

WOR

**BAMBERGER BROADCASTING SERVICE, INC. - NEW YORK CITY, N. Y.
BUSINESS OFFICE AND STUDIOS - 1440 BROADWAY, PE 6-8600**

July 30
1942

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

My dear Mr. Morgenthau:

May I take this opportunity of congratulating you on your appointment of Professor Roy Welch. It has been my pleasure to see him twice, and I find in him a very capable person who, I am sure, is going to do a magnificent job.

Kindest regards-

Sincerely yours,

Alfred Wallenstein
Alfred Wallenstein
General Music Director

AW:rm

211

WUE20 37

ROANOKE VIR JULY 30 1942 1011A

HON HENRY MORGENTHAU JR

1942 JUL 30 AM 10 56

SECRETARY OF THE TREASURY WASHDC

AT THE SUGGESTION OF SENATOR GLASS WISH TO SAY THAT AUGUST 20TH IS ENTIRELY SATISFACTORY FOR YOUR VISIT TO ROANOKE END THIS DATE IS DEFINITELY FIXED AND CONFIRMED. WE LOOK FORWARD TO YOUR COMING WITH GREAT PLEASURE

B F MOOMAW SECRETARY ROANOKE CHAMBER OF COMMERCE.

WNS 7 30 W 11 08

1055A.

Copy to grave Kuluu Gambe Odegard. done
Mr Z

TELEGRAPH
TREASURY
TELEGRAPH

JUL 30 1942

My dear President Quezon:

I have already written you to say that we would most certainly take advantage of your generous offer to speak at a War Bond meeting as soon as a suitable and significant occasion arose.

On August 15 we are having a large inter-racial rally at the Cleveland Municipal Stadium for the purpose of promoting the sale of War Savings Bonds. Over 10,000 people, representing many different nationalities and including a large percentage of negroes, will be present. It occurred to me that this might afford an ideal opportunity for you to bring them a message of great importance, not only for the Treasury's War Bond Program but for the general morale of the American people.

Knowing of your recent illness, I do not want to ask you to undertake anything which would jeopardize your health. But if you feel up to it, I should appreciate more than I can say receiving word that you will speak for us at this meeting.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable
The President of the Philippines
Washington, D. C.

Delivered by Messenger to The Shoreham Hotel
7/30/42 at 3 P.M. (Shoreham Hotel, Mr. Quezon's
Suite advised he would be
there 8/3/42)

Harmon

PHO:cea

*Copies to Thompson
nmc*

SCORE OF THE TREASURY DEPARTMENT

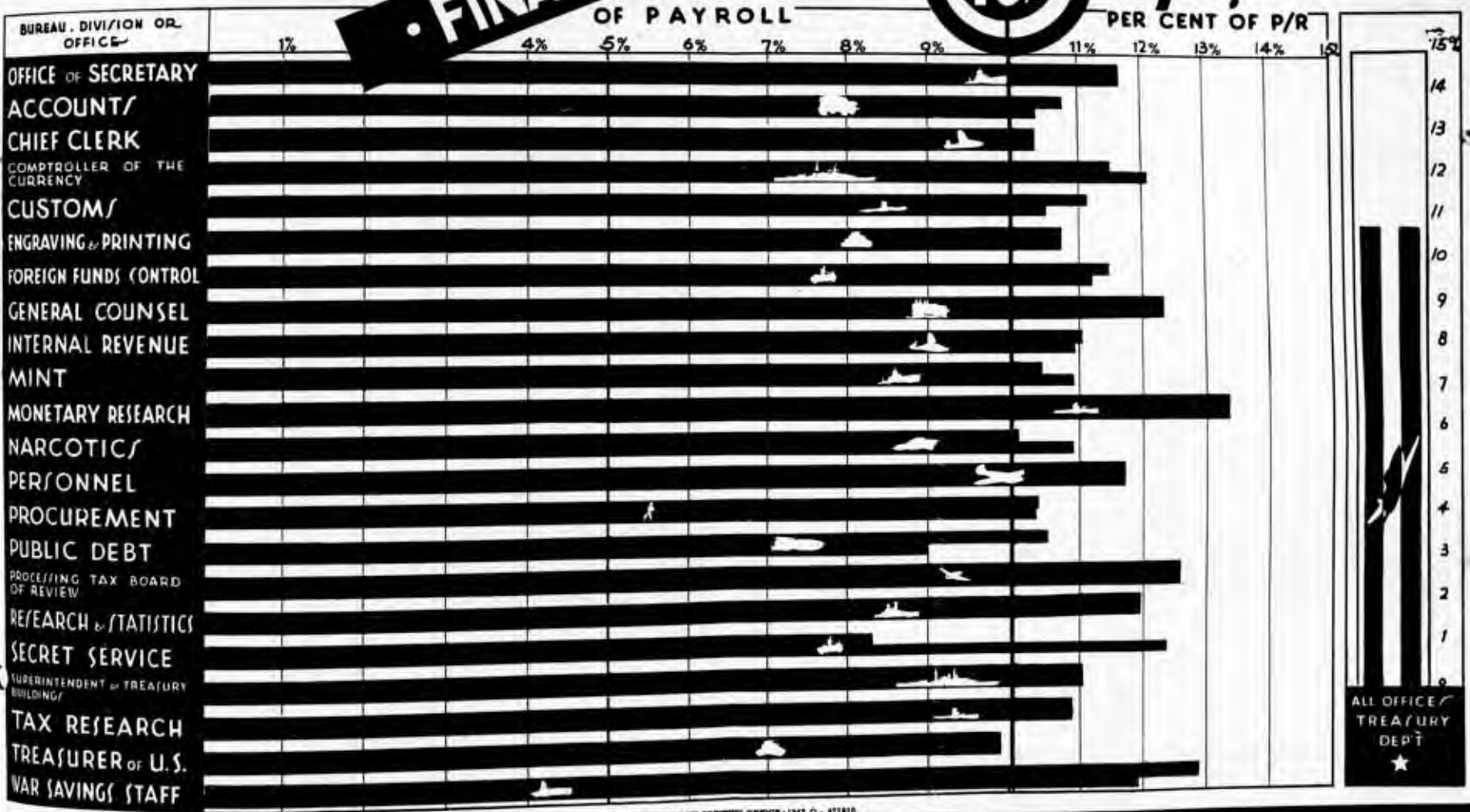
Reference 7/30/42

LEGEND
Departmental ■
Field ■

Let's hit Bull's **SCORE** eye!



FINAL SCORE



ALL OFFICE TREASURY DEPT ★

SCORE OF THE TREASURY DEPARTMENT

of score 7/30/42

LEGEND

Departmental
Field

Let's hit ~~the~~ SCORE Dull's 10% eye!

FINAL SCORE



ALL OFFICE/TREASURY DEPT
★

UNITED STATES SAVINGS BONDS - TOTAL

CONFIDENTIAL
214

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	\$ 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
16	31,670	467,599	334,398	317,861		139.8
17	37,659	505,257	345,497	337,371		146.2
18	21,929	527,186	368,782	371,066		143.0
20	53,257	580,443	387,369	385,098		149.8
21	21,686	602,129	414,804	409,987		145.2
22	34,511	636,640	429,158	439,987		148.3
23	33,434	670,075	468,812	466,171		142.9
24	32,987	703,062	485,338	485,109		144.9
25	19,510	722,572	510,446	518,829		141.6
27	53,821	776,393	533,097	539,771		145.6
28	29,834	806,228	554,915	564,973		145.3
29	33,039	839,266	575,657	588,819		145.8

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

July 30, 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

CONFIDENTIAL
215

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	\$ 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
17	22,345	284,111	233,218	223,242		121.8
18	12,233	296,344	249,033	247,532		119.0
20	31,368	327,712	261,321	257,374		125.4
21	12,239	339,951	280,742	271,079		121.1
22	18,184	358,135	291,729	290,485		122.8
23	18,261	376,396	321,114	309,584		117.2
24	18,588	394,984	331,806	323,705		119.0
25	10,695	405,679	347,673	347,494		116.7
27	32,577	438,256	362,550	360,564		120.9
28	17,449	455,706	378,505	375,702		120.4
29	18,256	473,962	392,224	392,627		120.8

July 30, 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 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 as percent of June	
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	89,232	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
17	15,314	221,147	112,279	114,129		197.0
18	9,696	230,842	119,749	123,534		192.8
20	21,888	252,731	126,048	127,724		200.5
21	9,447	262,178	134,062	138,908		195.6
22	16,327	278,505	137,429	149,502		202.7
23	15,174	293,679	147,698	156,587		198.8
24	14,399	308,077	153,532	161,404		200.7
25	8,816	316,893	162,774	171,335		194.7
27	21,244	338,137	170,547	179,208		198.3
28	12,385	350,522	176,410	189,271		198.7
29	14,783	365,305	183,433	196,192		199.1

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

July 30, 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.

217
Sales of United States Savings Bonds
From July 1 through July 29, 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
	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	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
21	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
23	18.3	376.4	477.5	78.8	15.2	293.7	260.1	112.9	33.4	670.1	737.6	90.8
24	18.6	395.0	503.8	78.4	14.4	308.1	270.7	113.8	33.0	703.1	774.5	90.8
25	10.7	405.7	525.0	77.3	8.8	316.9	279.5	113.4	19.5	722.6	804.5	89.8
27	32.6	438.3	562.7	77.9	21.2	338.1	295.1	114.6	53.8	776.4	857.8	90.5
28	17.4	455.7	577.2	79.0	12.4	350.5	304.3	115.2	29.8	806.2	881.5	91.5
29	18.3	474.0	601.3	78.8	14.8	365.3	322.1	113.4	33.0	839.3	923.4	90.9
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 30, 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.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

July 30, 1942

I delivered your message about billboard advertising to Senator George this afternoon. Senator Brown was in the room when the message was delivered.

RSP

MEMORANDUM

July 30, 1942.

TO: The Secretary
FROM: Mr. Sullivan

JHS

SUBJECT: Bureau's request to terminate assignment of Oftedal to the Department of Justice.

Arrangements have been made for United States Attorney Correa to call at the Internal Revenue Bureau Saturday, August 1st to discuss the necessity of continuing Special Agent Oftedal's work for the Department of Justice on the investigation of the International Alliance of Theatrical Stage Employees and Moving Picture Operators.

After this conference I believe I will be in a much better position to recommend action.

MEMORANDUM

July 30, 1942.

TO: The Secretary
FROM: Mr. Sullivan

JMS

SUBJECT: Additional business machinery to administer the withholding tax.

This morning representatives of the WPB discussed with representatives of the Internal Revenue Bureau the Bureau's figures on the additional business machinery required by industry because of a withholding tax. Their off-hand opinion was that the Bureau's figures were low in some categories and that it would be impossible to furnish industry with some types of machinery that would be needed.

However, they are doing some further work on this matter in WPB and they expect to report to us by telephone Saturday morning, August 1st. Up to this point all of the discussions have been informal and confidential.

Whether you wish to ask them to state formally that the requirements of industry can be met may depend somewhat on the type of reply WPB makes to the Bureau on August 1st.

June 30, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Attached is the memorandum on deducting from net income not to exceed \$1,000 for debt repayment. You were right about not receiving this. I am very sorry that I failed to check more carefully as I thought it had been sent at the time it was completed.

In addition to this memorandum, we are working over the whole problem again and will prepare a further memorandum.

RB

Attachment

Proposal to Allow a Personal Income Tax
Deduction for Debt Repayment

Pending income tax increases may impose special hardship on some individuals obligated to make relatively large repayments on debt incurred prior to the war emergency. To relieve such individuals, it has been proposed that repayment of debt contracted prior to January 1, 1942, be allowed as a deduction in computing taxable income, such deduction not to exceed \$1,000 a year.

Distribution of "Relief"

In occasional instances, at the lowest taxable income levels, the tax saving accomplished by this deduction would completely offset the increase in tax liability resulting from the pending 1942 legislation. In general, however, the resulting tax saving would be less than the increase in tax liability. This partial "relief" would be accorded to a group of taxpayers arbitrarily determined by the chance situation of their personal finances as of January 1, 1942.

The tax saving afforded by the proposal would be greater for large incomes than for small because the tax saving for a dollar of additional deduction would be determined by the highest rate applicable to the income of the taxpayer.

Equity

Debt repayment is only one among various forms of saving. Limitation of the deduction to debt repayment would discriminate in favor of this one type of saving, and against such other forms as insurance payments, savings accounts, and purchase of War Bonds. Adoption of this proposal would probably stimulate agitation for the allowance of special deductions for these other forms of saving and may establish an undesirable precedent.

Effect on prices

The proposed reduction would have an inflationary effect since the reduction in individuals' tax liability would increase the amounts available to them for spending. This inflationary effect would be offset by the extent

- 2 -

to which the special deduction accelerated debt repayment out of current income.

Voluntary debt repayment

Many debt contracts call for specified obligatory payments, with the option of additional payments at the discretion of the debtor. The special deduction for debt repayment would encourage debtors to make voluntary repayments on their debts out of their liquid assets or current income. Deduction of such optional debt repayment would be outside the "relief" intent of the proposal. It would be desirable to limit the deduction to the obligatory element of debt repayment, but administrative considerations make this impracticable. Moreover, if the special deduction remains in effect long enough, the tax rates do not decrease and the taxpayer's income remains the same, the advantage obtained by taxpayers in deducting such voluntary debt repayments would amount only to the interest on postponed tax payments.

Administrative complexity

Adoption of the proposal would create difficult administrative problems. In particular, requirements of listing creditors, attaching debt contracts, and requiring informational returns from creditors, which would check abuses of the deduction privilege, would add to the administrative complexity of the income tax.

Revenue loss

Official estimates of the revenue loss that would result from the proposal are not yet available. Preliminary calculations indicate that the loss, under the proposed rate schedule, would probably be of a magnitude between \$400,000,000 and \$500,000,000 a year.

Possible alternative

Instead of a special allowance for debt repayment under the regular income tax, consideration might be given to a policy of not increasing the income tax rate beyond the point where ability to repay debt will be

- 3 -

appreciably impaired, and to obtaining additional revenue from individuals through a graduated tax on expenditures. Such a tax would impose no burden on that part of personal income devoted to debt repayment and other forms of saving. The practicability of such a tax is being studied by the staff.

Treasury Department
Division of Tax Research

June 22, 1942

THE SUN

JUL 30 1942

Calls Own Tax 'Too Damn Little'*[By the Associated Press]*

Washington, July 29—Royal Little, a Providence (R. I.) manufacturer, told the Senate Finance Committee today that the Government was going to collect "too damn little" income from him, under the new revenue bill and suggested that individual levies be doubled.

Little, president of the Atlantic Rayon Corporation which holds a \$3,000,000 war contract to manufacture parachutes, said he would pay about \$7,000 taxes on a net taxable income of \$20,000 under terms of the House-approved revenue bill.

"That's too damn little," the baldish, bespectacled industrialist testified as committee members listened interestedly. "I think I ought to pay nearly twice that amount, and I think I can."

226

Photostats to Bell and White 7/30/42

Willard Hotel,
Washington, D.C.,
July 30, 1942.

Dear Mr. Secretary,

I enclose for your consideration a note on the subject of the planes diverted off British Contracts which was raised by Brigadier-General Myers at the meeting in your room two days ago. I have sent a copy to General Myers.

Yours sincerely,

F Phillips

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

NOTE ON THE SUBJECT OF THE PLANES DIVERTED OFF
BRITISH CONTRACTS.

1. The War Department table covers only certain airplane allocations for a particular period June 1942 to March 1943. The complete picture would be as follows:

Since Pearl Harbour there have been three changes of plan,

- (a) Some 500 planes were taken off our pre-lend-lease contracts in or about December 1941. This matter has been settled in principle and a down payment of \$70 millions was made, subject to any later adjustment.
- (b) The Arnold-Portal Agreement of January 1942 resulted in a considerable reshuffling and a substantial net loss in numbers to us.
- (c) The Arnold-Towers-Portal arrangement of May reduced our numbers by several thousands.

	<u>Pre-Pearl Harbour</u>	<u>Present Expectations</u>	<u>Indicated Loss</u>
British pre-lend-lease contracts,	12,247	10,498	- 1,749
1st and 2nd lend-lease,	13,797	7,690	- 6,107
Army Releases	<u>-</u>	<u>1,500</u>	<u>+ 1,500</u>
TOTAL	<u>26,044</u>	<u>19,688</u>	<u>- 6,356</u>

- NOTES:
1. The indicated loss under 1st and 2nd Lend-Lease is wholly in combat or other operational planes. A large proportion of the present expectation figure relates to training planes.
 2. The "Slessor" arrangement would have provided the U.K. with some 5,800 planes in addition to 1st and 2nd Lend-Lease. These figures are not included above.
 3. The latest arrangement requires the U.K. to provide 200 Spitfires in the U.K. for the use of the U.S. forces.

2. Broadly the War Department argument seems to be that, except so far as already settled, no payment should be

-2-

made by the War Department for planes taken off British pre-lend-lease contracts as these are balanced by planes released to the British by the Army. The distinction drawn between Army Releases and Lend-lease allocation is however shadowy. In fact Army Releases is just the normal method by which lend-lease assistance in the form of weapons is now given; there are no longer any separate lend-lease requisitions for weapons and lend-lease supplies of weapons are covered by War Department appropriations. The fact is that under the first two Lend-Lease Acts and under the new system of Army Releases we are getting far fewer planes, and not an additional supply of planes to set off against the loss of planes under our own contracts.

3. The general principle indicated in the President's Fifth Lend-Lease report is that each country should devote roughly the same fraction of its national production to the war. In the current year 1942 the fraction of national production applied by Great Britain to the war is undoubtedly much greater, not that that could be helped. Bearing in mind the relative resources of the two countries, British plane production in 1942 is close to the President's 1943 programme for the United States, which is double the 1942 programme for the United States. The present case is surely a favourable opportunity of applying the general principle. It is proposed, therefore, that as was done in the case of planes taken over from British contracts in December, payment should be made. There cannot be any unfairness to War Department finances in this for clearly the real effect of all these changes is that over a billion dollars, and probably more, of lend-lease funds which had actually been voted by Congress under the First and Second Lend-Lease, and were destined for planes for Britain, have in fact been used to buy planes for the War Department.

76

Willard Hotel,
Washington, D.C.,
July 30, 1942.

Willard Hotel,
Washington, D.C.,
July 30, 1942.

Dear Mr. Secretary,

I enclose for your consideration a note on the subject of the planes diverted off British Contracts which was raised by Brigadier-General Myers at the meeting in your room two days ago. I have sent a copy to General Myers.

Yours sincerely,

F Phillips

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

NOTE ON THE SUBJECT OF THE PLANES DIVERTED OFF
BRITISH CONTRACTS.

1. The War Department table covers only certain airplane allocations for a particular period June 1942 to March 1943. The complete picture would be as follows:

Since Pearl Harbour there have been three changes of plan,

- (a) Some 500 planes were taken off our pre-lend-lease contracts in or about December 1941. This matter has been settled in principle and a down payment of \$70 millions was made, subject to any later adjustment.
- (b) The Arnold-Portal Agreement of January 1942 resulted in a considerable reshuffling and a substantial net loss in numbers to us.
- (c) The Arnold-Towers-Portal arrangement of May reduced our numbers by several thousands.

	<u>Pre-Pearl Harbour</u>	<u>Present Expectations</u>	<u>Indicated Loss</u>
British pre-lend-lease contracts,	12,247	10,498	- 1,749
1st and 2nd lend-lease,	13,797	7,690	- 6,107
Army Releases	-	<u>1,500</u>	<u>+ 1,500</u>
TOTAL	<u>26,044</u>	<u>19,688</u>	<u>- 6,356</u>

- NOTES:
1. The indicated loss under 1st and 2nd Lend-Lease is wholly in combat or other operational planes. A large proportion of the present expectation figure relates to training planes.
 2. The "Lessor" arrangement would have provided the U.K. with some 5,800 planes in addition to 1st and 2nd Lend-Lease. These figures are not included above.
 3. The latest arrangement requires the U.K. to provide 200 Spitfires in the U.K. for the use of the U.S. forces.

