT

WASHINGTON

July 16, 1942.

MEMORANDUM FOR THE SECRETARY:

You called me the other day regarding irregularities you had noticed in the personnel sheets which I sent you on Monday by Mr. Gamble.

In the case of Mr. Coyne, the sheet was in error in indicating that he had any special responsibility for the direction of our activities in New England, New York, New Jersey, Delaware, and Pennsylvania. This represented Coyne's former assignment as Associate Field Director, and the sheet should have been changed as the result of his appointment as Field Director.

The sheets for Thomas H. Lane and John R. Rider, under Mr. Callahan, indicated that these men were awaiting assignment. The descriptions used were misleading. Both men are busy. I do not know Rider, but Lane, who is unusually able and experienced as an advertising and promotion man, has been, by Callahan's direction, engaged in a survey of the publicity methods, material, etc., used in the Press and Radio Section, with a view to an improvement in the quality of the work.

I should repeat that the personnel sheets sent you were hastily done and that neither Mr. Sloan nor myself had an opportunity to review them before they were submitted to you. I am having them re-done, more accurately and with more complete descriptions.

GRAVES

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 15, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	\$25	\$50	\$100	\$500	\$1,000	
July 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
Total	7,027,314	1,320,268	1,325,709	106,404	90,016	9,869,711

July 16, 1942.
MRL/kwk

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of July sales to date with sales during the same number of business days in June and May 1942.

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981		96.2%
2	24,269	52,687	45,442	39,430		115.9
3	27,277	79,964	67,046	72,048		119.3
6	46,531	126,495	98,208	88,605		128.8
7	31,110	157,605	132,341	122,575		119.1
8	43,451	201,056	154,085	157,866		130.5
9	39,918	240,974	192,659	181,431		125.1
10	47,755	288,729	206,523	201,464		139.8
11	36,127	324,856	236,552	232,801		137.3
13	47,164	372,020	259,772	246,756		143.2
14	30,102	402,122	281,724	271,525		142.7
15	33,807	435,929	303,163	296,152		143.8

July 16, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679		79.8%
2	14,880	30,701	27,841	24,263		110.3
3	16,822	47,523	40,811	46,532		116.4
6	29,797	77,320	58,199	55,460		132.9
7	17,724	95,044	82,988	73,824		114.5
8	21,599	116,643	98,197	97,049		118.8
9	22,746	139,390	125,245	114,218		111.3
10	24,772	164,161	134,157	128,670		122.4
11	19,077	183,238	154,242	151,956		118.8
13	26,550	209,787	169,920	161,346		123.5
14	15,744	225,532	186,470	177,133		120.9
15	18,407	243,938	201,700	194,047		120.9

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

July 16, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July		Cumulative sales by business days			July as percent of June
	daily sales	:	July	June	May	
July 1942						
1	\$ 12,597	:	\$ 12,597	\$ 9,705	\$ 7,302	129.8%
2	9,389	:	21,986	17,601	15,168	124.9
3	10,455	:	32,441	26,235	25,516	123.7
6	16,734	:	49,175	40,009	33,145	122.9
7	13,386	:	62,561	49,353	48,751	126.8
8	21,852	:	84,413	55,888	60,817	151.0
9	17,172	:	101,585	67,414	67,213	150.7
10	22,983	:	124,568	72,366	72,794	172.1
11	17,050	:	141,618	82,310	80,845	172.1
13	20,614	:	162,232	89,852	85,410	180.6
14	14,358	:	176,590	95,254	94,391	185.4
15	15,400	:	191,991	101,464	102,106	189.2

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

July 16, 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.

Sales of United States Savings Bonds
From July 1 through July 15, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	July 1	to	July 1	to Date	July 1	to	July 1	to Date	July 1	to	July 1	to Date
Daily	Date	Date	as % of Quota	Daily	Date	Date	as % of Quota	Daily	Date	Date	as % of Quota	
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16			335.5				193.5				529.0	
17			358.7				202.8				561.5	
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 16, 1942.

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

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

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

TREASURY DEPARTMENT

93

INTER OFFICE COMMUNICATION

DATE July 16, 1942

TO Secretary Morgenthau

FROM H. D. White

Subject: Frozen Sterling of the Motion Picture Industry

1. The motion picture industry, at the end of 1942, will have about \$50 million of sterling balances frozen in the British Empire -- about \$40 million of which will be sterling balances in United Kingdom. Of this \$50 million, about half was accumulated between the outbreak of war in September 1939, and the beginning of 1942; and the remaining half will be from earnings this year.
2. Since the outbreak of war, there have been three agreements covering these particular balances, between the British Government and the motion picture industry. A summary of these three agreements is attached.
3. The Treasury was first shown copies of these three agreements on May 12, 1942, when Mr. Hays furnished copies. I believe the Treasury was not informed of the existence and nature of the agreements until June 1941, some eighteen months after the signing of the first agreement, when J. M. Keynes informed us that the British were paying dollars for film royalties. (In July 1941, the State Department informed Cochran that the film industry was requesting the State Department's aid in negotiating a new agreement.)

In soliciting your aid to unfreeze their balances, Mr. Hays has in his oral presentations, letters and memoranda, based his case on (1) the need of the British for U. S. pictures, (2) the service of the movie industry to the war effort, (3) the loss of revenue to the movie industry from occupation of some areas and freezing in others, (4) that the companies need the blocked amounts to continue to produce, (5) that the Lend Lease has removed the necessity for blocking funds, and that (6) the United States Government could purchase the companies' sterling for use in meeting U. S. troop expenditures in the sterling area. (No information was furnished as to the companies' earnings.)

4. Among other arguments, he stated orally that a transfer would bring increased revenue to the Treasury, which would

Division of Monetary Research

- 2 -

collect in taxes approximately 50 per cent of the amounts remitted. (Since foreign revenues, even though frozen, are subject to corporation income tax, I inquired about the tax records of these companies. Internal Revenue stated that the companies, with one exception, had already properly paid taxes on revenues in Britain. One firm, Twentieth Century Fox, has failed to do so and owed taxes on some \$3-1/2 million.)

5. A side case in this matter has been the pleading of R. K. O. Radio Pictures, which firm has been in receivership for some years. This firm pleads that it urgently needs all its funds to furnish working capital and prevent bankruptcy. The Securities and Exchange Commission has made a special study of this firm, and states that it drastically needs funds. Internal Revenue, studying the S.E.C. report, informally agrees that the company is in a weak cash position.

We asked R. K. O. to obtain a letter from the other companies that they would not object to R. K. O.'s receiving special treatment on grounds of financial necessity. So far, the letter has not been forthcoming -- and Mr. Patterson, Chairman of the Board of Directors of R. K. O., informed me that two firms have been recalcitrant out of fear of prejudicing their own cases.

Mr. Bewley, British Treasury, has informed me that the British Treasury is ready to sympathetically consider granting the R. K. O. funds provided they get a word from the companies involved that such action would not constitute a precedent for releasing funds for the entire industry. I had asked Mr. Bewley to wait until he got the clear signal from us since we wanted to get a similar letter from the movie industry. As the matter stands now, if we get the letter we asked for, we will tell the British and they will undoubtedly unblock R. K. O.'s funds. It has been about two weeks since I have heard from them on this point.

Conclusion

I do not understand why the moving picture industry needs Treasury aid at this point. The contract requires that they reopen negotiations, if they wish to modify the existing contract, by the end of July; i.e., three months before termination. The contract also includes the clause that in any adjustment of the contract the exchange

Division of Monetary Research

- 3 -

position of the British Treasury would be a factor in settling the terms. It would, therefore, seem that the road is clear for the movie industry to reopen the negotiations directly with the British Treasury and secure whatever terms they can. That is exactly what they have done in the past. They feel that they have an excellent case for securing better terms from the British Treasury. Why then can they not convince the British Treasury to give them more favorable terms?

Should they be able to do so, the British Treasury will probably approach you on the matter since any increase in dollars that the British may wish to give to the movie industry would be a drain on their dollar assets. Hence it would be a matter which the British Treasury should properly take up with you before making a final decision. If the movie industry succeeds in convincing the British Treasury of the merits of their claims and if the British Treasury tells the movie industry that before giving a decision they will have to take up the matter with you, you will probably have to render a decision on the matter. But certainly there is no reason to render such a decision before the British put the matter up to you.

It seems that there is no way of avoiding the responsibility of making a decision on the matter if the British Treasury placed the matter before you. Until that time, however, it would seem that you can continue to hold to your position that it is not properly a matter for our intervention at this stage of the proceedings.

Appendix

Three Agreements Covering the Transfer of Sterling Balances Owned by U. S. Film Companies.

1. The first agreement (for the year November, ¹⁹³⁹~~1940~~ to October, 1940) provided for the transfer of \$17.5 million, estimated as 50 percent of the annual remittances of the previous three years, and further provided for opening discussions for a new agreement at the end of the period. Transfers were to be allocated among the companies in accordance with the companies' own determination. In return, the companies agreed to maintain their exports of films. The companies enjoyed the right to utilize their sterling for expenditures and certain investments in the British Empire.

2. The second agreement (for the year October 27, 1940 to October 25, 1941) was much less favorable to the picture companies, provided that the companies could remit 100 percent up to \$8.6 million, and 50 percent of the remainder -- with a maximum of \$12.9 million. The remainder of sterling balances were not to be transferable without prior written consent of the British Treasury, which would take into consideration any improvement in the foreign exchange position of the United Kingdom.

3. The third agreement (for the year October 26, 1941 to October 24, 1942) was more favorable to the film companies. It permitted them to complete all transfers authorized under the previous agreement, plus 50 percent of any other blocked balances accumulated at the beginning of the new agreement. In addition, it permitted the companies to remit \$20 million of the current year's revenues.

Picture companies participating in the agreements were: Columbia Pictures Corp.; Paramount Film Service, Ltd.; R.K.O. Radio Pictures, Ltd.; Warner Brothers, Ltd.; 20th Century Fox, Ltd.; M.G.M., Ltd.; United Artists, Ltd.; N.U.P. Finance, Ltd.

July 16, 1942.

Conference in Mr. White's Office,
Thursday, July 16, 1942,
12:15 P. M.

Present: Mr. White
Mr. Patterson

Mr. Patterson of R.K.O. called at his request. Mr. Patterson stated that he understood that there was a meeting held in the Secretary's office that morning with some motion picture executives. He said that he had been asked to go but he felt that it would be inappropriate for him to be there. He said that he had with him cablegrams which had been sent by the industry to their representative in England. He presumed that the cablegrams indicated that the motion picture industry had no objection to R.K.O.'s receiving special consideration.

I glanced at the cables and said I didn't believe that the British Treasury would be satisfied that the statement met their request. I told Mr. Patterson that a more explicit statement seemed to be called for inasmuch as the cable was accessible of a number of interpretations. Mr. Patterson agreed and said he would try to get a more comprehensive statement.

TREASURY DEPARTMENT

98 ✓

INTER OFFICE COMMUNICATION

DATE JUL 16 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

You will be interested to know that Foreign Funds Control played an important part in the apprehension of Karl Friedrich Bahr, the Gestapo agent who was caught in New York the other day attempting to enter the country under the guise of a refugee.

Information received in a routine despatch from Lisbon indicated that Bahr was attempting to smuggle into the United States a substantial amount of United States currency. A member of Pehle's staff transmitted this information to the Collector of Customs in New York on June 29th. The Drottningholm docked on June 30th and, as you will recall, all the passengers were under investigation by the FBI and other agencies for several days.

By July 3, Bahr had been placed in a group of supposedly innocent American citizens to be passed through Customs in the ordinary manner. Customs officials acting on the information received from Foreign Funds Control singled Bahr out for a particularly thorough search. Apparently agents of the FBI were present during the search of Bahr's person and belongings. In the course of the search \$1,500 of carefully concealed United States currency was discovered and also evidence indicating Bahr's true character which had hitherto escaped the attention of the other agencies examining the passengers.

When Customs officials attempted to get Bahr for questioning on the afternoon of July 3rd, they discovered that he had been removed from the Drottningholm and efforts to locate him were unavailing until after the story naming him as a Gestapo agent had been published in the newspapers. It seems clear that Bahr would have been admitted to the United States without suspicion had it not been for the special search of his belongings made by Customs at the suggestion of Foreign Funds Control.

S. N. 76

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 16 1947

Secretary Morgenthau

FROM E. H. Foley, Jr.

JEAN MONNET AND GEORGE MURNANE

Although our general study of the associations and activities of Monnet and Murnane is not yet completed, I wish to bring to your attention at this time the status of the tax phase of the investigation.

Our preliminary investigation of the tax situation has been completed without a conclusive result. I therefore think that if you agree, an intensive tax fraud investigation should be made in the regular manner by special agents of the Intelligence Unit.

I also wish to bring to your attention certain correspondence found in Murnane's files which evidences Murnane's eagerness to deal with the Nazis as late as July 1936 and the use he made of his connections with certain Government officials.

This correspondence indicates that in 1936 Murnane, with the apparent backing of Jesse Jones, attempted to promote a large purchase of cotton by the Germans which would involve a long-term credit (over \$50,000,000) from our government to the German government with ultimate payment by the Germans in free exchange. In a letter to Blessing, Director of the Reichsbank, dated May 20, 1936 concerning these negotiations, Murnane said that:

" * * * * In our own Government circles, there was the same disposition to trust such delicate matters to me to advance as has been shown by yourselves. Upon my return I have discussed with a personality of exceptional power in such affairs the principles of a transaction as outlined above, * * * * it being determined that

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the matter would be kept out of official channels entirely and kept solely in my hands until a program was arrived at that both sides felt would be practical * * * *."

The "personality of exceptional power" was Jesse Jones to whom Murnane later reported that the negotiations with Blessing had been halted for the time being because of the poor outlook for the Germans' ability to repay the credit with foreign exchange.

In a letter of July 3, 1936 to Gert Weismann (former assistant to Hjalmar Schacht, who figured in the Petschek German coal deal) concerning the proposed cotton credit, Murnane said:

"I am most anxious to keep this subject alive, not because I am convinced that there can be any cotton credit at an early time, but simply as a means of stimulating the relationship between the principal Government people in Berlin and myself * * * *."

In a letter of July 27, 1936 Murnane advised Weismann of the forthcoming visit to Berlin of Warren Pierson and said:

"* * * * I would be glad to have you give to the Germans the evidence of your being in my confidence and consequently in touch with Pierson, and through him, the United States Government. * * * * I believe that Pierson is entirely loyal to me. He is in reality a member of the staff of Jones, head of the Reconstruction Finance Corporation, who is of course very close to me. I am naturally anxious to preserve the intimacy both with the Germans and the U. S. Government in these channels, so that should actual business develop, there will be a chance of our dealing with it for both sides."

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In a letter to Blessing dated July 28, 1936 in connection with the same subject, Murnane said:

"In the same mail with this letter I am sending you a letter about the forthcoming visit to you of Mr. Warren Pierson who is President of the Export-Import Bank at Washington. This bank would undoubtedly deal with the question of a credit should that at any time be actual. Mr. Pierson would naturally be concerned with the technique of setting up and handling such a credit, but would also be an influence with Mr. Jones of the Reconstruction Finance Corporation in coming to a decision as to the grant of such credit. I have told you privately that I hold a close relationship to the Reconstruction Finance Corporation and the Export-Import Bank, who are inclined to trust to me delicate matters of negotiation - my relationship toward them being one of the same kind of confidences (sic) that exists in the case of my relationship (sic) to Dr. Schacht."

Photostatic copies of the correspondence from which the extracts quoted above were taken are attached.

It may also be of interest to note that Murnane recently resigned as voting trustee, director and officer of York Commercial Corporation, which, as stated in a previous memorandum, is associated with the Continentale Handelsbank, a Dutch bank which in turn is allied with the German Potash Syndicate. Murnane told a Treasury investigator that he resigned when for the first time he discovered that the Continentale Handelsbank has an interest in a large block of American Potash and Chemical Corporation shares now held by J. P. Morgan & Company for a Dutch banking syndicate but the beneficial ownership of which may be in certain German potash companies. This is one of the situations involving Monnet and Murnane which is now being studied.

8.11.74.

Wm. H. Huntington
5:30 - May 20/56

102
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May 20, 1956

Dear Bloomberg:

Our discussions in Berlin centered around the possibility of purchase by your country of an amount of cotton which would give you a satisfactory stock of cotton without increasing current purchases, such stock possibly involving from 800,000 to 850,000 bales.

We both recognized that it would be unwise to seek long credit on a product whose manufacture and consumption would occur early, but that in the peculiar circumstances of the cotton supply in your country it could become sound if the cotton purchased were locked upon as a more or less steady stock to assure openness of manufacturing schedules and if it was replenished constantly by purchases conforming with current requirements. Purchases of this kind could be added to the program if the obligation for repayment was taken by the Goldfinance Bank or other international agency and if there was pledged to repayment such portions of the Goldfinance Bank's portfolio of long term foreign credits as would represent adequate income in foreign exchange over the period of the credit to repay it. We discussed the credit in terms of an average period of perhaps five years. I pointed out to you the danger of such negotiations and the near certainty that failure would occur if such a transaction was attempted in the first instance between the governments themselves with accompanying risk of publicity or the intervention of factors outside the pure business questions directly involved.

I pointed out to you that in our own Government circles, there was the same disposition to treat such delicate matters to no the advance as has been shown by your own. Upon my return I have discussed with a personality of exceptional power in such affairs the principles of a transaction as outlined above, and I found a very great interest to put immediate study upon it with a view to making such a transaction possible. I was requested to take such steps as might be required to formulate definite plans, it being understood that the matter would be kept out of official channels entirely and kept solely in my hands until a program was arrived at that both sides felt would be practical, after which by quiet and forceful measures it might be carried through.

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Mr. Blossing

May 23, 1933

I am therefore telling you that interest in the question here is actual, and that if you remain interested it would be wise to do several things promptly, always of course in the complete discretion we understand:

1. Cable me in a personal way promptly indicating if you wish to proceed with the discussions.
2. If so, that you prepare a memorandum dealing with the importance which such a stock of cotton would have for you, your ability to maintain it as a more or less steady supply, the advantages to the American cotton grower that would accrue through the occasion of the tendency to alter machinery to fit the cotton produced in other countries.
3. Whether the grounds for assuming that the cotton so purchased could remain reasonably as a permanent stock replenished by purchases by the ordinary trade in its normal or increased volume.
4. The practicability of the GoldDiscount Bank being the actual purchaser or the guarantor of the obligation given and what degree of supervision it could give over the maintenance of the cotton as a continuing stock with the accompanying normal current purchases of cotton.
5. A discussion of the foreign bills which could be pledged for repayment, the manner of pledging, the schedule of payments on such bills in relation to the terms of payment of the cotton, the procedure for collection of such bills, etc.

The above points are very general and are meant simply to suggest that a broad basis be laid down which would give an outline of the possibilities, it being kept in mind that the vital point in making such a credit possible here would be the bearing it would have in protecting and preserving your market for American cotton without reducing current purchases, or otherwise interfering with normal trade channels.

You can feel assured of course, of my protecting your communications in the most personal way and directing the matter to the end of establishing

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Mr. Blessing

May 20, 1956

the possibility of such a transaction without risking official embarrassment to either side.

With kindest personal regards,

Sincerely yours,

Mr. Blessing,
Reichswirtschaftsministerium,
Berlin, Germany.

45
Barnes, Barnes & Co.

Charge to the account of

CLASS OF SERVICE DESIRED
FULL RATE
HALF RATE DEFERRED
NIGHT LETTER
WEEK-END LETTER

Should check class of service desired, otherwise the message will be transmitted at full rates

WESTERN UNION CABLEGRAM

WESTERN UNION, PRESIDENT

J. C. WILLEYER, VICE-PRESIDENT

CHECK
ACCT'S INFRM.
TIME FILED

The following message, subject to the terms on back hereof, which are hereby agreed to

PLAINING

RECEIVED BARNES BARNES & CO

DELETT

May 20, 1900

Following my return I discussed in very important quarter credit question dealt with between you and me and your minister and am encouraged to believe it worth immediate study to develop a plan along that line Stop Writing you by by Hindenburg

WESTERN

THE QUICKEST, SUREST AND SAFEST WAY TO SEND MONEY IS BY TELEGRAPH OR CABLE

TRANSLATION

from: German

B'M

Reichs- und Preussisches
Wirtschaftsministerium
(Ministry of Economics of the
German Reich and of Prussia),
Blessing, Director of the Reichsbank,
Behrenstrasse 43,
Berlin W 8, Germany.

June 9, 1936.

Mr. George Murnane,
30 Broad Street,
N.Y.

My dear Murnane:

I thank you very much for your kind advices of May 20th and I thank you especially for the kind interest which you are showing in the cotton credit matter.

The reason I am answering you only today is that we have examined for a long time into your advices and suggestions. However, the more we have thought the matter over, the more we became convinced on the other hand that the repayment of a credit of 500,000 to 800,000 bales of cotton, i.e. from 120 to 160 million Reichsmark in free exchange could under certain circumstances become difficult. As you know, we want to avoid, under all circumstances, entering into engagements in connection with which we are not sure that we can perform same upon maturity. I do not need to tell you that the repayment could only be made through increased German exports, especially also to the United States. The chances for an increase of exports particularly to the United States, however, are not

LAWYERS' & MERCHANTS' TRANSLATION BUREAU
Established 25 Years (1911) (Translation Service Bureau) Carl V. Swartz, Mgr.
PHONE DIXIE 4-2930-2931 11 BROADWAY, NEW YORK

TRANSLATION

from:

favorable at the present time. Due to the decision of the American Treasury issued last week, to impose special duties on certain German goods, pursuant to Section 305 of the Tariff Act, the possibilities for exports to the United States have again become worse.

With regard to exports to other countries, unfortunately, about two thirds of these exports devolve on markets from which we do not receive any cash foreign exchange but clearing credits which grant only the authorization for purchases in the countries in question. If, therefore, in accordance with the discussions had at the time, we would separate long term export bills with the Golddiskontbank against the cotton credit to be newly obtained, we might run the risk under certain circumstances that these bills, upon maturity, would not be received in cash exchange, but in clearing marks.

We have therefore arrived at the conclusion that, in view of the present uncertain outlook, it would be preferable to defer the question of the raising of a cotton credit for the time being and to wait and see how things will develop further. As soon as the situation should be judged here in a different viewpoint, I shall take the liberty of advising you. In the meantime and in accordance with your suggestions of May 20th I shall examine into

TRANSLATION

from:

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the question as to the possible form of a definite plan.

With best personal regards,

Faithfully yours,

Reichs- und Preussisches
Wirtschaftsministerium

- Reichsbankdirektor Blessing -

Es wird erbeten, dieses Geschäftsgeheim und den
Gegenstand bei weiteren Schreiben anzugeben

Berlin W 8, den 9. Juni 1936.
Behrenstraße 43
Fernsprecher: Sammel-Nr. 26 Meckur 4351

Mein lieber Murnane !

Für Ihre freundlichen Mitteilungen vom 20. Mai ds. Js. danke ich Ihnen verbindlichst, insbesondere danke ich Ihnen für das liebenswürdige Interesse, das Sie der Baumwollkredit-Angelegenheit entgegenbringen.

Wenn ich erst heute antworte, so deshalb, weil wir über Ihre Ausführungen und Anregungen lange nachgedacht haben. Je mehr wir jedoch darüber nachdachten, je klarer ist es uns auf der anderen Seite geworden, daß die Rückzahlung eines Kredits von 500 000 bis 800 000 Ballen Baumwolle, d. h. von 120 bis 160 Mill. RM in freien Devisen unter Umständen schwierig werden könnte. Wie Ihnen bekannt ist, wollen wir unter keinen Umständen Engagements eingehen, von denen wir nicht sicher sind, daß wir sie bei Fälligkeit erfüllen können. Ich brauche nicht zu sagen, daß die Rückzahlung nur im Wege eines vermehrten deutschen Exports, insbesondere auch nach den Vereinigten Staaten erfolgen könnte. Die Aussichten für eine Steigerung des Exports gerade nach U.S.A. sind jedoch im gegenwärtigen Augenblick nicht günstig. Durch die in der vorigen Woche getroffene Maßnahme des amerikanischen Schatzamts, die Einfuhr gewisser deutscher Waren mit Sonderzöllen auf Grund des Abschnitts 303 des Zollgesetzes zu belegen, sind die Aussichten für den Export nach den Vereinigten Staaten erneut

Herrn George Murnane,
Thirty Broad Street
New York.

June 29, 1934

Dear Jackson

Several weeks ago when in Washington, to discuss the possibility of the sale of a supply of cotton to Germany, I told you that I had discussed the matter with the leading representatives in Germany when I was there, that there was a strong feeling to acquire such cotton, and in general they wish to submit to me the preliminary requirements thought to be practical to carry along these plans. I told you at that time I would endeavor to carry the matter a step further, but that I would not discuss the subject with my members of your staff until the matter was clearer.

I have exchanged views with the Germans since that time, and the following expresses their feelings on the subject at this moment. They have been studying the matter for several weeks and as a result have concluded that the requirement for a credit of \$20,000 to \$30,000 million of cotton, that is, from 120,000,000 to 180,000,000 in value, would in free exchange could under certain circumstances become very difficult. They state that under all circumstances they wish to avoid entering into any engagements which they are not certain they can perform at any time. They point out that payment could only be made by increased exports, particularly to the United States, and that the chances for increased exports, particularly to the United States, are not at present very favorable. That sale is especially true since the decline of the United States Treasury of a couple of weeks ago, thereby special duties will be imposed on certain German goods pursuant to Article 605 of the Tariff Act.

In talking with the Germans it had been our idea that they would pledge to the requirement of the credit certain long term export bills which they have taken in connection with their financing of long term exports to different countries. This generally increased difficulties, however, have made them realize that in connection with a large percentage of these countries they do not receive free foreign exchange, but instead have clearing credits which grant only the authorized amount for purchases in the countries in question. If therefore they were to separate such long term bills as are now held by the Goldstranstank and pledge them against a credit for cotton newly obtained, they might run the risk under certain circumstances that the bills upon maturity would not be received in such foreign exchange but only in clearing arrangements entitling them to receive goods from the countries in question. They have therefore arrived at the conclusion that in view of the present outlook it would be best to defer the question of a cotton credit for the time being, and wait and see what developments arise. They point out that as soon as from their end they could judge the matter from a different standpoint, that they will advise me so that we can make whatever progress is then possible, and that in the meantime they will continue to study

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June 29, 1936

the subject with a view to formulating their views as to the most definite plan that might accompany such a development if it arose.

You can take the above views as the official feeling of the German authorities today. They represent some backward steps from the state of mind they were in at the early part of May, but this can be related most definitely to the recent difficulties between our Government and the German Government, which resulted in the application of the punitive phases of the Tariff Act. I had been expecting during some weeks to hear from them, but their opinions were undoubtedly held up until our Treasury Department took its final decisions, and this naturally upset any possibility of results.

I think it equally likely that in view of the steps taken against Germany at Washington that you might not want to aggressively press the matter.

I send you this memorandum to bring you up to date on the matter, and would be glad to talk about it with you further at any time. In the meantime, I will continue to keep in touch with them, and I think together we can judge the proper moment to advance this matter further.

Sincerely yours,

Mr. Jesse H. Jones,
Reconstruction Finance Corporation,
Washington, D. C.

Herman Cotton

**RECONSTRUCTION FINANCE CORPORATION
WASHINGTON**

JESSE H. JONES
CHAIRMAN OF THE BOARD

July 11, 1936.

Dear George:

Your letter of June 23rd was duly received,
and I shall discuss the matter with you when we are again
together.

With best wishes,

Sincerely yours,

Jesse H. Jones
JESSE H. JONES
Chairman

Mr. George Murnane,
50 Broad Street,
New York, N. Y.

VIA "HINDENBURG"

(B) 113

New York, July 3, 1936

Dear Gert:

I was especially interested in your letter of June 2nd, evidencing that Blessing had talked with you about the cotton credit matter. I told you the background of this when I was in Europe, and explained that I would like it should an opportunity develop in this way for you to handle for us any resulting negotiations.

I had some very encouraging discussions at Washington on my return from Europe, and the substance of these I conveyed to Blessing. The important feature was that in the quarter at Washington which would be most likely to deal with such a matter, there was a complete willingness to entrust to me the preliminary negotiations that might lead forward to an understanding. These events were followed by the breakdown in the Commercial Treaty negotiations, and by the imposition on Germany of the tariff clauses which further interfere with the normal relations between the two countries. I think had the general developments been otherwise, we might actually have gotten started a negotiation of some considerable interest, whether resulting successfully or not. Naturally it is my objective to keep alive the present tendency on both sides to entrust me with such matters.

In the communication that I sent to Blessing, I told him that should negotiations develop and a need arise for somebody on the spot representing me to discuss the various problems, with him, that I would endeavor to enlist your services if that was agreeable to him. Since their decision was adverse, there was of course no occasion for him to ask me to have you cooperate in such negotiations, but I am pleased that he did talk to you about the matter and read to you the letter which he sent to me. I take that as evidence that had the negotiations progressed at all, that you would have been toward him a welcome point of cooperation.

I am most anxious to keep this subject alive, not because I am convinced that there can be any cotton credit at an early time, but simply as a means of stimulating the relationship between the principal Government people in Berlin and myself, and I will try to keep you posted, but suggest that you handle the matter with your usual discretion so that the initiative in informing you comes from Blessing as far as possible; even though you know more of the background and developments than appears on the surface. I would rather hope that in this way things could develop naturally and something arise that could give life to our hopes.

Sincerely yours,

Mr. Gert Weisamm,
c/o Messrs. Higginson & Co.,
London, England.

A. H. CARMICHAEL

July 28, 1950

Dear Jack:

I am writing you because that you should take one of your normal trips to Germany, preferably with the whole team of Russian prisoners, about whom I have written you in a separate letter. Pierson will be one of those dealing with the question of a certain credit should it arise.

As you know, I mentioned your name to my father to discuss about negotiations for such a certain credit. I also told you the story, so that you know he thus held the general national handle for you to bring in touch with that matter. Things are settling to do presently, since the warler action here has made negotiations especially straightforward, I would be glad to have you give to the Germans the evidence of your being in my confidence and consequently in touch with Pierson, and through him, the United States Government.

Following the receipt of this letter I would like to have you cable me if there is a change of your being in Berlin at that time in the normal course of affairs. If so, I would like to have you telegraph to Pierson of the American Legation in Stockholm, stating that at my request you will meet him in Berlin at whatever date around the 15th of August is agreeable to him. In the event that it is impractical for you to go to Berlin, I would in any case like to have you telegraph Pierson that you find it impossible to be there but that your office in Berlin will be glad to take care of his requirements, also appointments, etc., when he arrives. In that case please also instruct the office to do so.

I believe that Pierson is entirely loyal to me. He is in reality a member of the staff of Jensen, head of the Rosenkrantz-Pierson Corporation, who is of course very close to me. I am naturally anxious to preserve the intimacy both with the Germans and the U. S. Government in these channels, so that should actual business develop, there will be a chance of our dealing with it for both sides. I have no fears at all that this would be concluded by reason of Pierson establishing a direct contact with Moscow, especially when accomplished through me. On the other hand, it will give even greater naturalness to the situation were you to take Pierson to Moscow in the first instance, even though you then left them to confer together, but it would serve to give to Moscow the appearance of your being on the inside of the happenings in that direction.

I expect myself to call for Burgo on the Queen Mary's August 20th, and to return on the "Mermaid" September 8th. I will go to Berlin and will be interested primarily in the general situation, especially as it concerns

- 2 -

Mr. Gert Weismann

July 27, 1986

Schacht and his present held on his office. I will spend a little time with the family in France, and may drop off in London for a day or two at the end. I will count on seeing you during my trip, and will be most anxious to do so.

Sincerely yours,

Mr. Gert Weismann,
c/o Messrs. Higginson & Co.,
London, England.

S. S. QUEEN MARY

July 27, 1938

Dear Gert:

Mr. Warren Pierson, President of the Export-Import Bank of Washington, D. C. is taking a trip to Europe and will visit Stockholm, Berlin, Hamburg, Paris and London.

The Export-Import Bank is the governmental agency which deals with all matters in connection with foreign credits. That bank is also closely related to the Reconstruction Finance Corporation, and my relationship to these institutions is very close.

I am especially anxious that Mr. Pierson should have the best access possible to the principal personalities in Germany that may be connected with affairs of mutual interest to him. With that in mind, I have asked him to get in touch with you should you be in Berlin at the time that he is there, and I am particularly anxious that you should be there to meet and help him if that is at all possible for you. He expects to be in Berlin on August 14th or 15th, staying there a few days. I am cabling you to that effect, and hope it will be possible for you to be there. I am also asking Mr. Pierson to let you know through the office in Berlin how he can be reached at about the time of his arrival in Hamburg so that we can provide for him the various contacts that will be helpful. I have given him letters to: Drayse, Blessing, Kampner, Jaidels, Schlieper, von Krosigk. I have particularly asked Blessing to plan his visit beyond that in any way that seems wise to him. I think it will be a good idea about the time he arrives in Hamburg to inform Blessing so that he may get in touch with Hamburg and see that Pierson receives the necessary directions there to give him access to matters that would interest him. He is sailing on the S. S. Washington, Wednesday, July 29th.

Sincerely yours,

Mr. Gert Weismann,
Charlottenstrasse 56,
Berlin F 8, Germany.

P.S. Disregard above reference to Hamburg. Pierson will go directly from there to Stockholm and will only return to Germany thereafter. He intends to make his first contact with Germany in Berlin and may run up to Bremen thereafter, but it will be entirely practical for him when in Berlin to make such arrangements for Bremen as are necessary.

July 22, 1946

My dear Wendell:

I received your letter of June 9th and have taken occasion to discuss the problem further at Washington with the principal personalities there.

The reasons which led you to feel it inappropriate to press the matter at this moment are realized and understood at Washington, and it is probably clear that the atmosphere from both sides needs to be somewhat clarified before progress along these lines could be made. I pointed out to you previously that there is no one in the Government who can fully decide such matters. We were dealing, of course, with the quarter most directly concerned and possessed probably of the greatest power of decision, but before transactions of such importance can be consummated, other phases of Government must express views, so there is always risk of even the most practical plan falling at the end through political considerations.

In these quarters, however, there is a deep interest to move along the lines that you and I have discussed, and I think it wise we should remain very watchful of developments and give what time may be necessary to thinking out an appropriate form of operation should a timely moment come.

Should the idea develop further with you, you can always write me, or when Weismann is in Berlin, it is quite safe and agreeable to me to have you relay through him any thoughts or suggestions you may have.

In the same mail with this letter I am sending you a letter about the forthcoming visit to you of Mr. Warren Pierson who is President of the Export-Import Bank at Washington. This bank would undoubtedly deal with the question of a credit should that at any time be actual. Mr. Pierson would naturally be concerned with the technique of setting up and handling such a credit, but would also be an influence with Mr. Jones of the Reconstruction Finance Corporation in coming to a decision as to the grant of such credit. I have told you privately that I hold a close relationship to the Reconstruction Finance Corporation and the Export-Import Bank, who are inclined to trust to me delicate matters of negotiation - my relationship toward them being one of the same kind of confidence that exists in the case of my relationship to Dr. Schacht.

I hope you will be in Berlin when Pierson arrives, and that you will have some chance to discuss things together. It is quite likely I will be

- 2 -

July 28, 1936

there the early part of September myself to spend some days in general contact with the situation. It would be very agreeable for once to be there when I do not have to negotiate the renewal of the Transition Credit.

I hope you are occasionally having some holidays, and that your affairs progress well.

Kindest personal regards.

Sincerely yours,

Er. R. Blessing,
Reichs and Preussisches
Wirtschaftsministerium,
Berlin, Germany.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

July 16, 1942

MEMORANDUM TO THE SECRETARY:

Office of Lend-Lease Administration requested to-day that all Lend-Lease shipments for Russia be stopped. Accordingly, immediate steps are being taken to divert shipments to warehouses until determination is made as to future action.

We are keeping the War Production Board and the Office of Lend-Lease Administration closely informed as to available materials.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



THE UNDER SECRETARY OF STATE
WASHINGTON

July 16, 1942

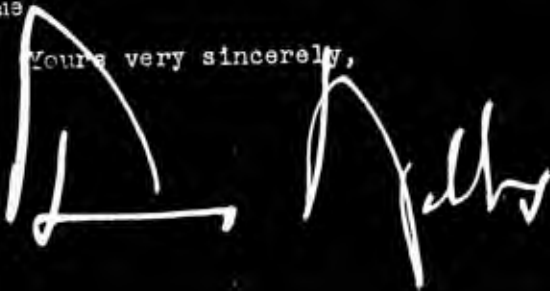
My dear Mr. Foley:

I was unfortunately laid up during the final days of the Inter-American Conference on Systems of Economic and Financial Control and I was consequently not able to tell you in person how much I appreciated all that you had personally done to make this conference a very real and practical success which it proved to be.

With my very sincere congratulations to you, please accept also the expression of my deep appreciation.

Believe me

Yours very sincerely,



The Honorable
Edward H. Foley, Jr.,
General Counsel for the Treasury,
Treasury Department,
Washington, D. C.

July 16, 1942.

Dear Randolph:

It was good of you to send me the letter which your representative in Argentina wrote you on June 18. I was much interested in reading Mr. Welch's comments on the situation there. I think that you will probably wish to have the letter for your own files, and I am therefore returning it to you.

Sincerely,

(Signed) Henry

Dr. W. Randolph Burgess,
55 Wall Street,
New York, New York.

File - NMC

Enclosure.

GEF/abs

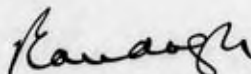
W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK

July 9, 1942.

Dear Henry:

In view of recent discussions about the Argentine I think you will find it interesting and worth while to read the attached letter from Leo Welch, our manager in Buenos Aires.

Sincerely yours,



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

WRB.H

THE NATIONAL CITY BANK OF NEW YORK
BUENOS AIRES OFFICE

In Replying Please Quote Initials LDW:

June 15, 1942.

Mr. Boies C. Hart, Vice President,
The National City Bank of New York,
Bank Window - Church Street Annex
NEW YORK, N.Y., U.S.A.

Dear Boies,

I know you have not time to read lengthy letters discussing simple points of view, but our conversations showed our points of view to be somewhat at variance and I have thought it advisable to touch upon some of the things discussed, in the hope of bringing my own view in focus with yours.

Our failure to follow your frame of mind towards consequences arising out of the relations between Argentina and the United States is now quite clear after talking with people who have just arrived. We here knew that the press on Argentina in the United States was bad, but had no idea that it had reached the level which it has. Alberto Severgnini showed me two copies of P.M., of about May 17th and 19th headlining "Argentina aids Nazis to outflank United States in South America" and "Castillo playing Germans' role in South America". The Gervasi articles in Colliers have gotten here and they are firebrands. The Treasury's attitude upon Argentine accounts in the United States during the latter part of May has filtered through. These things, of course, are bound to put an angle on this situation at home which could lead to some overt act or utterance that might cause an incident. These things, however, are not an accurate reflection of the actual situation and I have been given to understand throughout by the Ambassador that the State Department understands the situation perfectly and is not being stampeded into anything that would undo the chances of working this picture out on a friendly basis, which is the way it must be done.