2. Broadly the War Department argument seems to be that, except so far as already settled, no payment should be

made by the War Department for planes taken off British pre-lend-lease contracts as these are balanced by planes released to the British by the Army. The distinction drawn between Army Releases and Lend-lease allocation is however shadowy. In fact Army Releases is just the normal method by which lend-lease assistance in the form of weapons is now given; there are no longer any separate lend-lease requisitions for weapons and lend-lease supplies of weapons are covered by War Department appropriations. The fact is that under the first two Lend-Lease Acts and under the new system of Army Releases we are getting far fewer planes, and not an additional supply of planes to set off against the loss of planes under our own contracts.

3. The general principle indicated in the President's Fifth Lend-Lease report is that each country should devote roughly the same fraction of its national production to the war. In the current year 1942 the fraction of national production applied by Great Britain to the war is undoubtedly much greater, not that that could be helped. Bearing in mind the relative resources of the two countries, British plane production in 1942 is close to the President's 1943 programme for the United States, which is double the 1942 programme for the United States. The present case is surely a favourable opportunity of applying the general principle. It is proposed, therefore, that as was done in the case of planes taken over from British contracts in December, payment should be made. There cannot be any unfairness to War Department finances in this for clearly the real effect of all these changes is that over a billion dollars, and probably more, of lend-lease funds which had actually been voted by Congress under the First and Second Lend-Lease, and were destined for planes for Britain, have in fact been used to buy planes for the War Department.

Willard Hotel,
Washington, D.C.,
July 30, 1942.

CONFIDENTIAL

Mr. Kenneth M. Failer,
Office, Director of the Mint,
Washington, D. C.

JUL 30 1942

Dear Sir:

You are hereby authorized and instructed to proceed by U. S. Army plane to Nome, Alaska for the purpose of taking charge of approximately \$3,766,000 in gold at that city. The gold will arrive on the SS EMILY, Captain Straltsov in charge, about the end of July. There is a reference to "official of the State Bank Grubnikov" in an informal memorandum left with the Secretary of the Treasury by the Russian Ambassador, but I am not able to advise you as to just what it means. The meaning of this quotation will probably become clear to you when you take charge of the gold. This gold represents about 107,600 troy ounces or approximately 4-1/2 short tons.

Upon arriving at Nome, you should present your credentials to the proper United States Army authorities there and identify yourself to them as the person authorized to take charge of the gold. A copy of a letter dated July 24, 1942 to the Secretary of War in connection with the transportation of this gold is enclosed for your information.

When you take charge of the gold at Nome, you should give a receipt which would recite that you have received so many boxes said to contain gold. The gold is then to be transported by United States Army plane to Denver, Colorado and deposited at the United States Mint, Denver for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics.

If possible, please telegraph the Treasury Department at Washington at least one day before the gold is expected to arrive at Denver so that the proper instructions can be given to the Superintendent of the United States Mint in that city.

Very truly yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

Cleared with Mr. Dubois.

FD:vwj 7-30-42

Att: FD

C
O
P
Y

Date:

To:

Receipt is hereby acknowledged of _____ boxes, said
to contain gold, which have this day been placed in my charge
for transportation to the United States Mint, Denver, Colorado.

Mr. Kenneth M. Failor,
Office, Director of the Mint,
Washington, D. C.

(Approved by:

Dubois

B. Bernstein

Dietrich, 7/30/42

Copy:vw:8-12-42

JUL 30 1942

Superintendent,
United States Assay Office at New York,
New York, New York.

Sir:

On July 28, 1942 the Federal Reserve Bank of New York deposited with you 25 cases of gold for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics.

You are hereby authorized and instructed to melt and determine the value of the above-mentioned gold. After determination of the value you are further authorized and instructed to purchase the gold at the flat price of \$35 per fine troy ounce without subtracting the one fourth of 1 percent handling charge, to prepare the deposit certificate accordingly, to issue your check for the net value of the gold (less the usual mint charges) to the order of the Federal Reserve Bank of New York for credit of the "Secretary of the Treasury, Special Account", and to deliver the check to the Federal Reserve Bank of New York for the credit of the "Secretary of the Treasury, Special Account". Please prepare 10 copies of Mint Form 42-B in the usual manner inserting in the prepared spaces at the foot of the report the total value of the gold, the melting charge, the handling charge, the total charges and the net value of the gold, with the handling and other charges deducted. These forms are to be forwarded to the Secretary of the Treasury, Attention Frank Dietrich, Room 213, Treasury Department, Washington, D. C.

You will observe from the instructions in this letter that you are not to deduct the one fourth of 1 percent handling charge.

Very truly yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

Initialed: FD EB EEF EMB VE WFT

JUL 30 1942

Federal Reserve Bank of New York,
New York, New York.

Attention: E. L. Sanford

Gentlemen:

With reference to the Treasury's telegram of July 28 relative to the transportation of 25 cases of gold from the point of arrival to the United States Army Office in New York, the Soviet Ambassador has requested that the Federal Reserve Bank of New York communicate with the State Bank of the U.S.S.R., Moscow relative to the reimbursement of any expenses incurred in connection with the transportation of this gold.

Yours truly,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

Initialed: JB MS WK WWT

FD-207-22-10

BRITISH MOST SECRETU.S. SECRETOPTEL No. 261

Information received up to 7 A.M., 30th July, 1942.

1. NAVAL

28th/29th. Motor gunboats and motor torpedo boats attacked E-boats off the Dutch coast and claimed hits. This action was followed by an attack on three larger enemy vessels. One of these was left sinking, and another appeared to be on fire. Our forces sustained some damage.

29th. Aircraft attacked two of our Naval trawlers off DOVER, one of them shot down a Messerschmidt. A Greek submarine reports having sunk three Caigoes in DODECANESE waters and claims a probable hit on a 7,000 ton vessel.

2. MILITARY

EGYPT. No change in the general situation.

RUSSIA. The Russians continue to put up a stiff resistance against German attempts to reach and cross the River DON West of STALINGRAD. East of ROSTOV, the Germans have enlarged their bridgehead over the lower DON and have reached the River MANICH (south of ROSTOV). They have taken BATAISK.

3. AIR OPERATIONS

WESTERN FRONT. 29th. Three Mosquitos bombed MUNSTER, DUSSELDORF and COBLENZ. Spitfires attacked minor military objectives in Northern FRANCE. 3 of them are missing. Two enemy aircraft were shot down off our coasts.

29th/30th. 292 aircraft were sent to SAARBRUCKEN. 10 are missing and 1 crashed. About 95 enemy aircraft crossed our coasts, 3 were destroyed and 8 damaged by our fighters. A.A. shot down four.

MEDITERRANEAN. 28th. Beauforts torpedoed a 5,000 ton merchant vessel in the IONIAN SEA.

EGYPT. 27th/28th. Our bombers attacked TOBRUK HARBOUR, hitting one ship, also landing grounds, camps and tank workshops in the EL DABA area.

28th/29th. About 7 enemy aircraft dropped bombs in the DELTA. One was shot down.

4. HOME SECURITY

BIRMINGHAM. 29th/30th. More than half of the enemy aircraft operating converged on the city from east and southwest and attacked between 0130 and 0300. Many fires were caused, but no major fires were reported. Scattered bombing also took place in EAST ANGLIA and WEST CARNARVONSHIRE.

BRITISH MOST SECRET
U.S. SECRET

OPTAL No. 267

Following is supplementary resume of operational events covering the period 23rd July to 30th July, 1942.

1. NAVAL

11 ships of the latest convoy to RUSSIA have arrived at ARCHANGEL, the one unaccounted for is now presumed lost. About 70 personnel of merchant ships in this convoy were lost. Up to the present, 18 convoys have sailed to RUSSIA consisting of 230 ships, of which 39 have been lost. Naval Aircraft in the MIDDLE EAST have been co-operating with the R.A.F. over the battle area, and Naval Swordfish have been employed nightly on anti-submarine patrols off the Libyan Coast. Naval fighters shot down 2 Italian aircraft off PORT SAID on 25th. In the past 18 months, naval aircraft operating from MALTA are credited with about 200,000 tons of Axis shipping sunk or damaged in night torpedo attacks. Traffic from ITALY to NORTH AFRICA increased, there are indications that BENGHAZI is being used in preference to the more easterly ports.

FAR EAST. A Dutch submarine reported two 8-inch cruisers and 4 destroyers bound northwestwards at North end of MALACCA STRAIT on 28th July. On the same day there were signs of Japanese submarine activity in Western Bay of Bengal.

There were indications of 2 raiders in the South Atlantic during July, one of them carries E-boats. At KIEL, PRINZ EUGEN was seen in dry dock on 28th and should be ready for trials by the end of August. SCHARNHORST may be ready in the near future.

Attacks on Shipping. Improvement due to the establishment of convoys in the CARIBBEAN area continues. Enemy now has less opportunity to attack unescorted shipping, and is turning his attention to convoys in which less shipping is sunk and there are greater opportunities for retaliation. Evidence continues of U-boat activity in FREETOWN area. Provisional figures for week ending 26th July, 13 ships sunk by U-boat, of which 10 in ATLANTIC. Shipping losses for July by U-boat may possibly show as much as 50 per cent reduction of figures for June. Week ending 29th July, 14 attacks on U-boats by surface craft, of which 10 by Canadian or United States ships. 28 attacks by aircraft, of which 13 by Canadian or United States aircraft.

Trade and Convoys. 105 ships in 4 ocean convoys arrived in the UNITED KINGDOM without loss. Imports in convoy into the UNITED KINGDOM week ending 25th July, 722,500 tons, of which 278,000 tons oil.

2. MILITARY

EGYPT. It is now apparent that our attacks in the Central sector on 21st and 22nd, although they severely shook the enemy and caused him heavy losses, were on the whole disappointing. The situation has returned very much to the status quo ante, and since 27th, there has been no change in the tactical situation. The enemy is still further strengthening his defences by digging and mine laying and is being constantly harassed by our patrols.

RUSSIA. Nothing additional to Daily OPTAL.

FRANCE. Reciprocal movements between RUSSIA and the West continue. It is still too early to assess the exact extent of the movements during July, but it is believed that an approximate balance has been maintained, and that, where possible, an attempt has been made to offset the steady decline in quality of those formations left in the West (due to the calls made upon them for drafts to the Eastern Front) by the transfer of tired field army divisions from RUSSIA, these, although in need of rest, refit and being brought up to strength, are no doubt intended to miss the average fighting value of the troops in vulnerable areas.

TURKEY. In view of the increased German threat in the BLACK SEA resulting from the conquest of SEVASTOPOL, the Turkish General Staff have recently taken steps to reinforce their Northern coast. The forces in this area have been strengthened by from 3 to 4 divisions; this has been achieved partly by an increase in the total strength of the Turkish forces, and partly by the transfer of troops from THRACE, where in our opinion (line omitted).

- 2 -

JAPAN. War Against China. The activity to the North East of KALGAN (reported last week) seems to have been little more than the suppression of local bandits. There are indications that the Japanese have made a limited withdrawal of troops from Central CHINA, and as a result 2 towns on the CHEKIANG-KIANGSI railway have been occupied by the Chinese, in the CANTON area and in Western YUNNAN, there is nothing to report.

MANCHURIA. All evidence tends to show that Japanese military preparations in MANCHURIA have reached an advanced stage, and it is considered that, if JAPAN intends to attack RUSSIA, her preparations are complete and operations can be started at any time.

3. AIR OPERATIONS

WESTERN FRONT. The bomber offensive against GERMANY was carried on vigorously during the week. A major attack was made against HAMBURG on the night of 26th/27th. This was the largest attack yet made against GERMANY up to that date with the exception of the three 1000 bomber raids. Some 700 tons of high explosive and incendiary bombs were dropped in excellent weather conditions, so that heavy damage was done. The German reaction confirms this, conclusive photographic evidence has not yet been obtained. On the night 28th/29th, another attack on HAMBURG was delivered, but was gravely hampered by bad weather. This attack might have been considered unsatisfactory were it not for the German reaction, which again indicated serious damage had been done. Our losses in both raids were above the average, but this was accounted for by (a) Weather and (b) the fact that HAMBURG is one of the most heavily defended targets in GERMANY.

Evidence that these two factors account for the higher rate of loss is afforded by the fact that on the night of the 29th/30th, when SAARBRUCKEN was successfully attacked by a force of similar size, the losses sustained were well below the average. Coastal Command continued their attacks on ships off the Dutch and French coasts, Hurricane bombers were also successfully used in night attacks against enemy coastal shipping.

MIDDLE EAST. Our air operations over the battle area and upon Axis landing grounds continued intensively until 27th, after which they died down as the ground situation became stabilized. Heavy bombing attacks were kept up against TOBRUK and Western Desert ports. It is estimated that the enemy used about 35 Junkers 52 with twin-engined fighter escort daily to carry personnel and stores from CRETE to NORTH AFRICA, while Heinkels transported fuel to the Axis forces in EGYPT.

MALTA. Enemy operations were fairly consistent. 2 or 3 times a day, small formations up to 9 Junkers 88 escorted by 15-20 fighters or fighter formations alone approached or attacked the island with LUQA as the main objective. Several times raiders were intercepted off the coast and dispersed or forced to jettison their bombs. Our fighters shot down 28 aircraft during the week, and established a record during July by destroying 140 aircraft.

MEDITERRANEAN. In addition to a number of ships attacked in enemy ports on the Libyan coast and hit during bombing raids on BANGHAZI and TOBRUK, our aircraft claimed over 18 thousand tons of enemy shipping sunk or damaged on the ITALY-NORTH AFRICA sea supply route.

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

OSNABRUCK. Damage to the Hammersen and Klocker Cotton Spinning Mills in June is reported to have had considerable effect on production.

DORTMUND. The delay in production at the Hoesch Steel Works was accentuated by the lack of skilled repair workers with the result that machinery was idle from 8 - 14 days before repair work started.

OBERHAUSEN. Damage at Babcock and Wilcox reduced output by 30 to 35 percent.

DANZIG. In the daylight attack on 11th, fires were started in the shipyards, at the goods station and among oil stores.

LE BASSEE. Photographs taken during the attack on 19th show a direct hit on the Chemical Works Lille. Similar photographs on 20th show at least 4 bombs bursting on the Kuhlmann Chemical Plant.

- 3 -

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES.METROPOLITAN AREA

<u>British</u>	<u>In the Air</u>
Bombers	97
Fighters	25
Coastal	<u>4</u>
Total	126

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	35	9	21
Fighters	16	3	14
Miscellaneous	<u>2</u>	<u>1</u>	<u>1</u>
Total	53	13	36

MIDDLE EAST (including MALTA)

<u>British</u>	<u>In the Air</u>	<u>On the Ground</u>
Bombers	21	1
Fighters	42	2
Others	<u>2</u>	<u>3</u>
Total	65	6

Five crews and 5 pilots are safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	27	8	16
Fighters	28	10	35
Miscellaneous	<u>3</u>	<u>Nil</u>	<u>Nil</u>
Total	58	18	51

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

6. HOME SECURITY

Three new types of incendiary are now being used by the Germans:-

(1) An ordinary 5 lb. incendiary bomb containing an explosive charge more powerful than previously, which may go off up to 5 minutes after falling.

(2) A 110 lb. bomb containing phosphorus, oil and rubber, which scatters sticky liquid up to about 30 yards, the contents ignite spontaneously.

(3) A combination of high explosive and incendiary in the same casing as No. 2. This missile throws out 6 pre-ignited fire pots and about 60 small metal containers about 2 and a half inches long containing a thermite filling. This is followed immediately by the explosion of a 12-lb. charge of T.N.T. in the nose of the main bomb. Preliminary precautions recommended follow generally a similar procedure to that laid down for dealing with ordinary incendiary bombs with additional measures against phosphorus, special first-aid treatment for phosphorus burns and care in approaching the bombs until the explosive charge has detonated. Police and A.R.P. squads, etc., have been warned, although no general notice has been published. Estimated civilian casualties for week ending 6 a.m. 29th - killed 185, seriously wounded 387, of which 65 killed at BIRMINGHAM.

TREASURY DEPARTMENT

238

INTER OFFICE COMMUNICATION

DATE July 30, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Russian vs. German Military Manpower Potential

1. It is popularly believed that Russia, with its huge population, is capable of mobilizing a much larger army than is Germany. However, a comparison of the populations of German Europe * and of unoccupied Russia, including evacuees, reveals:

German Europe population	300 millions
Unoccupied Russia population(maximum)	160 "

In addition, the populations of European neutrals, whose industries are working overwhelmingly for Germany, amount to an additional 40 millions.

2. While the Nazis cannot raise armed forces from all of the occupied countries, all of these countries can be drawn upon for industrial and agricultural labor. Several million workers from the conquered nations have been brought into Germany, releasing Germans for the army. Furthermore, the manpower and material resources of virtually all of Europe are being utilized to support Germany's military establishment. By using forced labor, the Nazis may be able to obtain considerable amounts of food, materials and equipment from occupied Soviet territory, with an unevacuated population of perhaps 20 millions.

3. During the first World War, Germany mobilized about 11 million troops, approximately 17 percent of her population. In the present war, with much greater labor and material resources at her command, Germany probably will be able to mobilize and equip an army equal to at least 20 percent of her population, or about 17 million men. In addition, Germany may be able to force mobilization in Italy, Finland, Hungary, and Rumania to 10 percent of their population, or 7 million. Thus, Axis European military manpower potential is as high as 24 million men.

* Including Germany, German allies, France and the occupied countries.

- 2 -

4. Not only does Germany have a huge reservoir of men for its military machine, but it is in the fortunate position of being able to equip and make effective more of its men than the Soviet Union. Drawing on the industries of all of Europe, it can put into the field more fully-equipped divisions.

5. In short, the present conflict on the Eastern Front finds Russia opposing not Germany alone, but in effect fighting the rest of Europe.

RESTRICTED

(Classification)

240

ENCLOSURES

COPY NO.

(For Record Section only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

MILITARY ATTACHÉ REPORT U. S. S. R.

(Country reported on)

Subject **Second Soviet War Lottery.**

(Brief descriptive title)

I. G. No. **5010**

From M. A. **Kuibyshev** Report No. **2170**

Date **July 30, 1948**

Source and degree of reliability:

Soviet proclamation, conversations with colleagues and Soviet citizens.

SUMMARY.—Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.

Provisions under which the second Soviet war lottery

will be held, including a list of prizes and its general significance.

Distribution by originator **MIS - 2 copies; file - 2 copies.**

Routing space below for use in M. I. D. The section indicating the distribution will place a check mark in the lower part of the recipients' box in case one copy only is to go to him, or will indicate the number of copies in case more than one should be sent. The message center of the Intelligence Branch will draw a circle around the box of the recipient to which the particular copy is to go.

GHQ	G-1	G-2	G-4	WPD	ONI	State	Comm.	Treas.	F. B. I.	A. W. C.	C. & G. S. S.	Ind. Coll.	Export Control		
			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>		
A. C. of S. G-3	Chief IIB	MA Sec.	FL Sec.	Rec. Sec.	Trans. Sec.	CIB	BBG	F. and T.	Inf. Cont.	Coord. Sec.	OLLA	Tank Center	<input checked="" type="checkbox"/>		
				<input checked="" type="checkbox"/>											
Air	BE	CE	SE	EE	WE	FE	LA	SH.	Cont.	Dissm.	Field Pers.	<input checked="" type="checkbox"/>	ASW	USW	ASWA
				<input checked="" type="checkbox"/>						<input checked="" type="checkbox"/>					
CHIEFS OF ARMS AND SERVICES															
Inf.	Cav.	FA	CAC	AC	AAF	Sig.	Armd.	Ord.	QM	OWB	Med.	Engr.	Fin.		
Attaché at	CG Phil.	CG Pan.	CG Haw.												

Enclosures:

RESTRICTED

RESTRICTED

"On July 20, 1942, the second Soviet war lottery for money and material prizes will be inaugurated with a goal of 1,500,000,000 rubles. The entire net proceeds will be used to finance necessary measures for carrying on the war against the German invaders.