The President of Argentina has been told that while our President and State Department are very friendly and most anxious to avoid widespread friction, even they cannot control the effects of a violently bad press. The Acting President here has said that he would endeavor to improve the situation and some steps have been taken, such as the protest on the "Victoria" and some of the expressions published at the Inter-Continental Police Convention. The President has done very little, however, to get off the fence. He and his crowd remember that Argentina made a killing off the last war, and somehow hope to make this one pay dividends either during or afterwards. His foreign minister, Ruiz Guinazu, thinks that Germany can still win and thinks that to stay in the middle of the road will keep him right with the victor. Admittedly, this is small satisfaction for our country, but we will not correct anything by going off the handle and ruining eight or nine years of rapprochement policy. I think I know Argentina and its people about as well as any foreigner. Argentina is largely pro-Ally - not forcefully so - but still pro-Ally. Its press is restricted by the state of siege, or its sentiments would be more emphatically voiced. The

- continued -

Page 2

opening blasts in Congress show a strong dissatisfaction with the state of siege, and the people who are energetically pro-Ally are becoming louder in their demands for a downright justification of the foreign minister's policy and they are calling for better collaboration with the Allies. Naturally, we do not like this attitude of sitting on the fence. Both countries stand to lose by it, chiefly Argentina, because it will take a long time to erase the widespread bad impression in the United States now being caused. Like it or not, we must be realists and apply the treatment best suited to the good of the United States in the long run and that is "patience and more patience". In my conversations in Washington in 1940 I came away with the conclusion that Mr. Hull and Mr. Welles have these people pretty well sized up. I know that some of the more energetic groups in the Government feel that Argentina ought to be "smacked", but such a step would turn away the large and growing sentiment now in our favor. It could be disastrous.

Within this country those who resist collaboration with the United States are comparatively few in number, but many of them are among the influential figures in the country. The light is gradually coming over them that during the remainder of the war and in the post-war, the United States is going to do a large part of the talking, for the Western Hemisphere at least, and that it will simply be bad business for this country to be in the doghouse. They are coming to realize that this policy produces no gains at present; rather the contrary, since the offer which was held out to Argentina at the Rio Conference for practically underwriting this country's economy over several years was snubbed and advantages thus lost that might have been obtained. The generally downward trend in business is contributing its effect on the psychology of this group also. Public admission is frequent to the effect that the United States can do nothing less than it is doing in the restriction of imports and exports, if it is to win the struggle and there is no ill feeling over these measures. People see further declines ahead in many lines and although a precipitate drop should not occur, unless unforeseen events develop, this trend can only have an increasingly sobering effect. It is hard to say how far things must go before all of Argentina decides that its future will be far safer by close and friendly working with the United States, and appearances are that it is only a matter of time before it breaks through the tough-crusted individuals now in the saddle, either by their coming around to this viewpoint or by having it pushed upon them. Midway has produced no small progress towards better thinking here, and another such victory will do a vast amount of good among the "hesitant friendly". Any sizable setback such as Libya, will produce its chill but, sentiment is on the move in our favor at a rate that will withstand a certain amount of bad news. Such is the psychology of these people, and seeing it so, you can understand why we who are here, hope that no untoward step will be taken to upset the applecart. Undoubtedly, this view pervades our judgement on business in general, and if it is at variance with your own or that of the men who are working on South America at home, that may explain why we do not see the same dangers as are reflected in the letters received.

I have discussed this with Merle Cochran of the State Department and the Ambassador - the latter and I are in continual close accord on this picture. They are both lunching at my house next week together with Walter Hoffman, which will afford Walter the chance to ask a number of questions on the points at issue.

- continued -

Page 3

This is long, but I have felt that in your place I would want to know the thinking process of the man in the field, so I have taken the liberty to stretch it out.

Yours very truly,

s/ L. D. Welch

LDW:BAS.
Via airmail.

Supervisor of River Plate Branches.

JUL 16 1942

My dear Mr. Welles:

Reference is made to my letter of March 12, 1942, in reply to your letter of March 7, 1942 (FD), in which, in response to your request, this Department undertook to arrange a small mission to be sent to Honduras to study the banking needs of that country.

In the course of recent conversations with the Honduran Minister, at which a representative of your Department was present, Mr. Harry White indicated the type of mission that the Treasury would be willing to send to Honduras at the request of the Government of Honduras. The Minister from Honduras requested that a written memorandum embodying the sense of the discussion be given to him to facilitate transmission to his government.

Attached is a statement of the Treasury's proposal which you may wish to use in preparing a memorandum for the Minister of Honduras.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sumner Welles,

Under Secretary of State.

By Messenger

Brown
9:15 7/17/42

Copies to Mr. Thompson

RG:FAS:dm:7/6/42

TMC.

MEMORANDUM

In response to the request of the Department of State, the Treasury Department has expressed its willingness to arrange a small mission to be sent to Honduras for the purpose of studying the monetary and credit needs of that country and to make appropriate recommendations. It is the intention of the Treasury Department to endeavor to include in the personnel of this mission experts from the Farm Credit Administration and from the Board of Governors of the Federal Reserve System. However, the Treasury Department is willing to undertake the responsibility for arranging and directing such a mission only if its terms of reference leave the mission free to make whatever study it considers appropriate and to make any recommendation which in its judgment the study may justify.

The Treasury Department understands that a law has been passed in Honduras providing for the establishment of a Central Bank and that the Government of Honduras prefers that any technical mission take the ultimate establishment of a Central Bank as the basic point of departure in its studies. But the Department is not willing to undertake the responsibility for a mission if the scope of its investigations and recommendations be limited to that of recommending the type of Central Bank suitable to Honduras. However, it should be observed that, were the mission of the type which the Treasury Department has in mind to submit a report to the Honduran Government, that Government would be under no obligation to accept the recommendations contained in it. It might be of assistance to assure the Honduran Government that the Treasury Department is in sympathy with its desire to obtain the best possible banking facilities for the country and that the Department would expect any mission for which it assumes responsibility to make a careful and unbiased survey of the banking needs of Honduras.

If the Honduran Government does not find it possible to accept a mission set up under the above conditions, it is of course possible that American experts can be employed directly by the Honduran Government to conduct the type of study desired

- 2 -

by that Government. The Treasury Department has assumed that the expenses of the mission which it agreed to arrange would be met by the various agencies assigning experts to the mission and the Honduran Government would be expected to meet only such minor expenses as providing local transportation in the course of field investigations within the country.

HG:FAS:rel - 7/9/42

JUL 16 1942

My dear Mr. Secretary:

Reference is made to the letter of July 4, 1942 (TA), from Assistant Secretary Johnson, enclosing a copy of the proposed trade agreement between the United States and Bolivia.

With respect to Article X of the proposed agreement, reference is also made to the letter addressed by the Chief of the Division of Commercial Policy and Agreements of the Department of State to the Director of Monetary Research of this Department on April 30, 1942, relative to the scope of a similar Article X included in the proposed trade agreement between the United States and Uruguay. It is assumed that the statements made in the aforementioned letter will be applicable to the proposed agreement between the United States and Bolivia.

An examination of the submitted provisions of the proposed trade agreement, when considered in the light of the letter of the Chief of the Division of Commercial Policy and Agreements referred to above, discloses no administrative difficulty for the Treasury Department which would warrant objection by me to the conclusion of the agreement.

Sincerely yours,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury.

The Honorable,
The Secretary of State,
Washington, D. C.

by Messenger *Brown* 9:15 7/17/42

Photostat File to 1000

Orig. file:
to Mr. Thompson

J3dB:mgb
7/8/42

130

attachment: "Draft text of Proposed Trade
Agreement Between the USA and the Republic
of Bolivia" "Strictly Confidential" 7/2/42
Carbon copy only transmitted by State.

16 sheets to the enclosure.



DEPARTMENT OF STATE
WASHINGTON

reply refer to

July 4, 1942

Strictly Confidential

My dear Mr. Secretary:

There is enclosed a copy of a draft text, dated July 2, 1942, of the proposed trade agreement between the United States and Bolivia.

This text is complete and with the possible exception of the withdrawal of certain articles from the schedules of concessions no important changes are contemplated. However, in the event that any changes of substance should be necessitated they would, of course, be submitted to your Department.

It is hoped that the proposed agreement will be signed here prior to the departure from Washington of the Minister of Finance of Bolivia on or about July 14, and I should therefore appreciate being informed at the earliest possible date whether your Department has any objection to the draft text of the agreement which is enclosed.

Sincerely yours,

For the Secretary of State:

Assistant Secretary

Enclosure:
Text of proposed trade
agreement with Bolivia

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 15, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

1. During the week ending July 7, 1942, a total of 141 planes of all types (111 combat planes) were shipped to the British forces. This compares with an average of 117 planes of all types (99 combat planes) per week during the first six months of 1942.

2. Of the 141 planes shipped to the British during the week ending July 7, 1942, 76 went to the United Kingdom, 34 to Canada, 25 to the Middle East, and 6 to India. All of the non-combat planes (30 trainers) went to Canada.

3. An all-time high shipment of 17 heavy bombers was sent to the British Isles in the week ending July 7, 1942.

4. More than 2,000 trainers have been sent to the British forces since January 1, 1941.

Table A - Shipments by Area

	Week Ending <u>July 7, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
<u>To the United Kingdom</u>			
Light and medium bombers	42	492	1,653
Heavy bombers	17	111	215
Naval patrol bombers	0	8	110
Pursuit	17	825	1,136
Army Cooperation	0	71	102
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	76	1,507	3,240
<u>To the Middle East</u>			
Light and medium bombers	25	311	641
Heavy bombers	0	0	5
Pursuit	0	344	1,192
Army Cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	25	675	2,000
<u>To the Canadian Forces</u>			
Light and medium bombers	4	48	216
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>30</u>	<u>499</u>	<u>1,740</u>
Total to Canadian Forces	34	601	2,060
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	141	241
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	0	341	736
<u>To the British Indian Forces</u>			
Light and medium bombers	6	26	26
Pursuit	<u>0</u>	<u>40</u>	<u>40</u>
Total to Indian Forces	6	66	66
<u>Totals</u>			
Light and medium bombers	77	1,018	2,777
Heavy bombers	17	112	221
Naval patrol bombers	0	31	168
Pursuit	17	1,439	2,803
Army Cooperation	0	83	114
Trainers	<u>30</u>	<u>507</u>	<u>2,019</u>
Grand Total	141	3,190	8,102

Table B - Shipments by Types

	Week Ending <u>July 7, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
Bell Airacobra	1	315	469
Boeing B-17	7	31	51
Boston III	0	14	38
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	0	65	65
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	10	81	170
Curtiss Kittyhawk	0	575	957
Tomahawk	0	0	544
Douglas Boston I, II and III	0	0	492
Fairchild 24 R-9	0	73	95
PT-26 Cornell	7	7	7
Glenn Martin B-26A (Marauder)	0	2	2
Baltimore	8	249	317
Maryland	0	0	150
Grumman Martlet II	0	47	88
Lockheed Hudson	34	423	1,393
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	8	194	194
North American B-25	19	96	96
Harvard II	0	52	949
Mustang	16	494	574
Northrop Vengeance	0	5	5
Pittcairn Autogiro	0	0	5
Stearman PT-27	23	297	298
Vought-Sikorsky Chesapeake	0	0	50
Vultee-Stinson O-49	0	10	14
Vultee Vengeance	<u>8</u>	<u>28</u>	<u>28</u>
Grand Total -All Types	141	3,190	8,102

135

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>Totals</u>
Weekly average of shipments in 1941	36	2	3	28	1	30	100
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	<u>77</u>	<u>17</u>	<u>0</u>	<u>17</u>	<u>0</u>	<u>30</u>	<u>141</u>
Total shipments since January 1, 1941 to date *	2,777	221	168	2,803	114	2,019	8,102

* Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

July 14, 1942

Mr. Liversy

Mr. Nichols

Will you please send the attached cable to the American Embassy, Chungking,
China.

FN:ch

C
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American Embassy.

July 13, 1942

Chungking (China).

For Adler from Secretary Morgenthau.

Reference your cable of June 30, 1942, No. TF 46, regarding 1937 arrangement.

Please advise Dr. Kung that the Treasury is glad to cooperate with him in liquidating the debt owed by the Central Bank of China to the U. S. Stabilization Fund amounting to approximately \$19 million. The Treasury fully appreciates and understands Dr. Kung's desire that China have earmarked gold in the United States as a symbol of goodwill between the Ministry of Finance and the Treasury.

Since the 1937 arrangement and the 1942 financial aid agreement stem from different statutory provisions, and in order that the record will be unquestionable that the 1937 arrangement will have been liquidated without recourse to other sources of financial aid, it is suggested that China use the gold now being held as collateral in the Federal Reserve Bank to repurchase the outstanding yuan purchased by the United States under the 1937 arrangement amounting to approximately \$19 million. The gold being held as collateral in the Federal Reserve Bank, New York, is more than sufficient to repurchase the outstanding yuan. If China agrees to repurchase the outstanding yuan with the gold being held as collateral, there will be a balance of a small amount of gold plus a very small amount of dollars. The Treasury believes that this procedure is definitely in the interests of China from the point of view of maintaining China's splendid record.

The Treasury is, of course, ready to consider sympathetically selling an equivalent amount of gold to China for dollars made available to China under the \$500 million financial aid agreement.

ED/ISW/afw
7/14/42

Copy to: 7/17/42

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138

TELEGRAM SENT

LSH

July 16, 1942

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

8 p.m.

AMEMBASSY

CHUNGKING (CHINA)

638

FOR ADLER FROM SECRETARY MORGENTHAU

Your cable of June 30, 1942 No. TF 46, regarding 1937 arrangement.

Please advise Dr. Kung that the Treasury is glad to cooperate with him in liquidating the debt owed by the Central Bank of China to the U. S. Stabilization Fund amounting to approximately \$19 million. The Treasury fully appreciates and understands Dr. Kung's desire that China have earmarked gold in the United States as a symbol of goodwill between the Ministry of Finance and the Treasury.

Since the 1937 arrangement and the 1942 financial aid agreement stem from different statutory provisions, and in order that the record will be unquestionable that the 1937 arrangement will have been liquidated without recourse to other sources of financial aid, it is suggested that China use the gold now being held as collateral in The Federal Reserve bank to repurchase the outstanding yuan purchased by the United States under the 1937 arrangement amounting to approximately \$19 million. The gold now being held as collateral in the Federal Reserve Bank, New York, is more than sufficient to repurchase the outstanding yuan. If China agrees to repurchase the outstanding yuan with the gold being held as collateral, there will be a balance of a small amount of gold plus a very small amount of dollars. The Treasury believes that this procedure is definitely in the interests of China from the point of view of maintaining China's splendid record.

The Treasury is, of course, ready to consider sympathetically selling an equivalent amount of gold to China for dollars made available to China under the \$500,000,000 financial aid agreement.

HULL
(FL)

FD:FL:EM
Copy:bj:7-17-42

BH

PLAIN

London

Dated July 16, 1942

Rec'd 1:52 p.m.

Secretary of State,
Washington.

TRIPLE PRIORITY
3948, Sixteenth.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY

The information Doctor White requested today
by telephone cannot be obtained tonight but will
be telephoned to District 2626 by noon British
double summer time tomorrow July SEVENTEEN.

WINANT

DD

C
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P
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AIRGRAM

Fort-de-France

Dated July 16, 1942

Rec'd 3:21 p.m., 20th

Secretary of State,
Washington.

A-10 July 16, 12:30 p.m.

The Netherland schooner Esther Anita was sold to a resident of the French Antilles island of St. Barthelemy, on condition that it transport the Netherland crew to Barbados, for which it departed from St. Barthelemy June 25, since when it has not been heard from or about. It embarked the 23 torpedoed British seamen for the neighboring British island of St. Kitts, as explained in my airgrams A-7 July 13 and A-8 July 15 and is understood to be detained by the British at St. Kitts.

It appears that the Treasury Department has refused permission for payment of the schooner.

The High Commissioner to whom its reception at St. Kitts on an errand of mercy comes as a surprise, requests release of the schooner by the British, and reconsideration of the Treasury Department's action. Both requests appear to me to be justified and I can vouch for the recent importance of schooners in supplying these islands with food.

A cabled reply to this airgram is respectfully requested.

MALIGE

CGB

Copy:bj:7-23-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid, Spain

DATE: July 16, 1942, 3 p.m.

NO.: 923

Reference is made to telegram no. 570, dated July 13, 1942, from the Department concerning currency.

I have been informed by the Spanish Exchange Institute that they intend to refrain from acquiring any dollar currency and from quoting any official rate therefor during such time as the present restrictions of the United States against repatriation are continued.

It appears from the investigations of Di Lucia that on the black market in Madrid 15 pesetas is the sales price for dollar currency but that it is being offered only in small quantities. Deals ranging from \$20,000 to \$50,000 have recently been put through by some industrialists in the Bilbao area. Apparently this currency was acquired as a hedge against the inflation of the peseta. The price paid for this currency was 25 and 30 pesetas.

HAYES

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 243

Information received up to 7 a.m., 16th July, 1942.

1. NAVAL

One of H.M. trawlers and two more merchant ships of the Russian convoy have been sighted off the west coast of NOVA ZEMBLA. This reduces to 3 the number of ships unaccounted for. The Italian submarine TORRELLI stated by the Spanish Naval authorities to have been interned at SAN TANDER completed repairs and escaped by a ruse at 8:30 p.m. 14th. 31 Spitfires flown from one of H.M. Carriers arrived safely at MALTA yesterday.

Attacks on Shipping. A British ship was captured by the Japanese in the INDIAN OCEAN and enemy aircraft sank a small Dutch ship off the Cornish Coast and a trawler in the NORTH SEA. A Russian and a British ship were reported overdue and a Greek overdue ship arrived safely.

2. MILITARY

RUSSIA. The German advance between the Don and Donets continues in a southeasterly direction and a German thrust is developing in the TAGANROG sector.

3. AIR OPERATIONS

WESTERN FRONT. 15th. 20 squadrons of Spitfires were engaged in 4 offensive operations over NORTHERN FRANCE. A 500 ton tug was left sinking. A gas works near ST. VALERY was set on fire and several minor military objectives were attacked. A further 50 Spitfires operated against 25 F.W.190's which attacked 4 of our launches engaged on air sea rescue off BOULOGNE. The launches, one of which was sunk and the other damaged, probably destroyed 1 enemy fighter and damaged another. Spitfires shot down 3 F.W.190's, probably destroyed another and damaged 2. 7 Spitfires are missing, but 2 pilots safe.

15th/16th. Out of about 25 enemy aircraft operating some 20 were sea mining in the THAMES ESTUARY. Our night fighters damaged 2 aircraft.

COPY NO. 10

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 249

Following is supplementary resume of operational events covering the period 9th to 16th July.

1. NAVAL

It is now thought that the Italian Battleship ROMA (35,000 tons, 9 15-inch guns) might be ready for service by the Autumn. Shipping and trade - a renewal of E-boat activity in the Channel, the reinforcement of German bombers in BRITTANY and signs of enemy submarines moving towards the West African area suggest that the enemy may intend to exploit areas where his attacks on shipping have not lately been pressed. Although there are many U-boats still operating in American waters the extension of the United States convoy system is already showing good results.

There were a number of attacks on trans-Atlantic convoys probably by submarines on passage Westwards and to the FREETOWN area. During the week ending 5th, 33 ships were sunk, 18 of them by submarines, and 13 of these in the Atlantic.

In the week ending 12th from provisional figures 28 ships were sunk of which 12 by submarine and 11 of these in the Atlantic. These figures include the convoy to Russia. Twelve attacks upon submarines were made by surface craft in the past week of which six by United States ships. Of the other six British attacks five were promising. 21 were made by aircraft of which 16 by United States aircraft. 4 of the aircraft attacks were considered promising.

Four Japanese submarines are believed to be operating off the East African Coast. Out of 1,278 ships convoyed during the week ending 12th, 322 were in ocean convoys.

Imports into the U.K. in convoy for the week ending 11th were 961,000 tons including 382,000 tons of oil.

2. MILITARY

RUSSIA and EGYPT. Nothing beyond reports in daily OPTEL.

FRANCE. During the winter 1941/42 the German policy has been to exchange "war weary" divisions on the Russian Front for fresh divisions from FRANCE. Divisions returning from the Eastern War Zone have been refitted, brought up to strength and have undergone substantial collective training. While in FRANCE these divisions have an operational role partly for internal security but also for defence against invasion. Since the Spring there has been no reduction in the numbers of German troops in Western Europe.

3. AIR OPERATIONS

WESTERN FRONT. A daylight attack on U-boat yards at DANZIG was carried out. DUISBERG was the only objective bombed by night. DANZIG is the furthest point from ENGLAND which has yet been reached by bombers in daylight. The Lancasters after flying through heavy storms under difficult conditions dropped their bombs during a severe thunderstorm.

Aircraft of Bomber Command laid 414 sea mines chiefly off the German North Sea Coast and in the BAY OF BISCAY. Three aircraft were lost out of 215 engaged in these operations.

EGYPT and LIBYA. During the week our aircraft flew 3,297 sorties. In addition to operations over the battle area, a total of 298 Wellingtons, 7 Halifaxes and 6 Fortresses bombed shipping and harbour installations at TOBRUK.

Enemy aircraft were more active than for the past two weeks although on a scale considerably below our own. There was an increase in bombing attacks by Junkers 87 and 88.

- 2 -

RUSSIA. German operations during and since June were almost entirely restricted to the Southern Front and were concentrated especially in the CRIMEA until the fall of SEVASTOPOL. It is thought that strong air support is being given to the armoured formations by units of Fleiegerkorps VIII which was transferred from the CRIMEA to OURSK for the present offensive, and owing to the high degree of mobility attained by the German Air Force was able to resume operations in a few days.

It is estimated that the Germans have concentrated more than 1400 aircraft on the Southern Front which indicates the importance they attach to their present offensive. This force is comparable in size to that which took part in the operations before MOSCOW last Autumn.

It is estimated that about 2,500 German aircraft are now employed on the whole Russian Front.

Bomber Command versus U-boat. Bomber command strikes at U-boats in many ways apart from actual attacks at sea. Bases are constantly bombed. Submarine building yards at WILHELMSHAVEN, LUBECK, ROSTOCK, EMDEN, POEMEN, FLENSBURG, KIEL and DANZIG has been vigorously attacked. Inland factories making essential parts as at AUGSBURG and COLOGNE have also been bombed. It is difficult to assess the damage inflicted but it is known that submarine construction has been seriously affected. Apart from direct attacks the general industrial dislocations resulting from our air offensive must indirectly affect production of U-boats.

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

PARIS. Recent photographs of the Argenteuil and Bezons districts show far greater damage than had been previously reported. There are many large factories in these suburbs, the greater part of one Aero Engine Factory, a metal works and an electric cable factory has been destroyed. In addition damage has been caused in three foundries, two seaplane factories, Junkers Aero Engine Works, Amiot Aircraft Works and in other establishments making forges crucibles, boiler lifts and electric cables respectively.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

	<u>British</u>		<u>Enemy</u>		
	In the Air		Dest.	Prob. Dest.	Damaged
Bombers	20		Bombers 2	nil	8
Fighters	12		Fighters 3	1	5
Coastal	8		Miscellaneous 1	nil	1
Army Co-Operation	2		Total 6	1	14
TOTAL	42				

3 pilots are safe

MIDDLE EAST (Including MALTA)

	<u>British</u>		<u>Enemy</u>		
	In the Air	On the Ground	Dest.	Prob. Dest.	Damaged
Bombers	22	4	Bombers 22	5	18
Fighters	29	3	Fighters 57	26	50
Others	3	Nil	Miscellaneous 4	1	10
TOTAL	54	7	TOTAL 83	32	78

Five crews and four pilots are safe

Of the above total 5 were destroyed by anti-aircraft.

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

6. HOME SECURITY

wounded 1.

Civilian casualties week ending 0600/15. Killed 1, seriously

Regraded Unclassified

145

NUMBER 40

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

July 9-16, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

July 9-16, 1942

SECRET

Office of Strategic Services

THE WAR THIS WEEK

Smashing southeast along the Don, the Germans have widened their earlier salient to 200 miles and have driven it to a depth of as much as 150 miles. They have captured key points along the strategic railway from Olrozhka (Voronezh) to Rostov and have left the Russians only one practicable railroad from the north to the Caucasus. The extent and rapidity of the drive suggests that a pause for consolidation on the southern front may soon be in order. In the Moscow area, the secondary German offensive about Rzhev has made substantial progress, but is not yet sufficiently developed to offer a convincing clue as to Nazi intentions.

In Egypt the pause at El Alamein continues, and the decisive factor in the end will probably be the relative ability of the two sides to bring up supplies and reinforcements. German facility in tank recovery may also weigh heavily in the balance.

Meanwhile the Nazis are reported to be putting increasing pressure on Vichy to obtain labor recruits, additional shipments of wheat, and the strengthening of North African defenses.

In the Far East, the Japanese are continuing their preparations in Manchuria and have tightened their grip on the Chekiang seaboard by occupying the seaport of Wenchow. Finally, in India Gandhi has won over the Working Committee of the Congress Party to a program of mass pressure seeking immediate independence from Britain.

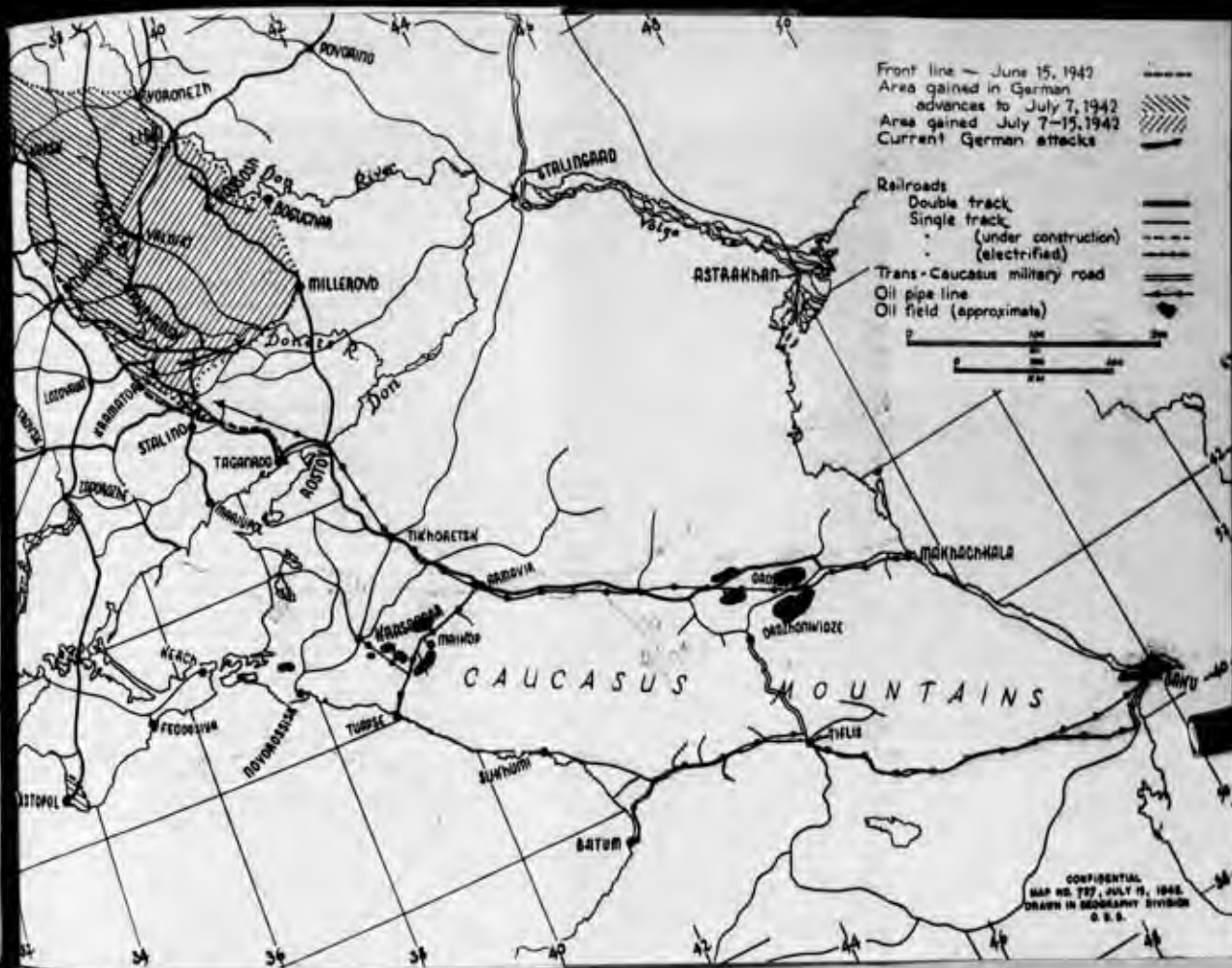
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The Germans Broaden Their Front

With the taking of Rossosh, Kantemirovka, and Millerovo, the Nazis have widened their salient on the southern Russian front to a breadth of about 200 miles (see map). Following the pattern of their earlier advances, they have pushed along strategic railways or seized key junctions that would deny the use of these railways to the Soviets. From their previously established salient at Kupyansk, they have driven north to Valuiki on the railroad to Liaki, and south to Lisichansk on the way to Sergo. Meantime to the east, they have captured key points along more than half the length of the railroad south from Oirozhka (Voronezh) to Rostov—although the Nazis are evidently not in control of this whole 200-mile stretch. Most significantly they have not yet claimed Liaki, the most important junction in this area.

The fact that the Germans have not crossed the Don toward Liaki would suggest that the river is the eastern boundary of the present operation—except for the bridgehead already established at Voronezh. From this latter place, the Nazis may later drive for Liaki and the rail junction of Povorino, more than 100 miles farther east, or, more likely, north-east toward Gryasi—in an effort to cut communications between Moscow and Stalingrad. For the present, however, they are apparently confining their operations to the south.

It is not as yet clear whether these operations are progressing on a broad front moving south along the Don itself, or whether they consist merely of a series of arms pushing east toward strategic points. The Russians now concede the loss of Millerovo, on the main Moscow-Rostov railway, and of Boguchar, about 40 miles east of this line and not far from the Don itself. Farther west, Vichy has announced the German capture of Voroshilovgrad. American military observers suggest that the capture of Likhaya and Rostov itself—giving the Germans control of the whole railway south



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Map of Middle East
Middle East
Total

20
15
8
5
48

Operation
TOTAL
Total area

of Rossosh—might be the logical terminus of the present operations. Their capture would cut off the Soviet armies in this sector from direct rail communication with Stalingrad and the north.

The Pattern of Conquest

Those who support this last view recall that the German advance of 1941 necessarily came in waves—roughly a 200-mile advance (lasting three to four weeks) to some important north-south line of communication, followed by three to four weeks more of consolidation along that line. They suggest that the Nazis may soon reach such a position, so far as their seizure of strategic points along the Moscow-Ryazan-Rostov railroad is concerned. Significantly enough, their current rate of movement does not begin to approach the 15 miles per day of the first eight days of the Kursk-Voronezh push.

In the opinion of transportation analysts of the Office of Strategic Services, a period of pause may soon be necessary. During this time, the Nazis would re-track the sections of railroad they had captured, move forward their fighter-plane air bases, establish advanced supply depots, and bring up heavy equipment from their previous advanced points, such as Kursk and Kharkov. The magnitude of the German forces committed in this area would further suggest the necessity of consolidation. Perhaps 50 infantry divisions, 10 to 12 Panzer divisions (two or three of them probably transferred in recent weeks from the central sector), a similar number of motorized divisions, and about 2,400 planes are actively engaged in the offensive between Yelets and Rostov. Current estimates suggest that in this offensive the Germans are using about 75 percent of their total Eastern Front air strength and have achieved a high degree of mobility in transferring squadrons from one point to another over a 200-mile front.

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Diversions to the North

Perhaps as a result of this concentration of strength, the Nazis have restricted air activity north of Kalinin to the regular bombing of harbor facilities in the vicinity of Murmansk. In the Rzhev-Kalinin sector, however, the German secondary offensive has apparently made substantial progress. Here the Russians have admitted a Red Army withdrawal only 130 miles northwest of Moscow—with the loss of 7,000 men killed and 5,000 missing, between July 2 and 13. German claims for the same period and area include 30,000 Russian prisoners, and 218 tanks, 591 guns, and 1,301 machine guns captured or destroyed. Late reports suggest that the Russians may now have regained some of the territory lost in this sector.

Meantime, the Russian counter-attack around Orel—aimed at the base of the Voronezh salient—has apparently bogged down. At the same time public demands by highly-placed Soviet officials for a second front are increasing in number. Press despatches from Moscow quote Gregory Alexandroff, Communist Party propaganda chief, as stating that the Russians are holding large forces in reserve against the day when the United Nations can strike coordinated blows from both east and west. Some observers view such a Soviet reserve as a possible reason for the present reported superiority of the Germans in men and matériel on the Southern Front.

The German Successes and the Northern States

The Nazi victories in Russia have apparently created a profound impression in Finland and Sweden. The Finnish press, faithfully following the German line, more than a week ago reported the destruction of the greater part of Timoshenko's armored strength and the failure of the Soviet

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counter-attack around Orel. Three days later the Helsinki newspapers were referring to the "routed Bolsheviks" and were predicting a further attack along the Don "toward the bend of the river, whence the distance to the Volga is short."

Stockholm, while giving the Germans their due, has been somewhat more restrained. *Stockholm Tidningen's* Berlin correspondent began his reporting on July 7 in a moderate vein by pointing out that "territorial gains on the Eastern Front are not of primary importance; but by driving a gigantic wedge between the southern and central sectors, it is hoped to paralyze Russian movements. Large encircling operations seem to be a thing of the past." A day later, he was more confident: "The expansion of the Don bridgeheads means that the Germans now hold all the trumps for future operations." On July 8, he described the Russian counter-attack as "fruitless;" "Timoshenko would seem to have no possibility to regain control of the situation." Two days later, he concluded that the flight of the Soviet forces was comparable to that of the French army in June, 1940. "But unlike the French, the Russians have boundless areas for retreat."

Svenska Dagbladet's Berlin correspondent, quoting the *Schwarze Korps*, has sounded a similar note of caution. The enormous country and endless numbers of the "Bolsheviks" make their total annihilation an impossibility. "Even the biggest offensive could yield only partial results."

An editorial in *Social Demokraten* goes still farther and suggests grounds for Allied optimism: "It was expected that the Germans would have great successes this summer in view of Germany's violent effort to obtain a Russian decision in 1942. There is Berlin talk about a plan to advance to the Volga, where the Germans would halt, but such is only wishful thinking, since the Soviet war won't cease by Berlin order."

American Scandinavians and the War

Reactions to the war of Scandinavians in the United States must be differentiated from those of Scandinavians in Europe. To the Norwegians, Danes and Swedes in this country, "Scandinavia" is hardly more than a geographic expression. Despite a certain feeling of kinship among American Scandinavians, they have no serious belief in the common Scandinavian destiny as something worth fighting for, and they commonly regard the German conquest of Denmark and Norway not as an invasion of Scandinavia, but as an occupation of two particular countries.

These war attitudes come out clearly in a current survey by the Foreign Nationalities Branch of the Office of Strategic Services. Such attitudes contrast with the growing feeling of friendship and cooperation which has been evident among these peoples in Europe itself during the past three decades. The difference in attitude between American Scandinavians and those abroad is to be explained in very considerable measure by the fact that the former came to this country in the late nineteenth and early twentieth centuries when a very considerable degree of tension existed between Sweden and Norway, on one hand, and Denmark and Norway, on the other. These old quarrels have been perpetuated in this country.

As for the Finns, the American Scandinavians proper apparently consider them as a separate, somewhat unpredictable people, outside the Scandinavian world. Even the sympathy of the Norwegians, Swedes, and Danes in America for Finland in the 1939-1940 war did not draw them closer to the Finns here. For their part, the American Finns feel that they have been deserted by the Scandinavians as well as by the Allies.

In contrast to the generally aloof attitude of the Norwegians, Swedes, and Danes in this country, the Finns have

always maintained a partisan interest in the affairs of the homeland, from which most of them migrated more recently than the Scandinavians proper. A majority of the Finns follow the Finnish government in maintaining that the Russo-Finnish war is in a special category, and has no real connection with the war as a whole.

Postscript on the Anglo-Soviet Treaty

According to a fairly general interpretation of the recent Anglo-Russian treaty, the renunciation of territorial ambitions by the Soviet Union in that document represents an abandonment, for the present at least, of Russian claims to the Baltic States. Certain recent developments raise the question as to whether this is in fact the present Russian attitude. The statements following are taken from a current memorandum of the Foreign Nationalities Branch of the Office of Strategic Services. They are presented obviously for the sole purpose of clarifying the record and seek in no sense to embarrass the vital current cooperation of this country with the U. S. S. R.

On the occasion of the war parade in New York City on June 13, American representatives of the three Baltic States had planned to march with a mass display of their flags as a proclamation of their independence. Three weeks before the date of the parade, a representative of the New York Consulate General of the Soviet Union protested against the participation of the Baltic units on the ground that the three Republics were a part of the U. S. S. R., having belonged to the Soviet Union when the war began. Nor, he concluded, was there the slightest doubt that the countries would return to Russia at the end of the war. Eventually the parade authorities dropped the whole idea of the mass display of flags.

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The Communist press of this country has further developed this general position. The Communist Lithuanian daily *Vilnius* (of Chicago) recently editorialized: "If the Lithuanian Fascists and appeasers really think they will be independent countries at the end of the war, they are dreaming." Similarly the *Daily Worker* of June 17 states that Baltic independence is "not a question open for discussion." Some think that these countries "should eternally serve the degraded function of pestering and annoying the Soviet Union. Those are now pipe dreams. . . ."

Halt and Preparations in Egypt

The opposing armies in Egypt continue to be locked in stalemate, both sides apparently attempting to recoup, reorganize, and spar in minor actions, while awaiting the arrival of reinforcements and supplies. Infantry, artillery, engineers, and, above all, air power have been playing the principal rôle.

A relative lull was broken over the weekend by an Australian thrust along the coastal road to the Tel el-Eisa ridge about 10 miles west of El Alamein. Two thousand prisoners were reported captured, and 18 tanks destroyed. Several earlier counterattacks on this finger by truck-borne infantry and tanks were repulsed, but a heavy assault on July 14-15 has forced at least a partial Allied withdrawal. The Allies countered with a "limited offensive" in the central sector. On the rest of the front, action has been largely confined to patrol skirmishes and artillery duels, both sides having withdrawn the bulk of their armor to positions behind their forward lines. Intense Allied air attacks have continued to focus on enemy concentrations and supply lines, especially his ports.

Perhaps the decisive factor in the battle for Egypt will be the relative ability of the two sides to supply and reinforce.

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The British have received substantial reinforcements from the 9th and 10th armies and are now believed to enjoy *numerical* superiority in men, tanks, and planes. Further reinforcements are also expected. German Junker 52's are flying troops to the forward area in what is probably a small but steady stream, while Italy is apparently now willing to be lavish with her reinforcements. These are believed to be going primarily by boat direct to Benghazi, Derna and Tobruk, the principal Axis ports of supply. Press reports from Istanbul indicate a concentration of Axis troops in Crete, some of whom have already joined the fighting in Egypt.

No reports are available of the effect on Rommel's supply situation of the three-hour bombing of Tobruk and the shelling of Matruh by the British Navy. But it is believed that previously Rommel's supply situation was adequate, and the Royal Navy's attack indicates that Matruh has been developed as a forward depot supplied by light shipping.

Speculation as to the Next Development in Egypt

The future course of the battle is not clear. The British may be receiving sufficient strength either to offer a successful defense in depth, or to force an Axis withdrawal to easier supply positions. On the other hand, Rommel's efficient tank recovery system has been steadily at work, and, if Allied air and sea attacks have not crippled his supply lines, he may soon be in a position to renew his offensive. If Rommel can force his way beyond the anchor of the Qattara depression, the Egyptian desert opens up and he has an almost unlimited range of action.

A question mark is injected into the campaign by Germany's failure to give Rommel marked air reinforcements in this crisis period, if it is assumed that a vast air pool is still available. Some observers suggest that the Germans may be holding their punch, allowing the British to concentrate in

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Egypt; the attack on the Nile may then later be coordinated with an invasion of Cyprus and Syria.

German Radio Propaganda in Arabic

With the recent successes in Egypt, German radio propaganda has stepped up its campaign of preparing the Arab world for Axis deliverance. On July 3 Berlin issued a joint "Declaration of Independence for Egypt," containing the usual professions of friendship and desire to oust the British and make Egypt a "sovereign state." Three days later the exiled premier of Iraq, Rashid Ali, went before the Axis microphone. Egypt was promised control over the Suez Canal. A system of Pan-Arab solidarity was to be worked out in the future (this is a typically Iraqi twist, since Egyptians have little interest in Pan-Arabism). The announcer then extolled Egypt as the leader of all Arabs in social, educational and political matters. Her future was identified with the future of all Islam.

German radio propaganda has also been working on the old discontents of the whole Arab world—harping on unfulfilled promises of the last war; blaming current economic dislocation on the Allies; stressing Anglo-American support of the Zionist cause; and appealing to the anti-British nationalism of Arab youth. The relative absence of Allied activity in behalf of the Arab cause has made this Axis propaganda more persuasive.

Tension But Quiet in the Near East

The long range effectiveness of this Axis propaganda cannot be evaluated, but as yet there has been little immediate disorder in the Near East. In Egypt fifth column work, riots and panic have been surprisingly absent, and the prime minister has been firm and cooperative. Beneath the surface,

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however, there remains a general tendency to blame the British for Egypt's woes, together with real possibilities of disorder if the crisis should develop. The British kept out of the papers Berlin's declaration regarding Egyptian independence.

In Syria, Iraq and Iran, a state of acute tension and unrest is reported to prevail beneath the surface calm. Powerful elements in the latter two countries at least are apparently ready to welcome Rommel in the near future.

New Prime Minister of Turkey

In Turkey the appointment of Foreign Minister Shukru Saracoglu as prime minister, following the sudden death of Dr. Refik Saydam on July 7, indicates once again that Turkey will continue to pursue its policy of neutrality, according to a close observer of the Turkish scene.

A graduate of Turkey's famous Civil Service School and the University of Lausanne, Saracoglu had been minister of finance and justice before becoming foreign minister in 1938. He has since handled Turkish foreign affairs in complete agreement with his good friend, President Inonu, on the basis of a policy of Turkey-for-the-Turks. A three-weeks-long special mission in Moscow, September 25–October 17, 1939, entailing refusal of heavy Stalinist demands for special privileges in the Black Sea and the Straits, was enough to make him gun-shy of Russia, even had he not inherited the suspicions of his predecessor in the foreign office. On the other hand, Saracoglu has been extremely cordial to American representatives, and, like his chief, is most anxious to avoid any collaboration with the Axis that might imperil Turkish independence.

If the Axis drives continue and Turkey is threatened with envelopment, she will probably be forced to make concessions; but as yet the Turkish press has not gone beyond sharp, reasoned criticism of British defeat in Egypt. The Turks

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have shown irritation at Allied failure to make preparation in proportion to "the decisive importance" of the Middle Eastern theater. Lately, however, there has been some optimism expressed about the Allied stand in Egypt.

Faced with the progress of the Nazi drive into southern Russia, Turkey is reported to have shifted three divisions from Thrace to the Trebizond region of her Black Sea coast.

German Pressures on Laval Increase

Although labor volunteering for work in Germany has progressed until it is now estimated at between 25,000 and 39,000, even members of Laval's entourage doubt the possibility of raising anywhere near the 350,000 men demanded by Germany. Laval's opponents admit that he may be able to enlist some 75,000, but Germany is threatening to draft the larger number. This step Laval is trying to stave off by his campaign for volunteers and by warning the Germans that such a requisition would cause serious internal disorders.

The majority of the volunteers to date have come from Occupied France. Within the Vichy area the largest number have enlisted in Marseille, Toulon and Nice, where the food situation is critical. The communists are said to be filtering saboteurs into the lists of volunteers, and old-line French labor organizations (presumably working underground) are opposing the campaign.

Meanwhile Laval is trying to obtain a token release of prisoners to help his campaign. Despite Laval's statements, it is authoritatively reported that the Germans never consented to any definite plan regarding a worker-captive exchange, and merely told Laval that it might set free some prisoners after he had actually supplied 150,000 laborers. It is also reported that workers whose terms in Germany have already ended will not be permitted to return home.

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and it thus appears that French workers who go to Germany will be there for the duration.

Other pressures on Laval continue to increase. Optimistic predictions of an improvement in the French bread situation have ended with German demands for additional shipments of wheat to the Reich and Belgium. In line with their policy of keeping an heir-apparent in Paris to snipe at the Vichy incumbent, the Nazis are reported to have given Doriot 82 million francs and to have ordered his followers released after a street incident. According to staff officers in Tunis, the Germans have also proposed the formation of a legion of French war prisoners for the retaking of Syria. The American press has again reported rumors of an over-all agreement between Laval and the Nazis involving sweeping concessions; but as yet there has been no confirmation of these rumors.

Nazi Pressure in North Africa

A high French officer indicates that the Germans are currently insisting that the French strengthen their defenses in North Africa, with the alternative that, if necessary, the Germans will do it for them. Meanwhile the vital parts of the French warships at Martinique have arrived at Casablanca, and arrangements are being made for periodic American inspection of their storage there.

A general review of the aid sent to Rommel via Tunisia indicates that more than 3,000 trucks were involved altogether, carrying mostly motorcycles, gasoline, and foodstuffs. Some French 75-mm. guns were also sent, as well as 155-mm. guns and their shells requisitioned in North Africa.

French Fleet

Laval has rejected American proposals that the French warships at Alexandria be placed in a Western Hemisphere

port or interned at Martinique for the duration of the war. Claiming that such a scheme would be a violation of the armistice terms and "an insult to the honor of France," he appears to be unimpressed with the American promise that the ships would be returned to France at the end of the war. President Roosevelt has made it clear that France's refusal would fully justify Great Britain in destroying these vessels to prevent their falling into enemy hands. Although Laval insists that they be allowed to sail to a French port, it is believed that, should the crisis arise, the ships will either be scuttled by the French or British, or sunk by the British planes, submarines and shore guns at hand. The United States is making an effort to see that the personnel of the French ships are fully informed of our proposals to Vichy.

The Fighting French

The declaration by the State Department that "the government of the United States recognizes the contribution of General de Gaulle and the work of the French National Committee in keeping alive the spirit of French traditions and institutions," together with the appointment of two high United States officers for "consultation" on military matters, has met with the approval of the British and general appreciation among the de Gaullists. The declaration has no political implications and in no sense constitutes a recognition of de Gaulle. Vichy has nevertheless entered a formal protest against these relations with elements which are "in rebellion against the government of France." Vichy considers this act, "an attack on the sovereignty of France."

As part of their celebration of Bastille Day, which was remembered in France by the dynamiting of railways and other acts of violence, the Free French have changed their name and henceforth will be known as the "Fighting French."

Preparations in Manchuria Continue

With prediction general that the Japanese would attack the Russians in Siberia in the measurable future, Nipponese preparations in Manchuria are continuing. The Japanese convoy sighted recently near Formosa has probably disembarked its troops by now in Manchuria, if that, indeed, was its destination (*The War This Week*, July 2-9, p. 15). An analysis of the Japanese units hitherto stationed in the southwestern Pacific area leads to the conclusion that this convoy may include, in addition to about two infantry divisions, two tank regiments. These regiments would bring the total of such units in Manchuria to eight, or nine, more than half the total number in the Japanese army. Each regiment has about 150 tanks, for the tactical use of which the terrain in Manchuria is well suited. The forces in Manchuria are considered to have the best personnel and equipment available in the Japanese army.

As far as can be ascertained, no division has recently left for Manchuria from Japan, where there are 16 organized divisions and a tank regiment ready, or soon to be ready, for action. Under present conditions these troops are scarcely necessary for the defense of Japan proper, which is divided into 17 military districts, each with a training unit of about 5,000 men, known as a depot division.

The Japanese Strengthen Their Hold on Chekiang

Japanese land forces driving southeast from Li-shui, in Chekiang Province, have cooperated with Japanese sea forces in the occupation of the seaport at Wenchow. Control of this port will aid in consolidating the Japanese position in Chekiang, since they now hold a broad arc curving through the province from Hangchow, a coast city in the northeast, through Chin-hua (Kinhwa) and Ch'u-hsien, the railway

port or interned at Martinique for the duration of the war. Claiming that such a scheme would be a violation of the armistice terms and "an insult to the honor of France," he appears to be unimpressed with the American promise that the ships would be returned to France at the end of the war. President Roosevelt has made it clear that France's refusal would fully justify Great Britain in destroying these vessels to prevent their falling into enemy hands. Although Laval insists that they be allowed to sail to a French port, it is believed that, should the crisis arise, the ships will either be scuttled by the French or British, or sunk by the British planes, submarines and shore guns at hand. The United States is making an effort to see that the personnel of the French ships are fully informed of our proposals to Vichy.

The Fighting French

The declaration by the State Department that "the government of the United States recognizes the contribution of General de Gaulle and the work of the French National Committee in keeping alive the spirit of French traditions and institutions," together with the appointment of two high United States officers for "consultation" on military matters, has met with the approval of the British and general appreciation among the de Gaullists. The declaration has no political implications and in no sense constitutes a recognition of de Gaulle. Vichy has nevertheless entered a formal protest against these relations with elements which are "in rebellion against the government of France." Vichy considers this act, "an attack on the sovereignty of France."

As part of their celebration of Bastille Day, which was remembered in France by the dynamiting of railways and other acts of violence, the Free French have changed their name and henceforth will be known as the "Fighting French."

Preparations in Manchuria Continue

With prediction general that the Japanese would attack the Russians in Siberia in the measurable future, Nipponese preparations in Manchuria are continuing. The Japanese convoy sighted recently near Formosa has probably disembarked its troops by now in Manchuria, if that, indeed, was its destination (*The War This Week*, July 2-9, p. 15). An analysis of the Japanese units hitherto stationed in the southwestern Pacific area leads to the conclusion that this convoy may include, in addition to about two infantry divisions, two tank regiments. These regiments would bring the total of such units in Manchuria to eight, or nine, more than half the total number in the Japanese army. Each regiment has about 150 tanks, for the tactical use of which the terrain in Manchuria is well suited. The forces in Manchuria are considered to have the best personnel and equipment available in the Japanese army.

As far as can be ascertained, no division has recently left for Manchuria from Japan, where there are 16 organized divisions and a tank regiment ready, or soon to be ready, for action. Under present conditions these troops are scarcely necessary for the defense of Japan proper, which is divided into 17 military districts, each with a training unit of about 5,000 men, known as a depot division.

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towns in the west, to Li-shui and Wenchow in the southeast. Whether the Japanese will attempt to occupy all the area enclosed by the arc or whether they will be satisfied with spotting garrisons at strategic points along the curve remains problematical, but their grip on the Chekiang seaboard in any case will have been tightened appreciably.

Chungking claims considerable successes in Kiangsi, including the recapture of Nan-ch'eng, important road center southeast of Nan-ch'ang, and reoccupation of Chang-shu, southwest of Nan-ch'ang. Having completed the occupation of the Chekiang-Kiangsi railroad, the Japanese apparently are content to withdraw their forces from some of the communications centers to the south of the railway, which they seized during the campaign. They also appear notably to have slackened pressure along the Kiangsi-Hunan railway southwest of Nan-ch'ang.

On other Chinese fronts there is relatively little activity. In Melanesia, the Japanese continue their encroachment on the Solomon Islands, where it is now believed they have occupied the Rekata Bay area of Santa Isabel Island.

The Working Committee Backs the Mahatma

A sick and exhausted Gandhi has finally won over the All-India Congress Working Committee, meeting at Wardha, to a program of mass pressure for immediate independence. According to an American observer in New Delhi, the delay in reaching a decision resulted from a three-way split among the Committee members. Gandhi desired to base the projected campaign entirely on the ethical ground of non-violence. Nehru, while fundamentally in agreement with the Mahatma, wanted to emphasize the political aspect of the movement—in line with his program of aid for Russia and China and perhaps also of left-wing democracy for India itself. A minority of three, led by Azad, president of the Congress, opposed the launching of any sort of campaign.

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The resulting resolution is evidently something of a compromise. On the one hand, it appeals for the immediate end of British rule in India, and projects a campaign of mass non-violence in the event that the British reject this appeal. On the other hand, it recognizes the present necessity for stationing foreign troops in India and proposes "to avoid as far as possible any course of action which might embarrass the United Nations' prosecution of the war or encourage aggression by the Axis." In any event, the projected campaign cannot start until after the meeting of the All-India Congress Committee, scheduled for August 7 at Bombay. Meantime, the threat of the coming mass movement can scarcely fail to have a depressing influence on India's war morale.

Although the resolution envisages possible negotiations with the British, our New Delhi observer believes that most members of the Working Committee regard this as a forlorn hope. Yet some Congress leaders apparently think that the current military plight of Britain and the Soviet Union might induce the former to adopt a conciliatory attitude toward India. In that event, our observer feels, the Congress would have to exercise great caution. Otherwise foreigners might interpret Indian acceptance of British advances as a sign of weakness or as approval of the recent appointees to the Imperial War Cabinet and the Viceroy's Executive Council.

India Repudiates the Imperial Stooges

Although there seems to be little doubt of the ability of the recent appointees, Indian public opinion apparently feels that they represent nobody in particular. Three minority groups not previously represented in the Viceroy's Council have gained seats in that body—the Sikhs, the depressed classes, and the non-official Europeans. On the other hand, the Hindus have not increased their proportional

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membership, and the Moslems have actually lost ground, since they hold exactly the same number of seats in the enlarged Council as they did in the old, smaller Council. In an official statement, the secretary of the Moslem League has referred to the whole change as a futile gesture. At the same time even the English press in India has shown no enthusiasm for the elevation of a prince, the Jamsaheb of Nawanager, to the Pacific War Council, or for the appointment to the War Cabinet of Mudaliar, whom Indian leaders consider subservient to the British, and who is a severe critic of the Congress.

In the opinion of an American observer in New Delhi, hardly any appointment would be calculated to meet with less approval than that of Mudaliar. He concludes that this choice, like that of the others already mentioned, must have aimed simply to impress the United States and other foreign countries. Yet the appointments may even serve to bring discredit on the United States as well as Britain. According to one Nationalist paper, they show that our country is unwilling to exert further pressure in London on the Indian issue. In sum, even a moderate leader like Sapru considers that the appointments may have done more harm than good, since they have simply dramatized the British unwillingness to part with any real power.

Meantime, another moderate, Rajagopalachariar, has resigned from the Congress. His withdrawal is apparently a tacit admission that he has been unable to bring either Gandhi or Jinnah around to his compromise point of view. Furthermore, Gandhi and Azad, president of the Congress, as well as the Congress Committee of Rajagopalachariar's own district of Madras, seem to have encouraged his resignation. Publicly, however, Rajagopalachariar has declared that his withdrawal is intended simply to afford him more freedom for carrying on his current campaign of conciliation.

APPENDIX I

THE VICHY FRENCH MERCHANT MARINE

From a merchant marine of about 3,000,000 gross registered tons at the beginning of the war, Vichy France now possesses some 450 vessels aggregating 1,655,000 G. R. T., according to data compiled from British sources by the Economics Division of the Office of Strategic Services. More than 700,000 tons are idle, and could be drawn upon by the Axis. Such an eventuality in the near future is not unlikely, in view of the increasingly stringent Italian shipping position in the Mediterranean and the possibility of a German demand for oil tankers to ply the Black Sea if her armed forces reach the Russian oil fields in the Caucasus.

Disposition of French merchant marine

Location	Cargo Vessels		Passenger Vessels		Tankers	
	No.	Tonnage	No.	Tonnage	No.	Tonnage
<i>Inside Mediterranean:</i>						
Trading to North Africa and Corsica.....	83	213,790	14	51,285		
Trading to ports west Gibraltar.....	25	87,915	6	43,126	1	1,743
Coasters inside Mediterranean.....	20	17,419				
Laid up in port.....	84	223,416	43	314,782	39	182,263
<i>Morocco and French West Africa:</i>						
Trading Med. Ports or Iberian Peninsula.....	26	86,643	10	75,282		
Coasters.....	12	27,079				
Laid up or immobilized.....	44	92,264	3	31,879	7	36,032
Trading to Antilles and U. S. A.....			4	25,783		
<i>In Antilles:</i>						
Immobilized.....	8	3,679			8	58,958
Trading.....			6	31,498		
<i>In South America.....</i>	3	15,781	2	30,377	1	7,011
	305	793,986	89	593,077	55	285,000

Since the war began, more than 1,200,000 tons of French merchant shipping have fallen into Allied or Axis hands or have been sunk. Of the tonnage still in the possession of Vichy, roughly one-third of the cargo capacity (320,000 G. R. T.), one-half of the passenger tonnage (350,000 G. R. T.), and virtually all of the tanker fleet (275,000 G. R. T.) have been immobilized, largely as a result of limitations on the scope of their operations imposed by the war. More than one-third of the 715,000 tons of merchant shipping still in use plies between France and North Africa/Corsica. Other important routes are from France to ports west of Gibraltar (Morocco, Portugal, etc.); from French Northwest Africa to Mediterranean ports; and from Morocco and French West Africa to the Antilles and the United States. (The above table shows in detail the disposition of the French merchant marine. The data used covers the month of March 1942 but the picture has remained essentially the same to the present.)

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Azis Control of French Shipping

Articles XI and XVI respectively of the German and Italian armistice terms with France prohibit movements of merchant ships under French control without the permission of the Axis governments. These provisions are enforced by German and Italian Armistice Commissions stationed in the principal Vichy ports of France and Africa. As a result, the French merchant marine has been functioning largely in the service of the Axis.

During 1941, French ships coming from North African, Moroccan and West African ports discharged an estimated 5 million tons of cargo in the ports of Unoccupied France. The cargo comprised foodstuffs and raw materials, presumably to meet the ordinary requirements of the French. However, a substantial proportion of these cargoes, and in the case of some commodities as much as 100 percent, were requisitioned by the Axis governments upon arrival in France. The chief requisitioned commodities were vegetable oils, rubber, mineral oils, phosphates, oil seeds, and fats and hides. So large are the seizures of imports from the French colonies that the Axis governments have made special provisions to receive and forward them.

Most of the commodities shipped to France are from Mediterranean ports. This is no indication, however, of their points of origin. For example, rubber coming from Indochina is shipped generally by rail from Casablanca to Oran, to avoid the possibility of seizure at Gibraltar. In this way Germany obtained 20,000 tons of rubber in 1941 and has hopes of receiving 60,000 tons in the present year.

The French merchant fleet also is used to ship military equipment, much of which is of enemy origin, to Axis forces in Libya. French ships carried trucks openly consigned to Libya from Marseilles up to the end of February, 1942. While this practice has ceased, there is some evidence that such supplies now are being carried on French account to Algiers or Tunis, where on arrival they are requisitioned by the Italian Armistice Commission.

The French merchant marine thus has become one of the weakest links in the British system of contraband control. The Vichy government actually has collaborated with the Axis to reduce the pressure of the blockade by attempting to void the right of visit and search. French captains navigating in the western Mediterranean were instructed on January 21, 1942, to sabotage or scuttle their vessels when British warships were encountered.

New Axis Needs

Sinkings in the Mediterranean since the start of the war (largely as a result of Axis efforts to supply their Libyan forces) had reduced the Italian merchant marine by April, 1942 from 3,400,000 to approximately 1,800,000 gross registered tons, of which at least 200,000 tons were estimated to be undergoing repairs from war damage. This high rate of losses is believed to be creating a shortage of Axis shipping in the Mediterranean at a time when the demands of the Libyan campaign are steadily mounting.

Indirect control of the French merchant marine appears to have been more advantageous to the Axis than outright requisitioning. Doubtless this will continue to be the case so long as ships flying the French flags are less susceptible to attack than German or Italian vessels. But the number of French ships requisi-

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tioned will probably now increase. The 700,000 gross registered tons of French shipping tied up or immobilized in Mediterranean ports could be requisitioned without interfering with present French trade movements to and from the colonies. Some 200,000 tons of this total immobilized in the Mediterranean are cargo vessels, 300,000 tons passenger vessels, and 180,000 tons are tankers.

Some part of this tanker tonnage probably would be demanded if the Germans reach the Caucasian oil fields. This is the more likely since the refineries in the Caucasus would certainly be destroyed by the retreating Russians, leaving the Germans with the necessity of transporting the crude product across the Black Sea to Rumanian plants.

These refineries are thought to be capable of handling the additional 4,000,000 tons per year of crude oil now processed at Baku, Batum, and Grosny. But to transport the crude from Batum to Constanta would require the continuous use of 175,000 tons of tanker capacity. Italy has a tanker fleet of about 175,000 to 200,000 tons, about 100,000 tons of which are needed for the Libyan campaign. The deficit could be made up by requisitions on the French fleet and still leave Vichy with a large tonnage of idle vessels.

APPENDIX II

ANTI-AXIS INVESTIGATOR—RAÚL DAMONTE TABORDA

Raúl Damonte Taborda has emerged in the past two years as one of the most prominent young leaders of the Radical Party in Argentina. Self assured and handsome, he has reached this position at the age of 33 by astutely taking advantage of opportunities to further his career and by demonstrating great ability as head of the Chamber of Deputies Committee to Investigate Anti-Argentine Activities. Although too young to be considered seriously for candidacy in the 1943 presidential election, Damonte Taborda would almost certainly figure prominently in any government organized by his party, should it capture the presidency, according to a current memorandum prepared in the Latin-American Section of the Office of Strategic Services. In any event, he is the outstanding leader of the anti-Axis forces in Argentina, and as such has consistently and ably espoused the United Nations cause, both in his own country and elsewhere in the Western Hemisphere.

Born in 1909 of a poor family, Damonte Taborda has been a high-school teacher, journalist, and lawyer. While attending the National University of Buenos Aires, he was a leader in the student movement. At 18 he became a reporter on the newspaper *Crítica* and joined the Unión Cívica Radical (U. C. R.), Argentina's largest political party. After the U. C. R. was unseated through the military coup of September, 1930, Damonte Taborda represented the party's National Committee at provincial branches of the U. C. R. In 1934-35 he was a political exile, living for a while in Montevideo, then in Rio de Janeiro.

Returning to Buenos Aires in 1935, he again joined *Crítica* as a reporter, and in the next few years his advancement was rapid as he found and took advantage of

opportunities to further his career. He became the main link between *Crítica* (probably the most influential evening newspaper in Argentina) and the leaders of the U. C. R., thus establishing important political friendships. He also became an intimate of Natalio Botana, owner of the newspaper, and finally married Botana's daughter. In 1937 Damonte Taborda was made editor of *Crítica*, a position he held until 1940.

With his U. C. R. connections and the support of his paper, Damonte Taborda was launched on his political career. In 1938 he was elected National Deputy for the Federal Capital, and in 1942 was reelected in a thumping personal victory which demonstrated his meteoric rise in popularity.

Damonte Taborda began to attract attention in 1938 when, with the Socialist Deputy, Enrique Dickman, he launched attacks on Nazi activities in Argentina. These debates led to the appointment in June, 1940, of the Committee to Investigate Anti-Argentine Activities, with Damonte Taborda as chairman. It is charged that his principal interest in heading the committee was in getting personal publicity—and the resulting publicity did prove to be world-wide—but the results of the committee's work proved very salutary nonetheless. With fully documented evidence, Nazi activities in Argentina were exposed more conclusively and completely than in any other country in the Western Hemisphere. These results were all the more notable in view of the overt opposition to the committee shown by the executive branch of the government and by the police forces. At present a National Deputy and the Secretary of the U. C. R. National Committee, he continues to be an outspoken critic of President Castillo's "prudent neutrality" policy, and of the reactionary domestic policies of the government.

One incident in Damonte Taborda's history requires some clarification. It is charged that he was engaged in the "white slave" traffic when he lived in Rio de Janeiro in 1935. This charge appears to be based on a Rio de Janeiro police dossier, prepared under the direction of pro-Nazi Police Chief Felinto Muller. The dossier itself contains only the flimsiest evidence to support the charge. There is no question but that the story has been spread by German agents in an effort to discredit Damonte Taborda by reason of his attacks on Nazi activities in Argentina.

APPENDIX III

BRAZILIAN OPINION AND THE AXIS

Glib attribution to Brazilians of pro-Nazi or pro-Ally sympathies is often a dangerous oversimplification of a situation in which most of that country's citizens are pro-Brazilian above all else, according to a current memorandum of the Latin American Section of the Office of Strategic Services. Brazilians on the whole are motivated by what each conceives to be the best interest of his own country. Brazil is not a strong nation, except in economic potential, and Brazilians trim their sentiments toward other peoples in accord with their apprehensions.

Opinion within the Brazilian army is a case in point. Until six months ago, the average Brazilian army officer did not fear Germany so much as he feared Argentina, Communism, and the United States (in that order). Many officers had lived or studied in Germany and had been exposed to German ideology in a seductive although no doubt distorted garb. Partly out of these associations grew the Brazilian Integralista Party with its Nazi-Fascist tendencies.

On the other hand, Argentines had been Brazil's proverbial enemy. The mention of invasion always conjured up visions of the Argentina border, where the annual maneuvers were customarily held. Military officers—and Latin American conservatives generally—view Communism as a major danger to their established institutions. Russia's place in the world struggle does not help to endear the Allies to Brazilians in whom Hitler's so-called "crusade against Bolshevism" had previously struck a responsive chord. Finally, many officers and Brazilians generally felt a deep-seated fear of the United States, engendered by decades of strong-arm policies, which a shorter period of good neighborliness had not been able to overcome.

Recent events have done much to obscure these earlier apprehensions, especially among civilians. U-boats have torpedoed Brazilian vessels with resultant casualties of Brazilian nationals. The government has permitted the publication of news illustrating actual Nazi aims and objectives. Japan's alignment with Germany has increased the fear of both.

The Integralistas

The most significant organized force of fascist character in Brazil is to be found in the Integralista Party. The latter supports an ultra-nationalistic program which fosters extreme patriotism and military spirit. On the whole its program is foreign to the Brazilian way of thought, but it has gained the support of numerous army officers. Many who enrolled did so out of patriotism and a resentment against Yankee domination. The majority, even before Pearl Harbor, were hardly pro-Nazi; they merely feared the Anglo-Americans more than the Germans.

Some of the leaders, however, were not averse to seeking Nazi cooperation; in fact, a letter addressed to Rudolph Hess in January 1935 explained the aims of the party and asked help. The German government responded with its blessing and perhaps some financial support. Probably the rank and file of the party remained in ignorance of these machinations.

Plinio Salgado, the exiled Integralista leader, has recently exhorted his party to be loyal to President Vargas. None the less the party still presents some danger for Brazilian institutions. The most effective way to decrease the party's prestige, it is felt, would be to publicize its fundamental policies. This Brazilian newspapers are already doing. Although most Brazilians are politically apathetic and not inclined to combat small pressure groups, there is a strong undercurrent of resistance to fascist ideology. Moreover, the very superpatriotism of the Integralistas themselves would no doubt align them solidly against any foreign power, whatever its ideology, that attempted to infringe the territorial sovereignty of Brazil.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1942

TO Secretary Morgenthau
 FROM Mr. Hoflich
 Subject: Summary of Military Reports

Battle of the Atlantic

Sixty or more German U-boats have been operating each day recently in the Atlantic. Their attacks are concentrated mainly on unescorted shipping in areas where convoys are not yet being used, or on ships which are either too fast or too slow to be included in convoys.

(U.K. Operations Report, July 2 - 9, 1942)

Axis Supply Lines in the Mediterranean

Of the tonnage of Italian ships going to North Africa during the last four months, the following percentages were sunk, according to British reports:

March	-	9.6 percent
April	-	2.7 "
May	-	5.5 "
June	-	30.0 "

The British report increasing Axis use of Tobruk for direct traffic with Benghazi and Tripoli. A convoy of six ships escorted from Italy arrived in Tobruk on July 10 and was attacked by British aircraft during the trip and after arrival.

(U.K. Operations Report, July 2-9; July 13, 1942)

Malta

The scale of air attacks on Malta has been increasing recently, but at a heavy cost. British reinforcements of Spitfires has been responsible for increasing enemy plane losses which are higher now than during the heavy bombardments last spring.

(U.K. Operations Report, July 2 - 9, 1942)

July 17, 1942
8:45 a.m.

MOTION PICTURE INDUSTRY (British Contracts)

Present: Mr. Willkie
Mr. Schenk
Mr. Hazen
Mr. Balaban
Mr. White

MR. WILLKIE: We are sorry to trouble you about this, but it is a very troublesome matter to the industry. I want to say we just wanted to come down to chat with you, not any formal way about it--

H.M.JR: This recording is just a peculiar custom we have, just for myself. Do you mind?

MR. WILLKIE: Not in the slightest. I just want to say to you that there are four companies here represented. We don't pretend to speak for the industry or anything. Mr. Nick Schenk is from M-G-M-Loew's; Mr. Balaban, Paramount; Mr. Hazen, Warner Brothers; and I am here for Twentieth Century-Fox. We don't come in any--

H.M.JR: RKO is missing?

MR. WILLKIE: RKO is missing and Universal. The companies here represent about, approximately speaking, seventy-five percent of the fund. That is rough, but approximately correct, and I assume that anything that applies to these companies applies to all. This was just an informal group. I just wanted to make it clear that we weren't speaking for anybody and that each man here is speaking for the individual company he is connected with. We are not here as lawyers or anything of that kind. We are just here to sit down and chat with you about this.

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H.M.JR: I see my talk with Mr. Aldrich--

MR. WILLKIE: That is correct; that is exactly correct.

H.M.JR: That was repeated.

MR. WILLKIE: But a talk which, incidentally, Mr. Aldrich passed on to us in complete confidence and remains so.

H.M.JR: I have no lawyer here, Mr. White being an economist.

MR. WILLKIE: Now, I don't pretend, Mr. Morgenthau, myself, to be familiar with all the details and the figures. The industry finds itself in an increasingly difficult situation about this, that is - I mean, here it is going along currently, and it is sending its product over and not getting the money back. It doesn't make any difference what business that would be, it would finally come to a point of exhaustion. As to some companies it is presently very serious as to whether companies - it is not presently critical, but it is bound to finally get that way, because no concern can keep on sending its product out that way.

We believe, without any feeling in the slightest about it, that the withholding of the money, perhaps, is all primarily due to the financial situation with regard to Britain, but that there is a touch in it of desire on the part of the British, naturally, to find a larger place in the motion picture industry, and we think that the motion picture industry is an enormously valuable asset, spread all over the world, of America in every way.

Mr. Hazen will develop it more for you, but you understand that the British picture producers naturally have been anxious to get into this business more and more. The British financial interests and all others are naturally anxious, even if the business stays with these companies, for them to produce in Britain.

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Now, the experience demonstrates two things. In the first place, you make better pictures in the United States than any place else in the world, and that is the reason they have taken the world market.

H.M.JR: Excuse me--

MR. WILLKIE: And secondly, that when these American companies who try to produce pictures in Britain - that they can't do as good a job as we can do, because the whole atmosphere of the production center, and so forth, doesn't spread and carry as well in a new environment, and we believe - as I say, we don't want to say that, naturally, in a time such as this when everybody wants to do all they can to produce harmonious situations with any American producer of any kind, but I think you will find, the more you get into it, there is some of that element in it. And these companies - another thing I don't want to misrepresent to you is the selling of pictures by the motion picture industry in England, we believe, is a necessary contribution to their war effort; but, on the other hand, we don't want to pretend to you that that is the only reason the motion picture industry sells pictures in England.

They produce pictures on the basis of a certain market that includes them; and if we didn't have that market, there isn't any question - we would have to restrict our operations greatly and produce a different type of picture, because they are geared and built to a market of X number of customers, to receive X revenue, and you cut down revenue by a restricted market. I just say that so there is no pretense of being nobler than we are about the thing.

Now, I would like for Joe Hazen to take up the detail. He is very familiar with the detail. I don't pretend to be familiar with the detail, but I wanted to get this point over to you at the beginning, that I think there is just a little more in it than just the financial problem on the part of the British.

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H.M.JR: I would like to ask one question for my information. You know Mr. Will Hays has been down here for a month or two. Do you just pick up where he left off? We haven't heard from him for two weeks.

MR. WILLKIE: You understand Mr. Hays is a representative of all the companies. Following your suggestion, and also because we think it is wise, we will pick up wherever you want us to pick up about it. In other words, these are the men that run this business, aside from myself, and I am chairman of the board of one of the companies. I mean, these are the principals, and so they have the power to speak about anything involving their companies, absolutely, where anybody else would be here in a representative capacity.

H.M.JR: Well, the suggestion that I made was that I said that ever since I have been here I like to do business with the principals, and they don't have to hire any middle man to come down to see me.

MR. WILLKIE: You have the principals here.

H.M.JR: I have always done that, and when they send somebody down - their lawyer can see my lawyer, but when the head of a business is here, I figure that as an employee of the taxpayer any principal should see me.

MR. HAZEN: The taxpayer is entitled to see you.

H.M.JR: I mean, I just wanted to make it clear.

MR. WILLKIE: I can understand your position.

MR. HAZEN: Mr. Morgenthau, I don't know how much or how far Mr. Will Hays had gone with you in the development of our situation. I can only say this--

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H.M.JR: Do you want to know his introduction to me?

MR. HAZEN: That would be interesting.

H.M.JR: His introduction to me was, "How would you like to make twenty-five million dollars for the Government?" See? And I said, "Well, how would we do that?" He said, "Well, we have got fifty million dollars tied up in England; and if you approve it coming in, we will give you half." Well, it turned out that that--

MR. WHITE: Half in taxes.

H.M.JR: Yes, so it turned out that the statement wasn't true, because every company doing business, but one, had paid their taxes; one company had not, but every one but one company had paid its taxes.

MR. HAZEN: That is right.

H.M.JR: Immediately I asked - and he told that to Mr. Hull, and he told it to me. Well, it didn't leave a very good taste. Either he was trying to bluff me or he was misinformed. Either way it didn't set very good.

MR. WILLKIE: We will give you the facts just as they are by the responsible heads.

H.M.JR: I got the facts.

MR. WILLKIE: Anybody should have known you would.

H.M.JR: I mean, we sent out people, as you know, immediately into the various offices, and I just wanted the facts. But there was all this pressure, and he either must have thought I was awfully dumb or something, but it got off to a bad start.

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MR. HAZEN: That is unfortunate, particularly unfortunate for us, because we have always tried to maintain the frankest and the freest and the most open relationship with all Government departments, and we have over the years managed to do that, notwithstanding sometimes they did get off to a bad start with respect to us; but we eventually were always able to show them the merit of our side. We do have that relationship with the Government departments, and we would like to have that with your department.

I think that in any fair estimate of our situation it is necessary to have a little picture of the background of the industry, how it started, and how it developed, and why we are where we are in the world market. If you will afford me about ten or fifteen minutes for a little historical background, I will be glad to give it to you.

H.M.JR: Do you need as much as that?

MR. WILLKIE: Pardon me, how much can you give us? We will cut our time, of course, to suit you.

H.M.JR: Well, I thought - I had set a half an hour. Can you do it in forty-five minutes?

MR. WILLKIE: Yes, that is plenty.

MR. HAZEN: Oh, yes.

H.M.JR: Figure a million dollars a minute.
(Laughter)

MR. HAZEN: Fine, that is about the rate we work; that is our customary standard.

H.M.JR: I mean, of your money, not the Government's. I mean, you are talking about fifty million dollars - you ought to be able to cover it in forty-five or fifty minutes - of your money. I wasn't thinking of mine - Government money.

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MR. HAZEN: All right.

H.M.JR: I mean - look, do you mind if I short-circuit this a little bit--

MR. HAZEN: Yes, indeed.

H.M.JR: ... or do you want to give me your sales talk?

MR. HAZEN: No, I don't want to give you a sales talk.

H.M.JR: Let me short-circuit this a little bit, to save your time and mine. Now, look, you people have a contract. As I understand it, you give them three months' notice, and those three months' notice would be due in about two weeks.

MR. BALABAN: Three months.

MR. HAZEN: Three months before it expires - the contract - we take up our discussions.

MR. SCHENK: For the coming year, for the future.

H.M.JR: Now, I am not the principal in this matter, and that is what I don't quite understand. In two weeks' time you could serve notice that you would like to begin a three months' discussion with the British. Now, you had - what is it, three previous contracts?

MR. WHITE: Three.

H.M.JR: The other thing which I never could understand was why the industry took such great care to make sure that the United States Treasury knew nothing about these previous agreements. I mean, they took great care to exclude us. I mean, I would like to give you a little background which you may - which

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again doesn't - I mean, I just don't understand it, but we were very, very carefully kept out of all of this. I mean, several times I would ask, and it was guarded like a secret that the Treasury mustn't know about. Now, Mr. Roosevelt has given me the responsibility as his agent to watch the dollar balances for the various countries, and it is my job to see that each of these countries have sufficient dollar balances so that they can pursue this war without being too greatly worried about their dollar position, and that is my responsibility. This is the only case in which I have been carefully excluded, and, frankly, I don't understand it.

MR. WILLKIE: I don't understand it, either, and I think it is wrong.

H.M.JR: But what I am telling you gentlemen are facts.