"On November 15, 1942, 1,500,000 prizes with a total value of 300,000,000 rubles will be drawn. Each ticket will cost twenty (20) rubles and may be paid for any time prior to October 15, 1942. There will be 75,000 series, comprised of 1,000 tickets each. Tickets may be purchased at places of employment, at home, or at savings banks.

"The money prizes will be as follows: (in rubles)

Number of prizes	Amount of prize	*Official Rate of 0.30)	(Diplomatic Rate of 12. per 1.)	(Actual Value in \$'s at 66.66 per 1.)
100	50,000	\$9,434.00	\$4,157.00	\$750.00
400	25,000	4,717.00	2,083.50	375.00
1,000	10,000	1,887.00	833.00	150.00
5,000	5,000	943.50	417.00	75.00
25,000	1,000	189.00	84.00	15.00
83,000	500	94.50	42.00	7.50
1,336,000	100	19.00	8.00	1.50

"The material prizes will be as follows:

Number of prizes	Article & Value	(Official Rate of 0.30 per 1.)	(Diplomatic Rate of 12. per 1.)	(Actual Value in \$'s at 66.66 per 1.)
500	Women's Karakul coat worth 12,000.	\$2,264.00	\$1,000.00	\$180.00
1,000	Sets table silver 6 pos. 4,200	792.45	350.00	65.00
1,000	Gold wristwatches worth 2,800	537.74	237.50	42.75
1,000	Mugs worth 2,500	471.70	208.33	37.50
1,000	Silver wristwatches worth 2,400	462.83	200.00	36.00
6,000	Pieces woolen material (3 meters) 1,550	292.45	129.17	23.25
8,000	" worth 950	179.24	79.17	14.25
2,000	Women's Karakul collars worth 1,200	226.41	100.00	18.00
2,000	Pocket watches 825	155.66	68.75	12.37
2,000	Silver cigarette cases worth 800	150.94	66.66	12.00
3,000	Men's Karakul collars worth 500	94.34	41.66	7.50

From M. A. Kulbyshov

Report No. 2170

Date July 30, 1942

RESTRICTED

Page 2

RESTRICTED

Number of prizes	Article & Value	*Official Rate of 5.50 per \$1.)	(Diplomatic Rate of 12. per \$1.)	(Actual Value in \$'s at 66.66 per \$1.)
5,000	Men's Karakul caps worth 500.	94.34	41.66	7.50
5,000	Prs. women's shoes worth 350	67.92	30.00	5.40
5,000	Prs. Men's shoes worth 300	56.60	25.00	4.50
7,000	Bolts silk material sufficient to make one woman's dress worth 300	56.60	25.00	4.50*

*Last three columns were not in proclamation but are given for comparison only.

Comments.

The second lottery is announced at a very critical time, as was the first (in the fall of 1941). Its purpose is to get money for the war effort as well as to afford a distraction for the population.

The Soviet citizenry is much more anxious to win the material prizes than the money. Aside from normal purchases of rationed food and clothing little can be bought with rubles except at high speculation prices (for example, one egg in Kuibyshev costs 14.00 rubles; and a pair of fairly good men's shoes 3,000 rubles in the open market).

Even low salaried workers seem to have an over-abundance of rubles but have little opportunity to buy anything because of simple lack of consumers goods.

In the table showing the relative value of the prizes in dollars, the official and diplomatic rates are set by the Soviet government. The rate of 66.66 rubles to the dollar as to actual buying power is based on the highest figure ascertained in questioning colleagues. Private Soviet citizens say it is less. As the prizes offered are of mediocre material and workmanship compared to even our wartime standards and prices, it may be seen that the buying power of the ruble is diminishing.

James O. Maxwell,
Major, Infantry,
Asst. Military Attache.

FORWARDED

Joseph A. Michels,
Colonel, GSC,
Military Attache.

RESTRICTED

From M. A. Kuibyshev

Report No. 2170

Date July 30, 1943

Page 3

RESTRICTED

"On July 20, 1942, the second Soviet war lottery for money and material prizes will be inaugurated with a goal of 1,500,000,000 rubles. The entire net proceeds will be used to finance necessary measures for carrying on the war against the German invaders.

"On November 15, 1942, 1,500,000 prizes with a total value of 300,000,000 rubles will be drawn. Each ticket will cost twenty (20) rubles and may be paid for any time prior to October 15, 1942. There will be 75,000 series, comprised of 1,000 tickets each. Tickets may be purchased at places of employment, at home, or at savings banks.

"The money prizes will be as follows: (in rubles)

Number of prizes	Amount of prize	*(Official Rate of 0.30)	(Diplomatic Rate of 12. per \$1.)	(Actual Value in \$'s at 66.66 per \$1.)
100	50,000	\$9,434.00	\$4,187.00	\$750.00
400	25,000	4,717.00	2,083.50	375.00
1,000	10,000	1,887.00	833.00	150.00
5,000	5,000	943.50	417.00	75.00
25,000	1,000	189.00	84.00	15.00
85,000	500	94.50	42.00	7.50
1,336,000	100	19.00	8.00	1.50

"The material prizes will be as follows:

Number of prizes	Article & Value	(Official Rate of 0.30 per \$1.)	(Diplomatic Rate of 12. per \$1.)	(Actual Value in \$'s at 66.66 per \$1.)
500	Women's Karakul coat worth 12,000.	\$2,264.00	\$1,000.00	\$180.00
1,000	Sets table silver 6 pcs. 4,200	792.45	350.00	63.00
1,000	Gold wristwatches worth 2,800	537.74	237.00	42.75
1,000	Mugs worth 2,500	471.70	208.33	37.50
1,000	Silver wristwatches worth 2,400	402.83	200.00	30.00
6,000	Pieces woolen material (3 meters) 1,550	292.40	129.17	23.25
8,000	" worth 950	179.24	79.17	14.25
2,000	Women's Karakul collars worth 1,200	226.41	100.00	18.00
2,000	Pocket watches 825	155.66	68.75	12.37
2,000	Silver cigarette cases worth 800	150.94	66.66	12.00
3,000	Men's Karakul collars worth 500	94.34	41.66	7.50

From N. A. Kalibzhev Report No. 2170 Date July 30, 1942

RESTRICTED

RESTRICTED

Number of prizes	Article & Value	*Official Rate of 5.50 per pl.)	(Diplomatic Rate of 12. per pl.)	(Actual Value in \$'s at 66.66 per pl.)
5,000	Men's Karakul caps worth 500.	94.54	41.66	7.50
5,000	Prs. women's shoes worth 500	57.92	30.00	5.40
5,000	Prs. men's shoes worth 500	56.60	25.00	4.50
7,000	Bolts silk material sufficient to make one woman's dress worth 300	56.60	25.00	4.50*

*Last three columns were not in proclamation but are given for comparison only.

Comments.

The second lottery is announced at a very critical time, as was the first (in the fall of 1941). Its purpose is to get money for the war effort as well as to afford a distraction for the population.

The Soviet citizenry is much more anxious to win the material prizes than the money. Aside from normal purchases of rationed food and clothing little can be bought with rubles except at high speculation prices (for example, one egg in Kuibyshev costs 14.00 rubles; and a pair of fairly good men's shoes 3,000 rubles in the open market).

Even low salaried workers seem to have an over-abundance of rubles but have little opportunity to buy anything because of simple lack of consumers goods.

In the table showing the relative value of the prizes in dollars, the official and diplomatic rates are set by the Soviet government. The rate of 66.66 rubles to the dollar as to actual buying power is based on the highest figure ascertained in questioning colleagues. Private Soviet citizens say it is less. As the prizes offered are of mediocre material and workmanship compared to even our wartime standards and prices, it may be seen that the buying power of the ruble is diminishing.

James O. Boswell,
Major, Infantry,
Asst. Military Attache.

FORWARDED

Joseph A. Michels,
Colonel, GSC,
Military Attache.

RESTRICTED

From M. A. Kuibyshev

Report No. 2170

Date July 30, 1942

Page 3

242

NUMBER 42

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

July 23-30, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

JULY 23-30, 1942

SECRET

Office of Strategic Services

THE WAR THIS WEEK

The German offensive has swept rapidly forward during the past week, engulfing Rostov, thrusting a deep salient across the Don southward to the Krasnodar-Stalingrad railway, and occupying almost all of the area enclosed in the great bend of the Don. Military observers incline to the opinion that the immediate German objective is the isolation of Stalingrad, rather than a deep drive toward the Caucasus, although the latter is by no means excluded and might be undertaken simultaneously.

In Egypt it appears that Rommel may be receiving sufficient supplies to enable him to dig in where he is, which would upset earlier predictions that he must either advance or retire. The British this week made two limited attacks at apparently heavy cost.

From Turkey an observer of long experience reports the Turks are still resolved to fight for their independence, if necessary. The wheat shortage in that country is occasioning anxiety, but the amounts involved are small and the current crop should soon afford relief.

The Germans continue to press Vichy for concessions and appear to be seeking to make the French Government more pliant by threats to install Doriot. At the same time there is evidence of increasing German penetration and preparation in French North Africa.

In the Far East, a superficial lull is still in evidence in Manchuria, although an unconfirmed report of the despatch of General Yamashita accords with the prevailing

SECRET

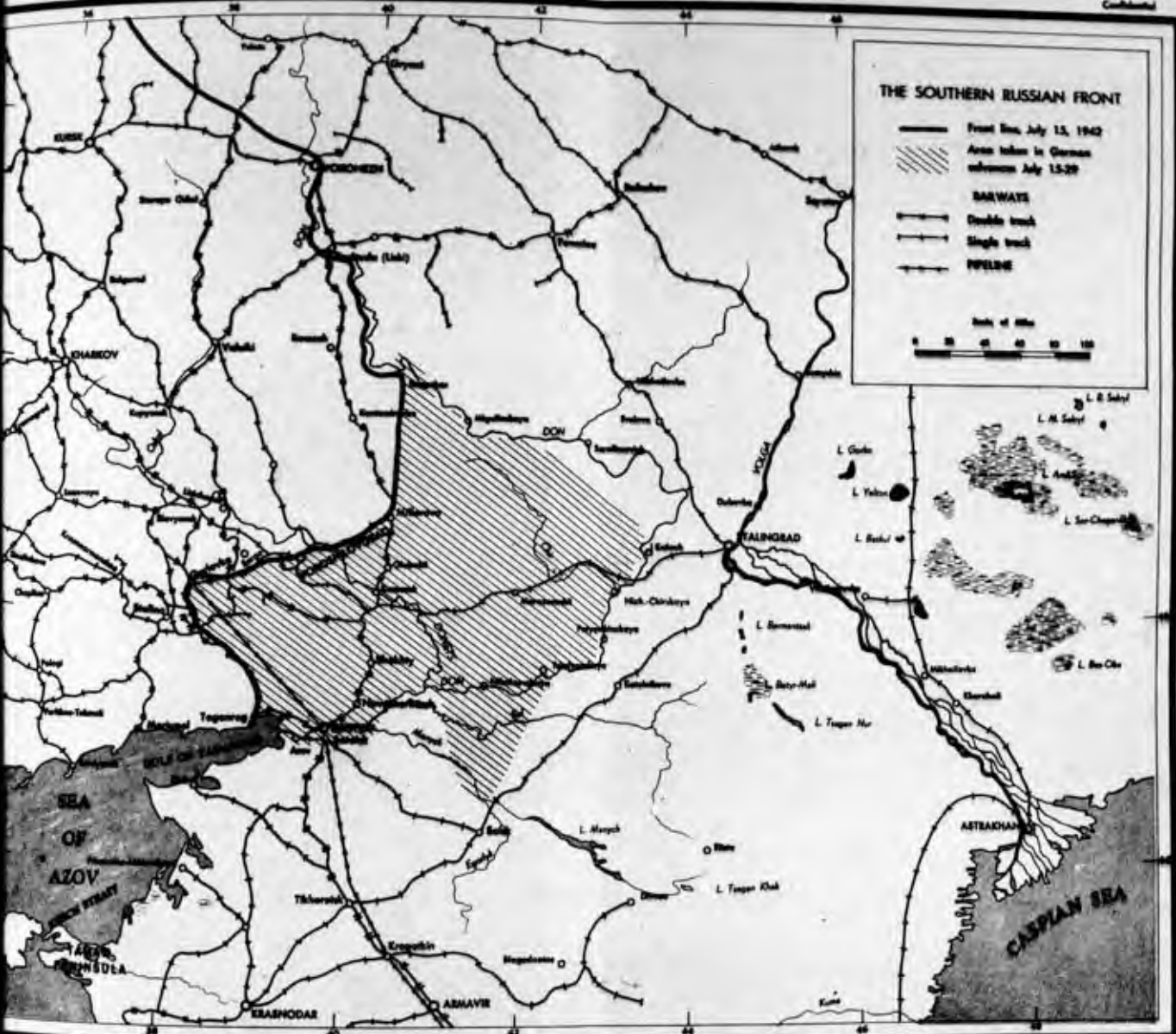
prediction that the Japanese will attack before many weeks. The Japanese continue to widen their control in the Aleutians and are believed to have landed on Adak Island, only 360 miles southwest of Dutch Harbor. They have likewise landed near Buna in New Guinea and have struck overland to a point within 60 air line miles of strategic Port Moresby, whose reduction on the Japanese flank would be a logical prelude to an attack on Siberia. The current strengthening of the position in the Solomons is part of the same picture, and some observers foresee an early thrust much farther southeast into the New Hebrides where air bases would permit the use of land-based aircraft against New Caledonia.

Sir Stafford Cripps has leveled a rebuke at Gandhi and the Congress for their threat of a civil disobedience campaign, which he describes as imperilling the United Nations war effort. A retort in effect has come from Maulana Azad, Congress president, who roundly states that the Congress is ready to negotiate a temporary settlement with the British provided the United States, China, and Russia give a collective guarantee of India's independence after the war.

The Nazis Cross the Lower Don

With the fall of Rostov, the Germans have crossed the lower Don and taken the city of Bataisk, on the Rostov-Caucasus railroad. Farther east, they have widened their bridgeheads in the Tsimlyanskaya area, pushing across the Sal and Manych Rivers probably as far as the Krasnodar-Stalingrad railway. In the Don bend, they have reached the river west of Stalingrad on a broad front north of Kalach (see map). They now claim to have reached or crossed the whole course of the lower Don.

The unexpectedly swift fall of Rostov was evidently the result of a change of plans. Although the defenders had prepared strong fortifications, Timoshenko apparently de-



THE SOUTHERN RUSSIAN FRONT

- Front line, July 15, 1942
- Areas taken in German advances July 15-29
- RAILWAYS**
- Double track
- Single track
- PIPELINES**
-

Scale of Miles
 0 20 40 60 80 100

SECRET

decided to make his real stand south of the Don. In the face of day and night air attacks on railroads, pontoon bridges, and troop concentrations, a large part of the Soviet forces withdrew south in good order. Yet Russian losses of men and heavy equipment in this sector were probably a good deal more serious than those suffered in the Soviet withdrawals eastward in the Don bend. South of Bataisk, the Russian troops may now face encirclement from the German salient to the east.

The Isolation of Stalingrad

Despite newspaper predictions of an advance on the Caucasus, the isolation of Stalingrad would seem to be the Nazis' current objective. Their attack south of the Don is—for the present at least—apparently an effort to cut the railroad running southwest from Stalingrad to Krasnodar (and to trap the Soviet forces south of the river). Moreover, the German air force, operating from advanced bases, has bombed the railroads out of Stalingrad and shipping on the Volga. A probable next move would be an attempt to establish a bridgehead about 40 miles northwest of the city and at the easternmost part of the Don. Such a crossing would aim to cut Stalingrad's only rail line to the north and allow the German army to reach the Volga above the city at a place where the two rivers are about 30 miles apart.

With this increasing menace to Stalingrad's rail communications, it seems likely that the Volga River will soon represent virtually the only line of supply for the city. Meantime, the defenders of the Don bend, with their backs to the river and the bridges destroyed, are making a strong stand against the numerically superior mechanized forces of the invaders. Faced with tremendous supply difficulties, the Russians west of the Don will probably be unable to resist much longer.

Stalingrad: Industrial and Transport Center

The capture of Stalingrad would deprive the Soviet Union of the chief manufacturing and transport center of southeastern Russia. With a population of half a million, Stalingrad contains more than 300 industrial establishments, including the Dzerzhinski Tractor Works, the first large-scale factory of its type in Russia, and the "Red October" metallurgical plant, which in 1937 produced 4,000 tons of finished steel daily. Moreover, before the war it was a transit point for a heavy river traffic in lumber, coal, iron, oil, fish, and grain.

Geographical Factors in a Further German Advance

During the past two weeks the Germans have several times admitted that rain and mud have slightly slowed their advance. Yet in the areas directly ahead of them to the east and south, physiographic and climatic conditions will put few barriers in their path.

East of the present front—in the Don bend and beyond—the country becomes increasingly dry, and the possibility of heavy rain increasingly remote. To the north and south of Stalingrad, however, the Volga offers a possible line of defense. Furthermore, one of the hilliest parts of Russia west of the Urals lies along the right bank of the Volga, north and south of Saratov. In this area the August rains are twice as frequent and the rainfall double that of the Rostov region. Yet despite these defensive advantages, nowhere in this northern area is the relief so great or the rainfall so concentrated as to offer more than a temporary obstruction to a German advance.

South and east of a line drawn between Rostov and Stalingrad, the country is not unlike western Kansas—semi-arid, and varying from flat to gently rolling. The roads

between Rostov and the Caspian, however, unlike those of western Kansas, are little better than wide tracks which sprawl across the landscape. But, free from rain, the roads are readily traversable by all types of vehicles, and August in this area is one of the driest months of the year. On the average rain falls only five times during August and amounts to a total of less than an inch. Even under extraordinary conditions, the greatest amount of rain that might possibly be expected to fall within any 24-hour period would barely exceed an inch and a half. The resulting mud could scarcely hold up a German advance for more than a day. And the land is flat enough and the rivers narrow enough not to impose any insuperable obstacles to an invasion until it reached the foothills of the Caucasus.

The German Air Effort

Farther north, while Soviet attacks in the Voronezh and Bryansk sectors have made some progress, the front has changed very little. Furthermore, the Germans have restricted their air activity almost entirely to the southern sector. In addition to their air attacks around Rostov and Stalingrad, the Nazis have likewise bombed the Caucasus port of Poti. Moreover, unconfirmed reports tell of the concentration of two air-borne divisions on the Kerch peninsula for a possible invasion of the Western Caucasus; here the Nazis have shelled the Taman peninsula across the narrow Kerch Strait. On the Don front, the Germans have apparently used a transport plane capable of carrying seven to eight tons and landing within a remarkably small space on rough terrain.

Manganese and the Russian Campaign

Under the headline "Manganese called Nazi goal in Russia," *The New York Times* has created the erroneous impres-

SECRET

sion that the acquisition of manganese is one of the economic aims of the current offensive in southern Russia. Although the news article itself states quite correctly that, according to the British Ministry of Economic Warfare, "the German raw material situation [in respect to manganese] has been relieved," the caption represents the fairly common tendency to attribute to the Germans a war deficiency in various commodities. The actual situation—so far as manganese is concerned—is quite different.

Raw materials experts of the Office of Strategic Services point out that at the outbreak of the war, Germany's minimum foreign ore consumption requirement (50 percent manganese) was about 200,000 tons. Of this amount, Central Europe, the Balkans, and Italy supplied 100,000 tons in 1941, and potentially could supply about 200,000 tons. The Reich subsequently obtained access to the manganese deposits of French Morocco (1941 production, 30,000 tons—potential: 70,000 tons). In other words, Germany at that point could have made up her deficit out of stocks for a few years even without further conquests, although her short-run position would have been very strained.

With the acquisition of the Nikopol deposits in the Ukraine, however, the Nazis probably obtained between 400,000 and 500,000 tons of very good ore for 1942. Later they may be able to raise the Nikopol output to the pre-1941 figure of a million tons annually. In the case of manganese, as in the case of various other materials, the Reich has achieved a balanced wartime economy, thanks to its territorial expansion.

RAF Use of the 4000-Pound Bomb

The increased use of two-ton bombs by the RAF in operations against Germany marks a tactical change of some importance. The proportion of two-ton bombs to the total

SECRET

weight of high explosives employed has risen from an average of about 20 percent in the three months preceding June 1, to about 40 percent for the major raids of June and July.