MR. HAZEN: Mr. Morgenthau, you may or may not know that this is the first time that we, as representatives of our own companies or of the industry, have appeared in any discussion relating to the British currency over the period of three years. We have never appeared before anyone, and the matters have been handled through the association as an association matter covering all companies; and whether they cleared through the Treasury or not - the extent to which they contacted you is something which was beyond us.

H.M.JR: Well, I am not complaining; I have got plenty of troubles, and the job of keeping these various countries supplied with dollar balances is a very difficult one, and we are doing the best we can, but at present it happens - the situation happens to be a happy one. I mean, both the English and Canadians are in a good position from the standpoint of dollar balances, and they have - they are not worried - have no reason to be worried.

MR. WILLKIE: That error won't occur again. I think I am speaking for all the gentlemen present.

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H.M.JR: Pardon?

MR. WILLKIE: That error won't occur again.

H.M.JR: Well, I have got to bring Mr. Hays into the picture. When he came over here with a message from Mr. Hull that I see him, we then asked, inasmuch as the State Department had conducted these negotiations heretofore and we had been excluded, would the State Department say that this was a special case, that they had a special interest in it, and the answer was no. See? I mean - so they said, no, that this was purely a monetary matter now, after three years.

Now, I also want to say that without saying anything to us - I mean, you might as well have all the facts, and you may know - in the middle of these negotiations without saying anything to us, Mr. Hays went to see Mr. Roosevelt in the middle of these negotiations. It didn't do him any good, and Mr. Roosevelt told him that he thought that the industry should keep the money over there. He took it for granted that the industry had carefully weighed this and decided that England was a good bet, and therefore was willing to leave the money there, and his advice to Mr. Hays was to tell you people to make an investment in England, betting on their winning, you people having made the decision that you were willing to do this. I don't know whether that was reported back to you or not.

MR. WILLKIE: No. Of course, that is not quite the issue. I can understand how he would have that, but that is not--

MR. WHITE: He mentioned he was going over, but he didn't say he had seen him. He was going to try to see the President.

H.M.JR: I mean, the President told me about the discussion, but I am just giving you the thing, and again I say we will wipe the slate clean, but you ought to have the background, and the fact that Mr. Hays did

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it in that way - I mean, cajoled and flattered and implied certain favors, and that sort of thing, certain threats, all of which - after all, I am of age and have been sitting here for eight years - "and look what the industry has done for our War Bonds," and so forth, and so on. But all of that is bad judgment, bad taste, but as far as I am concerned it is over.

Now, getting back to this thing, because you people are the principals, it is your business. And to get back to this thing, what I don't understand, gentlemen, is this, you have got the right to begin negotiations. You can serve notice in two weeks. Then you start with the British Treasury, and I don't understand, quite frankly, why you don't start with the British Treasury instead of with me.

MR. WILLKIE: O.K., Mr. Morgenthau--

H.M.JR: Do I make myself clear? Excuse me. I mean, the fact that we have been approached badly, and so forth, as far as I am concerned, that is over.

MR. WILLKIE: That is unfortunate, and we are sorry.

H.M.JR: And it won't prejudice your case. It will not prejudice your case.

MR. WILLKIE: Now, Mr. Morgenthau, without over-emphasizing - I want the others to take it up in detail - but to answer your principal question, obviously in direct negotiations with the British Government, unless you see why there is a reason for this - you understand in negotiations with the British Government we are more or less impotent, for the very reason, and I don't blame them - if I had the money, there would be no special reason why I should give it up. I mean, it is hardly - I mean, in other words, they naturally are going to turn to the American Government; and if we get relief here, I think it will be because you indicate; after

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you have heard the facts, and all we want to do is present the facts - after you have heard the facts, we believe that you will believe that here is a situation involving a matter of value to American industry and also a thing that the government is interested in from the standpoint of keeping this world market of motion pictures in the hands of people over whom they have jurisdiction, both now and in the future. When we sit down just on a basis of negotiations with the British Government, it is like myself getting in a fight with Jack Dempsey. I mean, it is hardly an equal contest, and where they have the funds, don't you see, we have, of course, the talk, "Let's just kick it right out the window to begin with." For us to say, "We won't ship the picture unless you give us the money" - we wouldn't do it. It would be silly if we didn't immediately cut down on the type of production, and make a whole rearrangement of the industry. There is nothing in it of that kind. We are not talking from that standpoint.

H.M.JR: Again, to give you another thing, before you - we made this suggestion - you check me, Harry, if this is not right - I asked SEC to look into the financial condition of RKO, and I don't suppose I am talking here - and they reported back that they had to have seven hundred fifty thousand dollars.

MR. BALABAN: Pounds?

H.M.JR: Seven hundred fifty thousand dollars is what the SEC report said that they needed immediately. We suggested to the British that they look into this matter and left the impression with them that it was all right as far as we were concerned, but we asked for two things. The British and ourselves asked that if they gave RKO seven hundred fifty thousand dollars or returned them--

MR. WHITE: We didn't mention any sum to the British; we just said if they would give it careful consideration - sympathetic and careful consideration.

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H.M.JR: But the figure was seven hundred fifty - that it would not prejudice their case as far as the rest of you gentlemen were concerned. That is over two weeks ago, and we have had no answers - we have had no answers. That is over two weeks now and no answer.

MR. BALABAN: From the British Government?

H.M.JR: They have had no answer, and we have had no answer.

MR. BALABAN: That cable went forward - I saw a copy - to our representative to contact the British Government and apprise them of our feelings about the matter.

H.M.JR: I mean, that the rest of the industry was willing that RKO get seven hundred fifty thousand dollars.

MR. BALABAN: The sum was not mentioned, but it indicated in effect that the granting of this relief to RKO would not prevent us - did you see that cable?

MR. HAZEN: Yes.

MR. BALABAN: From presenting our general application for the relief of funds which was then in process.

H.M.JR: No, that isn't what they wanted. What they wanted was, if they would grant it, this sum, or a sum, to RKO, that that wouldn't prejudice the cases. In other words, it wouldn't set a precedent.

MR. SCHENK: I think that is it, wouldn't set a precedent, that neither side - you got a copy of that?

MR. HAZEN: I haven't got a copy of it.

MR. BALABAN: Mr. Rathbun of RKO was in that conference, and the cable that was sent had his approval

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as being the type of cable that would serve the purpose. I didn't know what was wanted, but there--

H.M.JR: The representative of the British Treasury, Mr. Bewley, certainly up to now, has no knowledge of this.

MR. HAZEN: The cable went out - I think it was held up awaiting Hays' clearing it with Raftery out in California.

MR. BALABAN: Yes.

MR. HAZEN: And today is Friday. I think the cable - when was it, was it Tuesday or Wednesday that the cable went forward, when they cleared with Raftery, out in California, of United Artists?

MR. BALABAN: United Artists is a distributing organization that represents seven or eight independent producers, and even the president of United Artists can't act as we do because he has to contact all of these people, and there was a little delay there.

H.M.JR: I don't know whether the representative of the British Treasury here has been advised of that. We certainly haven't. So if a cable went, and if you people felt so inclined, it would be nice to give us a copy.

MR. WILLKIE: We will see that that gets to you.

H.M.JR: I would suggest - Sir Frederick Phillips is back; he is back; he is coming in this morning, and I would think he might be brought up to date on this thing, but he is back in Washington. But that is now our--

MR. WILLKIE: Joe, why don't you in as condensed form as you can--

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MR. HAZEN: Of course, I always find this difficulty in discussing the picture industry with any one of the Government officials, that the people proceed with their present impressions of the industry, its economics and its conduct, and the like, and that generally is an impression which we suffer from because of a lot of self-criticism. We have got a lot of people in our industry who criticize the industry as such and a lot of people on the outside that criticize the industry, and probably in the long run it is to our benefit because good self-criticism, both internally and externally, brings you up to a little higher standard; but in the meantime we do suffer from a misconception and misapprehension about the business.

I just want to take a few minutes, if I may, to take you back just to the beginning of the business and run quickly through it so that you can see how we came to where we are.

The pictures were first projected in 1895, and it was a French invention.

H.M.JR: Don't--

MR. HAZEN: I will go quickly. I will skip over the years very lightly.

Now, the picture industry grew first in Europe. The large producers of motion pictures were the Italians, the French, the Swedes, and England. The United States was not a picture producer in the early years. All the pictures we showed over here were imported, and motion pictures was a foreign product. We did, however, make some short one-reel pictures in this country which were those that you saw in the nickelodeon, but the whole advance in the art and the development was a European product.

Now, the first feature motion pictures, the first spectacles, these tremendous pictures, the super gargantua, and things which we are labeled with as having produced, had their origin in Italy. Pictures like

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Sarah Bernhardt's pictures, the feature with a great star, were French products - where she played Queen Elizabeth - and those were brought over here, and it was those pictures which supplied our market. We were the importers, and Europe was the exporter. Now, when the last World War commenced in '14, picture production in Europe shut down, and it was because of the cut-off of that supply from Europe that the American market started in.

We had the Chaplans and Fairbanks and the Pickfords and those people who had gained somewhat of an international reputation, but the impetus in American production followed the commencement of the last war. We made for our own market, and after we had our pictures made, being silent pictures, we naturally shipped them wherever they would be bought, and we sent to the markets that Europe had formerly sent to, for which they didn't get any further film, so that when the last war was over in 1917 Europe was out of the picture business, and the United States was in the picture business.

Now, the picture business is not our creation in its inception or in its world trade. It is a market which came to us as a result of the war. Well, immediately after 1917 the foreign countries had so much to do in the way of rehabilitation, and being able to buy American films at a whole lot less cost than it would take them to manufacture they didn't make any attempt to come back into the market. There were sporadic attempts, but they never tried to crack in, so that along in about '22 or '23 when things became somewhat stabilized, the foreign countries again felt that they wanted to get back, and they started to pass quota laws and censorship laws to keep out American pictures; or if you did come into that country with a picture, you had to make or buy a foreign picture and show it so as to force the production of their own pictures.

Now, I just want to read, Mr. Secretary, a statement which appeared in the London Daily Post. This is years ago, but this is of the period that I am talking

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about, and this reflects the British sentiment about the value of the motion picture. They said if the United States abolished its diplomatic and consular services, kept its ships in its harbors and its tourists at home and retired from the world's markets, its cities and towns, its countryside, its roads, its motor cars and counting houses would still be familiar in the uttermost corners of the world. The film is to America what the flag was once to Britain. By its means Uncle Sam may hope some day, if he be not checked in time, to lead the world.

Now, that was at a time when England first enacted its quota laws, which required us either to buy or produce pictures in England as a condition of selling our own pictures in that country, fostering their own market. That quota law continued, and that was an absolute loss to all the companies doing business in England because their pictures were not commercial. We could do nothing with them. Although we made them or we bought them, yet we couldn't liquidate them, and you will find in the books of every one of the companies that the quota compliance in England was a total loss, economically, with the companies.

Now, the same thing happened in Germany. You had to go and buy from a maker of a German picture, and he--

H.M.JR: I am familiar with that.

MR. HAZEN: That is the way it went throughout the world. Now, notwithstanding those restrictions the American picture still penetrated all those countries, although they were of people different from the people to whom those pictures were shown and competing with their local pictures, local actors, and stories. Our picture went in only because of the excellence of our product.

H.M.JR: What are you leading up to?

MR. HAZEN: I am just leading up to this simple point, that our pictures have penetrated, and are

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throughout the world, notwithstanding the barriers placed in the path of this penetration by these foreign governments; that we are an export trade of this Government, of this country, running into approximately a hundred million dollars; that it is a prime export which in previous years up to the present time has been one of the most valuable exports that we had; that we deserve the recognition and the assistance and the help to continue that trade and the maintenance of that business if we can.

H.M.JR: Well now, look, let me - let me interrupt you. You see, the reason I made the statement that the President looks to me to watch the dollar balances, the situation is this - I mean, after all, we are in a war. The thing that I don't know - I don't know what the answer is - let's just say, for example, if we go the whole way and I say to the British, "I would like you to pay the moving picture industry what you owe them and from now on pay them a hundred cents on the dollar", the chances are nine out of ten they would come right back at me and say, "Well, we have so many orders on hand for this and that, exclusive of Lend-Lease, and you will just have to help us out to an equal amount", which would - I mean, this is what I think would happen - I may be wrong - which means that our deficit is added by almost the same amount that you people would get.

Now, that may not be so. I am painting the picture the worst possible way, and that is the thing that I am afraid of.

MR. WILLKIE: Move right to the figures about the condition that the industry will get into, Mr. Hazen.

H.M.JR: You see what I mean. This history is interesting, but I mean, to say that at this time the argument that we should help the motion picture industry because it is a fine business, and--

MR. WILLKIE: No, I don't think that is involved.

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H.M.JR: I don't think it is.

MR. WILLKIE: I don't think so. I think this point is involved--

H.M.JR: It doesn't impress me.

MR. WILLKIE: The point he was making is this, that here is a business that - I believe the preservation of this export market, so these companies can continue in this export market, rises above and beyond just pure business. I mean, I think it is a valuable asset to you, to the Government, to keep it so these companies can function, because whether or not - and I believe they are - whether or not the particular pictures produced now are methods of - if we want to put it that way - American propoganda, that they certainly are invaluable assets in the future for that purpose. That is what I am trying--

H.M.JR: Can I ask you a couple of questions? You have been very frank, and I like the statement you made, that you are not going to say to the British, you are not going to send them any pictures, and that is the kind of statement that goes down well with me.

Let me ask you a question. Supposing you got no better deal this next year than you got this year, would the industry, leaving RKO out of the picture, have to go through any readjustments?

MR. WILLKIE: You mean by that financial reorganizations? Speaking for the four companies here, and these gentlemen correct me, as to actual financial reorganizations, I think the answer is no; but financial embarrassments and difficulties, I think, to a certain extent the answer is yes.

MR. BALABAN: And the readjustment in our production schedules - I will give you our company--

H.M.JR: I mean, let's get down to dollars. Supposing you got no better deal, and I appreciate the fact that

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you are running in the hole in the sense that your balances are accumulating in England - I mean, they again buy eighteen or twenty million dollars this year over last year - is that about right?

MR. SCHENK: It is bound to be that way.

H.M. JR: Supposing you got no better deal for the coming year than you did this, what would it do?

MR. BALABAN: I will give you the picture of our company. Then Mr. Hazen has some industry pictures.

H.M. JR: What would it do to your company?

MR. BALABAN: Our company owed considerable sums of money in England.

H.M. JR: Yours is?

MR. BALABAN: Paramount. Until the last quarter of last year we used all of our block funds to retire that debt. It was a pre-war debt. Since that time--

H.M. JR: Pre-war?

MR. BALABAN: Pre-1939, debt incurred in Great Britain.

H.M. JR: In this country?

MR. BALABAN: I am speaking of England. Since that time we have accumulated six million, approximately six million dollars - equivalent to six million dollars in England. Since that time we have had to borrow six million dollars in this country from the banks to carry our inventory requirements.

H.M. JR: In England?

MR. BALABAN: No, here. The cash position of that--

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MR. WILLKIE: Tell him why those inventories rise.

H.M.JR: I mean, is it because you are doing more business or is it that the stuff is more expensive?

MR. BALABAN: It is more expensive, slightly more expensive, by about fifteen percent. The enforcement of the consent decree under which we are now operating has forced all companies to increase inventories.

MR. WILLKIE: Modification of the old block--

MR. BALABAN: Nine million dollars in the case of our company, and the difficulties of getting film into the foreign markets has blocked many of the - has been hard. A number of the ports are loaded with films that can't find transportation. We pile up a great deal of film there, and when they can get a ship and get it on a ship you send to a country instead of one film a week, as you did previous - you will send them fifteen or twenty, because you don't know how long that has to last.

H.M.JR: But you mean in your case you have had to borrow an additional six million over how long a period?

MR. BALABAN: We borrowed it this year, and the total cash on hand in that company, the producing company, the parent company, is six million dollars. In other words, three figures of six million dollars, approximately, accumulated in England, borrowed here, and cash on hand. Yet that company, in addition to that floating debt, carries all of the funded debt that runs about twenty million dollars - twenty-five million dollars, in addition to that.

H.M.JR: And how would that compare with, say, twelve months ago, roughly?

MR. BALABAN: Twelve months ago we had no cash accumulated in England because we were applying block money to the retirement of debt. We had no bank loans

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in this country, and that same account had approximately nine and a half million dollars instead of six million dollars. Inventory account has increased from eighteen million three a year ago January - you asked for twelve months; that is a little longer, sixteen months - to twenty-seven million five as of a week ago.

MR. WILLKIE: Barney, give the Secretary a quick picture of your projection, and of course that is bound to be an estimate, of what will be the condition of your company a year from today if--

MR. BALABAN: The figure in England will keep increasing - that serves no purpose here. We keep borrowing money here if inventory can't be liquidated at any faster rate than the last eighteen months, and nothing now to indicate that it can be--

MR. WILLKIE: Do you think it can be?

MR. BALABAN: I have already instructed our studio - I have had to - to slow up production, and production will for a period of four or five months slow up to give us a chance to operate on present funds; but as you do that, your overhead goes up out there, and your cost of production increases substantially. I had a figure from our studio of nine hundred thirty-two thousand dollars the other day as the loss of unabsorbed overhead as a result of a slight slowing up in production. Now, that is only for four or five months. If that continues, I don't know the answer. Now then, taking from that point, the next step is to instruct the studio to start dropping people and reduce the number of pictures from that, or make cheaper pictures.

H.M.JR: Well, frankly, that kind of talk is the only thing that makes any impression on me.

MR. WILLKIE: I can understand that. You are thoroughly right about that.

H.M.JR: It is the only thing, and I wanted - could you give me off-hand what percentage of your sales go to the United Kingdom market?

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MR. BALABAN: Our sales in England, Australia, and New Zealand will run about ten million dollars - a little over, possibly, ten million dollars, the equivalent, and--

H.M.JR: And your total--

MR. BALABAN: ... our volume in this country will be about thirty-five million dollars, so in percentage that would be ten out of forty-five, or about twenty-five percent.

H.M.JR: What I am asking you these gentlemen know anyway?

MR. BALABAN: We have no secrets - about twenty-five percent, Mr. Secretary, yes.

H.M.JR: And the things that you have told me, could they - when you get back could you give them to me in writing, very brief, not too much - for a layman - not too much for a bookkeeper?

MR. WILLKIE: We will take a picture of the different types of companies. Of course, you must understand it will be an estimated projection. I think it is really a serious financial problem, for even those in good shape, over a long period of time.

MR. BALABAN: I believe Mr. Hazen has some industry figures, and we discussed them on the train last night, and, strangely, the industry - applied to the industry as a whole, it is almost Paramount's position applied in its percentage, and I thought, if you have a moment, a total figure might be of interest.

H.M.JR: As long as you don't go back to 1885. (Laughter)

MR. HAZEN: Well, I will promise you you will get nothing more than the most current report. Taking the consolidated reports of all the companies as published, the eight companies, they show a funded debt of a hundred

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and seventy-two million. I will just run through these figures. They have total bank loans, that is, other than savings banks or mortgage loans from banks, of thirty-four million. That thirty-four million owing to banks is almost the equivalent of the thirty-seven million, roughly, that is frozen in England now. That thirty-seven million that is now frozen in England is more profits than were made by the eight companies combined in the last twelve years for any one year. The total amount frozen in England at the present time exceeds the profits after taxes of the eight companies for any period going back eleven years in the business, and if this money were not brought over, so that it were not taken up in the profit and loss account, there would be no profits, there would be nothing with which to pay off the banks. This is on an industry basis.

H.M.JR: I don't - you don't mind my asking this question, why in heaven's name did you make a deal like this?

MR. HAZEN: Like what?

H.M.JR: Like the contract, the one you have been living under three years - I mean, I don't understand why you got yourself - I can't understand - here you fellows are, you are successful--

MR. SCHENK: May I answer that?

H.M.JR: I would like to know.

MR. SCHENK: You can see the reason - the conditions as they existed at that time. We were not in the war, England was fighting by herself at the time, and we felt that we should give them all the help that we possibly could and as long as we could; and then it developed as it did, and we are in war. How long we could have stood it, I don't know. Our company happens to be possibly in better condition than all the rest at this time, but it is only a matter of time. You just can't keep sending goods and not be able to get the returns on them for every reason, whatever the returns might be. It will

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catch up with you; for a while you can stand it. The purpose was to help England as long as we could help them.

MR. WILLKIE: More practical than that, it illustrates what I was saying to you, that when we deal with the British Government, what have we got in our hands? In other words, we are not going to stop sending these pictures if they have got the funds on hand. What could we do? What is the trading position?

MR. WHITE: I think you have got a good deal - I don't think you are nearly as impotent--

MR. WILLKIE: Maybe you can help us with our strength.

MR. WHITE: Without us completely, I think that you have got a strong case, and I don't know who has done your negotiating for you. I can understand the second year of the war after the fall of France, things looked very black, and they gave you a much worse arrangement because the situation looked so unfavorable. That, I take it, is why you accepted it, and that is why they offered it. The third year pictures looked brighter, and you got a much better arrangement than you had the previous year. Now, it seems to me that if you talked to them and undertook your negotiations yourselves with them directly, I think you have got a very strong case without bringing us into the picture at all.

MR. WILLKIE: We would like to convince you, in addition--

MR. SCHENK: Mr. White, I don't believe that without help from you we could possibly make a good deal. I think that it would take a long time and I don't think we could accomplish very much unless we threatened them, and that, of course, we don't want to do, and we don't want to stop shipping film just as long as we can stand it. If we don't get any help here, I think we are licked. I don't think we can make a good deal.

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H.M.JR: I would like to make my position clear. I mean, in these negotiations which we have almost every week with the British - of course mine haven't been for any particular business - my job is to see that we don't get the short end of the stick, and you have to watch it every minute because they are business men.

MR. WILLKIE: Sure, that is human nature, too.

H.M.JR: All I want to say is this, that you people will start these negotiations and I take it - I imagine, I don't know - I don't see why you don't do it here with Phillips.

MR. WILLKIE: Now, if it is satisfactory with you for us to discuss the matter with them any time - I mean, that is--

H.M.JR: What I was going to suggest is Phillips is coming here in a little while this morning, and I will tell him of this conversation, and I would like to make the suggestion that I am going to ask the industry to keep me posted as they progress. I would like him to keep me posted.

MR. WILLKIE: There is just one thing, if I might interject, and I appreciate what you say, but I am just firmly convinced that we will not get any substantial modification unless we are able to show you that there is a thing of real merit involved in it from the standpoint of American industry, and I think in which the Government has an interest from the standpoint of keeping this market reasonably extant. I mean, without being overly selfish, or selfish about it, it is not a question of reaching out for a market, it is a market that presently exists, and we would like for you - and I know all the multiple problems on your hands, but I would like for you to understand the facts, if it is possible, when we conclude here, in a little short memoranda - and I know you can't read any voluminous stuff about it, that you haven't got the time - that we can get to you.

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H.M.JR: What he gave me would influence me more than anything else, and I mean I realize perfectly you can't sit here and project yourselves twelve months or twenty-four months, and be completely accurate, but at least you can say, "This is where we are today; and if we don't get any better contract than we have this year, if we can't get any of the money we have there, this is apt to happen."

MR. WILLKIE: That is what we will do for each one of the companies.

H.M.JR: If you will do that for each one of the companies, that would be more convincing with me. Harry, I don't know how it would be with you, but with me it would be more convincing as to the seriousness of the industry, purely from the standpoint of the domestic repercussions, not worrying so much about whether you are going to keep the world market or whether you aren't, but purely what is going to happen to these pictures at home, or the repercussions, increasing bank balances, and so forth and so on - I mean borrowing - I mean that you have got to borrow from the bank. If you could let me have that for a layman to read - I mean, I don't - something that is fairly simple.

MR. WILLKIE: None of us could understand it if we didn't write it up that way.

H.M.JR: That way rather than asking for--

MR. WHITE: Mr. Willkie, the arguments, it seems to me, are very potent that you could make to the British. The same presentation that impressed Secretary Morgenthau would doubtless make an impression on the British as well, whereas the general argument about the importance of the movie industry and its contribution, and so forth, I think would probably leave them cold, as well, for this particular purpose, but you have the prospective financial status of the industry. You have the fact that the industry is and will continue to be very well disposed toward the war effort, sending out

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such pictures as "Mrs. Miniver" and others which are of considerable value to them and to us. In that you are performing a social service of a high order and a contribution to the war of a high order and are not suggesting that you are going to stop doing it, but you are continuing to do it. In the third place, you are the only industry, to my knowledge, that is continuing to export - make exports without getting paid for it, and the reason you can suggest, in many ways - not altruistic, of course, but there is a large dose of sense of social responsibility in the broader sense, plus the fact that the British are better off than they have been in the prior contracts, at least some.

H.M.JR: You mean their financial position?

MR. WHITE: On a financial position. Those are very potent arguments, and I am quite sure, particularly if you could do the talking at this end - I don't know, they may sidetrack them.

H.M.JR: May I interrupt you a minute, Harry? You will find that Sir Frederick Phillips, being the top English Treasury man, feels about the way I have. He has been completely short-circuited also, and when I spoke to him about the thing, he said to me, "Well, Mr. Morgenthau, I don't know much more than you do." So, in other words, if this is going to be Treasury, which I think it should be--

MR. WILLKIE: So do I.

H.M.JR: ... well then, I don't know what avenues you use in England, but certainly, from what Sir Frederick Phillips tells me, he was short-circuited, and I gather that the British Treasury was short-circuited, from what he told me, so--

MR. WHITE: The Board of Trade and the British Treasury are members of the agreement.

H.M.JR: Well, Sir Frederick Phillips - I asked him - he has been here for two or three years, hasn't he, Harry?

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MR. WHITE: Two years.

H.M.JR: He knew very little more about the thing than I did. I asked him.

MR. SCHENK: I would like to add just one more little thing.

H.M.JR: So I mean, I find he is the best type of British civil servant. He is the best type of British civil servant, but he evidently - I asked him - I said, "Did you take part in this?" He said, "No, I don't know anything about it."

MR. SCHENK: Mr. Morgenthau, I would like to just add a little bit towards what you were talking about, just to acquaint you with the situation. If England today would give us an order to make, say, two hundred to three hundred pictures that they used a year - I think it is three hundred, for their use - they would not only pay fifty million dollars, but they would have to pay us at least a hundred and fifty million dollars for it. When we talk about "Mrs. Miniver," and they want "Mrs. Miniver," and gave us the order - they had the story and said, "You go on and make this story," and they would pay us at the rate of four or five or six times as much as we are asking now, if we were to get our money. All that we are asking for--

H.M.JR: I don't understand you.

MR. SCHENK: You do not? In other words, say General Motors, who would make a car and send it there, they would pay the full value of that car, meaning by that if the car cost a thousand dollars they would expect a thousand dollars there plus a profit, if there was any. In our case, we don't charge them that because, first we only charge them a possible one third of the cost of the picture, because we take something out of it, as it happens that that kind of a product, as you said, Mr. White, is so different from any other that we are able to give them something for a great deal less because we take out a certain amount in this country.

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H.M.JR: You mean in this country?

MR. SCHENK: That is right.

H.M.JR: And you don't charge them the full cost?

MR. SCHENK: We do not, only a third. Isn't that about right?

MR. HAZEN: Yes.

MR. BALABAN: The English theaters gross approximately sixty million pounds a year on American pictures, for which we ask England to pay us ten million pounds of that. That ten million pounds creates sixty million dollars of gross for the--

H.M.JR: That is a figure I never heard before. I never heard the figure before.

MR. SCHENK: That is interesting, isn't it?

H.M.JR: Did you know that?

MR. WHITE: Yes, I knew that, but of course their problem is a foreign-exchange problem. They are letting you have the sterling. I think that your point is well taken. If I understand, you mean this, that if you had no sense of social responsibility, if you wanted to be tough on an ordinary business scale, in which there were no other considerations but the question of the dollar gain, and if you were to say to them, "If you want these pictures, you will have to pay for them," you feel that under that bargaining arrangement you could get a much better deal, but because you have a larger sense of social responsibility, and you don't want to even suggest that you wouldn't help the war effort, it being a war, you feel that the British are taking advantage of that.

MR. SCHENK: That is it, and they benefit, and we are willing to give them that benefit.

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MR. WILLKIE: They are getting a benefit. Whether they are taking advantage - we don't want to say anything here that indicates they are unduly sharp.

MR. BALABAN: I don't know how the tax laws will apply to frozen money, but so long as Paramount was able to retire its debt in England it accrued that money here and paid its taxes, but used the money over there, included the money on its books, but paid off its debt there. Since the first of the year we have stopped accruing for the block funds on our books because we didn't know - we might be accumulating on our books income at the rate of a four-dollar pound which some day may be only worth two dollars.

MR. WHITE: You had better ask your man who takes care of it.

H.M.JR: Or you can ask us and we will tell you, but I will have to stop now. If I could just say this, if it is agreeable to you people - Sir Frederick Phillips is coming in here in a little while, and what I would like to say to him is to tell him of the conversation and suggest that you gentlemen would like to see him and conduct the negotiations as principals with him here.

MR. SCHENK: That would be wonderful. I think that is grand, Mr. Morgenthau.

H.M.JR: And I would like to be kept informed as the thing goes along.

MR. WILLKIE: I am anxious for you to know.

H.M.JR: If you people will get in touch with him, I think you will do much better here.

MR. SCHENK: How will we go about getting an appointment?

H.M.JR: Just call him on the telephone at the British Purchasing Commission. He is with the British

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Purchasing Commission across the street at the Willard Hotel. Just call him on the phone and simply explain that you are here. In fact, if you want to see him today, if you want to do it today--

MR. WILLKIE: That is a little difficult for me, at least, Mr. Morgenthau. I am going to the West Coast at five o'clock, but I will be back Tuesday of next week.

H.M.JR: Just call him on the phone at the British Purchasing Commission and say you want to see him. That is all.

MR. SCHENK: We also have a three o'clock meeting with reference to other things and have to be back.

H.M.JR: I will tell him you are going to hear from him and--

MR. WHITE: "These negotiations have been conducted in London, England" - he is liable to say that.

H.M.JR: I will tell him it is my suggestion they be done here. I don't know what went on over there, and he doesn't know what went on over there, and I think as long as it is American business the negotiations should be conducted here in the United States.

MR. SCHENK: I think that will be grand.

H.M.JR: I think he will do it.

MR. WHITE: If you want to get some information on the taxes, we will be glad to have you meet the man who will give it to you.

July 17, 1942
10:20 a.m.

MEETING WITH SIR FREDERICK PHILLIPS

Present:

Sir Frederick Phillips
Mr. White

SIR FREDERICK PHILLIPS: There are one or two points I wanted to mention to you, sir, if you would be good enough.

H.M.JR: At your service.

SIR FREDERICK PHILLIPS: The first one is that Sir Frederick Leith-Ross is now over here on behalf of the British Government, talking about relief problems, which I hope is distinguished from reconstruction in article seven, and those things. He asks if he could have an opportunity to call on you. I am not sure whether you met him. He was over here before.

H.M.JR: I don't think we met.

SIR FREDERICK PHILLIPS: Would you?

H.M.JR: Surely, any time. Just have him call up for an appointment.

SIR FREDERICK PHILLIPS: Yes.

H.M.JR: Just tell him to call up for an appointment. Will you bring him or will he come alone?

SIR FREDERICK PHILLIPS: I can bring him.

H.M.JR: That would be nice.

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SIR FREDERICK PHILLIPS: The second point I have got is about Courtauld. You remember Courtauld very well?

H.M.JR: I have heard of it.

SIR FREDERICK PHILLIPS: We got into arbitration proceedings on the amount of sterling compensation that firm should get. We don't know how it has gone, but we are expecting an answer some time next week, Tuesday or Wednesday. Now, of course if the arbitrators give them a great deal more than the price that we sold the thing for in dollars, there may be some criticism. There is good press censorship and we shall try and keep it down; but the Chancellor asked me if I would just mention it to you.

H.M.JR: Which way would the criticism be?

SIR FREDERICK PHILLIPS: I don't know. If the discrepancy is too glaring there will be some comments.

Now, the third point I have got noted is this. As you know, we have been having a few very informal talks with the State Department on the general subject of article seven of the Mutual Aid Agreement, and the first--

H.M.JR: I don't know them by number.

SIR FREDERICK PHILLIPS: Well, it is a thing which covers everything on the earth, what the future of the world is going to be, that the two countries are going to discuss, and we started with a proposal that we should have some purely informal talks in London. Well, Mr. Winant was in favor of that, but it seems not to have come off.

Well then, I think the thing veered around to having some informal talks in Washington, but that also doesn't seem to be making any progress. At least we hear none.

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Well now, my instructions are these. I was told by the Chancellor to offer, if you desired, to explain the kind of lines - the lines along which our suggestions will develop on the monetary side of this business. That is exactly as you say. If you would like to hear it before informal talks start I would be delighted to talk to you.

H.M.JR: Yes, I would like to hear it myself - next week. Is that time enough?

SIR FREDERICK PHILLIPS: Yes, sir.

H.M.JR: I would definitely like to hear it. I would like to hear it. Next week will be time enough?

SIR FREDERICK PHILLIPS: I think so, yes. We didn't want the thing, the idea of these negotiations, to get cold for three or four months.

My last point is one about excise taxes on communications and transportation, and I am not sure if I got the story right. It runs something like this, that you have certain excise taxes on railway journeys and on telegraph communications, and down to the end of June, I think it was, those were held not to apply to the transportation or communications of a foreign government. Since then some change in Treasury regulation has been made.

Our view - the view of our advisers here is that the matter is really one of international law, that is, so to speak, an international law on the exemption to be a matter of comity. As regards the expenses involved to us, I don't think that is the kind of thing which would break us. It is on the order of a million dollars a year.

H.M.JR: One million?

SIR FREDERICK PHILLIPS: Yes, but they are, so far as the excise taxes go, terribly frightened that this

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will lead to incursions on State exemptions which might cost about fourteen million dollars a year.

H.M.JR: You take that up with White, and - who would that be, Paul or Sullivan?

MR. WHITE: I think Paul, and maybe both. It depends on which it is. If it is a regulation it would be Sullivan. I will find out.

H.M.JR: That thing - if you will find out and then give Sir Frederick a chance to talk with them, or let him know--

MR. WHITE: I will take care of it. I will see that he meets the proper person.

H.M.JR: All right.

SIR FREDERICK PHILLIPS: The last point I have got noted is a matter of a gentleman called Rogers. He was over here some months back in connection with China.

MR. WHITE: Yes, I remember him.

SIR FREDERICK PHILLIPS: There is some suggestion that he should be posted in Washington, with a view to advising the Embassy on Chinese matters, as far as that amounts to anything. I just wanted to know, quite privately, whether you got along with him, whether you saw any objection, and if you do, tell me.

MR. WHITE: Advising the British Embassy in Washington on Chinese matters?

SIR FREDERICK PHILLIPS: Yes, Chinese questions that come up.

MR. WHITE: I don't imagine we would have any contacts with him.

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SIR FREDERICK PHILLIPS: If you don't like it, say so.

H.M.JR: Speak frankly.

MR. WHITE: There were many persons around who didn't like him.

H.M.JR: There is your answer.

MR. WHITE: I can get along with him. I don't want to stand in his way. Let me put it this way: I think that your Government could do a little better. Let me put it that way, but as far as I am concerned in the matter I am perfectly willing to deal with him.

SIR FREDERICK PHILLIPS: We have a fellow called Sampson who is at Harvard, or was at Harvard, a lecturer. He was a commercial attache in Japan. He is undoubtedly a very great expert on Japan and doesn't know very much on China.

MR. WHITE: Rogers did not make a particularly good impression around here. I know Mr. Bell expressed himself that way, and others, but I am sure that everybody would do business with him.

H.M.JR: Now I have got a couple of things. Does that clear your docket?

SIR FREDERICK PHILLIPS: Yes.

H.M.JR: This is of minor importance, but at the time it was most irritating. You have got a man over here - I hope he is your subordinate - with a hyphenated name, who looks after the per diem pay.

SIR FREDERICK PHILLIPS: Looks after who?

H.M.JR: The per diem pay that you pay the people and--

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SIR FREDERICK PHILLIPS: Humphreys-Davies.

H.M.JR: Yes. What happened - is he under you?

SIR FREDERICK PHILLIPS: Yes, more or less.

H.M.JR: He is Treasury?

SIR FREDERICK PHILLIPS: He was an ex-Treasury man - he is Treasury now.

H.M.JR: He is Treasury now, isn't he?

SIR FREDERICK PHILLIPS: Yes.

H.M.JR: It was small, but it was irritating, and I don't think it was necessary. When these English heroes came over here on my invitation, through Air Marshal Ewald, through Chief Air Marshal Portal - is that what you call him?

SIR FREDERICK PHILLIPS: Portal, yes.

H.M.JR: They landed here, and from the day they landed until they arrived back here in Washington all of their expenses were taken care of - I mean as far as hotel, and so forth, but your people allowed them the first three or four days, I think it was, around nine dollars a day. We had nothing to do with it, but when they got out as far as Pittsburgh they suddenly cut them off to two and a half dollars a day. Well, having tasted this, and being very high strung emotionally, most of these boys, they sort of balked on this thing, and the Treasury man who was travelling with them told me we just had to do something about it.

Well, I called up Bewley about it. You weren't here. Then Bewley turned me over to - what is this man's name?

SIR FREDERICK PHILLIPS: Humphreys-Davies.

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H.M.JR: I thought Bewley could have taken care of it without having to bother me, but I had the darnedest argument with Humphreys-Davies over the telephone, and finally I said to him, "Well, Mr. Davies, I have got to say to you formally as Secretary of the Treasury that I am advising the British Government to do this thing." Well then, he said he would have to take it up with London by cable, and I said, "You will do no such thing. If you are going to do that we will consider asking the Government to take the boys home, and I want an answer in thirty minutes."

Well, I got the answer. Then he says, if you don't mind my saying it - he had the impertinence to tell me he thought I was all wrong but they were going to do it anyway. Well, after all, this amounts to about ninety or a hundred dollars a day for the British Government. I don't know whether you saw the results of the trip.

SIR FREDERICK PHILLIPS: No.

H.M.JR: Well, you can't measure it in money. It was the most tremendous success. In Boston, the home of the sons of the Irish and the British, they turned out seven hundred thousand people on the streets to see them. The mayor of Boston said it was the finest thing that could happen to help them in every way, and right across the whole country.

I had to be sitting late at night arguing with this man about ninety or a hundred dollars a day, where every other expense from the time they landed to the time they left - I thought they could have saved me that very disagreeable experience, and I wanted to tell you. Since they knew that, nobody has said anything to me. It is small, but it is one of the few disagreeable experiences I had had with your Government, and I thought, if you don't mind my saying it - it is all over - at least he didn't have to tell me--

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SIR FREDERICK PHILLIPS: He is quite a junior that way. He is unfit for military service.

H.M.JR: I don't know how old he is. I don't see why Bewley as Financial Attache couldn't have handled it, why he had to dump it back on my lap. If the Ambassador had been here, I would have taken it up with him, but I really was quite annoyed.

SIR FREDERICK PHILLIPS: Well, I will take it up.

H.M.JR: I mean it is over the dam, but it was entirely uncalled for and I was pleading for your own men.

SIR FREDERICK PHILLIPS: Yes, he is probably worried, of course - still he ought to have--

H.M.JR: I know, but just because they made a mistake was no reason for taking it out on me. So much for that. That closes that, but I did want to tell you about it.

SIR FREDERICK PHILLIPS: I am glad you did.

H.M.JR: At the time I was quite annoyed. Now, I have been talking once, and Mr. White has a number of times, with Mr. Will Hays on this movie industry relationship with your Government. We weren't getting along very well with Mr. Hays on this thing. You remember I originally spoke to you about this thing and told you I didn't know anything about it, and you told me you knew practically nothing.

Well, I happened to sit at dinner next to Mr. Winthrop Aldrich of the Chase Bank, largest stockholders in the moving picture companies. I said, "Why don't you send down the principals in these businesses instead of trying to send somebody down like Will Hays? He tries to browbeat me, to flatter me, and to cajole, and almost tries to bribe some of

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my people. I don't like to do business like that. Why don't the heads of these businesses come down and tell me?"

Now, the State Department has now asked us to handle the entire thing. Heretofore they have always done it. Now they want me to do it.

So this morning four of them were in. One of them was Mr. Wendell Willkie, who is chairman of Twentieth Century-Fox, and three others who are either presidents or chairmen of the boards of the four principal companies.

SIR FREDERICK PHILLIPS: RKO?

H.M.JR: Not RKO, but they tell me that they have sent a cable on RKO. I told them we felt RKO would go bankrupt unless they got some money - that we had indicated that to you.

Now, as I understand it, in about two weeks' time they can give you notice that they would like to take this discussion up on next year's contract.

SIR FREDERICK PHILLIPS: That is right.

H.M.JR: And I made this suggestion, that they deal this time with you here rather than doing it in London, and that I would, if that was agreeable to you, ask you to keep me informed, and they to keep me informed as the negotiations went along. I said I thought that they would do much better if they talked with you here.

SIR FREDERICK PHILLIPS: Like Mr. Humphreys-Davis,
I--

H.M.JR: Pardon?

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SIR FREDERICK PHILLIPS: Like Mr. Humphreys-Davies, I must get authority from London, but I will.

H.M.JR: Evidently Mr. Willkie is leaving this afternoon for Los Angeles. He will be back next week and will get in touch with you. I think it would be better all around because it is quite a complicated thing, and I would like to personally be kept informed as it goes along. I would rather do it with you than I would with some person remote.

SIR FREDERICK PHILLIPS: All right, I will try.

H.M.JR: If you will tell your Chancellor that.

SIR FREDERICK PHILLIPS: What are they after chiefly? Is it release of funds? I suppose it is.

H.M.JR: They want to take up the whole question. They are going to give me a memorandum as to the future of the industry and the effect it would have over the next year if their funds are tied up, and they say that they are willing to have your Government make this payment to RKO without establishing any precedent. They tell me a cable went out. I said - I asked if they had given you a copy of it. I haven't seen it.

MR. WHITE: In that conversation with Mr. Bewley he indicated - Mr. Bewley asked him whether he wouldn't wait until we received word to that effect. He said his Government was also waiting to receive word, and he said that his Government would also wait until he heard from you that it was all right.

H.M.JR: Yes, but they said that Wednesday or Thursday of this week they sent a cable.

MR. WHITE: Yes, but they didn't give anything to you. This is the first we heard of it, so in any case their Government would be waiting to hear from us.

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H.M.JR: The point was I told them if they hadn't given Sir Frederick a copy of the cable I suggested they do so, and give me one.

SIR FREDERICK PHILLIPS: Well, I mustn't hide from you that I think the amount of money which the U.K. is now spending on American motion picture films is very high, if not excessive. If it is a question of releasing funds, that is another thing.

H.M.JR: Yes. Well, somebody in your Government - I don't know who - the foreign office or somebody - negotiated three different contracts. Was it the foreign office?

SIR FREDERICK PHILLIPS: By the Treasury, I imagine.

H.M.JR: But you weren't in on it, as I understand.

SIR FREDERICK PHILLIPS: I was over here. I know roughly what they did, what was in it.

H.M.JR: We have copies of the contracts now. They want to start it. It is important - it is an important industry.

SIR FREDERICK PHILLIPS: It is doing very well as far as the U.K. is concerned. It is true we have doubled our entertainment.

H.M.JR: You will ask for--

SIR FREDERICK PHILLIPS: I will do it.

H.M.JR: I am not saying anything yet because I have asked them to file a memorandum with me as to what, formally, they think their position is. If they give you two weeks' notice, then they have three months, as I understand it, in which to talk this thing over.

SIR FREDERICK PHILLIPS: That is right.

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H.M.JR: But their attitude is good.

And then the other thing, we telephoned to our man yesterday in London, at the Embassy, asking him if he couldn't find out how much in block balances there were for other companies, and we didn't get a very satisfactory answer.

MR. WHITE: They didn't have much.

SIR FREDERICK PHILLIPS: You mean other than motion pictures?

MR. WHITE: Yes.

SIR FREDERICK PHILLIPS: I don't think there is very much.

MR. WHITE: No, there doesn't seem to be as much as we thought, but there are some unknown sums there, but one could guess that they are not very great.

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Chief

BRITISH EMBASSY,
WASHINGTON.

17. 7. 42

My dear Acheson

I attach herewith a note summarising the work of the London Committee. If you see no objection, I suggest that copies might be circulated to the members of your group for their information. We can supply the fuller documentation if desired.

Yours sincerely,

F. W. LEITH-ROSS

RECORDED
Treasury Department
JUL 28 1942
Division of
Monetary Research

At the Allied meeting in London on September 24th, 1941, the Foreign Secretary, Mr. Eden, presented the Atlantic Charter and a Resolution upon the organisation of post-war relief activities for the approval of the Allied Nations. Representatives of all the Allies (including the Free French), of the Dominions and of India were present together with several members of the British Cabinet. At the first session the Atlantic Charter was endorsed by every Allied representative present. At the second session, Mr. Eden proposed the following resolution:-

"The Governments of the United Kingdom of Great Britain and Northern Ireland, Canada, the Commonwealth of Australia, New Zealand and the Union of South Africa, the Governments of Belgium, Czechoslovakia, Greece, Luxemburg, the Netherlands, Norway, Poland, the Union of Soviet Socialist Republics and Yugoslavia, and the representatives of General de Gaulle, leader of Free Frenchmen, agree:-

(1) That it is their common aim to secure that supplies of food, raw materials and articles of prime necessity should be made available for the post-war needs of the countries liberated from Nazi oppression.

(2) That, while each of the Allied Governments and authorities will be primarily responsible for making provision for the economic needs of its own peoples, their respective plans should be co-ordinated, in a spirit of inter-allied collaboration, for the successful achievement of the common aim.

(3) That they welcome the preparatory measures which have already been undertaken for this purpose and express their readiness to collaborate to the fullest extent of their power in pursuing the action required.

(4) That, accordingly, each of the Allied Governments and authorities should prepare estimates of the kinds and amounts of foodstuffs, raw materials and articles of prime necessity required, and indicate the order of priority in which it would desire supplies to be delivered.

(5) That the reprovisioning of Europe will require the most efficient employment after the war of the shipping resources controlled by each Government and of Allied resources as a whole, as well as of those belonging to other European countries, and that plans to this end should be worked out as soon as possible between the Allied Governments and authorities, in consultation as

and

and when appropriate with other Governments concerned,

(6) That, as a first step, a bureau should be established by His Majesty's Government in the United Kingdom, with which the Allied Governments and authorities would collaborate in framing estimates of their requirements, and which, after collating and co-ordinating these estimates, would present proposals to a Committee of Allied representatives under the chairmanship of Sir Frederick Leith-Ross.

All the Allied representatives spoke welcoming the resolution and endorsed it on behalf of their respective Governments. The United States, then non-belligerent, were not represented but the United States Ambassador sent a cordial message which Mr. Eden read, in which Mr. Winant expressed the United States Government's wish to be kept informed of the Committee's work. The Soviet Ambassador recorded his Government's acceptance of the first five paragraphs of the Resolution, but on the establishment of the Bureau (para. 6) stated that the Soviet Government believed an inter-allied organisation based on the principle of equal representation would best serve the purpose of the Resolution. Mr. Eden, in accepting this reservation, said that he did not doubt that such an issue could be settled by subsequent discussions.

The Inter-Allied Committee and a small Bureau, under Sir F. Leith-Ross, were accordingly set up. The United States Ambassador in London subsequently appointed a full representative on the Committee. Various meetings of the Committee have been held from time to time, but owing to the fact that the Soviet representative in London felt unable to attend such meetings pending a decision on the Soviet proposals on the organisation of the Bureau, the

work has been conducted between the various Allied authorities individually. Close and regular

-3-

regular touch has been established in this way with the Allied Governments.

The main work so far done has been related to the preparation of estimates of requirements, and in pursuance of para. (4) of the Resolution, the various Allied authorities undertook the preparation of such estimates for their respective peoples. To establish a uniform basis of calculation, the Allied Post-War Requirements Bureau circulated a paper outlining the basic principles on which it was suggested that the Allied Governments should work in order to facilitate the co-ordination of the work.

The common basis proposed was adopted, the method of indicating priorities was accepted, and certain Allied countries made rapid progress in estimating their probable needs of certain staple articles. Every Allied Government was - and is - impressed by the necessity of avoiding a policy of "soup kitchen" relief and the industrialised nations in particular have emphasized the vital necessity of including in their estimates raw materials and such basic plant equipment and other articles of prime necessity as may be necessary to enable industry and trade to restart. It was soon clear, however, that estimates of requirements, where the object is to provide employment, produce consumers goods and restart production generally, are far harder to make and require technical advice of high quality.

At the same time the examination of the estimates presented showed clearly that their co-ordination could only be undertaken effectively by calling in recognised experts.

experts. This was especially the case in regard to questions where national frontiers were irrelevant and the problem to be solved was one likely to affect many territories in the same fashion, e.g. medical relief, nutrition, inland transport in Europe and the rehabilitation of European agriculture. Advance planning is specially important in the case of agriculture, e.g. in order to secure appropriate types of seeds, livestock for breeding, etc., and at a meeting of the Allies on December 19th, 1941, it was unanimously agreed that a technical advisory Committee should be set up to examine the European agriculture situation in detail and to frame recommendations for the consideration of the Allied Committee. The work of this Committee has fully justified the step taken since the Committee has first collected and scrutinized statistics relating to the normal agriculture of the enemy-occupied territories, and has commenced the work of adjusting these figures to take account of current changes in production resources, manpower, etc. in order to estimate what will be most urgently needed to get a first harvest produced which will go as far as possible to meet local needs for foodstuffs. Thus seed requirements of all kinds, i.e. for cereal, vegetable and fodder crops have been examined and tentative figures reached; livestock, fertilizers, agricultural implements and machinery and the miscellaneous needs of peasant producers will be dealt with in turn. The U.S. Department of Agriculture is represented on this Sub-Committee by the Agricultural Attache in London and has been kept in touch with the work done.

The further subjects of inland transport, medical aid,
nutrition

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nutrition and dietary problems and the resettlement of displaced persons (war refugees) have all been investigated by the Bureau in collaboration with the authorities in London and papers (of which copies are available if desired) have been prepared with a view to the appointment of further technical advisory Committees on these subjects. Among the Allied Government representatives in London are a number of first-class experts on these questions, e.g. a Dutch railroad and canal expert, and a Belgian specialist in nutritional problems.

Although these technical advisory Committees have not yet been set up, considerable progress has already been made in improving the first estimates of requirements. The annexed progress report which was presented to the Inter-Allied Committee at the meeting on June 17th, 1942, summarises the position reached. The actual estimates received are available for examination if desired.

The Inter-Allied Bureau has also prepared papers on the future organisation of Relief, (including an outline of the organisation required for Field Missions), and has undertaken discussions of many other aspects of the subject: but these questions have not yet been brought before the Inter-Allied Committee, pending discussion of the whole subject between the United Kingdom and the United States Governments, and in the hope that a common plan could be worked out for presentation to the Allied Governments.

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ANNEXE "A"INTER-ALLIED COMMITTEE ON POST-WAR REQUIREMENTS

PROGRESS REPORT on preparation of requirements programmes

(Note to be read at the meeting of the Inter-Allied Committee on Wednesday, June 17th.)

1. The Resolution adopted by the Allied Governments at the meeting of September 24th provided that "each of the Allied Governments and authorities should prepare estimates of the kinds and amounts of foodstuffs, raw materials and articles of prime necessity required and indicate the order of priority in which it would desire supplies to be delivered". To secure the necessary measure of uniformity in the programmes submitted, suggestions were drawn up (Bureau Paper No. 1) for the information of each national representative on the Inter-Allied Committee on the form in which the import requirements programmes might be conveniently presented. It was made clear that the function of the Bureau was limited to the collation and the co-ordination of the estimates prepared by the Allied Governments, but the Bureau offered to give any assistance which might be desired in the preparation of the estimates. The aim has been to ensure the preparation of programmes on a reasonable basis.

2. A succession of conferences and conversations have been held by the Bureau with the Allied representatives to discuss the manner in which the estimates should be presented and any difficulties which have arisen in the course of their preparation. The Bureau itself prepared for each Allied country, figures for pre-war imports and exports arranged, in the order of the League of Nations Minimum List Classification. This was done to assist the Allied delegates in the preparation of the Requirements statements - in some cases the delegates had not available the necessary statistical sources.

3. It was agreed that the information given in respect of each item of importation should cover a period of eighteen months, starting from the date of the cessation of hostilities, this period to be divided into three periods of six months; the requirements for the first two months immediately following the end of the war being shown separately as well as included in the first of the six-monthly periods.

4. The post-war estimates have been prepared with reference to the pre-war situation, modified by such information as is available regarding the present state of agriculture (including livestock populations) and the industrial capacity of the Allied countries. Estimates of production in the pre-war period are necessary as a comparison with current production. The emphasis which has to be placed on production, which is in any case a very approximate calculation for a number of commodities,

has

has stressed the need for the greatest care in using these estimates.

The suggestion is that current production, rather than estimated post-war production, should be considered. As later information becomes available, notes on revision of particular items in the estimates will be sent to the Bureau at intervals so that the post-war estimates will be kept up to date.

5. It was apparent at an early stage, from discussions with the Allied delegates, that some common approach should be adopted towards the estimation of foodstuffs requirements. It was evident from two of the earliest statements received that the approach had been different. When the method of estimation for France was being discussed, therefore, it was mutually agreed that the more essential post-war needs should be worked out provisionally on the basis of the present British consumption and that these should be included in the statement under Priority "A". Subsequent discussions with other representatives resulted in a tentative agreement that the present British rationing standard might provide a working basis for the calculation of the foodstuffs requirements in Priority "A", subject to allowance being made for production and for national differences in diets and food-stuff needs, and the quantities placed in Priority "A", together with home production, being in no case above the pre-war level of consumption. As regards the countries having large peasant populations, and where general rationing is not practicable, it was suggested that the present British consumption should be related only to the town population (with some allowance for foodstuffs received from local farms), it being assumed that the peasant population would retain sufficient foodstuffs on their holdings to enable them to live at a standard not appreciably less than pre-war.

To enable each of the countries to show the additional requirements necessary to bring the level of consumption up to pre-war, the differences between the "A" Priority and the normal level of consumption are then put in Priority "B", Priority "C" being reserved for semi-luxury or non-essential foodstuffs.

6. As regards raw materials, the post-war estimates have in general been based on pre-war net imports, making allowance for changes during the war in industrial production so far as these have been ascertainable. As regards the commodities for which rationing controls exist in the United Kingdom, i.e. clothing, boots and soap, it has been suggested that the "A" Priority requirements should relate to these rations.

So far as the commodities which are not rationed in the United Kingdom are concerned, the whole question of priorities and relative quantities of industrial materials has been left very flexible. The Governments have indicated the priorities according to the degree of urgency in need. Some countries have, for instance, included in Priority "A" minimum quantities of motor spirit considered necessary for the distribution of foodstuffs.

The Governments have agreed to differentiate between imports for home consumption and for their export industries,

and

-3-

and are also giving an indication of the quantities of manufactured goods which they expect to be available for export.

7. It has been suggested that countries which are adopting a rationing basis for foodstuffs requirements might show separately on the schedules a minimum stock which should be built up to facilitate efficient distribution. As regards animal feedingstuffs, a common approach to the determination of the priorities of imports has not yet been agreed. In a few cases, the expected source of supply for all commodities has been included in the "Remarks" column of the Schedules, and in other cases, they are under consideration. Where, as may be expected, with the lack of information regarding prospective supplies and shipping, doubt exists as to post-war sources, it has been agreed that the pre-war source of supply should be stated.

8. There have been various difficulties in estimating production so as to arrive at satisfactory consumption figures, and in the determination of priorities. But the work involved in experimenting with common standards has given useful results. It is submitted that when the actual returns come forward for consideration by the Inter-Allied Committee it will be agreed that the estimates at this time of requirements in the immediate post-war period can be handled in a practical way so as to give an equitable distribution of available supplies within the limits of the shipping to be allocated to European relief.

PREPARATION OF REQUIREMENT PROGRAMMES

The present situation with regard to Allied estimates of post-war requirements is as follows:-

Belgium and Luxemburg:

Figures of foodstuffs and most industrial requirements have been received. The "A" priority foodstuffs are, to some extent, based upon the British consumption level but further consideration is being given to possible allowances for malnutrition to the co-ordination of feedingstuff requirements with estimates of reduced cattle herds. A provisional list of necessary medical supplies has also been submitted but a revised list has been promised.

Czechoslovakia:

The requirements schedules have been drawn up, using the British consumption figures for urban populations. These include medical needs.

France:

Schedules for foodstuffs and industrial goods received, with the general "A" priorities corresponding to British consumption. Sources of supply have been

received.

received on a separate schedule. Some of the figures, e.g. of feedingstuffs, petroleum and coal, are being reconsidered.

Greece:

Requirements for "A" priority foodstuffs only have been submitted. (These allow a consumption 20% - 25% above pre-war consumption).

Netherlands:

A few foodstuffs requirements received but not tabulated according to the League of Nations classification. Further calculations now being made for foodstuffs (using British consumption figures for meat and fats), textiles and hides. Chemical requirements are also being considered.

Norway:

Preliminary tables of foodstuffs and industrial materials received but without indication of priorities. Revised schedules are now being prepared.

Poland:

Provisional estimates of foodstuffs and industrial materials received. These are not yet quite in final form, e.g. the pre-war net imports being on a separate schedule.

Yugoslavia:

Full lists of foodstuffs and industrial requirements, with priorities, have now come in and give pre-war and post-war production figures for some commodities. Certain revisions to textile estimates are being made.



Memorandum of the Meeting with Mr. Beteta of Mexico

Mr. White's Office, July 17, 1942 at 3:30 P. M.

Present: Mr. White, Mr. Beteta, Mr. B. Bernstein and Mr. E. M. Bernstein.

Mr. Beteta called on Mr. White to discuss the proposal that Mexico impose an export tax on silver to raise additional revenue needed by the Mexican Government. Mr. Beteta said that when the price of silver fell sharply the export tax was removed in order to help silver mining companies continue operation. With the present increased demand for silver the Mexican Government would like to restore a tax, say ten cents an ounce, bringing the effective market price for silver to 45 cents an ounce.

Mr. White stated that such an action might disturb the Office of Price Administration which is eager to maintain price ceilings, and the silver fabricators in this country, some of whom would object to a higher cost of silver to them. Mr. Beteta said that it was not fair to Mexico to impose a price ceiling on an important Mexican product which yielded a substantial revenue to the Mexican Government. Mr. White pointed out, however, that while the price ceiling did deny Mexico and other foreign producers an opportunity to benefit from the more favorable market, it should not be overlooked that the Treasury's action in acquiring silver during the period of inadequate demand prevented the price of silver from falling drastically. The Treasury's floor on silver prices and the OPA's ceiling on silver prices can both be regarded as part of a logical program of stabilizing silver prices.

Mr. White then said that the question of silver imports is being further considered. Because the ceiling price on silver is avoided by some American fabricators who purchase silver in Mexico, steps may be taken by the War Production Board to control the import of silver and to allocate the uses of silver. It is not quite certain, he added, what will be worked out.

The Mexican Government, according to Mr. Beteta, is prepared to use whatever technique is most suitable to the American Government in attaining its objective of deriving additional revenue from silver. As alternative methods of accomplishing this, Mr. Beteta suggested the following:

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1. An increase in the tax imposed by the Mexican Government on silver by 10 cents an ounce.

2. Compulsory sale of silver to the Bank of Mexico which will then negotiate for the sale of the silver, the Government deriving revenue from the difference between the price at which the Bank of Mexico buys silver and the price at which it sells silver.

3. Sale to the United States of Mexican silver exports through some agency other than the Treasury at a price which will permit Mexico to derive additional revenue of approximately 10 cents an ounce.

Mr. White pointed out that while the matter was very largely one for the Office of Price Administration and the War Production Board, the Treasury would be glad to facilitate discussions with these agencies. We will therefore prepare a memorandum to the Secretary on the pros and cons of the Mexican proposal. The Secretary may then arrange an appointment with the Office of Price Administration.

Mr. Beteta referred to the hardship imposed on Mexico by the present price ceiling. The Mexican Government he said could have no objection either to a free market or to price control. If a free market is established then the Mexican Government is content to take in taxes what it can. But if a price control is established by this country then that price should permit a reasonable benefit to Mexico out of the improved market situation.

Mr. B. Bernstein inquired what the Mexican Government would say if it were asked how a 45 cent price could be justified by the Office of Price Administration. To this Mr. Beteta replied that with a tax imposed on the export of silver the supply will go down unless the price ceiling is raised to absorb the tax.

Mr. White raised this hypothetical question, "Suppose Mexico went ahead and put a tax on silver, what could the Office of Price Administration do?" It would appear that they might raise the ceiling price, disregard the tax as part of the price, or prevent the sale of Mexican silver at more than the ceiling price. Under any circumstances, since the Office of Price Administration has the final word upon price ceilings in this country it is desirable for the Mexican representatives to consult them. Mr. White then restated the conclusion that a memorandum would be prepared for the Secretary who might then arrange an appointment with the OPA to discuss this problem.

E. M. Bernstein

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

July 17, 1942

This memorandum is intended to record the conference with the President this morning, attended by Senator George, you, and me.

A good deal of the discussion of the President revolved around the political misfortune of having the bill passed so late in the year that the increased burdens, both income and excise, would be vivid in everybody's mind around election time. The President did not blame anyone for the delay, though in his remarks and in some remarks made by Senator George on this subject, there was a slight vestige of criticism of the Ways and Means Committee. There was no decision that anything more could be done with this other than to rush the bill as much as possible and Senator George promised cooperation along this line, saying that he would try to restrict

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the public hearings as much as possible. Senator George and I did, however, bring directly to the President's attention, the necessity of conference committee action and Senator George made the remark that the more the Senate bill differed from the House bill, the longer time would be needed for this purpose.

The President looked over and summarized to Senator George the yield chart which Mr. Blough's office had prepared. He was especially interested in the fact that nothing had been done on the loophole end of things. He told about a conference he had had yesterday with Mr. Murray, in which Mr. Murray had said that he was having considerable difficulty with his labor leaders in any attempt to restrict wage increase as long as the tax exempt loophole remained in the law. The President had very clearly in mind some of the examples of tax avoidance you had given him the day before, showing tax avoidance by the holding of State and local securities, employing some of the figures which you had given him.

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With respect to tax exempts, Senator George made the suggestion that if nothing could be done in the income tax field, something might be done in the estate tax field. His idea was that a special rate of tax could constitutionally be imposed, viz., a higher rate of tax on tax exempt securities. He said he had a decision which he thought would be helpful and I told him that we would check into this problem. I think that it may be a problem which should be passed to the Attorney General for opinion.

The President asked what has happened to the Glass proposal and I told him that this proposal was an expedient to get around decisions of the old Supreme Court and that it was no longer necessary as there was no remaining constitutional doubt under decisions of the new Supreme Court as to the right of the United States to tax the income on State and local securities.

After his discussion of loopholes, the President went on to discuss at some length what he called the other side of the picture--the problem of debt relief. He had, he said, two companies in mind, one in New York State and the other in Georgia. They are small

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companies, he said, which are obliged to pay a higher rate of interest because they couldn't go into the capital market and do equity financing or sell bonds at a low rate of interest. The President stressed his idea that some debt relief should be given. Senator George acquiesced, except that he noted the necessity of some limitation, to which the President agreed. I pointed out that a deduction for debts involved serious discrimination between persons who saved by paying debts and persons who used other forms of saving. I also said that the problem of debt relief was an individual as well as a corporate problem, and the President agreed.

Toward the end of the conference, the President specifically asked Senator George whether he had any objection to an attack by the Treasury on the loop-hole problem. Senator George said he did not.

At the end of the conference, by previous arrangement, Senator George remained with the President. You and I left the Senator alone with the President.

RST

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

July 17, 1942

Attached is the draft of your statement before the Senate Finance Committee which you might wish to examine over the week-end. Ferdy Kuhn has not put his touches upon it. I am circulating copies of the draft to various people in the Treasury for comment and suggestion which will be available tomorrow and Monday.

RSI

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

You have before you for consideration the first revenue bill of this war. I need not emphasize the seriousness of our wartime tax problem. Taxation is an important element in our power to carry on the greatest struggle in our history. The kind of tax bill the Congress passes will have an important bearing on that power.

In his Budget Message of January 1942, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of social security taxes, of \$7 billion. On March 3, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce \$7,600 million in additional revenue from taxes. On May 6 I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately \$1,100 million more revenue. These two recommendations together involved a tax program of \$8,700 million of

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additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

The Growing Fiscal Problem

In the period since those recommendations were made there have been striking developments in the fiscal picture. The total war appropriations, authorizations and requests made since March 3 amount to about \$50 billion, making total war appropriations, authorizations and requests to date of over \$200 billion. The anticipated expenditures for the fiscal year 1943 increased from \$63 billion in the January Budget Message to \$77 billion in the supplementary estimates of April. The public debt on June 30, 1942 was \$72 billion, excluding \$4½ billion of guaranteed obligations. If the full \$7 billion of additional tax revenue called for by the President in January for the fiscal year 1943 were provided, it would be necessary to borrow \$54 billion during 1943.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada. In the fiscal year 1943 it is estimated that the

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United States will devote 50 percent of its national income to the war effort. Great Britain in its fiscal year 1943 is expected to devote 50 percent to the war effort and Canada 43 percent. Great Britain expects to provide through taxes 52 percent of its expenditures and Canada 57 percent of its expenditures. In the United States, including Federal, State and local governments, 32 percent of total fiscal 1943 government expenditures would be financed through taxes (including social security taxes) under present tax laws, and 43 percent if the full \$7 billion additional regular taxes and \$2 billion additional social security taxes called for by the President's Budget are collected. Of course Canada and Great Britain have been in the war longer than we have. In their first full year of war, namely fiscal 1941, Great Britain devoted 48 percent of its national income to the war effort while Canada devoted 18 percent. Great Britain financed 44 percent of its fiscal 1941 expenditures by taxation and Canada 61 percent. In the nature of the case all of these percentages are approximations.

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It is scarcely necessary to comment on these figures. It is clear that after two years of defense preparations and war production we are devoting to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada. It is likewise clear that we are substantially behind these countries in the proportion of our expenditures which we are raising through taxes.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings are to be

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maintained and rapid and continuous price rises avoided, the pressure of the large and expanding volume of consumer purchasing power on the diminishing supply of goods must be reduced and kept down. Increased taxation is vital in keeping down consumer demand. There are, of course, many other factors that are also important. Taxes cannot do the whole job and indeed the good effects of higher taxes may be offset by events in some other segment of the problem. Nevertheless, what may happen in other fields is no excuse for not doing the utmost through taxation. Increases in taxes will, in any event, make the price situation more controllable and less dangerous than it otherwise would be.

Treasury Program a Minimum Program

The Administration's revenue program calling for \$8.7 billion additional tax revenue was presented as a minimum. It is even more emphatically the very minimum today. The revenues from the bill before you would fall below that minimum by approximately \$2.5 billion.

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In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals were sound and presented the most desirable sources for a revenue program of this size. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I desire, however, to emphasize certain points which I hope will be especially considered by the Committee.

1. Special privileges.

The revenue bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example,

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in one case, out of a total reported income of approximately \$975,000, over \$668,000 came from State and local securities. The tax liability under the rates proposed by the Treasury would be \$254,000 if the tax-exemption privilege were retained, but \$856,000 if it were removed.

How can we expect to secure an all-out war effort if we go on permitting a group of persons and taxable corporations owning \$14 billion of State and local securities to go tax-free on the income from these securities? How can we tolerate the immorality of their tax-free privilege? How can we sit by complacently while a large city at a time like this issues millions of dollars of new securities and thus increases the amount of income that is entirely free from the war burdens which income from all other sources must bear?

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay. For example, a leading oil company owned 10 oil properties in the

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East Texas field which had cost it \$3 million. At the time the case was examined percentage depletion of \$3.6 million had already been allowed and the properties still had three-fourths of the oil left.

How can we tolerate a situation where owners of oil and gas wells deduct from their income $27\frac{1}{2}$ percent of their gross receipts from such wells - not for one year, two years, or the period necessary to return investment, but for an unlimited period? Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have been cheaper for the Federal Government to have paid all the cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses. (Check for accuracy).

A small but important minority of married couples living in the eight so-called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States.

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The result is a breach in our system of income taxation according to the principle of ability to pay. For example, take a family in which the husband has a salary of \$10,000 after deductions. If the family has its residence in, say, California the family tax would be \$2,138, while if he lives in, say, Iowa the tax would be \$2,549 or \$411 more. A family in which the husband earned an income amounting to \$50,000 a year after deductions would pay under the proposed Treasury rates and exemptions an income tax of \$21,018 in the eight community property States, but \$27,373 or 30 percent more in the other forty States. In this national emergency how can we sit in complacency and see citizens of these eight States occupy a more favorable taxable status than those of the rest of the country?

A similarly favorable position is granted under the law to the married couples of the other forty States when income is received by both husband and wife. The tax of such a family is lower than the tax of a family where the husband earns the whole income although the family units enjoy the same income.

We must wipe out these special privileges. How can we place limits on wages and farm prices and impose heavy taxes on persons with small incomes while legal

- 9 -

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- 10 -

robbery like the examples I have cited is allowed to continue? How can we expect to place in the field an army of _____ million men, giving up their incomes and risking their lives, while special groups still have this stranglehold? I never would have recommended lowering the personal exemptions if I had thought that these loopholes were to remain in the law as a symbol of special privilege in this period of national emergency.

2. Excess profits tax.

In my judgment the excess profits tax rates of the bill in its present form are not too high and indeed might well be somewhat higher. However, I wish to reaffirm my recommendation of March 3 that any tax above 80 percent on any dollar of income should be available for return to the corporation after the war.

An effective excess profits tax plays an important role in a program of war finance. It recaptures for the Government payments for war supplies which result in unnecessarily high profits. It reassures the masses of our farmers and workers that the winning of the war for which they are patriotically giving up

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the hope of higher prices and higher wages will not unduly reward industry. The higher the excess profits tax is, the more effective it is in accomplishing these goals.

However, the extremely high rate of tax necessary to achieve these ends removes an important incentive to the careful use of our scarce labor and resources and encourages a lush growth of extravagance. Some incentive is necessary under our American system of business to maintain the efficiency that is so necessary to prosecute the war effort successfully and keep down inflation.

The use of the post-war credit permits the application of a high rate while maintaining an incentive to efficiency. To assure that after the war the repayment would result in benefit to the whole nation and not merely the corporations to which it was paid, it should be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peacetime business or other uses promoting economic adjustment and growth.

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3. Tax on freight and express.

One tax that would be imposed by the bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Importance of Speed in Passage

I realize that the task upon which you are about to engage is an extremely difficult one. However, the Committee will be aware that every day consumed in its work is at a cost of several million dollars in revenues lost under the excise tax portions of the bill. Every day that can be saved in getting this bill enacted will result in its producing just that much more in needed revenue. Moreover, the rates and other provisions of the new law should be available to our citizens at the earliest possible time so that they may adjust themselves to its impact.

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Conclusion .

The measure of the financial burden of the war lies in what the people of this country must get along without. Heavy taxes will not in any degree increase what the people as a whole must sacrifice. Heavy taxes of proper types will help distribute the burden in an equitable manner and will protect both individuals and Government from unnecessary burdens and disturbances during and after the war. I am convinced that the people of the United States are prepared for an all-out tax program and that they will have no patience with half efforts.

(This section was omitted from the Statement at Mr. Griswold's suggestion.)

Adequacy of Tax Base

Much superficial comment has been reported in the press and elsewhere to the effect that an adequate program of war finance must bear heavily on people with very low incomes. It is assumed that they have the bulk of the income. Analysis of the latest available estimates, however, indicates that in 1942 only about ___ percent of consumer income is being received by persons and families who would not be subject to income tax under the exemptions recommended by the Treasury. The people who receive these incomes are in general at very low levels of subsistence. Their tax burdens are already heavy, often heavier than those of their more fortunate neighbors. The imposition of any substantial burden upon them would in numerous cases result in decreased productive efficiency, increased expenditures of Government for relief and supplements to income, and a general lowering of morale and hampering of the war effort. It is not only equitable as an ideal, but it is also entirely feasible as a practical matter to have an adequate war finance program which reaches people with ___ percent of the national income without placing undue burdens on the remaining very low incomes.

(This section was omitted from the Statement at the suggestion of Mr. Kuhn.)

War Bonds

I am glad to see that there is no provision in this tax bill directly or indirectly requiring individuals to purchase Government bonds. The voluntary system of bond purchases in which the American people are enthusiastically engaged is making good progress, especially with the payroll allotment plan which is now in process of being introduced in many thousands of business establishments throughout the United States. Sales of bonds are increasing as the American people come to understand more clearly the importance of bond purchases to the war effort. Reported sales of E bonds for the first 21 days of May were ___ dollars as compared to ___ dollars for the comparable period in June and ___ dollars for the comparable period in July. Likewise the F and G bonds sales for the first 21 days of the month increased from ___ dollars in May to ___ dollars in June and ___ dollars in July. The total sales of E, F and G bonds through the same periods have thus increased from ___ dollars in May to ___ dollars in June and ___ dollars in July, an increase of ___ percent from May to July.

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With the success thus indicated to date and with prospects for substantial expansion, we should have the rest of this year to develop and test the effectiveness of the voluntary program of bond sales.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

July 17, 1942

RE: Estimated yield of the Revenue Bill of 1942
(H.R. 7378)

The Treasury estimates of the \$6,143.9 millions yield of the Revenue Bill of 1942 (H.R. 7378) are based on the levels of business and incomes used in preparing the Budget estimates as revised in April 1942. The estimates of \$8,739.9 millions yield of the final Treasury program were also geared to these same levels of income and business.

In his remarks before the House of Representatives on July 16, 1942, as reported on page 6460 of the Congressional Record, Mr. Doughton said, "I feel safe in predicting that if business conditions remain as good as they are now the receipts from this act will be more than the first estimates made by the Treasury and will be around \$7,000,000,000."

It should be pointed out that if levels of business and income prove to be high enough to add \$7 billions to the present law yield because of the provisions now in the Revenue Bill of 1942, then it is equally clear that the final Treasury program would have been a considerably larger program in terms of dollars than \$8,739.9 millions.

Mr. Doughton added approximately \$900 millions to our estimate of the yield of the bill. If that same amount were added to the yield of the final Treasury program, the Treasury program would have been one of approximately \$9.6 billions.

RSP

Prepared by: Mr. Turner
 Mr. Murphy
 Mr. Haas

DEPARTMENT

COMMUNICATION

DATE JUL 17 1940

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Suggested Changes in the Terms of Tax Savings Notes

SUMMARY

Sales of Tax savings notes in the eleven months following their initial issuance on August 1, 1941, amounted to \$4,156 millions, of which \$4,084 millions, or 98 percent, consisted of Series B notes, which were designed principally as a vehicle for corporate tax reserves.

It is suggested, as a means of increasing the attractiveness of the Series A notes, which were designed as an accommodation to the small taxpayer, as well as to keep pace with increasing tax rates, that the limit on the amount of these notes which can be presented annually, by any holder, in payment of taxes be increased from \$1,200 to \$5,000.

It is suggested that the rate of interest on Series B notes be raised to 0.72 percent to bring these notes again into line with short-term interest rates in the open market. The suggestion is also made, with respect to Series B notes, that by permitting non-banking corporations to receive interest even though the notes are not presented in payment of taxes, and by permitting the notes to be pledged as collateral, Series B notes could serve the additional purpose of absorbing unused corporate balances, and probably do so more effectively than could be done by offering a separate "short-term tap" security.

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I. Sales of Tax Savings Notes

In the eleven months since they were first placed on sale on August 1, 1941, gross sales of Tax savings notes amounted to \$4,156 millions. Of this amount only about \$72 millions, or slightly less than 2 percent, consisted of Series A notes, while 98 percent consisted of Series B notes. Sales of each series are shown by months in the following table:

Sales of Tax Savings Notes
Monthly, August 1941 - June 1942, Inclusive

Month	Series A	Series B	Total
(In millions of dollars)			
<u>1941</u>			
August	20	1,075	1,095
September	7	281	288
October	6	432	438
November	4	316	320
December	6	340	346
<u>1942</u>			
January	6	222	228
February	3	125	128
March	5	232	237
April	5	256	261
May	5	390	395
June	5	415	420
Totals	72	4,084	4,156

The Series A notes were designed as a convenience for the small taxpayer and were, therefore, issued in small denominations and bore a rate of interest above competitive market rates. Use of these notes for tax purposes by any taxpayer was limited to \$1,200 a year. The Series B notes

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were intended principally as a vehicle for corporate tax reserves. They were issued in large denominations, at an interest rate comparable to competitive rates in the market, and there was no limit on the amount which a single taxpayer could use for taxes annually.

Experience with Tax savings notes during the fiscal year 1942 suggests certain modifications in their terms of issuance which are discussed in the following sections.

II. Limitation upon the Annual Use of Series A Notes

Series A notes have played an unimportant part in the past eleven months. This may be due, in some degree, to a failure of the majority of small taxpayers to appreciate the advantages of Tax savings notes. It may be due to apathy on the part of these taxpayers; to their unwillingness to make advance preparation for increased tax liabilities. A remedy for the first of these conditions is, of course, intensified publicity and sales effort. It is doubtful that there is a truly effective remedy for the second situation.