In area bombing, high explosives are used predominantly against sectors of the city containing industrial establishments and other buildings of modern construction. The effectiveness of the larger bombs, while not double that of their one-ton counterparts, is appreciably greater. Against reinforced concrete, for example, European type 2,200-pound bombs would normally be expected to penetrate to a depth of 2.6 feet, leaving a crater 5.2 feet deep and 18.2 feet in diameter, while 4,000-pounders under the same conditions would penetrate 3.3 feet and leave a crater 7.7 feet in depth by 26.4 feet in diameter. The radius of the danger zone from fragments, however, is estimated to be doubled: 1,200 feet for the one-ton bomb, 2,400 feet (nearly half a mile) for the two-ton bomb. Consequently the total area over which damaging fragments will be hurled is increased no less than four times.

Minor Attacks in Egypt

The British attacked on all three sectors of the Egyptian front on July 21-22 and achieved minor objectives at reportedly heavy cost. These attacks were followed by a lull in which artillery and patrol actions dominated the field and forced slight British withdrawals from exposed positions. The British again attacked on July 27 in the northern and central sectors in what also appears to have been a limited action. Latest reports indicate that the front is relatively quiet.

Military observers suggest that it may be Auchinleck's purpose to use his present numerical superiority in planes, tanks, men, and guns to reduce Axis strength in its present position, rather than to attempt to drive the enemy back

SECRET

to better supply positions. These tactics might be effective in a theater where only relatively small forces are involved. Rommel in turn appears to be getting enough supplies by truck (and possibly by some use of the railroad) to enable him to defy earlier predictions that he must either break through or retreat to shorten his exposed lines of communication. The peak season for both heat and sand storms has now passed, a fact which may make present positions slightly more bearable.

Allied air forces, with American bombers playing an increasingly important rôle, continued to concentrate on enemy vehicles, shipping, and ports—especially on Tobruk and Benghazi, and on shipping at Suda Bay in Crete. Despite these attacks, reliable sources estimate that Axis shipping present in the harbor at Tobruk has averaged substantially more than 15,000 tons a day during the past 10 days, while Matruh is believed to be receiving about 1,000 tons of shipping a day.

Reports of troop movements in Italy and down through the Balkans have increased and have caused further speculation about the possibilities of an attack on Syria. Paratroop maneuvers and a new headquarters in the Aegean zone have been reported. Germany's commitments in Russia, however, may well be too great to allow the undertaking of such a campaign. Air reinforcements on any large scale have apparently yet to appear in the Mediterranean, and these would be essential to the preliminary reduction of Cyprus.

It is known that some German units have been flown to Egypt from the crowded Aegean area, and more are expected to follow. The Italians are also believed to be sending sizeable reinforcements to Rommel. The Axis reveals the importance it attaches to shipments going by way of Sicily by the high price it has paid in recent plane losses in efforts to neutralize Malta.

8

SECRET

A Report on Turkish Opinion

In a general review of Turkish opinion, a seasoned observer reports optimistically from Turkey that sentiment in favor of Russia, Italy, and Japan is nil; that the Nazis are popular only among business men and the Armenians; that the British are well thought of except by religious and nationalist extremists; and that the United States is popular, though suspected of some Anglo-Saxon sloppiness in military affairs. Although the ruling class fears Bolsheviks more than Germans, our observer states that the Turks are resolved to fight for their independence if forced to it; this idea is firmly rooted in the peasant mind. The army is in good physical and moral shape. The new prime minister, Saracoglu, besides having the drawback of a deep hatred of the Soviet, is perhaps more slippery than his predecessor, according to our observer, and is inclined to think he can outwit all men.

The Turkish Wheat Shortage

The wheat situation appears to have caused considerable alarm in Turkish Government circles. Following reports of the availability in Istanbul of only a few days supply and of the cutting of the immature harvest in the Trebizond area, the new prime minister asked the United States for aid and requested that wheat shipments be given priority even over military supplies. Some wheat was obtained from small British Levantine stocks. President Inonu himself went into the country to view the situation.

A food expert in the Office of Strategic Services—supported by a late cable from Cairo—suggests that the Turkish shortage is only a local situation and not of great importance. The 1941-42 crop of 3.5 million tons, while less than the bumper crop of the previous year, should ordinarily be enough to cover the relatively high level of domestic con-

9

SECRET

sumption. However, stocks requisitioned by the Turkish army, some relief shipments to Greece, widespread peasant hoarding, and late harvesting of the current crop, have undoubtedly created local shortages, especially in the cities.

Since there are reports of stocks in southern coastal towns of Asia Minor waiting to be cleared, it is suggested that the present problem may be one of internal distribution. The amounts involved appear to be small. Moreover, the current crop is expected to be available to consumers—though perhaps not in the cities—in a little over a fortnight. Any relief prior to that date could come only from Near Eastern sources.

In the Lebanon, criticism stemming mainly from the bread shortage has caused the resignation of the ministry. However, it is expected that the new cabinet will be much like the former, and in general the disorders of last week appear to have passed. A further effort is being made to adjust Anglo-French relations in the Levant.

Reports from Iran

Difficulties between British and American representatives in Iran have been greatly eased this week, following the arrival of the head of the United Kingdom Commercial Corporation. He has apparently ended the long controversy over control of imports and their distribution—especially with regard to tires and trucks. The UKCC has agreed to return at once to Iran 3,000 tires previously requisitioned. Proposals for advisory boards to supervise foodstuffs and transport are also being developed.

The latter are made urgent by the Iranian wheat shortage, which is largely attributed to administrative and transport dislocations resulting from the war. Iran is normally self-sufficient in breadgrains, but in the last nine months has had to import 50,000 tons of wheat. This is a burden on shipping

SECRET

that might be used to serve Russia. Britain is reported to have released 5,600 tons from military supplies to help bridge the interval until current harvests come in this month and next. This harvest is estimated at not far below normal, and American observers feel that a good administrator might stretch it out to cover consumption needs for the coming year.

During the past three months Japanese submarines are reported to have been reconnoitering the approaches to the Persian Gulf. It may be observed that similar operations were noted before the submarine campaign in Mozambique Channel.

German Exploitation of the French Situation

Possibly as part of a plan to make Laval more palatable to the United States, high Foreign Office officials in Vichy continue to emphasize their fears of Doriot's assumption of power. They point out that, in the wide variations of policy toward France of the German Foreign Office, the Army, and the Gestapo and SS, it is the latter two groups which are backing Doriot. Although feeling that Hitler could install Doriot at any time, these officials state that they have advised the Nazis against the move because of its possible effects on French morale, the French fleet and Empire, and French relations with the United States.

It is reported that 15,000 foreign Jews have been sent from the Occupied Zone to labor in eastern Europe. Vichy states that it has no control over the situation and refused to cooperate in it. However, French gendarmes are reported to have helped round up the unfortunates, although some gendarmes resigned rather than execute these orders. Pressure for a similar move in the Unoccupied Zone appears to be mounting. Although Laval is not a Jew-baiter and is undoubtedly fearful of the popular reaction, it does not

SECRET

appear probable that he would make any issue of opposing German demands for such a step. Vichy claims to be staving off Axis demands for the return of political refugees, however, though admitting a few exceptions.

Last week the Paris press announced that Germany was preparing to send the first trainload of prisoners back to France under the labor agreement. It was frankly stated that they would consist only of older men and widowers. The bubble was broken this week, however, when the Vichy press announced that this trainload would not be sent in view of France's disappointing labor enrollment. This whole manœuvre may have been just a device to stimulate recruiting, which is estimated to have totaled only about 16,000 to 22,000.

The possibility of Franco-German naval collaboration has been raised again by a French naval officer, according to a report from Bern. Although feeling that Darlan would not dare use surface vessels against the Allies, the officer believes that there are indications of arrangements to turn over perhaps ten submarines to the Nazis, an act more difficult to detect. Although this officer cited a recent visit of 10 German technicians and 40 officers to the Toulon submarine base, a more recent report from Vichy indicates that there is as yet no substantial proof of any such arrangement.

Reports of German Preparations in North Africa

Reports from scattered sources continue to point to increasing Axis control and preparation in North Africa. A high French financial official, recently at Bern, declares the Nazis have plans for building coastal defenses and air fields similar to those in France—all with Vichy approval. Should the Allies invade the area, our source feels they would be joined by many French units in Algeria, with fewer in

12

SECRET

Morocco, and still fewer in Tunis. Men like Noguès would probably follow the tide of battle.

A highly reliable source lists half a dozen French officials as being recently displaced because their political sympathies were in question. General Juin himself has now been recalled to Vichy, and it is said that if he returns, it will be with new instructions. There is also a rumor to the effect that two shiploads of German arms and ammunition will shortly be landed in Morocco by French merchantmen.

An unconfirmed report suggests that the vessel which recently brought to Casablanca essential parts of the French warships now interned at Martinique, also carried a secret message for Vichy to send special radio equipment as part of the return cargo.

Axis Propaganda and the Threat of War in Manchuria

General Yamashita, victor of Singapore, has been sent to Manchuria, according to Korean sources. Otherwise there is no significant new evidence of Japanese activity in that area, except possibly in the realm of propaganda.

Although Japanese publicity has in general observed a tone of propriety in dealing with Russia, it has warned the Japanese people that the democracies might dissuade Russia from her present wise and peaceful course and induce her to become aggressive toward Japan. At the same time it has assured the Japanese that the government has taken adequate protective measures. In the circumstances it would be easy to shift the propaganda line rapidly to convince the public that the Japanese army in Manchuria is executing an "offensive-defense" against threatened Russian aggression.

The Berlin and Rome stations are also circumspect on Russo-Japanese relations, but satellite Axis stations, such as Saigon, are more outspoken. Possibly these stations are under looser control than the primary stations, and conse-

13

SECRET

quently more revealing, or they are perhaps deliberately engaging in a war of nerves against Russia and her allies. The Nazis, in particular, may be spreading rumors of Japanese actions aimed at Russia in order to prevent transfer of Siberian units to the German front. On the whole, however, the probability of an actual Japanese attack within the next few weeks is believed by observers to be the best explanation of present Axis publicity.

The Japanese Develop Their Aleutian Position

At heavy cost the Japanese are actively endeavoring to strengthen their hold on the western Aleutians, and are now believed to have landed on Adak Island, 360 miles southwest of Dutch Harbor. Air reconnaissance reveals increased activity on Kiska Island, including the preparation of a landing strip for planes and the probable occupation of Little Sitkin island 40 miles east of Kiska. Reconnaissance has also sighted numbers of Japanese ships in Kiska harbor, for example, about July 18, what were believed to be a battleship, two heavy cruisers, three destroyers, and four auxiliary vessels. These Japanese preparations have not progressed unhindered. Since July 3 American submarines operating in the Aleutian area have sunk six Japanese destroyers and damaged two others.

Japanese Extend Their Bases in New Guinea

Having failed to take Port Moresby by sea (the presumed object of the Coral Sea battle), the Japanese have moved by land, advancing their ground units to within 60 air line miles of this last Allied bastion on New Guinea. After a successful landing in the area of Buna, northern terminus of the only "road" to Port Moresby across the rugged Owen Stanley Range, enemy units advanced inland along the road as far

SECRET

as Kokoda Pass—nearly halfway to Port Moresby. So far, aside from patrol clashes, the Japanese have met little opposition on the ground.

The initial landing was made at near-by Gona Mission on the night of July 21/22 from four transports, by a force numbering between 1,500 and 2,500 troops. By July 22 all task-force surface craft had departed northward. Meanwhile, however, Allied flyers sank two transports, damaged another, hit one destroyer, and maintained daily strafing attacks against ground installations and supply dumps.

Road to Port Moresby

From Buna, a tortuous graded trail winds through valleys and gorges to the main Owen Stanley Range, where it crosses a steep pass at approximately 6,000 feet above sea level. The trail was built about 1903 to give access to the Yodda goldfield on the northern slopes. Air transport to the goldfield has reduced its usefulness, but it still serves various native settlements, mission stations, and rubber plantations along the route and has been kept in reasonably good repair by local tribesmen.

Normally the journey from Buna to Port Moresby over this route would take about 12 days. Motor transport is out of the question. Apart from steep grades, much of the trail is marshy and muddy, and the streams and gorges are bridged by flat-topped logs or at most a swinging bridge of wire or rattan, easily destroyed by guerrillas. An overland attack by this route would thus face serious difficulties of supply.

Nevertheless, the new base, if it can be held, puts Japanese land-based pursuit planes within easy range of Port Moresby. Use of the airfield at Kokoda, 50 miles inland from Buna, would place the Japanese still closer to the Allied base and might be preliminary to a joint attack both by sea and land.

SECRET

Neutralization of Allied air power at Port Moresby—which more than 70 Japanese air attacks so far have been unable to do—is probably the minimum Japanese objective.

Activity in the Solomons

The Japanese meantime are strengthening their bases in the Solomons. Large airdromes are under construction on Guadalcanal Island, where an enemy force of some 3,000 troops is stationed in the Lunga area. On Florida Island, a recent estimate placed the number of troops at 1,600, concentrated chiefly around Tulagi. An early attempt to seize Espiritu Santo Island (much farther southeast) or one of the other islands in the New Hebrides group, is envisaged by some observers, who point out that such an attack would be designed to secure air bases from which land-based aircraft could be used against New Caledonia.

Chungking Air Raid

Chungking has had its first raid in eleven months, and according to Chinese accounts the results of the attack were in happy contrast with those of last summer's heavy bombings. Chinese sources credited pilots of United States fighter planes with turning back all but four of some fifty Japanese bombers which had started from Hankow, and, according to Chinese observers, even these four planes dumped their bombs well outside the city. The eleven-month lull which preceded the Japanese attack has been gratefully welcomed by the residents of the Chinese capital, and the recent American air raids on the Japanese-occupied centers of Hankow and Canton have been strong stimulants to Chungking morale. The evident failure of the latest Japanese raid will further bolster Chinese spirits, it is felt.

16

SECRET

Meanwhile the Japanese may be getting ready to retire from more towns along the Chekiang-Kiangsi railroad, according to reliable American sources at Chungking. The Japanese are extorting funds and plundering on a somewhat more systematic scale than they would if they intended to remain in permanent occupation. Continued Chinese press accounts of military pressure being exerted against Japanese-held stations along the line would seem to indicate that Chinese authorities are expecting a further Japanese withdrawal. However, military observers here believe the Japanese will not yield the four key points they hold in Chekiang Province: Li-shui, Wenchow, Kinhua (Chin-hua), and Chuhsien.

Cripps Rebukes the Congress

In a broadcast directed primarily at the American people, Sir Stafford Cripps has declared that it is unthinkable that the threatened civil disobedience campaign of a "visionary" like Gandhi should imperil the war effort of the United Nations in India. To yield to the Congress, Cripps maintained, would mean chaos in the peninsula. "It is of as much interest to the United States as to Britain and China that India remain a safe base for operations against Japan." Meantime, in the columns of *Harijan*, Gandhi has warned the Japanese: "You will be sadly disappointed if you believe that you would receive a willing welcome from India" [in the event of an invasion].

Faced with the menace of civil disobedience, the Government of India has lifted the ban on the Communist Party. Such a step, in the view of an American observer in New Delhi, is a logical extension of the government's policy of wooing the pro-Russian, pro-war Left wing elements in India, as a counterweight to the Congress. The same observer has concluded, however, that only the intervention

17

SECRET

of an outstanding third party, trusted by both sides, can avert the campaign of civil disobedience now envisaged by Gandhi and the Congress Working Committee.

Meantime there are further indications that some Congress leaders are not so intransigent as Gandhi. According to the Chinese radio, Maulana Azad, president of the Congress, has declared in an interview that that body would be ready to negotiate with the British for temporary political arrangements for the duration of the war, provided that the United States, China, and Russia are prepared to give collective guarantees of India's independence after the war. With such a guarantee, Azad concluded, the Congress would consider any proposal advanced by the British for a wartime settlement.

The Indian Rice Deficiency

A recent statement by N. R. Sarker, minister of education, health, and lands, estimating Indian food deficiencies for the crop year 1942-43 as between two and three million tons, is probably over-alarmist. Analysis of the problem by food experts of the Office of Strategic Services suggests that if Indian consumption were up to desirable standards, the deficiency would be even greater than Sarker's estimate. But measured in terms of supplies actually available in poor crops years—not infrequent in India—the estimated deficit is an exaggeration, one million tons being a more nearly accurate figure. Moreover, the real deficit will be in rice supplies rather than in all grains. And it will primarily affect Madras, Bombay, and Ceylon—with more or less "normal" shortages in other areas.

Internal readjustments in agricultural production can alone solve India's food problem. Shipping shortages and problems of internal transport will doubtless make it impossible to import adequate grain supplies from outside India. Nor is

18

SECRET

there enough surplus rice in the world—excluding Japanese-held territories—to make good India's deficit. In other words, the loss of Burma has obliged India to seek a solution for its food problem within its own borders. An increased utilization of various beans and root crops, to which the Indians usually resort during periods of food crop shortages, can provide some relief. More important, cotton acreage can be converted to rice, and jute acreage to other grain production.

Toward a Cuban Break with Spain

With a recent order from the Ministry of Communications forbidding the Spanish Embassy to despatch wireless or cable messages in code, Cuba is now reported to be moving toward a severance of relations with Madrid, and has received assurances that such action would have the entire approval of the State Department. The Cuban Government has likewise forbidden the exportation of foodstuffs and other materials to Spain, on the assumption that such shipments find their way into the hands of Hitler. And Cuban authorities have just arrested the Count de Bailen, former Spanish Minister to Panama, and are showing greater vigor in apprehending Axis agents and Falangistas.

While antifascist Spaniards have organized a *Unión Democrática Española* (Spanish Democratic Union) in support of the public demand for a breach of relations with both Spain and France, rising popular sentiment favors recognition of Russia, a step to which President Batista is known to adhere. A motion seeking recognition is now pending in Congress. Masonic lodges, the Provincial Council of Habana, and many trade unions have adopted resolutions favorable to recognition.

The *Frente Nacional Antifascista* (National Antifascist Front) recently held a large mass meeting in Habana under

19

SECRET

the presidency of Dr. Angel Alberto Giraudy and collected more than 50,000 pesos for the United Nations. In Cienfuegos, Bishop Dalmau has been calling upon Catholics to defeat the Axis.

Anti-Axis groups are also reported to be giving warm support to the coming national registration of men for military service beginning August 1. This is notably true of the Communist Party in its newspaper, *Hoy*. The coming registration is to apply to men 18 to 25, but all those 18 to 50 will eventually be involved. Registrants will be given military training for four months.

20

SECRET

APPENDIX I

SUPPLY ROUTES TO CHINA THROUGH RUSSIA

The potentialities of the various routes to China through Russian-controlled territory—in terms of capacity, fuel requirements, political complications, and military vulnerability—offer the Allies no substantial encouragement, according to an analysis by the Far Eastern Section of the Office of Strategic Services. For a practical solution to the problem of regular and substantial deliveries of supplies to China, there are no satisfactory substitutes for the shorter land and air routes between India and China. These in turn cannot be fully utilized until the Allies reconquer northern Burma.

At present, aside from the routes between India and China by way of Assam and Tibet, all remaining lines of overland communications between China and her Allies pass through Turkestan or Mongolia, converging finally upon the ancient caravan city of Lanchow in Kansu Province (see accompanying map). These include routes (a) by land through Iran and India to the Turkestan-Siberian railway, (b) by river through northern Siberia, (c) by air from Alaska, and (d) by land and air from India through Turkestan.

From Sergiopol, the Russian railhead on the Turk-Sib railroad, the Sino-Soviet highway runs through Lanchow to Chungking, an estimated distance in all of 3,000 road miles. All routes would feed at some point into this main trunk line—a dirt road, which is nevertheless in reasonably good condition. But even if the complex question of getting supplies to this road at Sergiopol could be solved, serious problems would still remain—above all, that of fuel.