It is also possible that a significant number of small taxpayers find it not worth their while to purchase Series A notes because of the \$1,200 limitation referred to above. The amount of interest which can be earned on a maximum holding of these notes is only \$1.92 a month, or \$23.04 a year. Out of this sum, the holder must presumably pay the cost of safekeeping for the notes and, when tendering them in payment of taxes, the cost of transmission by registered mail.

It should also be borne in mind that tax rates are rising with the result that, with no change in the maximum amount of Series A notes which a taxpayer can use annually, the body of taxpayers who are able to use these notes to discharge their entire tax liability diminishes in size. For example, under the Revenue Act of 1941, \$1,200 of Series A Tax savings notes was sufficient to discharge the tax liability of a single person without dependents, whose net income was about \$8,800. Under the new rates proposed by the Treasury for 1942, the same amount of notes

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would only discharge the tax liability of a person, in similar circumstances, whose net income did not exceed about \$5,400.

It is suggested, therefore, that, as a device to increase sales of Series A Tax savings notes as well as to keep pace with increasing tax rates, the limit on the amount which can be used annually by each taxpayer be increased to, perhaps, \$5,000. For purposes of comparison, the following table shows the approximate income ceilings corresponding to a \$1,200 limit and to a \$5,000 limit, under the provisions of the Revenue Act of 1941, under the rates proposed by the Treasury, and under the rates approved by the House Ways and Means Committee. Within the proposed limit, it would be possible for holders to earn as much as \$8.00 monthly, or \$96.00 annually, in interest. This amount would probably offer sufficient attraction to a large number of taxpayers who are not now buying Series A Tax savings notes.

Approximate Net Incomes Before Personal Exemption
Which Would be Subject to Taxes of
\$1,200 and \$5,000, Respectively,
Under Various Conditions

Amount of Tax	1941 Law	Rates Proposed by Treasury	Rates Approved by Ways and Means Committee
A. Single person - no dependents			
\$1,200	\$ 8,800	\$ 5,400	\$ 6,100
5,000	20,200	15,100	16,400
B. Married person - no dependents			
\$1,200	\$ 9,600	\$ 6,000	\$ 6,800
5,000	21,000	15,700	17,100
C. Married person - two dependents			
\$1,200	\$10,400	\$ 6,600	\$ 7,600
5,000	21,700	16,300	17,900

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III. Interest Rates on Series B Notes

At the time that they were first issued, the interest rate on the Series B notes was approximately in line with market rates for short-term money. Since that time, however, short-term interest rates in the open market have risen substantially. The following table compares the yields of selected short-term Treasury securities on August 1, 1941, and on July 1, 1942:

Comparison of Yields on Short-term
Treasury Securities
August 1, 1941, and July 1, 1942

	August 1, 1941	July 1, 1942
	(Percent)	
Three-month Treasury bills (taxable)	0.094 ^{a/}	0.360 ^{a/}
Seven-month Treasury certi- ficates of indebtedness (taxable)	^{b/}	0.61
One-year Treasury note (wholly tax-exempt):		
2 percent due September 15, 1942	1-4/32 ^{c/}	-
1 percent due September 15, 1943	-	0.35

^{a/} Average rate of discount for bills issued at date nearest to August 1, 1941, and July 1, 1942, respectively.

^{b/} None outstanding.

^{c/} Excess of price over zero yield.

In view of the change in market conditions, it would appear that there is warrant for an increase in the interest rate on this series of Tax savings notes. To be sure, monthly sales have continued high, despite this discrepancy in interest rates; but sales might be considerably larger

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if the rate on the tax notes were in closer agreement with market rates. It would seem highly desirable, however, that any rate selected be one which there is a reasonable chance of maintaining for a protracted period. A series of frequent rate increases would have a distinctly unsettling effect on the market for short-term Treasury securities. A rate of 0.72 percent, which comes to 6 cents a month per \$100, is suggested as being probably the lowest rate which could safely be maintained.

IV. Possibility of Using Series B Tax Notes to Absorb Idle Corporate Balances

There has been a great deal of discussion of suitable means of diverting to the Treasury, for the war effort, unused balances of non-financial corporations. These funds, which arise to a considerable extent from diminution of inventories and postponement of capital expenditures, will probably become increasingly important as the war continues. One function of the issuance of Treasury certificates of indebtedness is the provision of a short-term investment instrument to absorb them. Consideration has also been given to the offering of a short-term tap security for the same purpose.

Such discussion usually involves a non-negotiable security redeemable at the holder's demand at a price which is part of the contract; and to discourage premature redemption, the rate of interest is low during the early part of its term and increases afterwards. It should be pointed out in this connection that Series B Tax savings notes would, after slight changes in their terms of issuance, satisfy most of these requirements without adding another special-purpose Treasury issue to an already complex list.

To accomplish this end, it would be necessary first, to permit cash redemption with accrued interest after six months from date of issue (the notes are now redeemable for cash without interest, or acceptable for taxes with interest after three months from date of issue); and, second, to permit the notes to be pledged as collateral in the same manner as is permitted in the case of the restricted 2-1/2's

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of 1962-67.* Provisions with respect to redemption for tax purposes would remain unchanged. The cash redemption privilege with interest should not, of course, be made available to banks accepting demand deposits. If these changes were made, it would also be desirable, but not necessary, to extend the maturity of the Series B notes to 3 years.

A dual-purpose issue, such as the one suggested, as compared with the issuance of a new separate "short-term tap security" would have the advantage from the point of view of the Treasury that it would have an assured success, since it would have the backlog of the popularity of the tax notes to rely upon. Like the short-term tap, it would also provide the Victory Fund Committees with a constant backlog to work on.

It is also believed that a dual-purpose issue would probably have attractions for corporations with idle balances which neither a single tax-note nor a short-term tap issue would have alone. On the one hand, there would be no need for corporations to confine their purchases to their estimated tax liabilities. On the other, acceptability for taxes would make the notes more liquid because it would offer the holders an alternative to cash redemption. This alternative would be especially valuable to those corporations which, despite all assurances, are reluctant to purchase obligations which can be realized upon only by formal demand upon the Treasury for cash redemption. The provision for borrowing would provide another "out" for holders desiring that their needs for money should be kept anonymous as far as the Treasury is concerned, as well as protecting all holders against possible loss of interest due to sudden temporary demands for cash. The amount of such borrowing would probably be so small, however, that the inflationary aspect of the matter can be ignored.

* In case the notes are acquired by banks as a result of default on a loan, they could be redeemed at original cost, plus accrued interest up to the time they came into possession of the bank.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1942

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

During the week ended last night, the market for Government securities showed little change, with the tone easy. The new 2's of December 1949-51 opened at 100-4/32 on Friday, the first day of trading, and had improved to 100-6/32 at the close yesterday. The restricted 2-1/2's of 1962-67 also moved contrary to the general trend, gaining 4/32 during the week. Both the taxable 1-1/2 percent notes and the 2-1/2 percent bonds of 1967-72 declined 1/32, closing last night at 100-6/32 and 101-6/32, respectively.

A comparison of current prices with those of March 19 shows that short- and medium-term securities continue substantially below their levels of that date. Prices of longer-term bonds have generally improved. (It should be noted that the price declines of the short- and medium-term securities exaggerate the real situation since they reflect amortization of premiums as well as real market declines. The 3-1/4's of 1943-45, for example, show a decline from March 19 of 1-3/32. Of this, 28/32 is due to amortization of the premium and only 7/32 is reflected in an increase in yield. The 4-1/4's of 1947-52, showing a decline in price of 20/32 from March 19, actually show a decline in yield also, and the same is true of a number of issues in the intermediate maturity range.)

The average rate on the weekly bill offering was 0.365 percent, unchanged from a week ago. Certificates of indebtedness were firm, the yield on the new 5/8 percent issue remaining during the week at 0.61 percent.

Purchases by the Federal Open Market Account during the week were substantial, totaling \$203 millions, and consisted of \$105 millions of bills, \$75 millions of certificates and \$23 millions of other taxable issues, principally the 1-1/2 percent notes. Sales aggregated \$17 millions and bill maturities totaled another \$36 millions, so that the net increase in the portfolio was \$150 millions.

Table I

Price and Yield Changes of United States Securities
July 9, 1942 to July 16, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	July 9, 1942	July 16, 1942	Change	July 9, 1942	July 16, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
Alls						
Average rate last issue	-	-	-	.36	.36	.00
Certificates						
1/2% 11/1/42	100.019	100.019	.000	.44	.43	-.01
5/8 2/1/43	100.009	100.008	-.001	.61	.61	.00
Taxable Notes						
3/4% 3/15/43	100.06	100.04	-.02	.47	.56	+.09
3/4 9/15/44	99.24	99.24	.00	.87	.87	.00
3/4 12/15/45	99.10	99.09	-.01	.95	.96	+.01
1 3/15/46	99.12	99.12	.00	1.17	1.17	.00
1-1/2 12/15/46	100.07	100.06	-.01	1.45	1.46	+.01
Taxable Bonds						
2% 3/15/48-50	101.05	101.05	.00	1.79	1.78	-.01
2 6/15/49-51	100.10	100.10	.00	1.95	1.95	.00
2 9/15/49-51	100.08	100.08	.00	1.96	1.96	.00
2 12/15/49-51	-	100.06	-	-	1.97	-
2 12/15/51-55	100.01	100.03	+.02	2.00	1.99	-.01
2-1/2 3/15/52-54	104.01	104.00	-.01	2.04	2.04	.00
2-1/4 6/15/52-55	101.05	101.05	.00	2.12	2.12	.00
2-1/2 3/15/56-58	103.05	103.04	-.01	2.23	2.23	.00
2-1/2 6/15/62-67	100.08	100.12	+.04	2.48	2.48	.00
2-1/2 9/15/67-72	101.07	101.06	-.01	2.44	2.44	.00
TAX-EXEMPT SECURITIES						
Fully Tax-exempt Notes						
2% 9/15/42	100.12	100.10	-.02	0/32*	.08	0/32*
1-3/4 12/15/42	100.22	100.20	-.02	.16	.23	+.07
1-1/8 6/15/43	100.23	100.22	-.01	.35	.37	+.02
1 9/15/43	100.23	100.22	-.01	.39	.41	+.02
1-1/8 12/15/43	101.01	101.00	-.01	.40	.41	+.01
1 3/15/44	100.29	100.28	-.01	.46	.47	+.01
3/4 6/15/44	100.16	100.15	-.01	.49	.50	+.01
1 9/15/44	101.03	101.03	.00	.50	.49	-.01
3/4 3/15/45	100.19	100.18	-.01	.53	.54	+.01
Partially Tax-exempt Bonds						
3-3/8% 6/15/43-47	102.19	102.18	-.01	.58	.56	-.02
3-1/4 10/15/43-45	103.05	103.03	-.02	.74	.75	+.01
3-1/4 4/15/44-46	104.06	104.06	.00	.85	.83	-.02
4 12/15/44-54	107.09	107.07	-.02	.96	.97	+.01
2-3/4 9/15/45-47	105.13	105.12	-.01	1.02	1.02	.00
2-1/2 12/15/45	105.02	105.03	+.01	1.00	.98	-.02
3-3/4 3/15/46-56	109.06	109.04	-.02	1.19	1.20	+.01
3 6/15/46-48	107.00	107.00	.00	1.17	1.16	-.01
3-1/8 6/15/46-49	107.12	107.12	.00	1.20	1.19	-.01
4-1/4 10/15/47-52	115.02	115.00	-.02	1.28	1.28	.00
2 12/15/47	104.14	104.16	+.02	1.15	1.14	-.01
2-3/4 3/15/48-51	107.15	107.17	+.02	1.38	1.36	-.02
2-1/2 9/15/48	106.27	106.29	+.02	1.34	1.33	-.01
2 12/15/48-50	104.12	104.15	+.03	1.29	1.27	-.02
3-1/8 12/15/49-52	110.20	110.18	-.02	1.60	1.61	+.01
2-1/2 12/15/49-53	106.15	106.16	+.01	1.57	1.57	.00
2-1/2 9/15/50-52	106.27	106.28	+.01	1.60	1.60	.00
2-3/4 6/15/51-54	108.21	108.21	.00	1.70	1.70	.00
3 9/15/51-55	110.20	110.20	.00	1.74	1.74	.00
2-1/4 12/15/51-53	105.08	105.07	-.01	1.65	1.65	.00
2 6/15/53-55	103.20	103.18	-.02	1.64	1.64	.00
2-1/4 6/15/54-56	105.16	105.15	-.01	1.74	1.74	.00
2-7/8 3/15/55-60	110.16	110.15	-.01	1.94	1.94	.00
2-3/4 9/15/56-59	109.24	109.22	-.02	1.96	1.96	.00
2-3/4 6/15/58-63	110.00	110.00	.00	2.01	2.01	.00
2-3/4 12/15/60-65	110.17	110.15	-.02	2.06	2.06	.00

July 16, 1942.

Treasury Department, Division of Research and Statistics.

1/ Decimals in prices of certificates are cents.
* Excess of price over zero yield.

Regraded Unclassified

Price and Yield Changes of United States Securities
March 19, 1942 to July 16, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	July 16, 1942	Change	March 19, 1942	July 16, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
Average rate last issue	-	-	-	.20	.36	+ .16
Certificates						
11/1/42	-	100.019	-	-	.43	-
2/1/43	-	100.008	-	-	.61	-
Table Notes						
3/15/43	100.12	100.04	-.08	.37	.56	+ .19
9/15/44	99.31	99.24	-.07	.76	.87	+ .11
9/15/44	99.21	99.09	-.12	.84	.96	+ .12
12/15/45	99.29	99.12	-.17	1.02	1.17	+ .15
3/15/46	-	100.06	-	-	1.46	-
Table Bonds						
3/15/48-50	101.28	101.05	-.23	1.67	1.78	+ .11
6/15/49-51	101.04	100.10	-.26	1.83	1.95	+ .12
9/15/49-51	-	100.08	-	-	1.96	-
12/15/49-51	-	100.06	-	-	1.97	-
12/15/51-55	100.12	100.03	-.09	1.96	1.99	+ .03
3/15/52-54	103.23	104.00	+.09	2.09	2.04	-.05
6/15/52-55	101.06	101.05	-.01	2.12	2.12	.00
3/15/56-58	103.05	103.04	-.01	2.24	2.23	-.01
6/15/52-67	-	100.12	-	-	2.48	-
9/15/67-72	100.27	101.06	+.11	2.46	2.44	-.02
TAX-EXEMPT SECURITIES						
Fully Tax-exempt Notes						
9/15/42	101.04	100.10	-.26	5/32*	.08	-5/32*
12/15/42	101.11	100.20	-.23	2/32*	.23	-5/32*
6/15/43	101.04	100.22	-.14	.22	.37	+ .15
9/15/43	101.03	100.22	-.13	.26	.41	+ .15
12/15/43	101.16	101.00	-.16	.26	.41	+ .15
3/15/44	101.10	100.28	-.14	.34	.47	+ .13
6/15/44	100.27	100.15	-.12	.37	.50	+ .13
9/15/44	101.16	101.03	-.13	.39	.49	+ .10
3/15/45	101.00	100.18	-.14	.41	.54	+ .13
Partially Tax-exempt Bonds						
6/15/43-47	103.21	102.18	-1.03	.41	.56	+ .15
10/15/43-45	104.06	103.03	-1.03	.57	.75	+ .18
4/15/44-46	105.06	104.06	-1.00	.72	.83	+ .11
12/15/44-54	108.11	107.07	-1.04	.91	.97	+ .06
9/15/45-47	106.06	105.12	-.26	.94	1.02	+ .08
12/15/45	105.28	105.03	-.25	.90	.98	+ .08
3/15/46-56	110.08	109.04	-1.04	1.11	1.20	+ .09
6/15/46-48	107.28	107.00	-.28	1.09	1.16	+ .07
6/15/46-49	108.08	107.12	-.28	1.13	1.19	+ .06
10/15/47-52	115.20	115.00	-.20	1.33	1.28	-.05
12/15/47	104.23	104.16	-.07	1.15	1.14	-.01
3/15/48-51	107.28	107.17	-.11	1.38	1.36	-.02
9/15/48	107.07	106.29	-.10	1.33	1.33	.00
12/15/48-50	104.21	104.15	-.06	1.28	1.27	-.01
12/15/49-52	110.22	110.18	-.04	1.65	1.61	-.04
12/15/49-53	106.16	106.16	.00	1.60	1.57	-.03
9/15/50-52	106.20	106.28	+.08	1.66	1.60	-.06
6/15/51-54	108.18	108.21	+.03	1.74	1.70	-.04
9/15/51-55	110.20	110.20	.00	1.78	1.74	-.04
12/15/51-53	104.29	105.07	+.10	1.70	1.65	-.05
6/15/53-55	103.10	103.18	+.08	1.68	1.64	-.04
6/15/54-56	104.28	105.15	+.19	1.80	1.74	-.06
3/15/55-60	110.00	110.15	+.15	2.00	1.94	-.06
9/15/56-59	109.10	109.22	+.12	2.01	1.96	-.05
6/15/58-63	109.12	110.00	+.20	2.07	2.01	-.06
12/15/60-65	110.00	110.15	+.15	2.10	2.06	-.04

July 16, 1942.

Treasury Department, Division of Research and Statistics.
1/ Decimals in prices of certificates are cents.
* Excess of price over zero yield.

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

DEPARTMENT
OF COMMUNICATION

DATE July 17, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Developments in the High-grade Security
Markets; Bank Earnings

SUMMARY

- (1) Long-term Treasury bonds have undergone little net change in price since April 4. Intermediate bonds and notes have been somewhat weak (Chart I). Long-term bonds are now about one point below the levels just before Pearl Harbor; while intermediate-term bonds are about 1-1/2 points below the levels at that time.
- (2) High-grade corporate securities have shown relatively little variation in price since April 4 (Chart II). Municipals, on the other hand, have improved fairly steadily.
- (3) The first when-issued quotation on the new 2 percent Treasury bond of December 15, 1949-51, was 100-3/32 bid. At the close yesterday the bid was 100-5/32, equivalent to a yield of 1.98 percent, which appears to be in line with the market for taxable Treasury bonds (Chart III).
- (4) In the three major swings of the bond market since the low in September 1939, following the outbreak of the war, and including the partial swing up to the present time, Treasury bonds have risen in price by the equivalent of 80 basis points in yield. In the same period municipal and high-grade corporate bonds have gained the equivalent of 98 basis points and 57 basis points, respectively. Municipal bonds have, in general, shown the greatest variation in their major swings, while corporate bonds have shown the least (Chart IV).
- (5) Recently published data show that the "net current earnings" of all member banks for the calendar year 1941 were the highest since 1931, and that "net profits" were the highest, with the exception of 1936, since 1929.

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I. United States Government Securities

Since April 4 (the high point of the spring rally), the prices of long-term Treasury bonds have undergone very little net change. Intermediate bonds and Treasury notes, on the other hand, have been somewhat weaker (Chart I). Price changes since April 4 are shown, by maturity classes, in the following table:

	Average Price Change April 4-July 16
	(In thirty-seconds)
<u>Bonds</u>	
15 years and over to call	- 2
5-15 years to call	-11
<u>Notes</u>	
3-5 years	-13
1-3 years	-10

Bonds with 15 years or more to earliest call date are now about one point below their pre-Pearl Harbor prices, while bonds with 5-15 years to call are about 1-1/2 points lower than they were on December 6, 1941.

II. Other Domestic High-grade Securities

High-grade corporate securities have not varied greatly in price or yield for several months. The Treasury average of the yields of such securities was 2.74 percent at the close on July 16, as compared with 2.77 percent on April 4 (Chart II). Municipals have improved fairly steadily since the beginning of April. The Dow-Jones average of the yields of twenty 20-year bonds stood at 2.27 percent last Saturday, as compared with 2.47 percent on April 4.

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III. The New 2 Percent Bond

On the day of the announcement of the new 2 percent Treasury bond of December 15, 1949-51, the taxable 2's of September 15, 1949-51 declined 9/32 and the taxable 2's of June 15, 1949-51 fell 11/32. Since then price changes in that sector of the market have been small.

The new bond was quoted at a bid price of 100-3/32 on a when-issued basis at the opening on Friday, July 10, the day after the closing of the books. Since then the bid has been as high as 100-6/32 and as low as 100-2/32. At last night's close it was 100-5/32, equivalent to a yield of 1.98 percent. This yield is compared with the yields of other taxable Treasury bonds in the intermediate maturity range in Chart III. The new bond appears to be about in line with the market.

IV. Comparison of Major Movements in the High-grade Bond Markets Since September 1939

Since the outbreak of the war in Europe in September 1939, the general trend of high-grade bond prices has been upward (Chart IV). While the market during this period has experienced three major upswings, each followed by a decline, the whole period falls naturally into two parts -- before and after "Pearl Harbor".

With two exceptions -- the first at the time of the German blitzkrieg in the spring of 1940, and the second at the time of the credit-tightening proposals of the Federal Reserve Board in December 1940 -- the prices of long-term Treasury bonds rose gradually from September 26, 1939 (the low immediately following the outbreak of the war) to an all-time high reached on October 29, 1941. In terms of yield, the net movement in this period was from 2.79 percent for the average of all long-term partially tax-exempt Treasury bonds on September 26, 1939, to 1.82 percent on October 29, 1941. From October 29 to December 6, 1941, long-term Treasury bond prices sagged slightly, and yields increased from 1.82 percent to 1.87 percent on the latter date.

After Pearl Harbor the drop in Treasury bond prices was sharp and of longer duration than the two previous declines, the low of this third major decline being reached

Secretary Morgenthau - 4

on February 18, 1942. Since this latter date, Treasury bond prices have risen by about half of their decline following our actual involvement in the war.

Municipal bond prices, while generally moving in conformity with those of Treasury bonds, have risen more rapidly during upswings and fallen more sharply in downswings. This action is especially pronounced since Pearl Harbor because, in addition to our declaration of war during this downswing, there has been a major attempt to remove the tax-exemption features of outstanding municipal bonds. By the same token, during the current upswing, this proposal was rejected by the House Ways and Means Committee, which undoubtedly accounts for a portion of the relative gain which municipal bonds have enjoyed over Treasury bonds during the current upswing.

High-grade corporate bond prices have, for the most part, moved within a narrower range than have either Treasury or municipal bonds during the period. The general trend, however, has been in harmony with Treasury and municipal bonds. Corporate bonds, like Treasury and municipal bonds, are currently below their previous highs established before Pearl Harbor and in December 1940.

While, in general, Treasury bonds, municipals, and high-grade corporate bonds have moved in unison, rising and falling together during the same periods of time since September 1939, municipal bonds have registered the greatest net price rise, as measured by yield averages, with Treasury bonds second, and high-grade corporates last. From September 26, 1939, to July 16, 1942, municipal bond yields have decreased 98 basis points, while Treasury bond yields have decreased 80 basis points, and high-grade corporate bond yields have decreased 57 basis points.

Treasury and high-grade corporate bonds have recovered more of their post-Pearl Harbor losses, however, than municipal bonds. Currently, Treasury and corporate bonds have regained, in terms of yields, all but 12 basis points and 14 basis points, respectively, of their losses, while municipal bond yields are still 26 basis points from their December 6 level.

V. Member Bank Earnings

In view of the emphasis which has been placed, from time to time, by representatives of the Federal Reserve

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System upon the need of member banks for earnings, the latest available figures are interesting.

The June Federal Reserve Bulletin shows that the "net current earnings" of all member banks for the calendar year 1941 amounted to \$429 millions. This is the highest since 1931.

The "net profits" of all member banks -- i.e., "net current earnings" plus recoveries and profits and minus losses and depreciation -- amounted to \$390 millions for 1941. With the exception of the year 1936, this is the highest since 1929. Both "net current earnings" and "net profits" are after taxes.

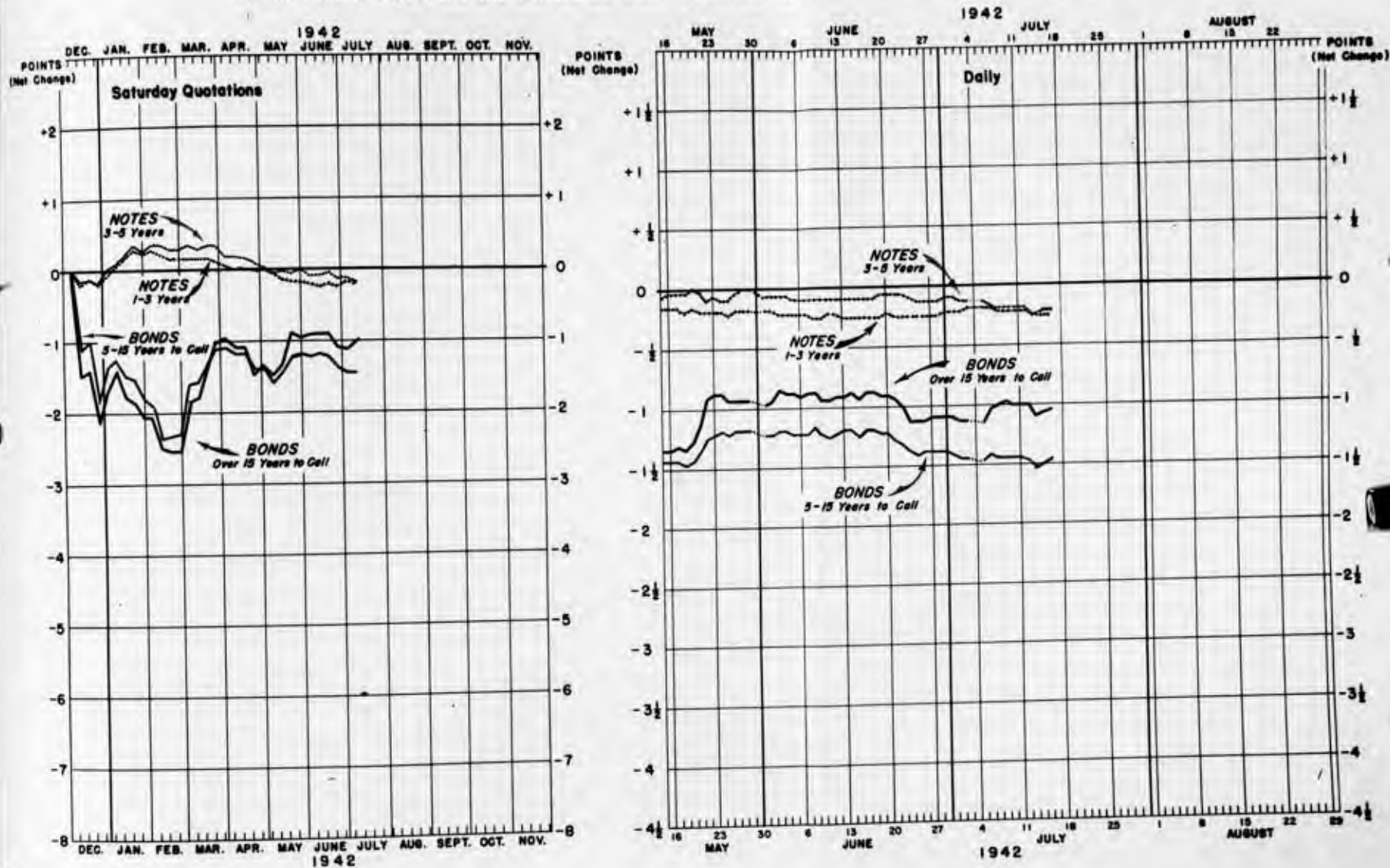
The "net current earnings" and "net profits" of all member banks for calendar years, commencing with 1929, have been as follows:

	: Net : current : earnings	: Net : profits
(Millions of dollars)		
1929	715	557
1930	554	307
1931	506	12
1932	410	-255
1933	378	-356
1934	394	-225
1935	374	212
1936	399	465
1937	419	337
1938	384	265
1939	401	347
1940	402	349
1941	429	390

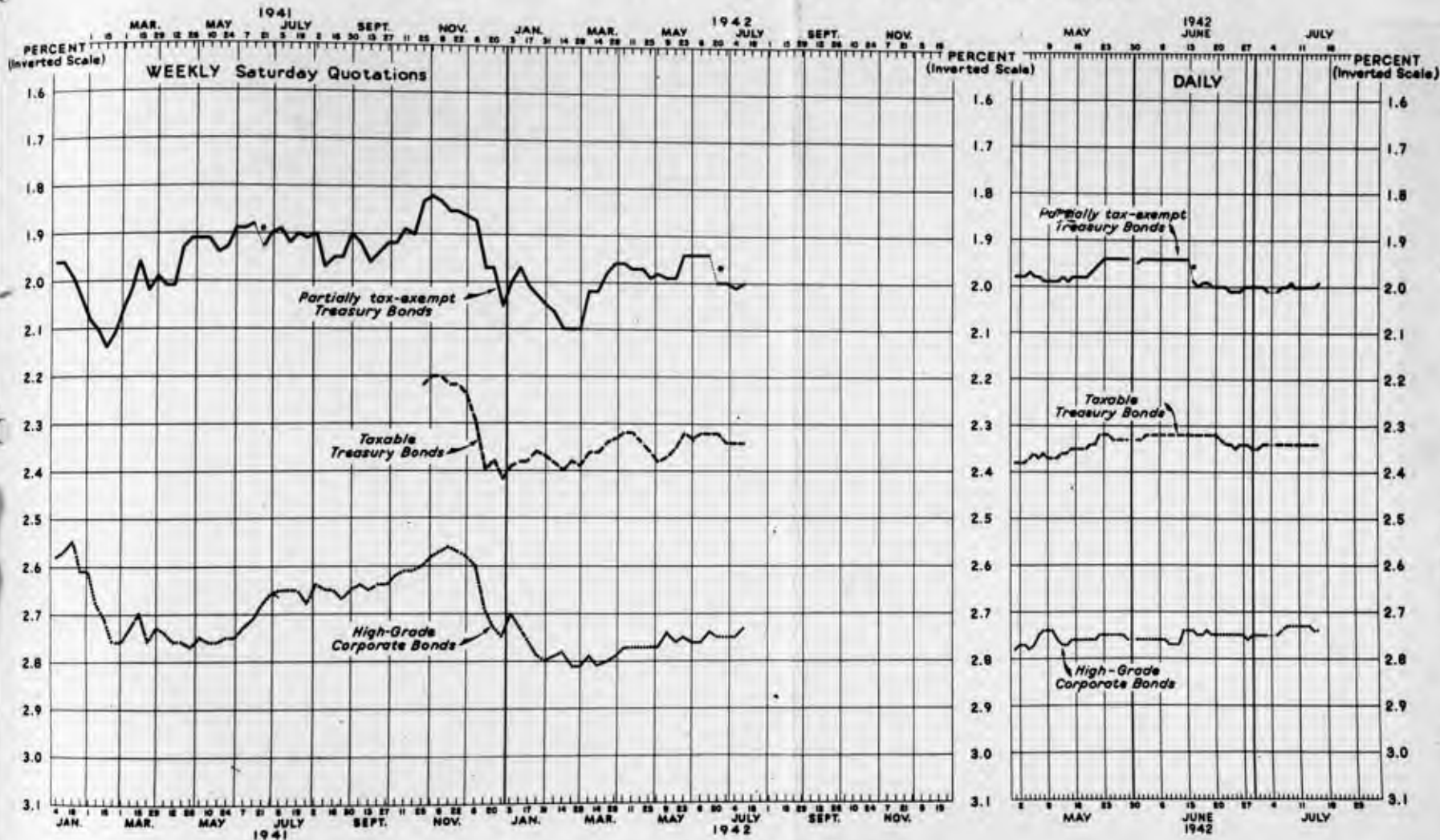
Attachments

CHANGES IN THE PRICES OF U.S. SECURITIES

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



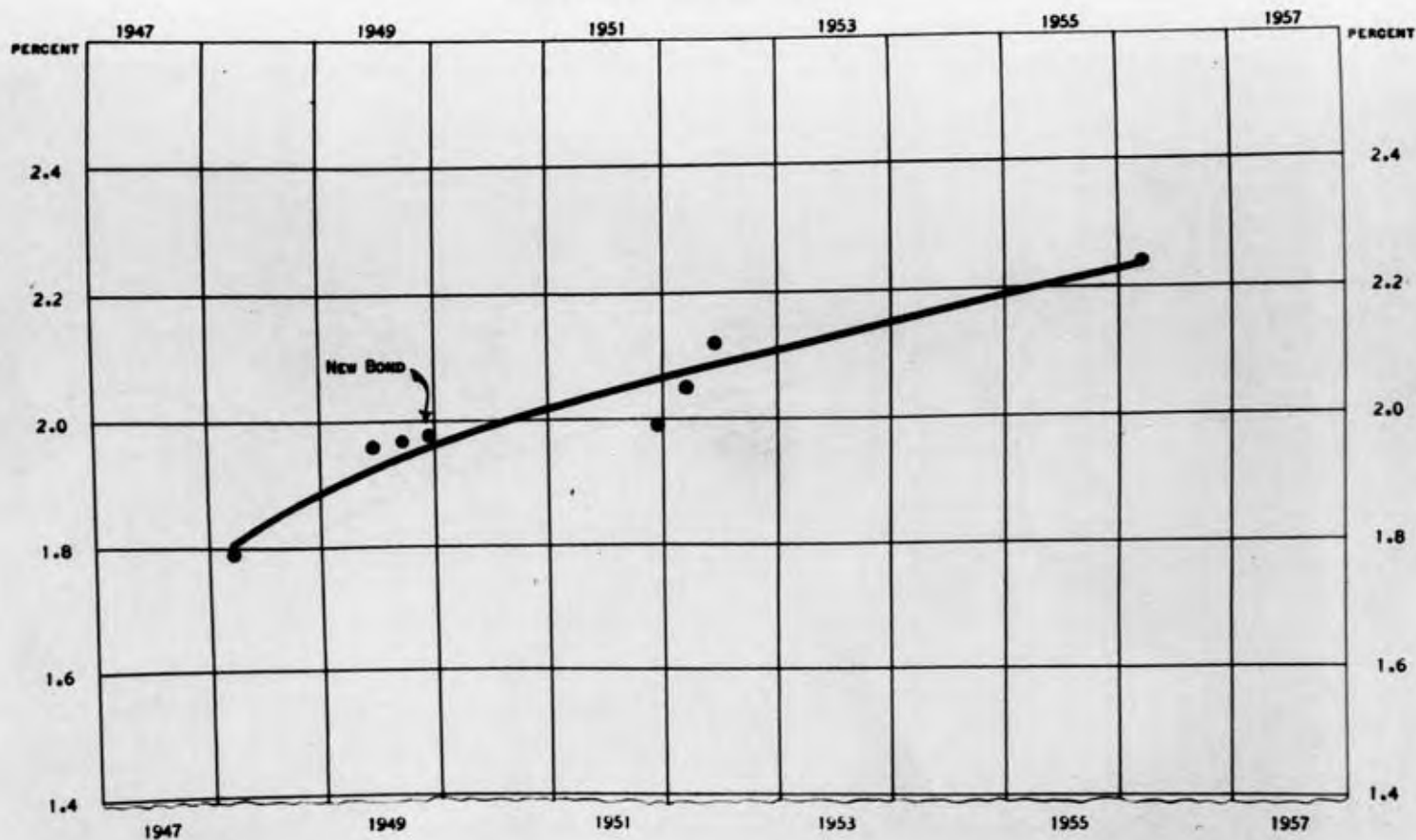
AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS



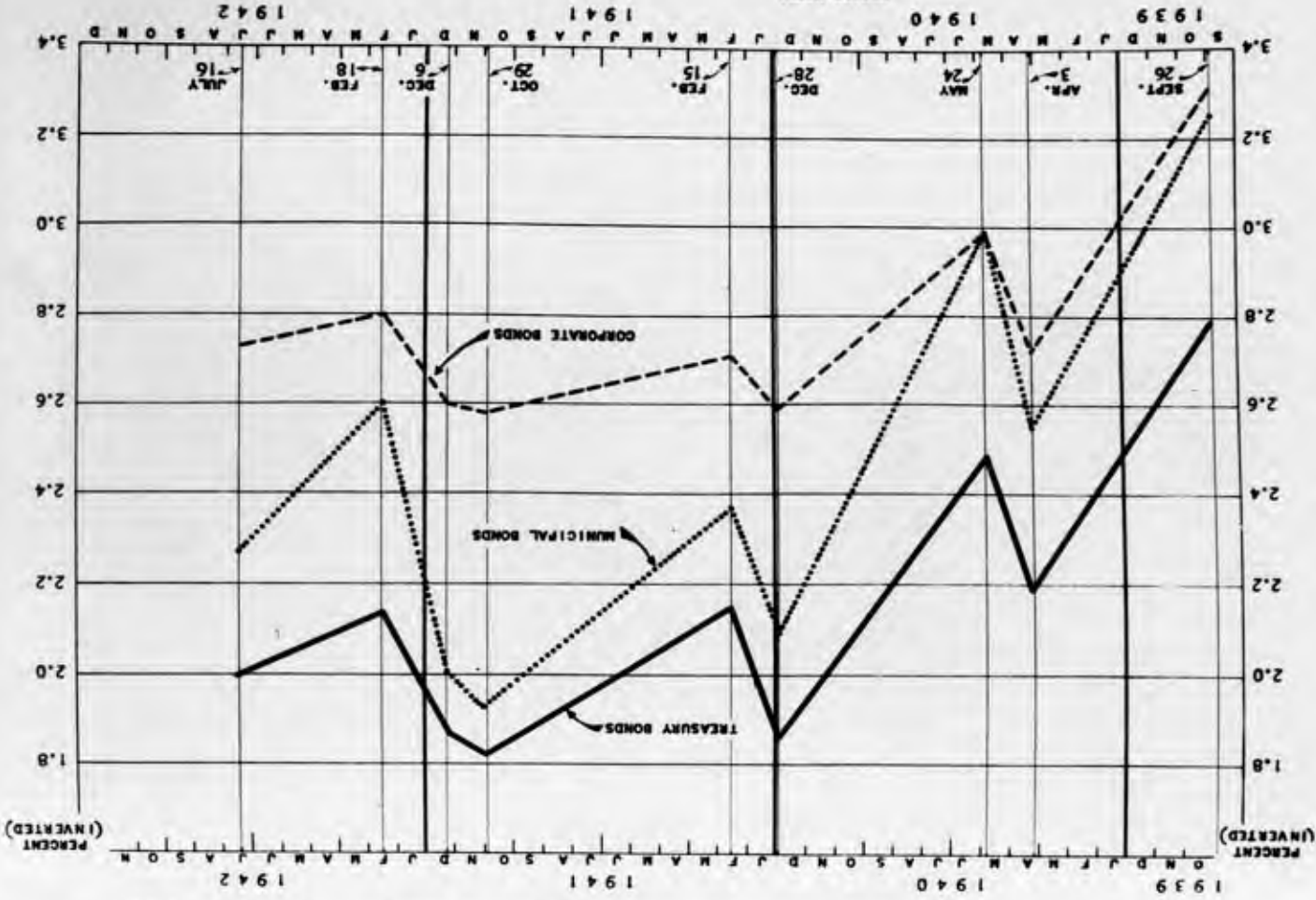
* Change in composition of Long-Term Treasury average

YIELDS OF TAXABLE TREASURY BONDS JULY 16, 1942

Based on Closing Bid Quotations



COMPARISONS OF MAJOR SWINGS OF GOVERNMENT, MUNICIPAL, AND HIGH-GRADE CORPORATE BONDS SINCE THE OUTBREAK OF THE WAR



AVERAGE OF PARTIALLY TAX-EXEMPT LONG-TERM TREASURY BONDS
 DON-JONES AVERAGE OF THIRTY 20 YEAR MUNICIPAL BONDS
 TREASURY AVERAGE OF HIGH-GRADE CORPORATE BONDS

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

REGULATIONS GOVERNING AGENCIES FOR THE ISSUE OF
WAR SAVINGS BONDSSERIES E

1942
Third Amendment
Department Circular No. 657

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 17, 1942.