Fuel Requirements for the Sergiopol-Chungking Highway

Chinese officials have frequently stated that 15,000 tons of supplies a month delivered at Chungking would be the minimum which would satisfy the bare military requirements of the Chinese Government. While smaller quantities of supplies would have salutary effects, the Chinese figure of 15,000 tons a month may be accepted as a tentative standard approximating a "regular and substantial" flow of supplies.

A minimum of 5,717,000 gallons of gasoline and 95,300 gallons of oil per month would be required to move 15,000 tons of supplies a month from Sergiopol to Chungking by truck, to distribute gasoline at regular intervals along the road from Sergiopol, and to get trucks back to Sergiopol for further supplies. These figures are based on a 5-ton pay-load per goods truck, a capacity of 30 54-gallon drums per gasoline truck, a 5-mile per gallon gasoline consumption, a 300-mile per gallon oil consumption, and a perfectly efficient distribution of fuel along the highway.

The history of Burma Road transport, and the experience of various organizations with trucking operations in China proper, indicate that an estimate of actual fuel use should probably be about twice the theoretical minimum—to allow for inefficiencies in operation of trucks, inefficient distribution of gas supplies, leakage,

21

SECRET

and theft. If the minimum figures are used, however, it would require approximately 18,000 tons of gasoline and oil a month, or some 600 tons a day, to move 18,000 tons of goods a month (600 tons a day) from Sergiopol to Chungking. If an average speed of fifteen miles per hour, and an operating period for each truck of 200 10-hour days per year are assumed, 7,200 cargo trucks and approximately 7,000 fuel trucks would be required.

Difficulties in the Middle East

Three possible major Middle Eastern routes approach Sergiopol via the Turk-Sib railroad. The first runs by rail from Bandar Shapur to Bandar Shah, thence by the Caspian Sea to Krasnovodsk. The second goes by rail from Karachi to Zahidan in Iran, thence to Ashkhabad in Russia by the Iranian highway. Finally, there are routes from Karachi through Afghanistan which might be used—one through Chaman to Kushka and another through Landi Kotal to Termez.

Analysis of these Middle Eastern approaches to the Turk-Sib is not encouraging. If gasoline and oil were not provided by the Russians, the 15,000 tons of goods and the theoretical minimum of 18,000 tons of fuel required to move these goods moving from Sergiopol to Chungking would utilize more than half the total present capacity of the Iranian railroad, the Iranian highway, and the Afghanistan roads. In actual practice, fuel consumption between Sergiopol and Chungking would probably be so much larger than the theoretical minimum estimate that all but a fraction of the combined total capacity of these lines might be required.

Russian provision of gasoline and oil from Baku might help, but the capacities of the Caspian ports would be taxed and an intolerable burden would be placed on the Turk-Sib railroad; transportation of supplies and the theoretical minimum of fuel from Krasnovodsk to Sergiopol would require the use of 141 locomotives and 3,667 20-ton freight cars on that secondary and single track railroad. Transportation of fuel from other points in Russia would entail similar difficulties, particularly since the minimum gasoline requirement would amount to two-thirds of the total annual Russian production of gasoline in the general region of Turkestan (315,000 metric tons). Again, in practice, the actual gasoline requirement probably would exceed Russian output in this area. Chinese oil production in Kansu (less than 10,000,000 gallons of crude annually) would be of no significance in operations of this magnitude.

The Northern Approaches Through Siberia

Supplies for Chungking might be routed eastward across the Atlantic from New York, past Murmansk and Archangel, to the northern Russian rivers, the Ob and the Yenisei, or westward from the United States' Pacific coast to the Lena River. At the river mouths, supplies would be transferred to river boats and barges and shipped southward to intersecting points on the Trans-Siberian railroad. Although the Ob and Yenisei rivers can be used only during the ice-free months of August and September, it is estimated that some 30,000 to 40,000 tons of supplies could be handled during this period, if full use were made of available shipping facilities.

On the other hand, ships using this Arctic route must be constructed to resist the ice, and in any case could make only one trip a year from the United States. Even if these disadvantages were overcome, use of the river routes would add

22



MAP NO. 708, JULY 25, 1942

DRAWN IN GEOGRAPHY DIVISION, G.S.S.

Regraded Unclassified

little to the solution of the general problem. If goods were transhipped to Sergiopol by rail from the points where the rivers join the Trans-Siberian railroad, the fuel problem for the Sergiopol-Chungking run would remain unchanged. And the same difficulties would be met in supplying fuel to keep goods moving, if the truck route from Klakhta through Ulan Bator to Lanchow were used instead of the railroad. Moreover, the quality of the road which is believed to follow the old caravan trail from Ulan Bator to Lanchow is unknown, and the route passes perilously close to Japanese controlled territory.

Air Routes to Lanchow

A possible air freight route to China connects Fairbanks, in Alaska, and Lanchow, by way of Verkhne Kolymak, Yakutsk, and Irkutsk. Some 900 cargo planes, carrying 4-ton loads on 600 mile jumps, would be required to move 15,000 tons monthly from Fairbanks to Lanchow. Gasoline requirements, delivered at fields along the way, would total approximately 15,000,000 gallons of gasoline per month. Fuel again would present the major difficulty in moving substantial amounts of goods over this air line, even if 900 cargo planes were available. While the Russians undoubtedly have large stocks of gasoline, these are being hoarded in anticipation of an attack by Japan. Moreover, the provision of so great a supply of fuel at the various landing points would be a practical impossibility, due to lack of tank cars and the present strain on the railroads.

Another proposed air route would connect Karachi and Chungking by way of Kohat or Peshawar, Kashgar, Aqsu, Urumchi, Hami, Suhow, Lanchow, and Chengtu. As an air line this route has some advantages. Weather offers few obstacles. The highest section on the route is less than 18,000 feet, and only 30 miles in extent. It has been suggested that the Peshawar-Kashgar air section of this route might be utilized in combination with land transportation on other sections. Such a land-air route might use the Northwest Indian railroad from Karachi to Peshawar on the Afghanistan border, link Peshawar and Kashgar by air, and then follow the old South road of Turkestan through Aqsu and Turfan to Hami, where it would join the Sino-Soviet highway. In the case of these routes also, fuel remains the major obstacle.

Political and Military Obstacles

Russian fear of offending Japan and provoking Japanese attack is at present a major political obstacle to any extensive scheme for supplying China through Russian territory or even through the Russian influenced Chinese province of Sinkiang. In the past the Russians have been willing to send military supplies to Chungking despite ideological differences. At present, however, the Russians are adhering to the policy they announced in the spring of 1941 and are not allowing the transit of munitions through Russian territory to China, and they themselves are sending no munitions to China.

Finally, all routes converge at Lanchow. Four hundred and fifty miles north-east of Lanchow lies Pao-t'ou, the Japanese base at the terminal of the Peiping-Suiyuan railroad. The desert route between the two cities leads westward from Pao-t'ou around the great bend of the Yellow River and then south through Ninghsia. A Japanese advance on Lanchow would call for great exertions, but if truck or air transportation should threaten to become a matter of major importance, the Japanese might well undertake a serious campaign against Lanchow.

APPENDIX II

GERMAN-JAPANESE BLOCKADE-RUNNING

Blockade-running between Germany and the Far East is becoming increasingly important, according to data compiled largely from British sources by the Far Eastern Section of the Office of Strategic Services. Present traffic, if allowed to continue, may be adequate to meet the deficiency in Germany's essential requirements in rubber, and may considerably ease her position in tin, wolfram, and hemp. At the same time, Japan may add significantly to her productive capacity through the import of essential machinery. While the British Ministry of Economic Warfare has publicly minimized the success of blockade-running, and actual tonnage figures are relatively small, private reports to the Ministry stress the strategic value of the cargoes involved.

Tonnage and Cargoes

Eleven ships are known to have run the blockade from Japan to Germany since July, 1941, eight of them since January, 1942. At least six ships have succeeded in reaching Japan from occupied Europe. Germany is estimated to have received between 55,000 and 60,000 tons of cargo (including about 25,000 tons of rubber), while some 35,000 tons of war materials from Europe have reached Japan. German imports (past or anticipated) include wolfram, hemp, silk and cotton tissues, beans and peas, camphor, menthol, isinglass, peppermint oil, and fish oil; those of Japan, 20,000 spark plugs, ball bearings, bevel gears, milling and hobbing machines, abrasives, forging presses, optical glass, large boilers, gas cylinders, calcium chromite, strontium nitrate, strontium carbonate, a cartridge making plant, and a complete hydrogen plant for Manchuria.

The British Ministry of Economic Warfare believes that Germany still has 11 or 14 ships of types suitable for blockade-running. In Bordeaux alone there were, at the end of May, 1942, some 18 ships belonging to Axis or Axis-controlled nations which could make the journey to the Far East without refueling. These ships had a total gross registered tonnage of 123,460 tons, averaging about 6,500 tons each.

The Japanese-German trade uses two routes: via the Dutch East Indies and the Cape of Good Hope to Dakar (10,000 miles), via the Pacific and Cape Horn to Dakar (14,000 miles). As recently as June 6, ships reportedly of Spanish registry were carrying cargo from Spanish ports around Cape Horn to Thailand, refueling at Portuguese Guinea, Rio de Janeiro, and at some base in the Pacific, it is believed.

Some Factors in Axis Success

On the European end of the blockade, both French shipping and French ports have proved helpful to the Axis. The Vichy merchant marine is entirely under the scrutiny of Axis agents, who can requisition whatever incoming goods to Unoccupied France they desire (*The War This Week*, July 9-16, pp. 19-21). Use of the overland rail route from Casablanca to Oran is the usual method of thwarting the blockade at Gibraltar.

Blockade-running is favored by fog off Cape Horn, which often aids enemy merchant ships to slip unobserved past the British naval base in the Falkland

Islands. The extension of Japanese control over the South Pacific Islands has increased the length of the sea lanes over which Axis ships may voyage with relative safety. Japanese control of a large part of the Indian Ocean has facilitated the safe westward voyage of enemy ships going around Africa. At the same time, the possession of advanced bases in the South Pacific enables the Japanese to engage in such extensive submarine warfare that naval forces of the United Nations must concentrate on guarding convoys, leaving few ships available for hunting blockade-runners.

APPENDIX III

PROPAGANDA IN IRAN

Iran is the one spot where the United Nations have established territorial contact. On the propaganda front it represents a meeting place of all the belligerents. For this reason it assumes unusual importance as a testing field for United Nations cooperation as well as a laboratory for proving the effectiveness of various methods of propaganda, according to a current memorandum of the Near Eastern Section of the Office of Strategic Services.

German Propaganda

The first significant appearance of German influence came as a result of the partition of Iran between Russia and Great Britain and the failure of the mission of the American, Morgan Shuster, to counteract the results of partition during the years 1907-1910. A majority of the ministers in 1911 were Germanophiles. During the war of 1914-1918 German agents—Wasmuss, Shuneman, Wolfinger and others—were able to stir up military revolts in Iran, forcing the British to divert 20,000 troops to protect the oil wells.

After the war, large numbers of German youth migrated to Iran, finding conditions in Germany difficult. They were willing to take any kind of work to make a living, and were especially useful in the newly developing industrial plants. They were quiet and lived on a standard not much above that of Iranis, and they satisfied a basic need for mechanics and similar services.

After 1933 these young Germans were forced into the Nazi party, as German organizations penetrated Iran and drove out all competitors. The large chemical, electrical and pharmaceutical companies such as Siemens, Bayer, and the AEG opened offices. They brought trained Nazi personnel, sent young Iranis to Germany to study, and by 1941 had monopolized all important trade with Iran except that controlled by the Anglo-Iranian Oil Company. By taking over the Skoda Company in 1938, their technicians dominated every phase of transportation, manufacturing, and trade. In 1928 under German auspices, two excellent trade schools were opened. Graduates spent twelve to eighteen months in Germany.

The Nazis thus identified themselves with Iranian industrial progress (which had largely been discouraged by Russia and England). By identifying themselves as Aryans—and even as descendants of the ancient Carmanians (Kerman-Ger-

SECRET

man)—they flattered Iranian pride and promised deliverance from the encroachments of the two greedy powers who had threatened Iran's independence in recent generations. So successful was this approach that the Nazis were allowed to establish a Brown House in Teheran, and some 2,000 young men, severely armed, held military drill and maneuvers in the environs of the capital. Nazi ideas of a dictatorship, combined with anti-Jewish theories, appealed to the ruling class.

Italian and Japanese Propaganda

Italian propaganda has been unimportant. About 600 Italians were employed as foremen in building the railroad and in bridge construction. They were, however, not politically minded and carried on little or no propaganda.

Japanese propaganda died still-born. About 1932 the two powers concluded a barter agreement by the terms of which the Japanese bought large quantities of opium from Iran. But in return, the silk they sent rotted on the shelves, bicycles were made of soft iron, watches did not run. In two years the Japanese were in bad odor, and their value to Iran ceased. The Germans took over the trade.

Propaganda by the Russians

The invasion of August 25, 1941, was accompanied by the dropping of thousands of leaflets setting forth the promises of both parties to respect Iranian sovereignty and territory and their desire to drive out German agents (who were a menace to the Russian oil fields in the rear). Since then Russian propaganda has taken the following forms:

(1) Russian troops have shown excellent discipline. There has been no drunkenness, frivolity, or lawlessness. The army was mostly a peasant army—which has served as the spearhead of socialistic propaganda. Iran still exists under the manorial system with rich absentee landlords. The Russians have stationed a small post of two to ten peasant soldiers in all important villages. These men live as simply as the villagers, tell of the way in which they got rid of their own landlords and how they now receive compensations in medicine, education, etc. This has been extraordinarily impressive to the "share-croppers" of Iran. Russian soldiers have paid for all services.

(2) Cinemas on trucks have toured the larger centers. They show films of the recapture of Tula, the victory before Moscow, the blowing up of Nazi tanks, the crash of Stukas. These are interspersed with pure propaganda films. The Russians have shown that Nazi panzer forces can be destroyed.

(3) Groups of talented Soviet artists and musicians have toured the largest cities. Uzbek dancers with costumes of the 17th Century made a tremendous appeal. Speeches stress friendship between Russia and Iran—with a properly coached *claque* scattered through the audience.

(4) Newspapers in minority languages (Turkish and Armenian) are published in Tabriz. They glorify the Turks or Armenian Communards—martyrs of the Soviet system—and contrast former backwardness with present progressive changes. The large block of Turkish-speaking Iranis who were forbidden the use of their language, as well as other minorities, are encouraged to join the Soviet system where these cultural privileges are assured. Soviet papers are sold on the streets and pamphlets or single sheets given free with the purchase of each copy.

26

SECRET

(5) Military reviews, with heavy Russian tanks and a hurly-burly, vigorous exhibition of Cossack cavalry, have given the Iranis a sense of fear of Soviet might and toughness.

(6) Activity aiming to break up Iranian unity is found in the open fraternizing of Soviet officials with Kurdish rebels, and in secret letters appearing in Baghdad written by Assyrian (Christian) groups in Iran. These urge the Assyrians of Iraq to join in forming an Assyrian-Kurdish State under Soviet protection.

British Propaganda

The British in Iran are very conscious of being unwanted. When they came last August, the troops were ordered to avoid all possible bloodshed. The resulting campaign gave an appearance of weakness, in contrast to the crushing impact of the Russian entrance. The British policy of the past 50 years of bribing or subsidizing Iranian leaders has made Iranis reluctant to identify themselves with the British for fear of a later nationalist reaction. It was reported that use of alcohol on the part of British officers and men, especially noticeable in a Muslim country, injured the British position at one time; but improvement has followed British efforts to control this situation. The main vehicles now used for propaganda are:

(1) The Nazi Brown House has been renamed "Victory House." Here booklets, pamphlets, and window displays are used. Teas are given, after which films are shown. Pictures are posted in bank windows, shops, and hotels.

(2) An attractive quarterly called *Ruzgar-i-No* (*The New Times*) carries articles on Iran, with rather too obvious pictures of British statesmen and London buildings. A new year's calendar, bearing the picture of Britain's Royalty was distributed—with negative results. An illustrated magazine, printed in Egypt, is distributed to the educated.

(3) Film selection has been unfortunate. Pictures of "impregnable" Singapore were circulated long after that bastion had fallen. Japanese victories over United States forces in the Far East made the latter look ineffective. Other films show sham battles in Salisbury Plain, etc.—in weak contrast to Russian and German films of actual war.

(4) On the radio the Iranis prefer the Nazi newscasts, as was illustrated by an incident at Isfahan, when public radios were seized—and later restored. The British disclaimed responsibility and gave the appearance of vacillation.

(5) Most important has been the importation of wheat and sugar, but the lack of supervision in distribution has vitiated this important means of creating good will, for these supplies have fallen largely into the hands of speculators. The resulting high price of food has created a reaction against the occupying forces. The monopolistic handling of imports by the United Kingdom Commercial Company has caused widespread irritation; this situation is now being corrected.

The Position of the United States

So far, the United States, being relatively new on the scene, has gained an enviable position: Iranis have known Americans as educators, doctors, financial advisors, archaeologists, and a few disinterested political figures. As a result, most intelligent Iranis have developed an exaggerated notion of United States philanthropy, disinterestedness, and good will.

27

SECRET

To escape the Three Headed Monster of European encroachment, they would gladly seek the protection of the United States. As a result, the Government of Iran has asked for United States advisers in almost every department of government—agriculture, finance, war, police, and education. Some of these are already on the ground, some are on the way. It is the hope of Iranis that the United States may serve a double function in the future: helping to unite Iran during the war and thus counteracting the separatism encouraged by the division of Iran into Russian and British "spheres"; and guaranteeing Iranian independence when the peace is made.

Conclusion

As a whole the people are strongly pro-Nazi. They greeted Rommel's invasion of Egypt with enthusiasm, and expressed the hope that he would soon liberate Iran. Pro-Nazi elements openly state that, if Hitler takes care of the Russians, the Iranis themselves can drive out the British—a measure of the decline of British prestige.

July 31, 1942
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Buffington
Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Paul
Mr. Cairns
Mr. Thompson
Mr. Graves
Mr. Haas
Mr. Schwarz
Mr. Stewart
Mr. Odegard
Mr. Viner
Mr. Blough
Mrs. Klotz

H.M.JR: We are exclusive. Norman?

MR. THOMPSON: Jere Cooper's man is seventy-seven years old. (Laughter)

H.M.JR: Seventy-seven?

MR. THOMPSON: He really is.

MR. BELL: He isn't younger than the other fellow.

H.M.JR: I said he is younger than Bob Doughton.

MR. PAUL: Doughton is more than seventy-seven. He is about seventy-nine.

- 2 -

MR. THOMPSON: But this man is very spry.

MR. PAUL: Four members of the Ways and Means Committee total an age more than three hundred years.

MRS. KLOTZ: Total an age more than what?

MR. PAUL: Three hundred years. (Laughter)

MR. THOMPSON: I put him to work. He is reporting. It is all fixed.

MR. BELL: Are you going to retire him right after? (Laughter)

H.M.JR: What are you going to pay him?

MR. THOMPSON: \$1440 a year. He has a Civil Service rating. He took an examination just a few months ago.

MRS. KLOTZ: Isn't that marvelous.

MR. BELL: He is just going to start out on a career. He is going to become a career employee. (Laughter)

MR. THOMPSON: Dan doesn't know we are putting him in the Public Debt Service.

MR. BELL: I had a suspicion of it. I knew I would get him.

H.M.JR: What else?

MR. THOMPSON: That is all.

H.M.JR: That is good news.

MR. BELL: I have nothing.

H.M.JR: Harold?

(Mr. Blough, Mr. Schwarz, and Mr. Gaston entered the conference.)

- 3 -

MR. GRAVES: This is Mr. Houghteling's report on that General Motors thing. (Report handed to the Secretary, dated July thirtieth.)

You asked me to speak to you about a letter that you had from Major Namm inviting you to that thing. That is just a form letter that you have. There is no reason that you should go unless you want to go.

H.M.JR: It is for lunch, isn't it?

MR. GRAVES: No - yes, it is, a luncheon session.

H.M.JR: Give him a form answer.

MR. GRAVES: Yes, sir. I suppose the boys have told you about Mr. Szyk being here Monday or Tuesday.

H.M.JR: Yes.

(Mr. Stewart entered the conference.)

H.M.JR: You have got to bring your own chair and your own lunch. (Laughter)

MR. STEWART: I have got my own chair.

H.M.JR: Well, I will see him, but I told them I am not making any appointments for next week before Monday.

MR. GRAVES: Yes. That is all I have.

H.M.JR: George?

MR. HAAS: I have nothing.

H.M.JR: Cairns?

MR. CAIRNS: I have nothing.

- 4 -

H.M.JR: Walter?

MR. STEWART: Nothing.

H.M.JR: Peter?

MR. ODEGARD: We had a very good meeting yesterday in Richmond.

H.M.JR: Good.

MR. ODEGARD: There were about two hundred, odd, people present. I was very agreeably surprised. It was much better than I had expected it to be.

H.M.JR: Mrs. Morgenthau said you were most helpful to her with her speech, for which I thank you.

MR. ODEGARD: She did very well.

H.M.JR: Good. She enjoyed it. She thought it was a good meeting. She was very enthusiastic - very enthusiastic.

MR. ODEGARD: There is a similar meeting in St. Paul on the third.

MR. GRAVES: That is the fifth.

MR. ODEGARD: I mean the fifth, I beg your pardon, and they want very much to have a speaker from the Treasury, if possible, and I am just calling for volunteers.

H.M.JR: When are you going to the West Coast?

MR. ODEGARD: Not before the middle of the month.

H.M.JR: I see.

MR. ODEGARD: There are two meetings out there, the seventeenth in San Francisco, and the twentieth in Seattle.

- 5 -

H.M.JR: Don't all speak at once.

MR. ODEGARD: They would like very much to have you, and if they can't get you, they would like very much to have Herbert Gaston.

H.M.JR: Well, Herbert has just been out there, if you don't mind my speaking for you.

MR. GASTON: I don't mind, no, indeed.

H.M.JR: Well, you talk about it. We will see.

Chick?

MR. SCHWARZ: Nothing.

H.M.JR: Roy?

MR. BLOUGH: Nothing.

H.M.JR: Paul?

MR. PAUL: I have nothing except that I want to report that the Court of Appeals has decided the Polish Relief Commission case favorably. The court held that the freezing control order prohibited the unlicensed transfer of title to blocked property, so therefore it is important to the freezing. It is the New York Court of Appeals.

H.M.JR: Is that the one you went up to see Judge Lehman about?

MR. PAUL: Did you?

MR. CAIRNS: No, I don't know the history of that.

H.M.JR: I think it was. What else?

MR. PAUL: That is all I have.

- 6 -

MR. BUFFINGTON: Joe O'Connell and I talked with Purcell following that meeting on Tuesday, and he and Mr. Paul had a meeting following that discussion. If you want to discuss with Mr. O'Connell and Mr. Paul and me about it further, we are ready to discuss it.

H.M.JR: Tell Stephens, will you?

MR. PAUL: I don't think it needs to be discussed. We are all so thoroughly in agreement.

H.M.JR: Which way?

MR. BUFFINGTON: Against. That is on those trust securities that you spoke about the other day. (Memorandum dated July 29, 1942, entitled "Examination Covering Securities Held by State Banks as Trustee for the Account of Individuals" handed to the Secretary.)

MR. PAUL: The SEC is just trying to get something to do.

MR. BUFFINGTON: That is all.

MR. SULLIVAN: Last Wednesday the Senate passed the bill creating the Rubber Supply Agency. Then on Friday it was slipped through the House. Under that bill it will be possible for the director to transfer the control of industrial alcohol manufacturing and warehousing from the Treasury to this new agency, and Mr. Berkshire was very much disturbed about it. I found out that the War Department and WPB were fighting it in a most determined fashion. I talked with Eddie Greenbaum who said that Patterson was handling it himself.

I talked with the Budget Bureau, and they said that there were ten Federal agencies that were protesting it, but they saw no grounds upon which they could recommend a veto. I called attention to this fact, and they said, "Well, I guess we will ask you for a report,

- 7 -

because this is something that shouldn't be done."

Subsequently I have been lead to believe that the bill will be vetoed anyway, but the Budget is anxious to have us get in there, and Eddie is, too, so we are sending a report asking for a veto on that.

H.M.JR: Yes, send one.

MR. SULLIVAN: There is a memorandum on that, and also Mr. Cann sent over a memorandum on the withholding tax as the result of a telephone call from the Commissioner.

H.M.JR: What do you mean?

MR. SULLIVAN: Well, the Commissioner talked with Norman and wanted to call some other facts to your attention. I think it is largely a review of matters that have already--

H.M.JR: We can wait now until you--

MR. SULLIVAN: I was going to suggest that we will have the report on the other matter the first of the week, and I will give you that at the same time.

Since 1939 we have had an arrangement with the RFC that every week they could send in the names of the applicants for loans and we would look up their tax standing and report to them. The arrangement has resulted in a great deal of extra work for the Bureau, and it doesn't seem to be proving very much. The Bureau proposes that we ask RFC to consider whether they want to have that arrangement continue, to continue the arrangement of always giving them any information.

H.M.JR: What do you recommend?

MR. SULLIVAN: I think it will do no harm to send this letter that is prepared to Mr. Jones. Do you wish to sign it?

(Mr. Viner entered the conference.)

- 8 -

H.M.JR: If you say it is all right. (Letter addressed to Mr. Jesse Jones, dated today, signed by the Secretary.) Where is Gamble? Is he out of town?

MR. GRAVES: No, he is supposed to be here. He was at the Richmond meeting yesterday, and I presume came back last night.

MR. ODEGARD: Yes, I expect he got home very late.

H.M.JR: I am sorry, they are going to have to go through my office - the things I sign. There have been some go out that we haven't been able to keep track of. I mean, from now on, they go out that way.

MR. SULLIVAN: I don't think I have taken them out.

H.M.JR: Well, anyway--

MR. SULLIVAN: That is all.

H.M.JR: I am not being personal.

MR. GASTON: I haven't anything. If I could, I would like to speak to you a moment after the meeting.

H.M.JR: Sure.

Harry?

MR. WHITE: Mr. Betata has called up a couple of times in an attempt to get a reply which I think you promised him soon on his question with respect to the tax on silver. You felt that we might wait until we could work something out, and you were going to have a meeting, but I think we either ought to have a meeting very soon or give him an answer.

H.M.JR: I would tell him to go see the State Department.

- 9 -

MR. WHITE: Well, his specific question was whether or not we had any objections to the tax.

H.M.JR: I wouldn't - so far as silver matters, I would refer him to the State Department.

MR. WHITE: Then tell him so far as the Treasury--

H.M.JR: We have no opinion.

MR. WHITE: We have no opinion. He asked - this is a specific question which he asked me over the phone, "Would you be disturbed if we did that," because they don't want to in any way interfere with their good relations.

H.M.JR: I thought we settled that. We had almost an hour on it.

MR. WHITE: That is right, we settled it - at the last minute you said, "Let's see, maybe we can work something out in the way of a purchase arrangement for foreign silver to be distributed to foreign governments." You said that we ought to have another meeting.

H.M.JR: No, no, we decided that it - we decided here that it was none of my business, and the question of silver in Mexico we would leave up to the State Department.

MR. WHITE: That is right, and then a little later you said you had an idea, that it was a little vague in your mind, but you said we ought to have a meeting to discuss it.

H.M.JR: But that wouldn't affect Mexico. It was trying to get silver for the countries that want coinage. It is the coinage.

MR. WHITE: That is right. Well, I didn't know it.

- 10 -

H.M.JR: No, it is in relation to coinage, and if we can't go the route of Lend-Lease, then I do want to talk with you people about how we are going to get silver for these countries that want coin.

Now, as far as Mr. Betata is concerned I think you had better tell him we here think it is a foreign matter. I would rather not make any comments.

MR. WHITE: Mr. Casaday will have been in England a year by next month. His wife has written a letter wanting to know if it wouldn't be possible for him to come back for a visit or for her to go over. She hasn't seen him for a year.

H.M.JR: - It is impossible for her to go.

MR. WHITE: Would it be possible for us to arrange for him to come back for an interview?

H.M.JR: Yes, have him come back.

Now, I want to talk - I would like the following people, if they would, to stay. I want Thompson and Bell and "aas, Stewart, Blough, Paul, Viner, White, and Gaston - if they would stay, please.



TREASURY DEPARTMENT

WASHINGTON

7-31-42

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TOMEMORANDUM FOR THE SECRETARY:

Reference is made to a bill numbered S. 2600 (77th Congress, 2d Session) "To expedite the prosecution of the war by making provision for an increased supply of rubber manufactured from alcohol produced from agricultural or forest products." This bill was passed by the Senate on July 22, 1942, and by the House of Representatives on July 24, 1942. The bill would transfer the control of industrial alcohol plants, alcohol bonded warehouses and denaturing plants from the Treasury Department to the Rubber Supply Agency proposed to be created.

The control which the bill would transfer from the Treasury Department to the Rubber Supply Agency is the most effective method of insuring the collection of the tax on alcohol. Congress has long recognized this principle. Therefore, such control has been required by law to be exercised by the department of the government charged with the collection of the distilled spirits tax, that is to say, the Treasury Department. Under the law this department exercises absolute physical control of all distilled spirits and all places in which such spirits are made and stored, from the time the raw materials from which the spirits are to be made are introduced upon the premises of the distillery (or industrial alcohol plant) until the finished product is withdrawn upon payment of the tax due thereon. Alcohol which is withdrawn "free of tax" is still subject to control under permits and adequate bonds given to insure that if the alcohol is improperly used the Government will receive its tax.

It seems quite obvious that the power of controlling the production and handling of alcohol prior to payment of the tax thereon should continue to repose in the department charged with collection of that tax. The danger to the revenue in respect of distilled spirits is that there will be diversions of such spirits into the illicit channels with a consequent loss of revenue. The danger to the distilled spirits revenue from the distillers and purveyors of illicit spirits is not a myth. While the experience gained by the Treasury Department in combating the efforts of the



- 2 -

illicit industry has resulted in the adoption of regulatory control which has been found effective in reducing law violations and protecting the revenue, the reports of the enforcement officers in respect of violations of the internal revenue laws relating to liquor clearly show that the danger to the distilled spirits revenue is real and ever-present. We have learned that the most important item in the business of the illicit trafficker is a conveniently accessible source of supply of the commodity in which he deals, and that when the tax on distilled spirits is increased there is a greater incentive to violate the liquor laws and to defraud the United States of its tax.

The magnitude of the task of collecting the tax on alcohol, which necessarily requires constant safeguarding of the product which is the measure of the tax to be collected, is demonstrated by the following: In the fiscal year ended June 30, 1941, 309,505,095 proof gallons of ethyl alcohol were withdrawn from bond, and 10,392,352 proof gallons remained in bond at the end of that year, or a total of 319,897,447 proof gallons. At \$4.00 per proof gallon the total tax attaching to this quantity of alcohol was \$1,279,589,788. The final figures for the fiscal year ended June 30, 1942, are not yet available, but it appears from a preliminary survey that during that year 417,374,035 proof gallons of ethyl alcohol were withdrawn and that 21,353,572 proof gallons remained in bond at the end of the year; a total of 438,727,607 proof gallons. At the \$4.00 tax rate the total of the tax attaching to this quantity of alcohol was \$1,754,910,428. Of course, a very great deal of the alcohol referred to was withdrawn free of tax under the law, but the measure of the tax-protection task is the quantity of alcohol to which the tax attached under the internal revenue laws.

It is strongly urged that the control of the plants in which alcohol is produced and denatured and the warehouses in which it is stored before tax payment should remain with the Treasury Department, because such control is the only really efficient way in which the revenues may be adequately protected. In brief, the control of the industry and its product should be exercised by the department responsible for revenues therefrom.

Norman H. Conn
Commissioner.

Acting

July 31, 1942.
9:45 a. m.

INFLATION

Present:

Mr. Bell
Mr. Gaston
Mr. White
Mr. Thompson
Mr. Haas
Mr. Stewart
Mr. Blough
Mr. Paul
Mr. Viner
Mrs. Klotz

H.M.JR: Now, what I would like to do is this. We have got three staffs here, Haas', Blough's, and White's, and having sent this memorandum to the President, I think it is important enough that people should be detailed almost exclusively to the work of this program, irrespective of what the President does. You see? I mean, I think that - I wanted Norman here so he can - I think there should be people - I would like the three of you to get together and then see me Monday and tell me which men or women will be detailed to this thing, to work. I think it is important they should work continuously on this program.

Now, if you have any questions of me - if that isn't sufficiently clear - if anybody has got any questions they would like to have--

MR. WHITE: Well, Dan mentioned something when we left the other day. We talked it over, and I have four persons working all the time, now, and they will have a report ready by Tuesday - a very lengthy report - and that can be then examined and amplified or modified or criticized by any of the other group.

I don't think there will be much help in going

- 2 -

beyond that until they do the groundwork, because they know much more about it, and will be able to cover all angles of it, and it will be a good start for a larger committee to work on.

H.M.JR: I mean, take people like Friedman, for instance.

MR. WHITE: Yes, he was working on it. In this brief period he was going to amplify the other memorandum on the spending tax; in case anybody asks you about it, he will have it all wrapped up in blue ribbon.

H.M.JR: I mean, for instance, if you go into the whole question of the family income, family expenditures--

MR. WHITE: That is right. They are working on that, and he would be helpful. My only comment was that I think that the fastest way to get results would be to have this preliminary report - it will be about a sixty-page, single-spaced report - in which is covered all aspects that we have been writing and thinking about. We are combining all the memos, and then that will be a good working basis for any larger committee that you will have here to amplify or modify.

H.M.JR: Well, now, let me ask Blough how he feels about this.

MR. BLOUGH: Well, I am curious to know how far your interest extends, whether it extends simply to the general expenditure rationing, or whether it also extends to these other items which you had taken out of the memorandum yesterday because you hadn't gone into them.

MR. VINER: Spending tax and forced savings, you mean?

MR. BLOUGH: Yes, that is it.

- 3 -

H.M.JR: I am perfectly willing to have those explored.

MR. WHITE: It seems to me--

H.M.JR: Just a minute, Harry. I am willing to have those things explored.

MR. BLOUGH: We have several people working on the spending tax end of it; and so far as the procedure is concerned on the expenditure rationing, I am certainly disposed to say that the method Harry suggests is a good method, provided his people will be ready shortly, and I gather they will be ready by the early part of next week.

MR. WHITE: Yes, it will be complete, and they are also preparing a lengthy memo - though not as long as the first - not as exhaustive as expenditure rationing - on the compulsory saving. But it is the first that they are concentrating on, and either Tuesday or Wednesday morning, as I say, there will be a long memo which raises all the questions and attempts as much of a discussion on it as we have thought about up to that time.

MR. BLOUGH: Several people could be detailed full time. I have some hesitancy about detailing Mr. Friedman full time on it because of his close tie-in with such things as collection at source and a number of other matters of that kind, where he is working very closely to our policy program, throughout.

H.M.JR: Well, I think the thing to do is to talk it over with Harry and see what he has that is going to be ready Tuesday. But I doubt, Harry - are you in touch at all with the work that Dr. Likert is doing for us in the field of family expenditures?

MR. WHITE: Not at all.

H.M.JR: Well, you see, he is up in Buffalo interviewing two hundred families intensely on the habits of expenditures and savings, which ought to be very helpful.

- 4 -

MR. WHITE: Has he written it up? Has he got some--

MR. HAAS: It is in the process.

H.M.JR: Haas handles that end of it, and this would be the freshest, and I think they are both valuable information as to the spending and savings habits of the people.

MR. WHITE: I am sure there will be a lot of aspects which will need to be developed, and a lot of suggestions and criticisms that will come from the larger group, so that they begin, let us say, on Wednesday morning, and within a week from then - a week after that - give us a week after that, and I think, as a result of the numerous discussions, that we could have, on the basis of material that has already been prepared - I think you could feel assured that you will have a report that you needn't hesitate to give anybody, the week after the larger group begins discussing the preliminary.

H.M.JR: George, what contributions can you make? The Likert contribution is an important one.

MR. HAAS: I have some people that spend their time working on the inflationary gap, and it is closely related. I can detail some people to Harry's group; as a matter of fact, the people that Harry has working on this are the ones that he has detailed, part time, working with my gap people, so I can just switch those.

H.M.JR: I don't know, but could I suggest, if Haas and Blough and White have no other luncheon engagement, the three of you have lunch together, and sit down and talk about this thing.

MR. WHITE: Yes, we will - not today, probably.

H.M.JR: You have a luncheon engagement?

- 5 -

MR. WHITE: They are giving a farewell lunch for three of my boys that are going away, and I promised to be there.

H.M.JR: Would you do it?

MR. WHITE: We will get together.

H.M.JR: I would like the three of you to get together before I come back Monday morning, will you?

MR. WHITE: Yes, it needn't be a lunch.

H.M.JR: Between now and Monday morning, will the three of you sit down together? Who are the four - what are their names?

MR. WHITE: There are five, really. There are E.M. Bernstein, Gass, Southworth, Hicks, Snider, and a Miss Nielsen. The work is divided up. Some are considering the various phases.

H.M.JR: All right. Will the three of you, between now and Monday, get together?

That is all I have.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 31, 1942.

TO Secretary Morgenthau
FROM Jacob Viner (and Walter Stewart)

At a time when the war economy program is entering a new and critical phase, it is fitting that the Administration should review its record to date and should consider the lines on which an accounting should and could be made to the public.

We are submitting a rough outline, hastily written, indicating the lines on which, in our opinion, a presentation of the record to date and of the prospects ahead could usefully be made to the public by the President or yourself. It is our idea that something like this might be used as the introduction for a message or statement presenting a new rationing proposal.

Mr. Stewart has not seen the text of this in its present form, but it represents our common ideas.

Attachment.

A Rough Draft for a Statement to be Made Upon Introduction
of Some New Anti-inflation Measure

We have been at war for eight months; we have been engaged for over two years in converting our economy from a peace basis to a defense and war basis. During the past two years, total Federal Government expenditures have increased from an annual rate of _____ to an annual rate of _____. Our tax structure has been expanded to produce tax revenue at the annual rate of _____, as compared to an annual rate in 1939 of _____. We have borrowed net since September 1939, _____.

Since 1939, the national income has increased from an annual rate of _____ to an annual rate of _____. The physical output of American production has doubled in the last two years. Ten million persons have been added to the list of gainfully employed, and many other millions who were then only partially employed are now working full time. Many millions have been transferred to new occupations, often in new locations. Whole new industries have been built, military bases constructed, armies assembled, trained, and equipped, and the naval forces greatly increased.

This process of productive expansion and conversion has been accomplished on a scale and at a rate of speed unparalleled in American history. It has involved the raising by taxation and borrowing of sums without precedent in this country or elsewhere. It has all been accomplished without anything that could be called privation or hardship for the public; without major disturbance of peaceful relations between labor and employers; with only a moderate rise in prices and in cost of living; without disturbance of the money market or rise in interest rates. By all standard tests of

- 2 -

economic and financial management, this is an outstandingly successful record.

The achievement was not fortuitous. It was the result in large part of good planning and good timing. New tax measures, the introduction and extensive sale of Defense Savings Bonds and Tax Anticipation Notes, the price ceiling and wage stabilization measures, priorities and allocations, and the restrictions on consumer credit, checked the tendency of the great increase in Government expenditures to have inflationary effects. The establishment of new machinery for conciliation and arbitration, the limitation of profits on war contracts, and the heavy taxation of war profits, helped to maintain peaceful labor conditions in industry. The operations of Lend-Lease not only facilitated the granting of aid to the United Nations, but substituted for conflicting, competitive, and uncoordinated drafts upon our resources, centralized and coordinated purchasing for United Nations purposes.