Department Circular No. 657, dated April 15, 1941, as amended and supplemented, is hereby further amended by adding the following new subsection (f) to section 3 of the circular:

3. QUALIFICATION OF ISSUING AGENT.

(f) Consignment of bond stock without pledge of collateral. Notwithstanding the provisions of the foregoing subsections, any issuing agent designated hereunder may be qualified as such an agent without being required to pledge collateral security for War Savings Bond stock, Series E, upon filing an Application - Agreement, Form No. 1785, with the Federal Reserve Bank of the district, provided, however, that the Secretary of the Treasury in specific cases may restrict, in whole or in part, the amount of such bond stock requested by any such agent without the pledge of collateral security. Upon approval of the Application - Agreement, Form No. 1785, the Federal Reserve Bank will issue a certificate of qualification to the issuing agent on Form No. 385-B. If the qualification applied for is not certified, appropriate notice thereof will be transmitted to the issuing agent making application.

HENRY MORBENTHAU, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 17 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Number of days it takes to receive a war savings bond issued by a Federal Reserve Bank or by a corporation issuing agent.

On each Friday since May 15 the Federal Reserve Banks have made a sample study to determine the number of days it takes a person to receive a war savings bond (1) issued by a Federal Reserve Bank, or (2) issued by a corporation which has qualified as an issuing agent. The results of the first part of this survey on May 15, June 19, July 3 and July 10 are shown in Table 1 attached to this memorandum. The results of the second part of this survey are shown for the same dates in Table 2 attached. The major items noted are the following:

1. A person buying a war savings bond by sending a check to the Federal Reserve Bank through the mails normally waits a week to ten days before he receives his bond. Two or three days are consumed by the movement of the mails, three more of these days are required by the Federal Reserve Bank to collect the check and one of these days is a Sunday on which no business is transacted.
2. At peak periods, when a large volume of applications are on hand for companies whose employees are purchasing under the payroll savings plan, it takes a person ten to fifteen days to obtain his bond after the application has been submitted to the Federal Reserve Bank. Inasmuch as some companies submit such applications only once or twice a month, delivery of the bond may not occur until four or five weeks after the deduction completing its payment had been made.
3. Eight of the twelve Federal Reserve Banks took a longer period to deliver savings

Secretary Morgenthau - 2

bonds on July 10 than they took on May 15. This is accounted for primarily by the fact that the increase in the volume of savings bonds sold has enlarged the number of pieces the Federal Reserve Banks must issue each month. Some of the assistance in issuing bonds that corporation issuing agents were supposed to provide has not materialized, we are advised, because many corporations have postponed issuing operations until they obtain the mechanical equipment needed for the large-scale inscribing of bonds. Your letter to Mr. Nelson has resulted in a more frequent approval by the War Production Board of applications for preference ratings on such equipment, however, and some relief for the Federal Reserve Banks is in prospect.

4. A few corporation issuing agents are taking three weeks or more to deliver bonds purchased by employees participating in the payroll savings plan (Table 2). Most corporations are able to deliver bonds purchased by such employees within ten days or so after payment has been completed, however, and a few corporations are able to deliver the bonds the very same day the payments are completed.
5. For purpose of comparison with the foregoing we have asked some of the Treasury Bureaus how long it takes Treasury employees to obtain bonds issued under the payroll savings plan. Where information was readily available it was reported that bonds were delivered to purchasers ten days to two weeks after the last deduction from pay was made.

Attachments

Table 1

Approximate number of days it takes a person
to receive a war savings bond issued by a
Federal Reserve Bank 1/

Federal Reserve Bank	Survey made			
	May 15, 1942	June 19, 1942	July 3, 1942	July 10, 1942
Richmond.....	15	6	7	9
Philadelphia.....	10	9	9	11
San Francisco.....	10	11	5	11
Chicago.....	8	10	8	8
Dallas.....	8	3	6	4
Boston.....	8	7	7	10
New York.....	7	8	8	11
Kansas City.....	6	14	6	7
Cleveland.....	5	6	9	11
Minneapolis.....	4	4	5	4
Atlanta.....	4	4	6	6
St. Louis.....	4	4	6	9

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

July 16, 1942.

1/ Allows 2 days for period in the mails.

Longest Period of Time It Took an Employee of a Selected Group of Corporations to Receive His War Savings Bond Purchased Under the Payroll Savings Plan and Issued by His Employer

(On the basis of the survey made by the Federal Reserve Banks)

Report of May 15	Report of June 19	Report of July 3	Report of July 10				
Name of company and location	Name of company and location	Name of company and location	Name of company and location				
:Maximum: :number: :of days: :to re- :ceive: :bond	:Maximum: :number: :of days: :to re- :ceive: :bond	:Maximum: :number: :of days: :to re- :ceive: :bond	:Maximum: :number: :of days: :to re- :ceive: :bond				
Western Union Telegraph Co., Kansas City, Mo.....	33	New England Telephone & Telegraph Co., Boston, Mass.....	30	A corporation selected by the San Francisco FRB.....	36	A corporation selected by the San Francisco FRB.....	42
Kansas City Southern Railway, Kansas City, Mo.....	30	Southwestern Bell Telephone Co., St. Louis, Mo.....	21	A corporation selected by the San Francisco FRB.....	33	Southwestern Bell Telephone Co., St. Louis, Mo.....	25
A corporation selected by the New York FRB.....	21	A corporation selected by the San Francisco FRB.....	20	Southwestern Bell Telephone Co., St. Louis, Mo.....	32	Kennecott Wire & Cable Co., (Boston District).....	21
A corporation selected by the San Francisco FRB.....	20	Philadelphia Transportation Co., Upper Darby, Pa.....	14	Keasby & Mattison Co., Ambler, Pa.....	14	Hunt Manufacturing Co., Philadelphia, Pa.....	21
General Electric Supply Corp., Richmond, Va.....	15	A corporation selected by the New York FRB.....	7	Stanley Company of America, Philadelphia, Pa.....	14	Gilbert & Barker Manufacturing Co., West Springfield, Mass.....	20
Bell Telephone Co. of Pennsylvania, Philadelphia, Pa.....	14	A corporation selected by the New York FRB.....	7	St. Louis Independent Packing Co., St. Louis, Mo.....	14	Dexdale Hosiery Mills, Lansdale, Pa.....	14
Emerson Electric Mfg. Co., St. Louis, Mo.....	9	American Refrigerator Transit Co., St. Louis, Mo.....	4	Theo. Hamm Brewing Co., St. Paul, Minn.....	9	St. Louis Independent Packing Co., St. Louis, Mo.....	14
Ash Grove Lime & Cement Co., Kansas City, Mo.....	7	Sears Roebuck & Co., Minneapolis, Minn.....	6	Continental Mills, Lewiston, Maine.....	7	A corporation selected by the New York FRB.....	7
Crown Drug Co., Kansas City, Mo.....	6	National Life Insurance Co., Montpelier, Vt.....	0	Kellett Autogiro Corporation, Philadelphia, Pa.....	7	A corporation selected by the New York FRB.....	7
Welman Marcus, Dallas, Texas.....	4	Stillwater Worsted Mills, Harrisville, N. I.....	0	A corporation selected by the New York FRB.....	6	Brown and Bigelow, St. Paul, Minn.....	6
A corporation selected by the New York FRB.....	3	A corporation selected by the New York FRB.....	0	Brown and Bigelow, St. Paul, Minn.....	6	Sears Roebuck & Co., Minneapolis, Minn.....	3
Sears Roebuck & Co., Minneapolis, Minn.....	2	Camden Forge Co., Camden, N. J.....	0	Century Electric Co., St. Louis, Mo.....	5	Bayuk Cigars, Inc., Philadelphia, Pa.....	2
Commander-Larabee Milling Co., Kansas City, Mo.....	1	Crescent Insulated Wire & Cable Co., Trenton, N. J.....	0	Indian Motorcycle Co., Springfield, Mass.....	3	Edwards Manufacturing Co., Augusta, Maine.....	0
Miller & Rhoads Inc., Richmond, Va.....	0	Miller & Rhoads Inc., Richmond, Va.....	0	General Electric Supply Corp., Richmond, Va.....	3	A corporation selected by the New York FRB.....	0
Holtzer Cabot Electric Co., Boxbury, Mass.....	0	Theo. Hamm Brewing Co., St. Paul, Minn.....	0	Sears Roebuck & Co., Minneapolis, Minn.....	0	Theo. Hamm Brewing Co., St. Paul, Minn.....	0

July 16, 1942.

Firms with 1,000 or More Employees Reported to be Deducting 10 Percent or More
of Aggregate Payroll Under Payroll Savings Plans

(As Reported by the War Savings Staff's State Administrators July 11, 1942)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
Southern Bell Telephone and Telegraph Co., Ga.....	26,933	\$ 3,142	10	\$ 11.67
Sun Shipbuilding and Drydock Co., Pa.....	24,297	6,113	10	25.16
Bell Telephone Company of Pennsylvania, Pa.....	19,661	3,203	10	16.29
Standard Oil Company of California, Calif.....	19,510	4,119	10	21.11
Glen Alden Coal Co., Pa.....	16,500	2,000	10	12.12
Casco Products Corp., Conn.....	11,000	*	10	*
General Electric Co., Mass.....	10,800	2,257	10	20.90
E. I. du Pont de Nemours and Co., Okla.....	10,401	*	10	*
General Electric Co., Pa.....	9,470	1,979	12	25.08
General Electric Co., Conn.....	9,000	1,881	10	20.90
Hudson Coal Co., Pa.....	8,398	1,125	10	13.40
Kaiser Company, Wash.....	8,200	*	11	*
Twin City Ordnance, Minn.....	7,611	*	10	*
Northern Pump Co., Minn.....	6,604	2,065	14	43.78
Beech Aircraft Corp., Kansas.....	6,000	*	16	*
Cities Service Oil Co., Okla.....	5,200	*	10	*
Hygrade Food Products Corp., N. Y.....	5,000	*	10	*
General Electric Co., Ohio.....	4,903	1,024	10	20.90
General Electric Supply Corp., Conn.....	4,800	1,003	10	20.90
American Bosch Corp., Mass.....	4,790	892	11	20.48
Delaware, Lackawanna and Western Railroad, Pa.....	4,400	*	10	*
Cessna Aircraft Co., Kansas.....	3,741	*	10	*
United Airlines Transport Corp., N. Y.....	3,500	747	10	21.34
R. P. Farnsworth and Co., La.....	3,303	*	10	*
Waterbury Clock Co., Conn.....	3,261	656	10	20.12
New Jersey Worsted Mills, N. J.....	2,950	348	10	11.80
Dublin Bag Loading Plant, Va.....	2,721	349	11	13.88
Bayonne Associates, N. J.....	2,625	725	10	27.66
Ford Motor Co., Pa.....	2,438	534	10	21.90
Armour and Company, Nebr.....	2,400	321	10	13.38

(Continued)

Firms with 1,000 or More Employees Reported to be Deducting 10 Percent or More
of Aggregate Payroll Under Payroll Savings Plans

(As Reported by the War Savings Staff's State Administrators July 11, 1942)

(Continued - 2)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
Swift and Company, Kansas.....	2,294	\$ 414	10	\$ 18.05
Waltham Watch Co., Mass.....	2,286	304	10	13.30
Penn Coal Co., Pa.....	2,180	323	10	14.82
Interlake Steamship Co., Ohio.....	2,160	*	10	*
American Chain and Cable Co., Pa.....	2,058	442	11	23.62
General Steel Castings Corp., Pa.....	2,053	406	10	19.78
Basalt Roch Co., Calif.....	2,015	*	14	*
Hat Corporation of America, Conn.....	1,997	283	10	14.17
Northwestern Steel and Wire Co., Ill.....	1,780	368	10	20.67
Diamond T Motor Car Co., Ill.....	1,721	318	10	18.48
Celanese Corp., N. J.....	1,706	214	10	12.60
Moffat Coal Co., Pa.....	1,700	*	11	*
Hanes Hosiery Mills, N. C.....	1,698	142	10	8.37
Permanente Metals Corp., Calif.....	1,698	418	14	34.47
Southern Bleaching and Print Works, N. C.....	1,645	195	11	13.09
Hobart Manufacturing Co., Ohio.....	1,552	279	10	17.98
Moore Drop Forging Co., Mass.....	1,500	320	11	23.47
Ford Motor Co., Minn.....	1,465	*	10	*
American Hoist and Derrick Co., Minn.....	1,450	300	10	20.69
Pitney-Bowes Postage Meter Co., Conn.....	1,420	299	10	21.10
Norma-Hoffman Corp., Conn.....	1,403	199	10	14.20
Chesapeake and Potomac Telephone, Va.....	1,400	*	10	*
Karagheusian, Inc., N. J.....	1,370	154	10	11.28
Butterfield Theatres, Mich.....	1,327	*	11	*
Chicago Mill and Lumber Co., La.....	1,325	*	10	*
Allis-Chalmers Manufacturing Co., Pa.....	1,300	*	12	*
Avondale Mill, Ala.....	1,287	114	10	8.90
American Propeller Corp., Ohio.....	1,250	232	14	26.09
General Electric Co., N. J.....	1,247	260	10	20.90
Metropolitan Life Insurance, Calif.....	1,225	198	10	16.20

(Continued)

July 16, 1942.

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

* Information not available.

Regraded Unclassified

Firms with 1,000 or More Employees Reported to be Deducting 10 Percent or More
of Aggregate Payroll Under Payroll Savings Plans

(As Reported by the War Savings Staff's State Administrators July 11, 1942)

(Continued - 3)

Name of firm and state	Number of employees	Approximate aggregate monthly payroll (in thousands)	Percent of aggregate pay deducted	Average monthly deduction per employee
Peer Carbon Co., Pa.	1,216	\$ 197	10	\$ 16.27
E. B. Badger and Sons Co., Mass.	1,200	64	15	8.08
Virginia Engineering Co., Va.	1,200	315	10	26.30
Wmmins Construction Corp. and Riggs Distler Co., Maryland.	1,199	276	12	27.63
Arnes-Dulutt Shipbuilding Co., Minn.	1,160	278	10	24.04
Penn Anthracite Colleries, Pa.	1,156	170	10	14.71
His Elevator Aeronautical Division, N. J.	1,132	268	10	23.70
Columbia Aircraft Industries, Ore.	1,125	191	13	22.07
Frankfort Distilleries, Inc., N. Y.	1,113	248	10	22.28
Brown and Bigelow, Minn.	1,066	241	10	22.69
Augusto Silk Co., Pa.	1,064	64	11	6.71
Hiddings and Lewis Machine Tool Co., Wisc.	1,048	262	10	25.03
Armour and Company, Okla.	1,031	138	10	13.40
Armour and Company, Colo.	1,000	134	10	13.40

July 16, 1942

JUL 17 1942

My dear Bishop Sheil:

I am having made a special inquiry into the functioning of the War Savings Staff in connection with the Labor Rally held in Kansas City on June 13, 1942. Mr. M. L. Harney of this Department has been directed to carry out the investigation.

He will be in position to go to Chicago at any time during the week of July 19. I believe you suggested to Mr. Graves that Mr. Alinsky be interviewed. Will you please advise me if Mr. Alinsky will be available in Chicago during that week; if not, I shall appreciate advice as to when and where Mr. Harney may see him.

Should you have other suggestions for this inquiry, I would be very glad to receive them.

Sincerely yours,

(Signed) E. Berntson, SAC

Secretary of the Treasury.

The Most Reverend Bernard J. Sheil,
Auxiliary Bishop of Chicago,
31 East Congress Street,
Chicago, Illinois.

*air mail to Main P.O.
5:30
Linn
none*
Copied to Thompson

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 17, 1942

TO Secretary Morgenthau
FROM Mr. Gamble

The following represents a few flashes we have had on the progress of American Heroes Day. Atlanta wires that their War Bond Breakfast resulted in the sale of \$5,300,000 worth of bonds. Chicago wires that their cash sales at the American Heroes Breakfast amounted to \$1,734,425. This does not take into account the bonds sold over the air which should be much more than the sales at the Breakfast alone. Worcester, Massachusetts, wires that their sales were \$200,000 in the first hour. Yakima, Washington, wires that they had \$200,000 in advance sales to start the day.

We will have a complete press book for you but I wanted you to look at the attached special section from Cincinnati. Every ad in the paper is tied up with the American Heroes Day Bond Sale Program. Also I wanted you to see the attached ads from the Philadelphia Inquirer, Chicago Tribune, Pittsburgh Post-Gazette and to call your attention to a few of the ads that appeared in the Washington papers.

Analysis of Exposure to Payroll Savings Plans

July 11, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	479	483	99
(2) Firms with 500 to 4,999 employees.....	5,023	6,108	82
(3) Firms with 100 to 499 employees.....	<u>20,374</u>	<u>27,152</u>	<u>75</u>
(4) Subtotal - large firms.....	25,876	33,743	77
(5) Firms with less than 100 employees.....	<u>90,981</u>	*	*
(6) Total business organizations.....	116,857	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>116,857</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,805,861	*	*
(2) Firms with 500 to 4,999 employees.....	6,757,323	*	*
(3) Firms with 100 to 499 employees.....	<u>4,765,488</u>	*	*
(4) Subtotal - large firms.....	19,328,672	*	*
(5) Firms with less than 100 employees.....	<u>2,334,319</u>	*	*
(6) Total business organizations.....	21,662,991	30,000,000 ^{1/}	72
II. Governmental organizations			
(1) Federal Government.....	557,603	2,100,000 ^{1/}	27
(2) State and local governments.....	<u>1,159,746</u>	<u>2,700,000</u>	<u>43</u>
(3) Total governmental organizations.....	<u>1,717,349</u>	<u>4,800,000</u>	<u>36</u>
III. Grand total.....	<u>23,380,340</u>	<u>34,800,000 ^{1/}</u>	<u>67</u>

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

July 17, 1942.

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

* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	July 4	July 11		Apr. 18	July 4	July 11
Alabama.....	149	229	229*	285	52	80	80
Arizona.....	43	59	61	64	67	92	95
Arkansas.....	44	50	51	142	31	35	36
Northern California.....	512	629	630	690	81	99	100
Southern California.....	756	877	883	1,178	64	74	75
Colorado.....	113	124	124	124	91	100	100
Connecticut.....	277	328	345	622	45	53	55
Delaware.....	21	51	51	87	24	59	59
District of Columbia.....	52	96	98	152	34	63	64
Florida.....	147	182	182	182	81	100	100
Georgia.....	133	295	303	590	23	50	51
Idaho.....	31	31	31	39	79	79	79
Illinois.....	1,300	1,656	1,692	2,253	58	74	75
Indiana.....	415	590	593	593	70	99	100
Iowa.....	165	201	201*	272	61	74	74
Kansas.....	276	279	279	279	99	100	100
Kentucky.....	136	182	184	313	43	58	59
Louisiana.....	179	257	257	385	46	67	67
Maine.....	60	122	137	198	30	62	69
Maryland.....	177	241	247	405	44	60	61
Massachusetts.....	639	806	813	1,532	42	53	53
Michigan.....	689	870	875	1,030	67	84	85
Minnesota.....	376	423	424	424	89	99	100
Mississippi.....	59	63	63	143	41	44	44
Missouri.....	472	622	634	664	71	94	95
Montana.....	40	45	45*	45	89	100	100
Nebraska.....	103	112	112	123	84	91	91
Nevada.....	14	16	16	21	67	76	76
New Hampshire.....	89	109	123	145	61	75	85
New Jersey.....	463	750	768	870	53	86	88
New Mexico.....	33	33	38	42	79	79	90
New York.....	2,060	3,064	3,113	4,257	48	72	73
North Carolina.....	282	402	409	499	57	61	62
North Dakota.....	14	19	19	29	48	66	66
Ohio.....	1,126	1,242	1,260	1,740	65	71	72
Oklahoma.....	166	217	217	348	48	62	62
Oregon.....	211	271	273	273	77	99	100
Pennsylvania.....	1,682	1,967	1,982	2,035	83	97	97
Rhode Island.....	154	216	225	225	68	96	100
South Carolina.....	71	131	133	174	41	75	76
South Dakota.....	21	24	25	25	84	96	100
Tennessee.....	199	244	290	449	44	54	65
Texas.....	326	490	490*	1,378	24	36	36
Utah.....	36	44	44*	111	32	40	40
Vermont.....	59	61	61	63	94	97	97
Virginia.....	281	360	365	365	77	99	100
Washington.....	234	317	322	325	72	98	100
West Virginia.....	134	181	182	272	49	67	67
Wisconsin.....	278	395	403	680	41	58	59
Wyoming.....	17	18	18	18	94	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,365	20,042	20,374	27,152	57	74	75

July 17, 1942.

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

* Data are for July 4, inasmuch as no July 11 report was received.

Regraded Unclassified

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	July 4	July 11		Apr. 18	July 4	July 11
Alabama.....	41	62	62*	83	49	75	75
Arizona.....	9	10	11	14	64	71	79
Arkansas.....	16	16	16	22	73	73	73
Northern California.....	122	125	125	170	72	74	74
Southern California.....	121	132	134	141	86	94	95
Colorado.....	25	29	30	31	81	94	97
Connecticut.....	114	122	125	155	74	79	81
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	34	37	54	59	63	69
Florida.....	28	32	32	62	45	52	52
Georgia.....	86	109	113	116	74	94	97
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	432	437	554	71	78	79
Indiana.....	88	126	126	164	54	77	77
Iowa.....	22	29	29*	39	56	74	74
Kansas.....	23	24	24	24	96	100	100
Kentucky.....	38	48	48	72	53	67	67
Louisiana.....	29	43	43	76	38	57	57
Maine.....	48	57	57	60	80	65	65
Maryland.....	84	93	93	105	80	89	89
Massachusetts.....	237	281	282	334	71	84	84
Michigan.....	265	280	281	303	87	92	93
Minnesota.....	79	80	80	82	96	98	98
Mississippi.....	26	31	31	38	68	82	82
Missouri.....	103	121	121	138	75	88	88
Montana.....	3	3	3*	3	100	100	100
Nebraska.....	23	24	24	31	74	77	77
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	174	174	207	69	84	84
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	830	835	1,081	70	77	77
North Carolina.....	103	129	129	139	74	93	93
North Dakota.....	0	0	0	0	0	0	0
Ohio.....	412	428	429	496	83	86	86
Oklahoma.....	31	39	39	48	65	81	81
Oregon.....	48	54	54	54	89	100	100
Pennsylvania.....	551	581	583	627	88	93	93
Rhode Island.....	61	71	73	85	72	84	86
South Carolina.....	84	94	94	103	82	91	91
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	59	64	113	44	52	57
Texas.....	63	79	79*	137	46	58	58
Utah.....	8	10	10*	15	53	67	67
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	103	104	104	89	99	100
Washington.....	49	66	67	76	64	87	88
West Virginia.....	36	66	66	70	51	94	94
Wisconsin.....	127	138	138	154	82	90	90
Wyoming.....	1	1	1	1	100	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>5,464</u>	<u>5,502</u>	<u>6,591</u>	<u>74</u>	<u>83</u>	<u>83</u>

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

July 17, 1942.

* Data are for July 4, inasmuch as no July 11 report was received.

Regraded Unclassified

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of July sales to date with sales during the
same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981		96.2 ⁵
2	24,269	52,687	45,442	39,430		115.9
3	27,277	79,964	67,046	72,048		119.3
6	46,531	126,495	98,208	88,605		128.8
7	31,110	157,605	132,341	122,575		119.1
8	43,451	201,056	154,085	157,866		130.5
9	39,918	240,974	192,659	181,431		125.1
10	47,755	288,729	206,523	201,464		139.8
11	36,127	324,856	236,552	232,801		137.3
13	47,164	372,020	259,772	246,756		143.2
14	30,102	402,122	281,724	271,525		142.7
15	33,807	435,929	303,163	296,152		143.8
16	31,670	467,599	334,398	317,861		139.8

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

July 17, 1942

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

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

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679	79.8%	
2	14,880	30,701	27,841	24,263	110.3	
3	16,822	47,523	40,811	46,532	116.4	
6	29,797	77,320	58,199	55,460	132.9	
7	17,724	95,044	82,988	73,824	114.5	
8	21,599	116,643	98,197	97,049	118.8	
9	22,746	139,390	125,245	114,218	111.3	
10	24,772	164,161	134,157	128,670	122.4	
11	19,077	183,238	154,242	151,956	118.8	
13	26,550	209,787	169,920	161,346	123.5	
14	15,744	225,532	186,470	177,133	120.9	
15	18,407	243,938	201,700	194,047	120.9	
16	17,828	261,766	225,684	208,939	116.0	

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

July 17, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			July as Percent of June
		July	June	May	
July 1942					
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3

July 17, 1942.

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

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.

Sales of United States Savings Bonds
From July 1 through July 16, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

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CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17			358.7				202.8				561.5	
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

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

July 17, 1942.

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

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 16, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	\$25	\$50	\$100	\$500	\$1,000	
July 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
Total	7,411,564	1,411,868	1,433,509	119,414	109,971	10,486,326

July 17, 1942.

MRL/kwik



MEMORANDUM FOR THE SECRETARY.

July 17, 1942.

Mail Report

No new suggestions have been developed in the mail of the past week. Letters received have followed the line of previous correspondence reported, although there has been quite a falling off in quantity received.

On the subject of taxes, a number of letters have expressed general approval of the program of the Treasury Department, and disapproval of the course followed by the House Ways and Means Committee. Car use stamps continue to draw frequent comment, especially as to methods of enforcing their purchase. There are also many letters complaining of thefts, the failure to receive a receipt when the money is paid, etc.

There are two letters favorable to the withholding tax to one unfavorable. All letters mentioning mandatory joint returns are unfavorable, while letters on the Sales Tax are evenly divided. There continues to be a strong sentiment for exemption for medical expenses in connection with the care of invalids, etc. Insurance premiums, payments on mortgages, educational expenses, and Bond investments are among the exemptions requested.

Complaints on Bonds have considerably fallen off - only five letters reporting failure to receive interest have been received. Delays in handling still are cited, and there seems to be considerable complaint about matters relating to change of beneficiary. There continue to be innumerable suggestions for sales promotion.

Only three letters have been devoted solely to a plea for Government economy. Two paper manufacturers wrathfully protested the announcement of the proposed release of gold certificates, a reason for which would be the shortage of good paper.

There have been two letters endorsing the debt moratorium, and two protesting the idea.

G. F. Forbush

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General Comments

Mary Cariker, Portsmouth, Ohio. (Telegram) If WLB grants union maintenance in little steel, I stop buying War Bonds. If President, with Russia crumbling, can boondoggle until elections and permit WLB to nullify the will of the people as expressed in Gallup Poll, I can follow his example. I do not believe in taxation without representation.

H. C. Alspangler, Wichita, Kans. Brother, yours is the toughest job in Washington, keeping money in the box for the boys to spend. * * *

The following comments are from three letters concerning a claim presented by Chief Bull (Richard Sanderville) of Browning, Montana. The first is a letter addressed to the Secretary by Chief Bull -- "I am 77 years old, retired from the Government Service, working for the Government for 37 years, and I am crippled now from a car wreck. I helped to get the Hospital, Plains Museum for my people, and with Major General Hugh L. Scott, finished his work in preserving the Sign Language. * * * I need the money now, refunded to the Government for taxes on my land. I am enclosing Indian Office letter to Senator Murray. I am the Blackfeet that adopted President Roosevelt and Secretary Ickes to the Blackfeet Tribe in Glacier Park in 1934, and General MacArthur into the Blackfeet Tribe this spring. I need this tax money very much right now. * * * " The second, a letter from Walter V. Woehlke, Assistant to the Commissioner of Indian Affairs, to Richard Sanderville -- " * * * The records here show that on May 22, 1941, the Assistant Secretary of the Interior cancelled the outstanding fee simple patent covering Mr. Sanderville's allotment and authorized the issuance of a new trust patent, thereby returning the lands to a trust status. * * * Mr. Sanderville's claim, along with many others of the same nature, is being withheld without action, pending the advancement of the \$20,000 held in reserve by the Treasury Department, which sum is a part of the \$50,000 appropriation made available by the Act of June 11, 1940 (54 Stat. 298), making refunds to other claimants which were received in the same manner

- 1 -

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long before Mr. Sanderville's case was submitted. (In handwriting.) P.S. I'd love to authorize payment to my old friend, Dick Sanderville, if only the Treasury will let go of the money. W.V.W." The third, a letter from Senator James E. Murray to Mr. Sanderville -- " * * I, of course, am unable to force the Treasury Department to release the money, but I will make some representations to it in view of the urgency of the need for these funds."

Stanley P. Gibbs, Dallas, Texas. In all our salvage activities have we not overlooked one item which can contribute greatly to our war chest? Let's salvage and resale our War Stamps. As they are now sold, they are in fact merely receipts for money. * * * Should we salvage them and resale them, not as waste paper, but as cancelled stamps, the sale will be final and the moneys received will not have to be repaid at a later date. There are millions of stamp collectors in this country who annually spend a sizable sum for cancelled stamps of the United States, and all other countries of the world. We collect both postage and revenue stamps - stamps which have showed the purpose for which they were issued, and are of value only to stamp collectors. * * * We could buy the cancelled War Stamps from our local Post Office or from the Philatelic Agency in Washington. The Philatelic Agency could be a clearing house where we could buy cancelled War Stamps from other States, buying them by States and denomination only, hoping to get the Post Office and date cancellation we want. Any duplicates we buy we can swap with other collectors as we now swap duplicate postage stamps. * * *

Leo J. McDonald, Charlotte, N.Y. * * * I have for years been trying at considerable sacrifice, to maintain a life insurance program, and furthermore in 1934, with confidence that we were "on our way", I built a home. * * * My purchasing power has not been increased, due to the present conditions, but rather decreased because of the higher cost of living, to a point which makes it increasingly difficult to maintain my commitments. As a result, I am greatly alarmed to note the increased income taxes, the

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reduction of allowance for dependents, particularly as my two girls are increasingly expensive as they grow older; payroll deductions, etc., etc. Can you give me any reassurance which would allay my fears that I may have to give up my life insurance program (which would be first because we must have shelter), and then the home? Don't you think more consideration should be given to a home owner, a man with a family and dependents? * * * I appreciate how trying the times are for you, and would not inject my personal affairs into your busy program, were it not for the fact that I am so greatly alarmed.

Ralph C. March, Oak Park, Ill. What I cannot figure out is why the whole country should be taxed to provide profits on otherwise unprofitable silver mines to a small group out West by paying them twice the world market price for silver. This also works a hardship on small industries that need silver in their processes.

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Favorable Comments on Bonds

Elias Brailas, Aboard SS JOHN PENN, Boston, Mass. * * *
I am an Engineer Officer aboard this steamer as a result
of a recent appointment. * * * I had not been to sea for
over ten years until my recent decision to secure a
leave of absence, from my comfortable position in the
Municipal Government of the City of New York, to serve
my adopted country (I am a Native of Greece). On my
first payday I was surprised to discover there is no way
whereby I can purchase U. S. War Bonds or Stamps aboard,
the Captain and Purser declaring they had no authority to
assign earned wages toward the purchase of Bonds. They
referred me to any U. S. Post Office or Banking concern
at my first opportunity ashore. * * * With the proper
approach, ship personnel could be induced to pledge 15%
or 20% of their earnings toward the safest investment in
the world. The average sailor is well paid while engi-
neers and higher-ups receive substantial salaries, out
of which I am sure they would be disposed to pledge an
allotment toward Bond purchases. * * * My pledge is 25%
and I hope to increase it. * * *

Unfavorable Comments on Bonds

A. L. Fish, Salt Lake City, Utah. Last January my young son got out and shoveled snow, earning \$2.75. I explained to him the different types of Bonds and he wanted a "G" Bond so he would get a check every six months and be able to buy another Bond. I added enough to his \$2.75 to buy him a \$1,000 "G" Bond. I made out an application reading, "Mr. Arthur L. Fish, Junior, payable on death to Mrs. Blanche K. Fish (his mother)." Your agency told me I would have to include "...., minor, under legal guardianship". I did this, and received the Bond. Yesterday my little son received a check for \$12.50, and was going to add it to his savings and buy a \$25 "E" Bond. I find now that this check cannot be cashed unless I hire an attorney to make out guardianship papers, go into court to be appointed his legal guardian and forward the guardianship papers to Washington. Incidentally, I will have to be bonded for an amount equal to the face of the "G" Bond. * * * In addition to paying attorney's fees and court costs, I will have to pay a certain amount per annum for a surety bond, and when this "G" Bond comes due in 12 years, the court may have to appoint another guardian as I may be out of the picture by that time. It seems to me that this is a very costly and unnecessary procedure. Isn't there some way of getting this corrected without all this expense and annoyance?

George H. E. Smith, Shelton, Conn. * * * I earnestly hope the Treasury will consider the practice of promoting sales of War Stamps by turning them into corsages, lapel gadgets, and other novelties, as decidedly ill-advised. * * * The purchase of these Stamps and Bonds has been made a solemn public duty. Men and women have gone from house to house and in great seriousness have importuned working people to buy these Stamps. Poor people throughout the country are straining their household expenses to squeeze out the dimes and quarters they carefully and hopefully paste into books. To them, the handling of these Stamps is not a joking, frivolous matter. What must they think of a practice which

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treats these savings after the manner of a fad? * * *
 In its wisdom, the Government does not allow the frivolous debasement of its currency. The same wise reasons for that are equally applicable to War Stamps and Bonds, for if we cheapen the financial symbols of our war effort, we run the great risk of cheapening our entire cause.

Charles F. Petelle, Jr., Maywood, Ill. Please inform me just what is necessary to cash a Defense Savings Bond. Endeavoring to cash a Bond for the provident purpose of buying next winter's coal, I was told that I need to bring somebody who is known to the postal clerk to identify me. The following items of identification were rejected: (1) Social Security Card, (2) Draft Registration Card, (3) Employment Identification, (4) FHA Mortgage Receipt Book, and other account books and letters. I have been using 10% of my wage to buy Bonds which is some more than I can afford, and we have been living pretty slim as a result. I felt, however, that aside from helping the war effort, it would afford me some providence for needs which would otherwise require credit, and would also provide for 1942 income taxes. However, if I need to search out someone known to Mr. Hauth at the Post Office, and take them with me every time I need to cash a Bond, I shall have to find some other way to meet my needs. * * *

Andrew Kutz, Secretary of S.M.Y. Department, United Steelworkers of America, Bethlehem, Pa. You are to be commended on your stand of buying Bonds on a voluntary basis. I feel as you do, that the average American is patriotic, and we don't feel we are doing anything for our country when we buy War Bonds - we are saving money, we are doing ourselves a favor. * * * I subscribed to having \$10 every two weeks checked off my pay - that is more than 10% of my earnings. My wife, son and I must do without a lot of things in order to do this. * * * April \$10, May \$20, June \$20, July \$10 -- Total, \$60. What do I have? One \$25 Bond, cost \$18.75, dated June 12, 1942. Why doesn't the U. S. Treasury have the rest of this money? Now Mr. Morgenthau, there is a lot of griping in the Steel Plant concerning this slowness of the Company in certifying or notifying us that the money deducted from our pay has been sent to the Government. * * *

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John J. Donovan, Ludlow, Ky. * * * My record as a buyer of Bonds may be secured through the First National Bank of this city. It constitutes one-fourth of my earnings each month as a locomotive engineer, beginning with January, 1942. * * * And now, comes the startling information that such valor on my part and others like me may only be in vain. I refer to the alleged corruption on the part of Senator A. B. Chandler of Kentucky, who by the way, I am told is a member of the Military Affairs Committee of the United States Senate. * * * What I want to know is why this man is permitted by those in authority like yourself to remain unmolested as a member of the above-mentioned important committee, in spite of the disclosures that he himself has already admitted? Use my hard earnings for the building of planes, tanks and guns, and whatever else America may need, but for God's sake, let not such instruments become just another "Maginot Line" behind which may be destined to die the proud spirit of American manhood, as did that of once glorious France. And all because her fate rested in the hands of senile politicians.

Raymond J. Zilch, Linden, N. J. Just four months ago I mailed Bond #D14732D from 6808 11th Avenue, Los Angeles, to have my brother's name removed, and my wife's name put on it. Since then we have returned East, and I have only heard once from this office that handles Bonds, and that was to fill out a paper stating that my brother had died. My brother is not dead, but I requested this change for reasons of my own, which I believe are none of your business. I've requested a Mr. M. Wesley to return this Bond to me, but have heard no more from the Department. Will you kindly let me know what is the reason that they are holding up the return of this Bond? I own, which I paid for out of hard-earned money, several of these Bonds, which I shall turn into cash if I don't get a satisfactory answer from you soon.

JUL 17 1942

My dear Mr. President:

I am transmitting herewith letter prepared for your signature to the Secretary of War in reply to his letter of June 30, 1942, relative to releasing for use of the War Department a quantity of optical glass purchased by the Procurement Division pursuant to the Strategic and Critical Materials Act of June 7, 1939, Public No. 117.

Items of strategic and critical materials purchased pursuant to the provisions of the said Act have had the approval of the War Production Board, the Army and Navy Munitions Board and the Treasury Department, Procurement Division before being released, and in each instance the request has first been forwarded to the War Production Board for recommendation and preparation of the Executive Order, for example Executive Order No. 9123 of April 7, 1942.

In order that there be no change in the existing procedure and that an accurate record may be had by the Treasury Department, Procurement Division of all items contained in the National Stockpile, I have referred the matter to the Chairman, War Production Board.

Sincerely yours,

(Signed) H. Hergenthan, JWS

Secretary of the Treasury

Photostat file to NMC
" " " Thompson

The President

Delivered by SS Agent 5:25 7/17/42

The White House.

DYCHE/abt

The Honorable,

The Secretary of War,
Washington, D. C.

My dear Mr. Secretary:

I have your letter of June 30, 1942, requesting that there be released for the use of the War Department approximately 6,000 pounds of optical glass purchased by the Treasury Department, Procurement Division, pursuant to the provisions of the Act of June 7, 1939, Public No. 117.

Before giving approval to your request, and in accordance with the established procedure involving the release of strategic and critical materials purchased pursuant to the provisions of the Act in question, I have directed that the matter be referred to the Chairman of the War Production Board for attention.