We must not, however, be unduly complacent about our record to date or let ourselves be lulled into resting on our oars in misplaced confidence that the methods used to date would suffice for dealing with the greater problems and more intensive strains that are to come. In spite of substantial recovery, up to 1939, from the great depression, we have until very recently been operating on the basis of a huge reserve of idle or only partially employed resources. Manpower has been available both to produce the military supplies and to man our greatly expanded Army and Navy, without cutting down on the amount of production of goods for civilian consumption. Our

- 3 -

transportation facilities have been ample to carry the military load without reducing the services available for civilian purposes. We still had unimpaired access to the raw materials of the Far East, and there was no shortage of ocean shipping to bring to our shores these supplies and also the products of our Latin American neighbors. It was possible, therefore, with moderately good management and with resort only to measures which did not seriously encroach on the civilian standard of living, to match the increase in national income measured in money by a proportionate increase in physical output, and thus to avoid inflation. We have been going through the comparatively easy phases of transference from a peace to a war economy. These phases have come, or are about to come, to their natural end. We are entering, or will enter very soon, a new phase, a harder, more difficult phase, where stronger measures, measures harder to administer and harder for the public to adjust to, will be necessary if we are to make our maximum military effort and to avoid inflation.

Military expenditures have now reached a stage where they can be maintained or further increased only by a proportionate decrease in civilian expenditures, once the existing large inventories of civilian goods have been depleted. The further possibilities of utilization of idle resources are now strictly limited. From now on income in money terms will accrue to the public in amounts much in excess of the amounts which would suffice to meet tax payments, to buy all the goods available at present prices for civilian purchases, and to subscribe to Government securities at the maximum rates of subscription which it is reasonable to expect under present conditions.

- 4 -

Unless this excess of purchasing power can be absorbed or sterilized in some manner, inflation will inevitably come.

Inflation is one possible method of drawing from the public sufficient purchasing power to enable the Government to make the payments called for by its military program. It is a method which has hitherto always been resorted to in major wars, by this and by other countries. It is administratively the easiest of all methods. Many of its costs are concealed or postponed to a future date, so that from the point of view of the public also, it has its attractions. It is, however, of all financing methods the one which in the long run is most costly to both Government and public in terms of economic burden, of inequity, and of impairment of morale. Easy though it is to slide into it, it is a method we are determined not to resort to.

Avoidance of inflation at this stage of our war program, however, involves not merely good resolutions on our part, but also positive decisions and positive procedures, in the fiscal field and in the field of direct controls, which are hard to make, will be hard to administer, and will be hard for the public to conform to. There is no easy and burdenless way of financing a major war, just as there is no easy and costless way of winning it in the field. The civilian public, from now on, must share with the boys in the field of war the burdens and sacrifices requisite for the preservation of freedom against the attacks of its formidable foes.

We must add still further to our tax revenue. We must ask the public to raise still further their rate of voluntary purchase of War Savings Bonds. We must tighten our existing direct controls. Over and above all these

- 5 -

measures we must set up additional direct controls which will make certain that the purchasing power in the hands of the public in excess of the amount of goods available for civilian purchase shall not be used to push up prices and the cost of living. We must demand of the civilian public that they on the home front back up the efforts of our boys in the field by working harder and spending less. As we enter upon the next stage of our war economy, the stage in which the supplies available are insufficient to meet both the needs of our military program and civilian demands on a scale appropriate to peacetime prosperity, we must extend our system of direct controls so that inflation shall be prevented and our military effort shall not be impaired by the use of scarce resources for non-essential civilian purchases.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 31, 1942.

TO Secretary Morgenthau
FROM Jacob Viner (and Walter Stewart)

At a time when the war economy program is entering a new and critical phase, it is fitting that the Administration should review its record to date and should consider the lines on which an accounting should and could be made to the public.

We are submitting a rough outline, hastily written, indicating the lines on which, in our opinion, a presentation of the record to date and of the prospects ahead could usefully be made to the public by the President or yourself. It is our idea that something like this might be used as the introduction for a message or statement presenting a new rationing proposal.

Mr. Stewart has not seen the text of this in its present form, but it represents our common ideas.

Attachment.

A Rough Draft for a Statement to be Made Upon Introduction
of Some New Anti-Inflation Measure

We have been at war for eight months; we have been engaged for over two years in converting our economy from a peace basis to a defense and war basis. During the past two years, total Federal Government expenditures have increased from an annual rate of _____ to an annual rate of _____. Our tax structure has been expanded to produce tax revenue at the annual rate of _____, as compared to an annual rate in 1939 of _____. We have borrowed net since September 1939, _____.

Since 1939, the national income has increased from an annual rate of _____ to an annual rate of _____. The physical output of American production has doubled in the last two years. Ten million persons have been added to the list of gainfully employed, and many other millions who were then only partially employed are now working full time. Many millions have been transferred to new occupations, often in new locations. Whole new industries have been built, military bases constructed, armies assembled, trained, and equipped, and the naval forces greatly increased.

This process of productive expansion and conversion has been accomplished on a scale and at a rate of speed unparalleled in American history. It has involved the raising by taxation and borrowing of sums without precedent in this country or elsewhere. It has all been accomplished without anything that could be called privation or hardship for the public; without major disturbance of peaceful relations between labor and employers; with only a moderate rise in prices and in cost of living; without disturbance of the money market or rise in interest rates. By all standard tests of

- 2 -

economic and financial management, this is an outstandingly successful record.

The achievement was not fortuitous. It was the result in large part of good planning and good timing. New tax measures, the introduction and extensive sale of Defense Savings Bonds and Tax Anticipation Notes, the price ceiling and wage stabilization measures, priorities and allocations, and the restrictions on consumer credit, checked the tendency of the great increase in Government expenditures to have inflationary effects. The establishment of new machinery for conciliation and arbitration, the limitation of profits on war contracts, and the heavy taxation of war profits, helped to maintain peaceful labor conditions in industry. The operations of Lend-Lease not only facilitated the granting of aid to the United Nations, but substituted for conflicting, competitive, and uncoordinated drafts upon our resources, centralized and coordinated purchasing for United Nations purposes.

We must not, however, be unduly complacent about our record to date or let ourselves be lulled into resting on our oars in misplaced confidence that the methods used to date would suffice for dealing with the greater problems and more intense strains that are to come. In spite of substantial recovery, up to 1939, from the great depression, we have until very recently been operating on the basis of a huge reserve of idle or only partially employed resources. Manpower has been available both to produce the military supplies and to man our greatly expanded Army and Navy, without cutting down on the amount of production of goods for civilian consumption. Our

- 3 -

transportation facilities have been ample to carry the military load without reducing the services available for civilian purposes. We still had unimpaired access to the raw materials of the Far East, and there was no shortage of ocean shipping to bring to our shores these supplies and also the products of our Latin American neighbors. It was possible, therefore, with moderately good management and with resort only to measures which did not seriously encroach on the civilian standard of living, to match the increase in national income measured in money by a proportionate increase in physical output, and thus to avoid inflation. We have been going through the comparatively easy phases of transference from a peace to a war economy. These phases have come, or are about to come, to their natural end. We are entering, or will enter very soon, a new phase, a harder, more difficult phase, where stronger measures, measures harder to administer and harder for the public to adjust to, will be necessary if we are to make our maximum military effort and to avoid inflation.

Military expenditures have now reached a stage where they can be maintained or further increased only by a proportionate decrease in civilian expenditures, once the existing large inventories of civilian goods have been depleted. The further possibilities of utilization of idle resources are now strictly limited. From now on income in money terms will accrue to the public in amounts much in excess of the amounts which would suffice to meet tax payments, to buy all the goods available at present prices for civilian purchases, and to subscribe to Government securities at the maximum rates of subscription which it is reasonable to expect under present conditions.

- 4 -

Unless this excess of purchasing power can be absorbed or sterilized in some manner, inflation will inevitably come.

Inflation is one possible method of drawing from the public sufficient purchasing power to enable the Government to make the payments called for by its military program. It is a method which has hitherto always been resorted to in major wars, by this and by other countries. It is administratively the easiest of all methods. Many of its costs are concealed or postponed to a future date, so that, from the point of view of the public also, it has its attractions. It is, however, of all financing methods the one which in the long run is most costly to both Government and public in terms of economic burden, of inequity, and of impairment of morale. Easy though it is to slide into it, it is a method we are determined not to resort to.

Avoidance of inflation at this stage of our war program, however, involves not merely good resolutions on our part, but also positive decisions and positive procedures, in the fiscal field and in the field of direct controls, which are hard to make, will be hard to administer, and will be hard for the public to conform to. There is no easy and burdenless way of financing a major war, just as there is no easy and costless way of winning it in the field. The civilian public, from now on, must share with the boys in the field of war the burdens and sacrifices requisite for the preservation of freedom against the attacks of its formidable foes.

We must add still further to our tax revenue. We must ask the public to raise still further their rate of voluntary purchase of War Savings Bonds. We must tighten our existing direct controls. Over and above all these

- 5 -

measures we must set up additional direct controls which will make certain that the purchasing power in the hands of the public in excess of the amount of goods available for civilian purchase shall not be used to push up prices and the cost of living. We must demand of the civilian public that they on the home front back up the efforts of our boys in the field by working harder and spending less. As we enter upon the next stage of our war economy, the stage in which the supplies available are insufficient to meet both the needs of our military program and civilian demands on a scale appropriate to peacetime prosperity, we must extend our system of direct controls so that inflation shall be prevented and our military effort shall not be impaired by the use of scarce resources for non-essential civilian purchases.

July 31, 1942.
10:30 a. m.

FINANCING

Present:

Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Baker
Mr. Tickton
Mr. Eccles
Mr. Szymczak
Mr. Goldenweiser
Mr. Draper
Mr. Piser

H.M.JR: What have you gentlemen got to offer this morning in the way of advice?

MR. SZYMCAK: A certificate. (Laughter)

H.M.JR: I see. What else?

MR. ECCLES: You asked the other day, as I understand it, to discuss three things. First, you would like us to report on reserves; secondly, you wanted to discuss the financing; and thirdly, as I understand it, you wanted to discuss George Haas' proposal for a tap issue.

Now, in order that I won't misquote or misrepresent anybody on this, I wrote it down.

"The Board met yesterday afternoon and discussed the question of reserves very fully. While the System is prepared to do whatever is necessary on its part through open market operations or otherwise to assure the success of the August financing, the Board decided that it was not necessary to decrease reserve requirements at this time, but expects to decrease the reserve requirements for central reserve cities by not less than two percent sometime between August 15 and the last of August, depending upon the needs of the market. A two percent decrease

- 2 -

would amount to approximately four hundred million dollars. The Board's view was based upon the fact that the full Open Market Committee will meet here next week, and it feels it inadvisable to act before that meeting since reserve requirements and open-market operations are so closely related. The Board's view is further based upon the opinion that the proposed August financing, calling for a billion and a half of certificates, does not require for its full success a change of reserves at this time. This is the opinion of Mr. Sproul, Mr. Williams of Philadelphia, Mr. Rouse, as well as the opinion of the Board and its staff."

I have, if you would like to have it read, or if you would like to have me leave it with you - I asked Allan Sproul the other day when we discussed this question - you asked him about the success of the financing, and I asked him to give me a memorandum giving me his views with reference to the question of financing and the question of reserves. I got it this morning. If you would like a copy of it - I don't know that there is anything new in it, particularly, but it may be that you would like to have a copy.

He says here, "Today has been a day almost completely taken up with meetings, so I have not had much time to work on the memorandum which you asked me to send you tonight. However, after talking with John Williams, I have put down my views on the immediate question of excess reserves, reserve requirements, and the New York money market.

"It is in no sense a complete job, but I hope it will be of some use to you."

Now, if you would like to have it--

H.M.Jr: I would like to have it.

MR. ECCLES: That is the only one I have got. Now, I can leave it and I can get it later, or I will have a copy made.

- 3 -

H.M.JR: We can have it photostated while we are waiting here.

MR. BELL: If you are going to do this reserve thing, would you announce it before the time - you wouldn't announce it now?

MR. ECCLES: No, I thought we would wait until - you see, in moving you don't have to give any notice on increasing; it isn't like decreasing.

MR. BELL: I appreciate that.

MR. ECCLES: For instance, if, on the - we could move on the 15th if you wanted to, to give it to them on the 16th if the situation warranted, or on the 16th to give it to them on the 17th.

Now, when we decrease reserves we always felt you would have to give them a considerable notice because that was tightening it up. To give them excess reserves it requires no notice at all, and you could move today to give it to them tomorrow. It is just like going in and buying on the open market only a specific amount.

Now, to do this--

MR. BELL: Don't you think it would help if you announced - say if you had your meeting Monday that you were going to do it, or if you made up your mind - I understand you had made up your mind on something between the 15th of August and the first of September. Now, if you announced that now, that that is when you are going to do it, don't you think it would help the whole situation - help the whole financing?

MR. ECCLES: One of the difficulties would be that I think the New York banks would immediately go in in anticipation of that. What we are anxious to do is to keep them out, to some extent, and we don't want them any more than they have to go. You can get them in whatever amount they have to, when you see what is necessary, and give the rest of the country a chance

- 4 -

to do some of this - make the drive to get as much of it as possible out of New York instead of having those fellows immediately step out, which they would do. The minute you give them reserves they will just use them, and we give them all the reserves that are necessary currently in buying bills or buying certificates.

In other words, whatever is necessary during the next week or two, we will buy freely in the open market. But that, at the same time--

MR. SZYM CZAK: Maybe up to three hundred million.

MR. ECCLES: But at the same time, Allan feels that at this time that is a better method than simply dumping on them, say, four hundred million of reserves with the idea, "Here is four hundred million, now go out and spend it."

See? You do that now and you can keep on with that process, and in the course of a month or two we are going to be to the point where New York's reserve requirements are the same as the rest of the country.

The query is, then, you have still got the problem that New York will be deficient in reserves, that is - not deficient, but will not have an excess, where there are large reserves in the rest of the country.

Now, we feel you can't possibly keep excess reserves in New York. They will spend them as fast as they get them, and we have got to find some way of, and I think we are - I think that we are very rapidly improving a wider distribution. I think we have got to find some way of getting the country outside, where the funds are going - they are not going into New York in proportion at all to what New York is investing. That is why you have got that problem, and they are not going to - the Government is not going to be putting money into New York like they are in the rest of the country, and we have got to follow the money in the country and get it.

That doesn't mean - we feel that you have got to

- 5 -

get reserves in New York down to this twenty percent on a plane with the rest of the country, and from then on we will have to move down together. I don't think you could reduce New York, then, below the rest of the country.

MR. HAAS: Marriner, if nothing is done, no change in the reserve requirements made before this financing, what do you estimate - and assume that, for purposes of illustration, the Secretary might offer a certificate, what do you estimate the subscriptions might be?

MR. SZYMCAK: In New York?

MR. HAAS: No, all over the country.

MR. ECCLES: Just the roughest kind of a guess, oh, a billion and a half of certificates would be my feeling - between two and three billion.

MR. HAAS: The last time it was three.

MR. BELL: Three, one.

MR. ECCLES: Of course, New York subscribed very heavily for the bond, and then sold the Fed certificates and bills. They just went out and gave us the three-eighths, and took the two percent yield, and some of them just sold completely out of bills. Several of the banks haven't a bill - just won't hold them, and they hold the bonds.

H.M.JR: They tell me some of those two percents are still not digested.

MR. BELL: A few of them are out.

MR. ECCLES: Yes, but there is no problem on it.

MR. BELL: No, no problem.

MR. ECCLES: In other words, if there was we would be getting them, because we stand ready to take them,

- 6 -

so there is no pressure at all for a sale of them. If there was, we would be getting them, and we have gotten very few of them. What really happens, they sell us the short low rate stuff, you see, and buy the high rate. That is the reason that I think - one of the reasons that I think we have got to give a lot of thought to this financing in October, about opening up a market issue that is attractive to everybody and include the banks, because I am afraid the banks will load up on it and will sell the short paper which they ought to be holding - they will sell the short paper, and go in and take as long a bond as you give them, and I can't help but feel that it might be well to do what we discussed the other day on the two and a half's - make that a coupon bond, and make it a market issue, except for the banks. Instead of a registered issue as it is now, make it a coupon issue and keep the banks out, because--

H.M.JR: But you are not suggesting that in connection with--

MR. ECCLES: No, that is not now. I don't think for the time being I would do it, but I have been thinking we have been talking so much about a large issue in October, a popular issue, what I am afraid is that a popular issue in October, if it is attractive enough to go over, and it is made available to the banks, the banks come in on it, and all they do is just sell the lower yielding stuff. But that is a little aside from the--

H.M.JR: Well, you have talked about excess reserves, but you are going to review that on Monday with the Open Market Committee?

MR. ECCLES: Yes.

H.M.JR: You have two other things, there.

MR. ECCLES: Well, there is the - we would like to suggest that you offer a one-year, seven-eighths certificate. That is - on the basis of today's market that

- 7 -

would be priced at a hundred pointnaught three. It is just very near the line, and we feel that a year's certificate at seven-eighths would be a good chance - a pretty good market outside of New York, both in the outside banks and in the people outside of the banks, for that sort of an instrument.

H.M.JR: We haven't gotten down yet to length, but we are glad to get what you people have. We are glad to get that. You said one year, seven-eighths?

MR. ECCLES: Yes, one year, seven-eighths. Had you discussed at all what you would offer?

H.M.JR: Amongst ourselves?

MR. ECCLES: Yes.

H.M.JR: No, we have not. You see, we are really a week ahead.

MR. SZYMCAK: Week after next.

H.M.JR: We hope to do this next Thursday.

MR. SZYMCAK: The announcement?

H.M.JR: What I would like - no, I would like to make an announcement for tomorrow morning.

MR. SZYMCAK: That there be a certificate, or whatever it is?

H.M.JR: That it will be a certificate, and that it will be a billion and a half.

MR. BELL: Two and a half's?

MR. ECCLES: I think that is desirable.

MR. BELL: You wouldn't announce, however, that it would be a year, just say a certificate.

- 8 -

H.M.JR: No, no, just a billion and a half of certificates.

MR. SZYMCZAK: Not announce the maturity or the rate.

H.M.JR: A billion and a half of certificates, and that we will start Monday selling - the Victory Fund Committee will start selling Monday the two and a halves, but I would like to have it in tomorrow morning's papers. If there is going to be any churning, the more time they churn between now and Wednesday, the better.

MR. SZYMCZAK: You have got the tax notes that I take it you will do something about today. Tomorrow is the first.

MR. ECCLES: You would announce the tax notes tomorrow, too.

H.M.JR: No. Bell and Haas tell me they are not ready.

MR. BELL: It has got some bugs in it we can't thrash out. We think it ought to go over this month.

H.M.JR: They said that they hadn't been able to--

MR. ECCLES: That is for the whole month, Dan?

H.M.JR: Not to consider it for this financing.

MR. ECCLES: Well, yes, I don't think that - that doesn't mean that you wouldn't announce it, possibly, in the course of a week or two?

H.M.JR: All we are saying is that they tell me they can't get it ready between now and Thursday.

MR. ECCLES: Yes.

H.M.JR: So the door is open.

- 9 -

MR. BELL: And you couldn't very well announce it except on the first of the month. You couldn't allow people to go in and buy the present tax note at the present rate and some time during the month raise the rate.

MR. ECCLES: Of course, you didn't leave yourself much time.

MR. BELL: No, we didn't.

MR. SZYM CZAK: August is just the annual date. You started last August.

MR. BELL: We found some bugs in it that we haven't been able to just glance over without giving it further consideration.

MR. SZYM CZAK: I tried to think of a name, talking to George yesterday - A-1.

MR. ECCLES: Our feeling on the one that George proposed, unless the rate structure scaled up faster than it does, is we think it would be a failure, because it is so far below the market rates. I would prefer not to see it made a two-purpose instrument unless it is really put on a basis that is in line with the market, or slightly under, because, after all, if you put it out, you want it to be a package that is really going to sell, and you want it to be sufficiently attractive that when they once buy the thing that they will hold it through the entire period. There will be - and we feel that your suggested rate picture was a little bit--

MR. SZYM CZAK: I understand you were just considering the different--

MR. HAAS: I didn't know that we ought to step up the thing - oh, those are just "for instances"?

MR. SZYM CZAK: Illustrations.

MR. ECCLES: That is right. We worked some out

- 10 -

here that show the approximate present market. Do you want to see this, Henry? (Indicating paper entitled "Tax Investment Series B Notes.")

H.M.JR: Please.