Respectfully,

DYCHE/abt

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THE WHITE HOUSE
WASHINGTON

July 11, 1942.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR PREPARATION OF REPLY FOR
MY SIGNATURE.

F.D.R.

WAR DEPARTMENT
WASHINGTON

THE WHITE HOUSE

JUN 29 2 28 PM '42

RECEIVED

The President,

The White House.

Dear Mr. President:

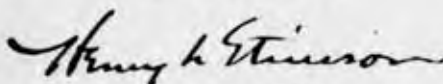
During 1941 approximately 6,000 pounds of optical glass, in the form of 16,000 pressed lens blanks and 32,000 pressed Porro prism blanks, were procured by the Treasury Department from the Bureau of Standards under the Strategic and Critical Materials Act of June 1939 (Public—No. 117 - 76th Congress).

The War Department is experiencing serious difficulties in obtaining pressed blanks of the optical elements for the Binocular, M3, in sufficient quantities to meet the requirements of the Army Supply Program.

The quantity in storage under the custody of the Treasury Department is equivalent to over $3\frac{1}{4}$ per cent of the 1942 requirements, and its use by the War Department would effect a corresponding increase in the 1942 production.

Inasmuch as an item thus reserved in stockpile may only be removed on Executive Order by the President, in accordance with Public—No. 117 - 76th Congress - Section 4, it is requested that said Executive Order be issued releasing subject optical glass pressings to the War Department.

Faithfully yours,



Secretary of War.

JUL 17 1942

My dear Mr. Nelson:

I am transmitting herewith photostat copy of letter of June 30, 1942, to the President from the Secretary of War requesting that there be released for the use of the War Department approximately 6,000 pounds of optical glass purchased by the Treasury Department, Procurement Division pursuant to the provisions of the Act of June 7, 1939, Public No. 117.

Items of strategic and critical materials purchased pursuant to the provisions of the said Act have had the approval of the War Production Board, the Army and Navy Munitions Board and the Treasury Department, Procurement Division before being released, and in each instance the request has first been forwarded to the War Production Board for recommendation and preparation of the Executive Order, for example, Executive Order No. 9133 of April 7, 1942 releasing a quantity of quartz crystal.

In order that there be no change in the existing procedure and that an accurate record may be had by the Treasury Department, Procurement Division of all items contained in the National Stockpile, the matter is brought to your attention for the necessary action.

Sincerely yours,

(Signed) E. Berenson: SW

Secretary of the Treasury

Honorable Donald M. Nelson
Chairman, War Production Board
Washington, D. C.

Photostat file to NMC
" " " Thompson

DYGHZ/abt

By Messenger: Sturgis 5:30 7/17/42

Treasury Department 271 ✓
Division of Monetary Research

○

Date..... July 1719 42

To: Secretary Morgenthau

From: Mr. White

You might be interested in
glancing at the first couple pages of
this report.

It is a very preliminary report
which had been hurriedly prepared at
the request of Mr. Berle's Committee
in the State Department.

A copy has been sent to Mr. D. W.
Bell.

3

Preliminary Report on the Financial Administration
of Occupied Territory

Summary

The financial problems involved in the invasion and occupation of territories now held by the Axis divide themselves readily into two parts.

First is the supply of currency that United Nations armed forces will need to have at their disposal immediately upon their entry. Second is the provision of a sound monetary, banking and fiscal order in the area which the occupation authorities will have to administer behind the advancing armies.

The first part of the problem is relatively simple. The United Nations forces should have a currency of unquestioned acceptability in order to obtain the maximum amount of goods and services with the greatest ease. The United States dollar is such a currency. The conversion rate between the dollar and local currencies selected for the occupation should lean towards overvaluing the currencies now held by the friendly people of Axis-invaded areas, in order to doubly assure eager acceptance of the new notes. To facilitate control, and avoid the risk of subsequent loss to the enemy, such dollar currency should bear a special overmark. Such an overmark would be similar in character, though not in words, to that now used in Hawaii, and similar conditions might be imposed concerning the exchange of this special currency into ordinary U. S. dollars.

The second part of the problem is the difficult one, and here treatment must differ from area to area. In some areas the occupation period may be expected to be short and a United Nations free government will be ready to

This report was prepared in the Division of Monetary Research by a committee consisting of Messrs. O. Gass, S. D. Southworth, J. E. Hicks and I. S. Friedman.

assume civil authority, in others occupation may be prolonged for years. In the case of friendly countries, with a free government recognized by the United Nations, a legitimate currency similar to their old one might well be issued as soon as any considerable territory is held by the occupying authorities. However, in the case of Axis homelands, it seems that the United Nations dollar should be made the only currency valid in territory under United Nations occupation pending a more permanent economic settlement between the United Nations on the one hand and the defeated Axis powers on the other.

More detailed plans on some of these points are suggested in the text below. However, it must be emphasized that it is not possible to provide for all contingencies in advance, and therefore a specially trained personnel must be available on the spot. A special financial corps should go along with the occupying forces. This corps must consist of men who have specialized training in monetary, banking and fiscal matters. Financial administration cannot safely be made a part-time job or even a full-time job for men whose training is in other kinds of work.

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Preliminary Report on the Financial Administration of
Occupied Territory

The following is an extremely tentative outline of the financial administration which the forces of the United Nations might establish in occupied territories—in Europe or Africa or Asia, in Axis homelands or in Axis-Invaded countries. This outline takes note of some of the major aspects of the problem—objectives, general procedures, currency, banks, security markets, fiscal administration, price control and rationing, but it does not attempt to go beyond the broadest and most general principles with regard to any of these subjects.

Objectives

The major objectives of the financial administration of the United Nations in occupied territories should be:

- (1) to facilitate the military occupation of the territory involved;
- (2) to restore the day-to-day economic life of the territory and to promote a higher level of economic activity;
- (3) to gain the widest possible support for the occupying authorities, while rooting out enemy influence;
- (4) to suspend any final settlement of financial claims, titles, rights, etc., as far as may be feasible in keeping with the other objectives.

This report was prepared in the Division of Monetary Research by a committee consisting of Messrs. O. Gass, S. D. Southworth, J. E. Hicks and I. S. Friedman.

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(1) To facilitate the military occupation of the territory involved.

This objective is primary; no consideration can be allowed to stand in the way of winning the local campaign or the war on all fronts. Financial administration must make available to the occupying forces, as expeditiously as possible, all goods and services which might facilitate military operations in that territory or which might be of use to the United Nations elsewhere. All measures proposed to achieve the other objectives of financial administration should be disallowed if they interfere seriously with the military aims of the occupying forces.

The degree to which the financial administration can contribute to the success of military operations will vary widely according to local conditions. For example, financial administration will be less important in areas having little, if any, goods available for the occupying forces and where it may be necessary for the occupying forces to bring with them all of the necessary goods, including foodstuffs. However, in all cases financial administration will be of some importance, for improper methods will unnecessarily antagonize the local population and impede the achievement of the military objectives.

(2) To restore the day-to-day economic life of the area and to promote a higher level of economic activity.

This end would serve the interests of both the occupying forces and the local population. By stimulating the economic life of the area, more goods and services could be obtained from that area by the United Nations forces, while the local population would enjoy the highest level of well-being compatible with the needs of the occupying forces. Care would have to be

taken lest the enemy benefit by the increased economic activity. Goods produced in the area must not find their way to the enemy. Producers of goods suspected of enemy sympathies must not be allowed to continue in business without adequate control.

- (3) To gain the widest possible popular support for the occupying authorities, while rooting out enemy influence.

It will be to the advantage of the occupying forces to have the fullest cooperation of the people of the occupied area. A cooperating population will not only produce more goods and render more services than a recalcitrant population and contribute manpower to the armed forces, but also can be of immediate and direct aid in providing military intelligence on the disposition of enemy troops, enemy strongholds, enemy sympathizers, and enemy plans. To obtain the cooperation and support of the local population, the financial administration, should take measures to minimize the hardships and discomforts being experienced by the people and to maintain essential services such as water supply and fuel. If feasible, measures might be taken which would give positive recognition to those supporting the United Nations, particularly those who were active as such during the period of Axis occupation. The enemy will probably attempt to perpetuate his influence among the formerly occupied peoples. The local populace will be looking to the United Nations armies to take punitive measures against former Axis supporters. The financial administration should attempt to insure the cooperation of the people in the elimination of the influence of the enemy.

- (4) To suspend any final settlement of financial claims, titles, rights, etc., as far as may be feasible in keeping with the above objectives.

The occupation government is essentially provisional. The occupying administration must recognize that the final disposition of property rights and institutional arrangements is the province of the future civilian authorities. If the occupying authorities keep in mind that their job is one of temporary administration, aimed primarily at helping to achieve military success, they will have an automatic guide to the limitations and boundaries of their functions and duties.

General Procedures

Certain general procedures are suggested which might appropriately be followed by the United Nations occupying authorities.

- (1) Goods and services acquired from the local population should be currently paid for with cash; the use of requisitions should be kept to a minimum.

Payments in cash would increase the supply of goods and services which could be obtained from the population. Large sections of the population of the area which is being occupied may look with suspicion and perhaps even distrust on the occupying forces. They may wish to see whether the United Nations forces represent in any real way something different from the forces which have been driven out. The primary aim of the occupying forces will be to obtain the needed goods and services which might be available and not unnecessarily to antagonize the population by useless display of power and authority. As pointed out above, a cooperating population would supply more of the desired goods and services and could be of considerable assistance to the occupying forces.

The use of requisitions should be limited to cases where it is not possible to agree on price or where, for some special reason, cash is not available.

Confiscation should be resorted to only as a punitive measure.

(2) Payment should be made in a specially prepared currency.

When the invading force first occupies territory formerly under military control of the enemy, it should be equipped with currency that would have immediate and unquestionable acceptance by the local population. The currency should have sufficient prestige in those areas to be eagerly sought by the local residents. Such a currency is the U. S. dollar which has unrivaled acceptability the world over, providing, of course, that it is legally obtained and held. However, there is always the risk that some of the area gained in fighting will have to be given up, or that the currency will seep out of the area through sympathizers of enemy forces, etc. This would mean that the enemy would come into possession of U. S. currency which would have a substantial value. It would therefore be wise to have some distinguishing mark on the currency used by the U. S. forces. Such a mark might be an overstamp or perforation, whichever better serves the purpose. Questions of ease of counterfeitability and of strengthening of notes, and of speed of preparation would enter into the calculation as to what the type of distinguishing mark to use. In the case of Hawaii, an overprint was used and it seemed to fill the purpose quite satisfactory.

The army equipped with such currency would purchase with dollars such materials and services as they could. Soldiers' pay to be spent in the area should also be in the specially marked currency. It is presumed that this currency would always have a value equal to the unmarked U. S. currency. But that need not necessarily be the case. It depends on the subsequent developments in the campaign. The special mark would make it possible to identify the currency for special treatment.

This procedure applies only to the initial stages of the invasion. After the enemy forces have moved forward so that there is a substantial area behind the lines, a program should be established to organize the economic life of the occupied area. This would involve the use of another type of currency. The new currency might take any of several forms but in most cases it would seem to be desirable to utilize a currency either similar or identical with the currency of the invaded nation.

The use of a special currency, prepared in advance, would have certain advantages as against the use of the currency of one or more of the United Nations or the use of simulations of the already existing local currency. As against the use of the currency of one or more of the United Nations, the special currency could be designed to be familiar to the local population in any particular country. It might facilitate shifting some of the costs of the reoccupation from the governments of the occupying forces to the people of the country being occupied, if this were desired. It could be made legal

tender only in the occupied area and not freely exchangeable by individuals for dollars, sterling or other United Nations money; there would be much less likelihood of the enemy benefiting by a possible reoccupation of the area if a currency of this kind was used. Finally, a special currency would be less likely to raise delicate questions as to which of the United Nations currencies should be used as the occupation currency.

As against counterfeiting local currency, the use of a specially prepared currency would have the advantage of helping to maintain the prestige and moral standing of the United Nations. Moreover, it would be easier to insulate the reoccupied area from the area still being held by the enemy if the same medium of exchange were not being used in both.

If it is decided to use a special currency, it should be prepared in advance and in generous quantities so that there should be no delays to the occupying forces resulting from a shortage of the necessary currency.

- (3) A special corps of monetary and financial administrators should go along with the occupying forces.

The members of this financial corps should be stationed in all key financial institutions charged with currency emission, banking, securities control, tax administration, price control and rationing. To facilitate their work, particularly since the number of available administrators would necessarily be limited, these representatives of

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Division of Monetary
Research

the financial corps should direct policy while making use of local personnel in administration as much as possible. The trustworthiness of the local personnel would have to be judged on the spot. This corps must consist of men who have had specialized training in monetary, banking and fiscal matters — training quite as thorough as that of the military men. Financial administration cannot safely be made a part-time job or even a full-time job for men whose training is in other kinds of work. No matter how well plans are laid much will have to be left to the discretion of the financial administrators on the spot and they must be men of special experience and special aptitude for the job.

Currency

The United Nations troops will have need of a suitable currency immediately upon invading any territory. Plans therefore must be made at once in order that the actual printing of currencies may begin in the very near future.

A suitable currency can contribute to the success of an invasion by providing an acceptable means for the purchase of local supplies and for the payment of United Nations troops and local volunteers, and by facilitating the resumption of economic life behind the lines. It was concluded above that the plan which appeared to offer the greatest advantages was to prepare special currencies rather than to use a United Nations' currency or counterfeits of existing currencies. In this section some of the alternative plans for special currencies, called for convenience "occupation currencies" will be discussed.

Who should issue occupation currency?

If the population of the area to be occupied is friendly, and if the country is represented by a free government acceptable to the United Nations, the sponsorship of the occupation currency by that government will serve to increase the acceptability of the currency and hence the success of the occupation. This procedure implies, of course, that there will be a different occupation currency for each friendly country occupied. There are several alternatives:

1. The United States or another of the United Nations might issue occupation currency in the name of the future government of the occupied territory. This plan has the advantage of not committing the United Nations to the support of any particular free government and its personalities, but it has two disadvantages which probably

more than offset the advantage. Without the sponsorship of a particular free government and of locally known personalities, the support of some sections of the local populations will be lost. Furthermore, the United Nations might disagree among themselves about which should enjoy the benefits and accept the responsibility of issuing the currency.

2. The free governments already existing, or more acceptable new free governments, might issue the currency in their own name. This is perhaps the best plan, but it implies at least a limited commitment by the United Nations to establish those free governments and the personalities composing them as the legitimate government of the occupied territories.
3. The use of existing or new central banks of the free governments might offer the advantage of free government sponsorship without so definite a commitment to these governments. Interposing a third institution between the United Nations and the free governments would make the United Nations' commitment one step less direct. It would also permit currency to be issued by a central bank, in accordance with the procedure with which European peoples are most accustomed. If a central bank were to be used, it should be placed under effective control of the United Nations.

When it has been decided who shall issue occupation currency, its preparation should begin at once. The United Nations, the free governments, or the central banks of the free governments should be instructed to prepare a suitable currency for every area that the troops of the United Nations are likely to invade. The

knowledge that these currencies are being prepared will serve to increase Axis fears of an invasion, and the simultaneous preparation of currencies for many areas will sufficiently conceal plans of the United Nations.

What type of currency should be used?

1. The currencies to be issued should be clearly distinguishable from any currency previously used in the country concerned and prominently marked as the currency of "the government of _____", the "free government of _____", or "the central bank of free _____". Aside from this distinction, the notes issued in occupied friendly territories should be as similar as possible in size, design, legend and denomination to the currency of the legitimate government existing before enemy conquest. In this way, the advantages of open dealing are combined with the advantages of convenience and familiarity to the local populations.
2. The occupation currencies should be made legal tender in the countries taken over by the United Nations forces. All United Nations purchases and sales should be made with this currency, or with checks upon deposits of this currency. Conversion of existing currencies into occupation currencies should be made obligatory within a short time.
3. The occupation currencies should be exchangeable for the currencies of the United Nations only in accordance with a special license. There is little advantage in permitting persons to convert occupation currency freely into the currencies of the United Nations, and by not permitting such conversion dollars, pounds, etc., can be kept out of

enemy hands in the event that the invasion should be unsuccessful.

However it will be necessary to permit some remittances to United Nations areas, some exchange of soldiers' pay, some exchange of goods, etc. For these purposes, we suggest — as a basis for discussion — the following exchange rates. They are designed (a) to favor friendly countries and penalize Axis homelands, (b) to preserve something like the existing relationship among the currencies of the friendly countries, (c) to be in convenient round multiples for facility in exchange.

German Mark	5 to \$1.00
Norwegian Kroner	5 to \$1.00
Danish Kroner	5 to \$1.00
Netherlands Florin	2 to \$1.00
Belgian Franc	35 to \$1.00
French Franc	50 to \$1.00
Italian Lira	40 to \$1.00

4. The occupation currencies should be made exchangeable for each other. Many of the countries that are to be invaded adjacent to each other, and the occupying authorities could gain many advantages from reasonably free trade among the occupied parts of adjacent countries.

Japanese experience with invasion currencies.

The experience of Japan in the use of invasion currencies is worth noting. The Japanese have tried various types of invasion currency in their campaign in China. The first type used was Bank of Japan notes. However, when these Bank

of Japan notes were found to be depreciating as against the Chinese national yuan, military yen were introduced. These military yen were printed and issued by the Bank of Japan and distributed in China by the Yokohama Specie Bank. At first the circulation of these military yen had to be enforced by military means but later the public accepted them voluntarily as they could be used to purchase goods from the Japanese.

In addition, the Japanese have sponsored various note-issuing puppet banks in China, the most important being the Federal Reserve Bank of China at Peiping, the Central Reserve Bank of China at Nanking and the Menchiang Bank of Inner-Mongolia. The currencies of these banks have fluctuated in value in the past but, at present, all are at a premium over Chinese national yuan.

The Japanese have taken measures either to discourage or to prohibit the circulation of Chinese national yuan in the various occupied areas in China. Since December 7, 1941, the regulations against the circulation of Chinese national yuan have been rigidly enforced.

How shall occupation currency be issued?

1. Occupation currency should be issued to the governments of the countries making the invasion. The terms under which occupation currency should be made available to the invading governments are,

however, subject to discussion. The United Nations should make certain that, in appointing any free government or central bank to be the issuer of occupation currency, the institutions so appointed should thoroughly agree that the governments of the occupying countries have the right to any amount of occupation currencies they may deem useful. The occupying governments might pay for such currency in their own currencies, they might receive occupation currency on loan from the issuer, or the advances made by the issuer might be considered to be the contribution of the occupied country to the costs of the military operations. Paying for the currency in currencies of the United Nations has many disadvantages. The rate at which the occupation currency should be bought would be subject to great uncertainty and would probably change greatly during the course of the occupation. Obtaining the currency as a loan expressed in terms of the occupation currency is a workable plan. One way in which the loan could be repaid is the following:

After the earliest stages of occupation, the United Nations will probably ship to the invaded areas considerable volumes of civilians' supplies, and occupation currency collected from the sale of these supplies could be used to repay such loans without the question of conversion rates ever entering. Whether or not provision of the currency should be considered as the contribution of the occupied countries to the costs of the

invasion is more questionable. There is no certainly fair way to distribute the costs of the invasion amongst the United Nations, the invaded countries, and the enemy. That the free governments of the occupied countries should provide occupation currency as part of their share of the cost is no more than a rule of thumb.

2. Occupation currency should also be issued for the conversion of existing currencies in the occupied areas. As was stated above, this conversion should be obligatory within a very short period. The existing currencies may be converted at a discount, or at par. Unless currency depreciation has gone so far as to make the existing denomination system cumbersome, conversion at par would be the simplest plan. However, as the occupied circle widens, successive conversions will have to be made at different rates if the relative values of the currencies change during the course of the invasion. Converting existing currencies into occupation currency will provide occasion for examination of individual holders. A record of large conversions should be kept, and any exceptionally large offers of notes should be placed in blocked accounts for subsequent investigation.
3. Finally, occupation currency should be issued to meet withdrawals of bank deposits. As discussed in the financial section, below, the authority issuing occupation currency should make available to the banks of the area as much currency as they need to meet withdrawals.

What type of fractional currency should be used?

The shortage of all coinage metals, of mint capacity, and of shipping space makes a satisfactory solution of the problem of fractional currency very difficult. Especially would it be unwise to attempt to issue fractional coins merely for replacement purposes. It would be possible to recognize and continue to use coins presently circulating in the areas concerned. The possibility of doing this is one of the reasons why it would be preferable to issue occupation currency in the denominations currently in use and to convert existing currencies at par. This solution will be far from perfect, for a shortage of fractional currency probably exists in many of the areas to be invaded.

What should be the rate between invasion currency and currencies of the United Nations?

It was stated above that invasion currency should not be freely convertible into the currencies of the United Nations, and it was also stated above that the governments of the United Nations probably should not buy invasion currency with their own currencies. For both of these reasons the problem of a conversion rate between invasion currency and the currencies of the United Nations should not be serious. However, for the purposes of paying troops whose salaries are defined in United Nations' currencies, of determining army expenditures in accordance with their budgets, and of permitting subsistence remittances, some rate of exchange must be determined from time to time. In determining these exchange rates, an attempt should be made to place as nearly as possible at the ratio of the purchasing powers of the currencies.

Changes in these procedures appropriate to the invasion of Axis homelands.

If the invasion is to be made in an Axis homeland some changes in technique would be called for. In such cases there would be no free government to issue

occupation currency. One might be set up, but the political commitment involved in so doing would be great. Unless such a government were set up, the United Nations would have to issue notes directly.

These notes could be called "Dollars of the United Nations Forces" and be made in most respects similar to the United States dollar. The denominations, however, should be made to agree with that currently in use in the country and the conversion rate should be a very convenient one, such as 50 lira per "dollar", although at successive stages of the invasion this rate will probably have to be changed to take account of the progressive deterioration of enemy currency. Compulsory conversion of existing currencies into these "dollars" should be made within a short period.

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The Financial System

A completely disorganized financial system probably will await the United Nations in territories they invade. Banks, security markets, and many businesses may be closed, and a large part of their assets and business records may have disappeared.

The retreating enemy may be expected to take with him as much of the currency, securities, personal notes, and even business and banking records of the area as he is able to find and to carry. The managers of many financial and business houses will have been Axis puppets, and will have fled with their movable assets and records. Those managers, who are loyal or neutral, themselves, probably will have removed and hidden as many of the assets and records as they could in order to prevent enemy looting of their businesses. Also, members of the general public, to protect themselves from the great uncertainty of events, and to prepare themselves for flight if that should be necessary, probably will have made every attempt to convert deposits into cash, securities, and other easily movable assets, and then to hide these assets.

Some of the problems thus created will call for immediate handling; others can be left for consideration after the occupation is well established; most of them, however, should be left for final solution by the more permanent civil government. The measures that should be taken immediately are those that can contribute directly to the success of the invasion and occupation; those that should be handled later in the occupation are measures that can contribute to the rehabilitation of the day-to-day life of the population of the invaded areas and hence indirectly contribute to the success of the occupation and the war effort; those that should be left to the civil authorities are measures that affect the long-run life of the community, and have little

- 18 -

effect upon either the invasion or the occupation.

Much discretion must be left to the occupying authorities on the spot. A corps consisting largely of trained native persons should be recruited at once in the United Nations by the Free Government or, by the central bank of each government, (if it should be decided to use central banks as the issuers of occupation currency), to accompany the invasion forces, and to carry out the financial program. While the military authorities must have final control, a trained personnel, and a largely native personnel, is best suited to the nature of many of the financial tasks.

Financial measures of the invasion

1. Immediately upon entry into an area, the occupation authorities should impose a general freezing regulation. Any financial institutions that may happen not to be closed should be closed at once, pending certification by the occupying authorities. The continuance of banking and security operations is not essential to success in the invasion stage, and the frozen accounts may therefore be left for later consideration.
2. The financial agents of the occupying authorities should attempt at once to determine the loyalty of business managers, and as quickly as possible to replace any whose loyalty is suspected.
3. Other problems that need to be handled immediately are subsistence withdrawals and the establishment of a source of credit for essential businesses. The great disorganization probably will leave many essential businesses financially unable to continue production, and the success of the invasion may clearly be furthered through the establishment of a means for providing credits. If a central bank of

- 19 -

the free government has been established, it should set up immediately an office for the provision of such credits. If a central bank has not been established, the financial administrators should be empowered to make such loans with free government funds.

Financial measures of the occupation

1. When the occupation has become established, the financial administrators might reorganise the general banking facilities of the area. All outstanding deposit and note liabilities should be restated in terms of the new currency. Bank cash and currency of the old type should be exchanged for new currency on the same terms as those offered the general public. Local banks, under loyal managers and under the strict control of the financial administrators, might be reopened, and provided with central bank or free government funds to the extent that their assets are found to be unequal to their deposit and note liabilities. Emergency credit functions might be turned over to them to the extent that they are able and willing to handle them. Their existing small deposits might then be unfrozen. Larger deposits could be unfrozen when the financial administrators had certified to the banks the loyalty of their owners.
2. During this period, the financial administrators should also undertake a census of property claims, the purpose of which would be to provide some of the information that will be needed later for the final settlement of claims by the civil government. It might be announced that only those claims reported in the census will be considered in the final settlement to be made by the civil government.

3. As soon as United Nations occupation is established firmly in any area, it will be necessary to establish a system of foreign exchange control to license transactions with other United Nations areas and to prohibit transactions of benefit to the enemy. The administration of this foreign exchange control should present very few novel problems since the essential considerations involved would be identical with those at present prevailing with regard to trade among United Nations areas and the relations of United Nations areas to those controlled by the enemy.
4. The reestablishment of organized security markets, the final settlement of property claims, and other similar matters, may be left safely to the civil government which will succeed the occupying authorities.

German Financial Procedure in Occupied Territories.

In all cases where Germany has taken over territory after active military operations, she has followed a uniform procedure.

In the first stage of the invasion the German military authorities have issued special Mark currency (Reichskreditkasse notes) to purchase such goods and services as the armed forces needed. As soon as the German armies have been better established and have displaced the local government of the invaded area, these special Mark notes have been replaced by currency of the local type issued by German-controlled central banks.

The Germans have stationed a bank commissioner, who has complete control over policy, in the central bank of each occupied area. They have also appointed supervisors to govern the policy of the major private banks.

All foreign exchange transactions have been made subject to German permission. It has been required that foreign exchange holdings be registered and either blocked or sold to the puppet central banks under German control.

The Germans derive their funds for purchases from the occupied area from direct advances called occupation costs, from clearing credits advanced by the central bank or government, and from direct advances by private banks which have been brought under their control. In addition to these sources of funds, in most of the occupied areas the Germans take all public revenues and maintain complete sovereignty over the government machinery. Occupied France is an exception to this general rule.

The Germans have utilized their control over the currency and banking system to consolidate enterprises and bring them under German control or German "participation" to the extent they deemed necessary.

Occupation and civil government in Axis homelands.

The range of activities undertaken by occupying authorities must be determined in large part by the length of the period of occupation. Where the interval between invasion and the formation of a civil government recognized by United Nations is to be prolonged, as is most likely to be the case in Axis homelands, it will be necessary for the occupying authorities to undertake a wider range of activities than in other areas. If — as may happen in one or the other of the Axis homelands — the period of occupation extends over years, a new reconciliation of the respective spheres of authority of the military and civil officials will have to be worked out. In short, the problem of extended semi-permanent occupation is a new one and will need novel solutions. However, even where it is expected that this period of occupation will be very prolonged, the procedures outlined above apply to the earlier period of occupation.

Fiscal Policy, Prices and Rationing

Closely related to the monetary and banking problems which would arise out of the invasion and occupation of any territory by the United Nations are questions of taxation, price control and the rationing of essential commodities.

In areas inhabited by a friendly people, with a free government recognised by the United Nations, the occupying authorities will have strictly limited functions in these fields. They should attempt: (1) to keep existing public services operating, (2) to use as much of the old machinery and personnel as possible, (3) to change the fiscal system of the area where important injustices have been imposed by the enemy, (4) to maintain any existing price controls, (5) to ration equitably the supplies of the area.

In Axis homelands, where the period of occupation before complete cession of authority to a civil government may be prolonged, the responsibilities of an occupying administration would be more far reaching. The old machinery and the old personnel of the area will, in large part, not be usable because it will contain a large number of active pre-Axis leaders. Previous injustices may demand thorough-going rectification on the part of the occupying authorities, who will not be in a position to wait for the erection of a permanent civil government. If it is desired to strike at certain individuals or classes in the Axis homelands, such action will have to be initiated immediately after the invasion. In short, the invading armies will be bringing a revolution to the Axis homelands, and they will be confronted with revolutionary problems. For the solution of these problems, they will need continuing directives from the higher councils of the United Nations.

THE UNDER SECRETARY OF STATE
WASHINGTON

July 17, 1942

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See phone
conv. with
Keller 7/20/42

Dear Henry:

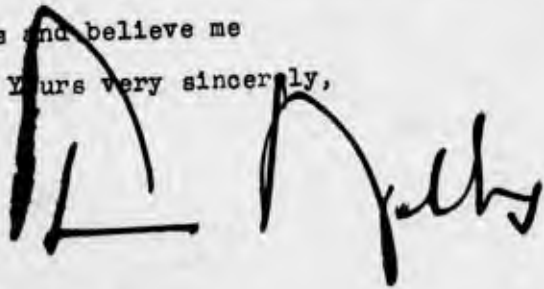
With reference to our several recent conversations in regard to the proposal of the American Jewish Joint Distribution Committee, Inc., for the financing of its relief work in Shanghai, I am returning herewith Mr. Leavitt's memorandum and the letter addressed to Judge Lehman by Mr. Baerwald.

After our last talk, officials of this Department conferred, in Mr. Pehle's absence, with Mr. Hoffman and Mr. Schmidt in Mr. Pehle's office. I am informed that these officers of your Department have sent you a memorandum setting forth their views with regard to the problem involved which, in summary, represents the considered opinion that the proposal of the Joint Distribution Committee could not be approved without violating the established policy of the Treasury Department, which policy they regard as wise and necessary.

I feel very strongly that every effort should still be made to try and help these unfortunate people in Shanghai. If there is any way which occurs to you in which I personally can be helpful in the matter, please let me know.

My best regards and believe me

Yours very sincerely,



Enclosures:
Memorandum from
Mr. Leavitt;
To Judge Lehman,
June 25, 1942, from
Mr. Baerwald.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

MEMORANDUM ON THE REFUGEE SITUATION IN SHANGHAI.

The plight of some 22,000 refugees in Shanghai has become indescribably tragic since December 7, 1941. Prior to the declaration of war by the United States, there were 13,000 refugees in Shanghai who were receiving daily, food, housing and medical aid from the Joint Distribution Committee. Undoubtedly thousands of others have become dependent in the last months. The relief activities are carried on by a volunteer group of Jews in Shanghai, aided by two American representatives of the J.D.C., one of whom arrived in Shanghai in April, 1941 (Miss Laura L. Margolis), well known and highly respected by Mr. Avra M. Warren, our new Minister to San Domingo, and the second, Mr. Manuel Siegel, in November, 1941. They are still there.

In March, 1941 the J.D.C. notified most of the local relief committees abroad that in the event of a break in communications between them and the J.D.C. office in New York, they were authorized to continue to carry on their activities for a period of several months, by borrowing locally at the same budgetary rate as for the month in which the break had occurred. A definite period of six months was set on December 10, 1941 in order to limit the liability of the J.D.C. in any post-war settlement. The J.D.C. had been remitting \$30,000 a month to Shanghai for its relief activities. On this basis the committee in Shanghai was authorized to borrow locally the equivalent of \$180,000 on the commitment made by the J.D.C. before the war, for repayment after the war or at such time as it would be legal and feasible to do so.

We have learned that our American representatives in Shanghai were able to secure the equivalent of \$180,000 and that the program of feeding has thus been continued for December, 1941 and the first five months of 1942. The request has come to us from our American representatives that the same procedure be followed for the next six months on the basis of \$40,000 a month. The funds would be secured from individuals in Shanghai who are in a position to make such advances, realizing that the repayment in American dollars would not be made to them until after the war. In the first instance, we wish to point out that this procedure in no way brings aid or comfort to the enemy. The funds in Shanghai are in the possession of private individuals, presumably Russian nationals, who are prepared to make such advances against the hope of eventual reimbursement.

The refugees are for the most part German and Austrian nationals, now declared stateless by the German Government, and consequently there is no Government that can intercede in their behalf. There are also about 1,000 Polish nationals and some Dutch and Czech nationals among the refugees. The aid which we have thus far been able to extend to them is on a minimal basis. They will be placed in a desperate position unless it is possible for our American representatives to secure funds locally in order to carry on the program of relief.

If it were possible to send a cable to our American representatives in Shanghai through the Swiss Embassy, to the effect that the J.D.C. would be prepared to repeat the authorization for another six months on the same basis as the first six months, that should be sufficient for the relief activities to be carried on. The question of sending such a cable through the Swiss Embassy was first presented informally to Mr. M.L. Hoffman of the Foreign Funds Control Office of the

-2-

Treasury Department in Washington. Mr. Hoffman, after consultation with his colleagues, informed us that since this did not involve an exchange transaction in which dollars would be paid now for foreign exchange, the Treasury had no jurisdiction over the matter. The problem was one of communication with enemy-occupied territory. He suggested that we take it up with the Special Division of the Department of State. We then saw Mr. Joseph Green, of the Special Division, and presented the problem to him. He took the position that unless the sending of the cable were approved by the Treasury, he would not feel free to send it through the regular channels of the State Department, via the Swiss Embassy. This in turn was reported to the Treasury, and the State and Treasury Departments we understand conferred on the question and it was decided that the Treasury assume the responsibility of authorizing the transmission of cables of this kind. The Treasury decision in our case was negative, and they advised us that they could not authorize the sending of such a cable. There the matter rests at this moment.

Moses A. Leavitt



June 17, 1942

120 BROADWAY
NEW YORK

June 25, 1942.

Hon. Irving Lehman
36 West 44th Street
New York.

Dear Judge Lehman:

I take the liberty of enclosing a memorandum with regard to Shanghai which explains itself.

You will understand that we are most anxious not to let this matter rest. On the other hand, we do not want to approach the Secretary of the Treasury direct, and I was wondering whether it would be possible for you to approach him in an entirely unofficial manner.

The fact that I am writing you is not known to my colleagues. If at your own time you can find an opportunity to discuss the matter with our friend, who is so very sympathetic toward our difficulties, I would consider it a great favor.

Hoping you are well,

Sincerely yours,


Paul Brewster

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

July 17, 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 July 5, 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.



inc-7/17/42

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YFEDERAL RESERVE BANK
OF NEW YORK

July 16, 1942

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

I am enclosing our compilation for the week ended July 8, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:7-17-42

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

Week Ended July 8, 1942

**Strictly
Confidential**

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(a)	416.6(e)	449.7	1,095.3(f)	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															
Jan. 1 - Jan. 28	102.3	73.2	29.1	67.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3
June 4 - July 1	89.9	72.6	1.3	113.6	-	-	113.6	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3
WEEK ENDED:															
June 17	22.1	15.7	6.4	19.0	-	-	19.0	- 3.1	-	-	-	0.1	-	0.1	+ 0.1
24	12.0	10.4	1.6	24.8	-	-	24.8	+ 10.8	-	-	-	0.1	-	0.1	+ 0.1
July 1	21.8	18.0	3.8	7.5	-	-	7.5	- 14.3	-	-	-	-	-	-	-
8	22.8	19.3	3.5	13.1	-	-	13.1	- 9.7	-	-	-	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) 30.9 million

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

Week ended July 8, 1942 \$ -
Cumulation from July 6, 1940 \$ 162.7

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)

- [REDACTED]
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
 - (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
 - (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
 - (d) 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.

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AIRGRAM

Ciudad Trujillo

Dated July 17, 1942

Rec'd 1:35 p.m., 20th.

Secretary of State,

Washington.

A-6, July 17, 10 a.m.

Department's Airgram No. A-2, July 13, 3:45 p.m.

As reported in my despatch No. 8 of July 13, decree No. 113 of July 9 inaugurated a system of control over movement of United States currency in and out of the Dominican Republic. The decree conforms substantially to the suggestions contained in Department's telegram No. 169 of June 8, 10 p.m., and to the recommendations which Dominican representatives at Central Bank Conference stated would be made to their Government. Slight divergencies are as follows:

1. The decree provides that all legally authorized banks of the country may be used as transmitting agents for United States currency, and establishes the amount which may be carried by travelers at \$250.

2. No provision is made in the decree that currency in excess of \$250 brought into the country is to be forwarded to the United States for collection. The decree provides that such currency is to be sent to the Secretary of State for the Treasury, who will place the money in a special account. No special provision is made in regard to large amounts of money already in the country.

An additional article provides for movement by ordinary means of United States money between the Republic and other Caribbean countries if there are no banking channels and if the transaction is in proportion to transactions of that type before the Dominican Republic's entry into the war.

WARREN

RR

Copy:bj:7-21-42

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YDEPARTMENT OF STATE
WASHINGTON

July 17, 1942

In reply refer to
FD 890H.516 National/27

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith copies of despatch no. 18, dated June 24, 1942 from the American Legation Tehran, Iran concerning the status of the Afghan National Bank and the Banque Mellie Afghan.

Enclosure:

From Legation, Tehran,
despatch no. 18, June 24, 1942.

Copy:10:7/18/42

Tehran, Iran, June 24, 1942

C
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YAfghan Series

No. 18

Subject: Information Concerning the Status of the
Afghan National Bank and the Banque Mellie
Afghan.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to inform the Department, at the insistent request of the Afghan Embassy in Tehran, that the Afghan Government has designated the National Bank of Afghanistan as the official financial agency of Afghanistan in foreign countries. However, it is stated that pending the completing of formalities in this regard, the Banque Mellie Afghan will continue, as it has in the past, to serve as the financial agent of Afghanistan abroad.

Respectfully yours,

Louis G. Dreyfus, jr.

File No. 851.6
In Sextuplicate.
Copy to Division of Commercial Affairs.
Copy to American Legation, Kabul.
HBM/ebe
Copy:lc:7/18/42

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 244

Information received up to 7 A.M., 17th July,
1942.

1. NAVAL

RUSSIAN CONVOY. A 5,000 ton U.S. ship previously reported sunk has arrived at NOVA ZEMBLA and a 6,200 ton U.S. ship reported sunk is ashore off NOVA ZEMBLA.

2. AIR OPERATIONS

WESTERN FRONT. 16th. 21 Stirlings were sent to attack shipyards at LUBECK. In spite of thick cloud at least seven attacked the objective. Two Wellingtons bombed ESSEN and WESEL and two Mosquitos the Ijmuiden Iron Works. Spitfires and Mustangs attacked minor objectives in NORTHERN FRANCE. Two Stirlings and two Mustangs are missing and a Mosquito sent to the Naval Dockyard at WILHELMSHAVEN.