MR. ECCLES: The yield - we made two proposals and here is your market. For instance, for the six months it would be six-tenths; one year, ninety-six hundredths, and so forth. That is the average; if a person held it for three years they would get one and one-tenth percent for their money. If they held it two years, ninety-six hundredths, and so on.

Now, there was another one that was a little bit different. We stopped at one point thirty-two for two years and kept the rate the same - didn't increase it. Now, here is the market. The market, if you have three years, one point two, and this gives one point ten (indicating).

H.M.JR: Well, that is helpful, but the boys say they are not ready, so I don't want--

MR. BUFFINGTON: Could I say just one thing? When you are talking about the possibility of changing the name - you have tax savings now, which is almost as good as tax investment, and if you change the name you are going to retard the sale of that security. It has been well advertised.

MR. BELL: That is what worried us a little.

MR. BUFFINGTON: I think it would be a mistake to change the name.

MR. SZYMCAK: Just put Bell's name in there. (Laughter)

H.M.JR: We will have time.

MR. ECCLES: Those things all depend on the selling job. The idea, of course, was to get that in the hands of this Victory Fund Committee. It is a personal contact job, that is what it is.

- 11 -

H.M.JR: It would have been nice, but the--

MR. DRAPER: It can't be done now.

H.M.JR: There is too much detail which hasn't been worked out successfully.

MR. ECCLES: We discussed the other day the question of the increase in the distribution of bills. When we discussed the advantage, or what we thought would be an advantage of a little better rate on the bill market to get a wider distribution, you raised the question of evidence that that would bring about a wider distribution.

Of course, we said we couldn't give any specific evidence, but in looking at the past, from what the bill - on March 11, for instance, the bill rate was point two two nine, and we later went up to point three seven five, and we doubled the amount of bills outstanding. It shows the wider - in other words, we think that the increase from the point twenty-two in March up to three-eighths made it possible to greatly - to double the amount of bills out, and during that period the New York city banks decreased their percentage of bills from twenty-one to eighteen; the Chicago banks from twenty-three percent to thirteen percent. The banks outside of New York increased theirs from twenty percent to twenty-eight percent. That is percentage increase.

The dollar increase was very great. For instance, banks outside of New York increased from three hundred and eighty-four million to eight hundred and seventeen million - from three hundred to eight hundred; and other investors from seven hundred ten to a billion two hundred. I thought you might like to see just what happened as the rate went up - see what happened to the distribution of it.

Did you bring some copies?

MR. PISER: Yes, I have distributed them.

- 12 -

H.M.JR: Unless there is something else, what I would like to do is - do you suppose that - would three o'clock Tuesday be a good time to meet again?

MR. ECCLES: It would be all right with me.

H.M.JR: We are having some of these New York sharpshooters down Tuesday morning. I will know what they have to say. You will have had your meeting?

MR. ECCLES: We expect we will likely meet most of Monday. What I would like to--

H.M.JR: Will that be all right - Tuesday at three o'clock?

MR. ECCLES: What I would like to suggest is that we would like to invite you to come over and have lunch with the Open Market Committee if you are not tied up.

MR. DRAPER: How about that, Mr. Secretary? We have good food over there.

MR. ECCLES: It will give you a chance to meet with them, talk to them.

H.M.JR: All right.

MR. ECCLES: If you can't come over, we would like to have Dan come over.

MR. DRAPER: Both.

MR. ECCLES: Both of you.

H.M.JR: I tell you what you do. Can you stand inviting both of us?

MR. SZYMCAK: It will be kind of crowded. (Laughter)

H.M.JR: I will make a real effort to come.

MR. DRAPER: Fine. We certainly appreciate that, Mr. Secretary.

- 13 -

MR. BELL: When is that, Monday?

MR. ECCLES: Yes, Monday, Dan.

H.M.JR: I will put it down and I will make a real effort. That would be Monday. I want to see if your food is as good as the New York food.

MR. ECCLES: No. Listen, we don't put anything on of that sort.

MR. BELL: You don't put on the dog?

MR. ECCLES: No, sir.

H.M.JR: That would be one o'clock, wouldn't it?

MR. SZYMCAK: Yes, one o'clock.

H.M.JR: Unless you hear from me to the contrary I will come.

MR. DRAPER: Fine.

MR. ECCLES: That is the one statement I read to you. I thought you might like a copy. (Paper handed to the Secretary)

H.M.JR: Unless something comes up, I would like to come.

MR. ECCLES: Then you want to figure on Tuesday at three?

H.M.JR: Three, then we ought to be pretty well settled. Then in tomorrow morning's paper we will say there will be a billion and a half certificates, and the opening Monday of the two and a half's.

MR. BELL: Would you like to give out beforehand this amendment to the circular saying that we permit the

- 14 -

redemptions for the payment of the estate taxes?

MR. ECCLES: I would - I would give that out with the announcement.

H.M.JR: Anything else? Has anybody got any second thoughts?

MR. SZYMCZAK: Don't even have any first ones.

Eccles

286

July 31, 1942

The Board met yesterday afternoon and discussed the question of reserves very fully. While the System is prepared to do whatever is necessary on its part through open market operations or otherwise to assure the success of the August financing, the Board decided that it was not necessary to decrease reserve requirements at this time, but expects to decrease the reserve requirements for central reserve cities by not less than 2 per cent sometime between August 15 and the last of August, depending upon the needs of the market. A 2 per cent decrease would amount to approximately 400 million dollars. The Board's view was based upon the fact that the full Open Market Committee will meet here next week and it feels it inadvisable to act before that meeting since reserve requirements and open market operations are so closely related. The Board's view is further based upon the opinion that the proposed August financing, calling for a billion and a half of certificates, does not require for its full success a change of reserves at this time. This is the opinion of Mr. Sproul, Mr. Williams of Philadelphia, Mr. House, as well as the opinion of the Board and its staff.

CONFIDENTIAL

July 31, 1942

DISTRIBUTION OF TREASURY BILLS

The table below shows the results that have been attained by the bill program. From March 11 to May 6 there was no change in the amount of bills outstanding, but the rate on new issues increased from about 1/4 to about 3/8 of 1 per cent. During that period holdings by reporting member banks outside of New York City and Chicago increased by 80 million dollars, and holdings by nonbanking investors increased by 60 million dollars. The combined holdings of these two groups increased from 56 per cent of the bills outside of the Reserve Banks to 67 per cent. These changes may have been somewhat distorted by the tax-date situation in Chicago, but even if allowance is made for this factor the figures indicate a considerable shifting of bills from New York City and Chicago banks to banks in other parts of the country and to non-banking investors. From March 11 to July 22 the amount of bills outstanding increased by 1.5 billion dollars. During that period holdings by reporting member banks outside of New York City and Chicago increased by 430 million dollars, and holdings by nonbanking investors increased by 510 million dollars; the combined holdings of these two groups increased to 69 per cent.

DISTRIBUTION OF TREASURY BILLS

	March 11	May 6	Change from March 11 to May 6	July 22	Change from March 11 to July 22
Rate on new issue (Per cent)	.229	.358	+.129	.368	+.139

Distribution of bills (In millions of dollars)

Outstanding	1,950	1,950	--	3,450	+1,500
Hold by:					
Federal Reserve Banks	--	116	+116	484	+484
Reporting member banks:					
New York City	401	335	-66	534	+133
Chicago	453	267	-186	400	-53
Other	384	466	+82	817	+433
Other investors	710	770	+60	1,220	+510

Percentage distribution of bills outside of Federal Reserve Banks

Reporting member banks:					
New York City	21	18	-3	18	-3
Chicago	23	15	-8	13	-10
Other	20	25	+5	28	+8
Other investors	36	42	+6	41	+5

CONFIDENTIAL

July 31, 1942

TAX-INVESTMENT SERIES B NOTES

The table below compares two suggested schedules of rates on the proposed tax-investment Series B notes with approximate current market levels. It is believed that the rate paid on the Series B notes at the end of the first six months or the first year should equal the market rate in order to induce investors to purchase the notes as an investment. It is not believed to be necessary for the rates in the later periods to equal the market rates, since the current rate will then be sufficiently high to provide a real inducement to the investor to hold the notes rather than to redeem them at the Treasury.

(Per cent per annum)

Period held	Proposed tax-investment notes				Approximate current market
	No. 1		No. 2		
	Rate per annum	Yield during period held	Rate per annum	Yield during period held	
1/2 year	.60	.60	.60	.60	.60
1 year	.96	.78	1.08	.84	.84
1 1/2 years	1.08	.88	1.20	.96	.96
2 years	1.20	.96	1.32	1.05	1.05
2 1/2 years	1.32	1.03	1.32	1.10	1.13
3 years	1.44	1.10	1.32	1.14	1.20

TREASURY DEPARTMENT

Prepared by: Mr. Turner
Mr. Tickton
Mr. Haas

INTER OFFICE COMMUNICATION

DATE July 31, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: August financing

Summary

1. Borrowing requirements are estimated at \$1.6 billions for August and \$2.5 billions for September in addition to amounts obtained by (1) the sale of savings bonds, (2) the sale of tax notes, (3) the reopening of the 1962-7 issue and (4) the sale of \$350 millions of Treasury bills a week.
2. Since savings bonds, tax notes and the 1962-7 issue will absorb most of the available funds other than bank funds, it would follow that most of the securities offered in the open-market financing in August and September and most of the bills issued will go to commercial banks.
3. Excess reserves in New York have been declining since early 1941, and are now at the lowest level since September 15, 1937. This emphasizes the desirability of improving the reserve situation before the next general offering of Treasury securities.
4. There are 2 certificate issues that suggest themselves for the August financing. Either of these issues would constitute the third of a regular series of certificates maturing between tax dates. An 8-1/2 month certificate maturing May 1, 1943 would require a 3/4 percent coupon and would sell at a price to yield about .73 percent. An 11-1/2 month certificate maturing August 1, 1943 would require a 7/8 percent coupon and would sell at a price to yield about .85 percent.

Secretary Morgenthau - 2

I. Amount of Money to be Raised

The restricted-issue borrowing programs -- savings bonds, tax notes and the 1962-7 issue -- and the \$350 millions a week bill program will provide an important part of the new money that will be required in August and September. They reduce the financing that it will be necessary to consider to \$1.6 billions in August and \$2.5 billions in September -- a total for the 2 months of \$4.1 billions. These amounts are minimum amounts because no allowance has been made for funds intended to provide a permanent increase in the Treasury working balance -- a working balance which was equivalent, on July 27, to 15 days' expenditures at the current rate.

An analysis of the cash position of the various classes of investors in the country leads to the conclusion that most of these \$4.1 billions must come from the commercial banks. A small portion of the money might be raised from other investors, but the funds of these investors will have been exploited to a very considerable extent already by the sales program covering tax notes, savings bonds and the long-term tap issue already inaugurated. Accordingly, it is to be expected that the volume of Government borrowing from commercial banks, between the bill program and the open-market general financing program will come close to \$4-1/2 billions during August and September.

II. The Reserve Situation

With the large sums which must come from banks at this stage, the importance to successful financing of maintaining adequate excess reserves cannot be minimized. Total excess reserves on Wednesday, July 29 amounted to \$2,196 millions, of which only \$253 millions was in New York City. With the exception of July 15, this was the lowest level of total excess reserves since April 13, 1938, and of excess reserves in New York City since September 15, 1937.

Secretary Morgenthau - 3

Chart I attached to this memorandum shows the movement of excess reserves since the beginning of 1936. The trend in excess reserves of New York City banks has been downward, it will be noted, since early in 1941. For banks outside New York City the downward trend started last winter. The decline in total excess reserves is accounted for primarily by the sharp increase in the volume of money in circulation and by the growth of reserves required to cover the sharp increase in bank deposits that has occurred. A brief summary of the principal factors influencing the movement of excess reserves since November 5, 1941 (the first date for which figures are available that take account of the last change in reserve requirements -- the increase on November 1, 1941) appears below.

Factors Influencing Excess Reserves

November 5, 1941 to July 29, 1942

(In millions of dollars)

Factors Decreasing Excess Reserves:

Increase in money in circulation.....	\$ 2,226
Increase in required reserves.....	1,161
Total.....	<u>\$ 3,387</u>

Factors Increasing Excess Reserves:

Increase in Federal Reserve bank holdings of United States securities.....	\$ 926
Increase in "Treasury currency".....	101
Decrease in Treasury deposits in Federal Reserve Banks.....	750
All other (net).....	<u>400</u>
Total.....	<u>\$ 2,177</u>
Decrease in Excess Reserves.....	<u>\$ 1,210</u>

Secretary Morgenthau - 4

As will be seen from the above table, the dominating cause of the decrease in excess reserves during the period has been an increase in money in circulation of \$2,226 millions. Of this increase, only \$101 millions, or 5 percent, was met by currency issued by the Treasury. The remainder -- \$2,125 millions, or 95 percent -- was met by currency issued by the Federal Reserve Banks. If the whole increase had been met by Treasury currency, or if the Federal Reserve Banks had offset the increase in Federal Reserve currency by the purchase of Government obligations, the decrease in excess reserves would not have occurred, and the Treasury would have had the benefit of the increase in money in circulation for its financing program. As it was, practically the full force of the increase in money in circulation reduced member bank reserves and thus tightened the money market.

The \$1,161 millions increase in required reserves due to deposit expansion played a secondary role to the increase in money in circulation during the 8 months just ended. It is not unlikely, however, that the relative importance of these two factors may be reversed in the year ahead when Government borrowing from the banks may be of a very much larger magnitude than heretofore.

Data on the increase in excess reserves which would be provided by lowering the New York and Chicago requirements from the present 26 percent to 24 percent, 22 percent, or 20 percent, respectively, appear in the table that follows:

Secretary Morgenthau - 5

Excess Reserves in New York and Chicago and Increases
That Would be Obtained by Lowering
Requirements in These Cities

(In millions of dollars)

	: New : York	: Chicago	: Combined
Excess reserves July 29..	<u>\$253</u>	<u>\$ 69</u>	<u>\$ 322</u>
Estimated increase in excess reserves, if re- quirements were lowered to -			
24 percent.....	\$330	\$ 70	\$ 400
22 percent.....	660	140	800
20 percent.....	990	210	1,200

The foregoing estimated increases in excess reserves that would occur if reserve requirements were lowered in New York and Chicago have been taken from a memorandum submitted to the Board of Governors of the Federal Reserve System by Dr. Goldenweiser.

III. Background for the New Issue

There are a number of maturities that might be offered for the August financing but before discussing them it might be well to turn attention to the recent market tendencies with respect to the absorption of short-term Government securities by the various classes of investors.

Secretary Morgenthau - 6

(a) Treasury bills. Commercial banks in the financial centers have been traditionally the principal holders of Treasury bills (Chart II). The recent efforts to broaden their market included the Federal Reserve Board announcement, on April 30, of a buying rate of $\frac{3}{8}$ of 1 percent. One purpose of this posted rate, which was higher than the going market rate, was to encourage a wider distribution of Treasury bills and other short-term Treasury securities than had hitherto been obtained among smaller banking institutions outside of New York City and Chicago. The table below indicates that to a degree this action was successful for since April 30 approximately 68 percent of the increase in privately-held bills outstanding was taken by investors other than banks in New York and Chicago. Purchases by non-institutional investors were small during this period, such holdings having increased by only 2 percent of the aggregate increase available.

Secretary Morgenthau - 7

Absorption of Increase in Treasury Bills
April 30 - June 30, 1942

(Dollars are millions)

	: Amount	: Percent : of total : increase
Increase April 30 - June 30.....	\$555	
Less - amount absorbed by Federal Reserve Banks.....	<u>152</u>	
Balance available for private absorption.....	<u>403</u>	<u>100</u>
Absorption by:		
1. Commercial banks in central reserve cities		
(a) New York.....	7	2
(b) Chicago.....	<u>123</u>	<u>30</u>
Subtotal.....	<u>130</u>	<u>32</u>
2. Other investors		
(a) Commercial banks out- side New York and Chicago.....	236	59
(b) Mutual savings banks....	10	2
(c) Insurance companies.....	19	5
(d) All others.....	<u>8</u>	<u>2</u>
Subtotal.....	<u>\$273</u>	<u>68</u>

Secretary Morgenthau - 8

In considering the foregoing it should be noted that commercial banks outside of central reserve cities have grown in importance as holders of Treasury bills since the latter part of 1941. This has been made possible by the greater dispersion throughout the country of Government expenditures than of receipts from either taxation or borrowing. Another factor has been the withdrawal of balances by banks outside New York City from their correspondents inside New York City, although this tendency has diminished in recent months. To some extent, this last-named factor has enabled the banks outside New York City to maintain their own reserve positions at the expense of the reserves of banks in New York City.

(b) Certificates. The issuance of certificates of indebtedness was also designed to broaden the market for short-term Treasury securities, and to cater to the investment needs of non-banking investors. Figures on the distribution of holdings of the two issues that have been offered throw additional light on the success of attempts to broaden the short-term market. The figures are shown in the table below:

Secretary Morgenthau - 9

Ownership of Certificates of Indebtedness
Classified by Type of Investor
June 30, 1942

(In millions of dollars)

Class of Investor	Amount		Percent	
	1/2% cer- tificates maturing 11/1/42	5/8% cer- tificates maturing 2/1/43	1/2% cer- tificates maturing 11/1/42	5/8% cer- tificates maturing 2/1/43
I. Commercial Banks in Central Re- serve Cities				
1. New York.....	\$ 312	\$ 386	21	24
2. Chicago.....	86	114	6	7
Subtotal.....	<u>398</u>	<u>500</u>	<u>27</u>	<u>31</u>
II. Other Private In- vestors				
1. Commercial banks outside New York and Chicago.....	441	629	29	40
2. Mutual savings banks.....	38	36	3	3
3. Insurance com- panies.....	129	63	8	4
4. Other corpora- tions, indi- viduals and trusts.....	433	353	29	22
Subtotal.....	<u>1,041</u>	<u>1,081</u>	<u>69</u>	<u>69</u>
III. Other Investors				
1. Federal Re- serve Banks...	59	7	4	-
2. Government agencies and trust funds...	9	-	-	-
Subtotal.....	<u>68</u>	<u>7</u>	<u>4</u>	<u>-</u>
IV. Total.....	<u>\$1,507</u>	<u>\$1,588</u>	<u>100</u>	<u>100</u>

Secretary Morgenthau - 10

Certificate issues have also been successful in appealing to investors other than financial center commercial banks, it appears, more than $2/3$ of each issue going to banks outside New York and Chicago, other corporations, individuals, and trusts. Mutual savings banks and insurance companies were of minor importance as certificate holders, as might well have been expected. The smaller percentage holdings by insurance companies of the $5/8$ percent certificate offered in June than of the $1/2$ percent issue of April were undoubtedly due in part to the depletion of insurance company cash by their purchases of the restricted 2- $1/2$'s of 1962-67.

A comparison of distribution of holdings of the earlier issue with that of the later one indicates that the relative importance of commercial banks outside New York and Chicago was greater in the case of the June offering than it was in the April offering. Individuals, trusts, and non-financial corporations, on the other hand, were less important holders of the second certificate issue than they were of the first, both on a dollars-and-cents basis and on a percentage basis.

IV. The New Issue

There are two certificate issues that suggest themselves for the August financing. Either of these issues would constitute the third of a regular series of certificates maturing between tax dates. An 8- $1/2$ month certificate maturing May 1, 1943 would require a $3/4$ percent coupon and would sell at a price to yield about .73 percent. An 11- $1/2$ month certificate maturing August 1, 1943 would require a $7/8$ percent coupon and would sell at a price to yield about .85 percent.

The most important objection that might be raised to the 11- $1/2$ month certificate is that it would jump the rate $1/4$ of 1 percent over the last issue. The most important point in its favor is that the higher coupon would find greater acceptance among country banks and non-banking investors than the lower coupon. A collateral point of importance is that the anchor which will have been placed on the long end of the certificate series will make it more difficult for persons who desire to readjust the $3/8$ percent bill rate to argue their case.

Secretary Morgenthau - 11

The table that follows covers prices and yields on the certificate issues referred to:

Estimated Prices and Yields on Proposed
New Treasury Offerings

(based on closing bid prices, 7/30/42)

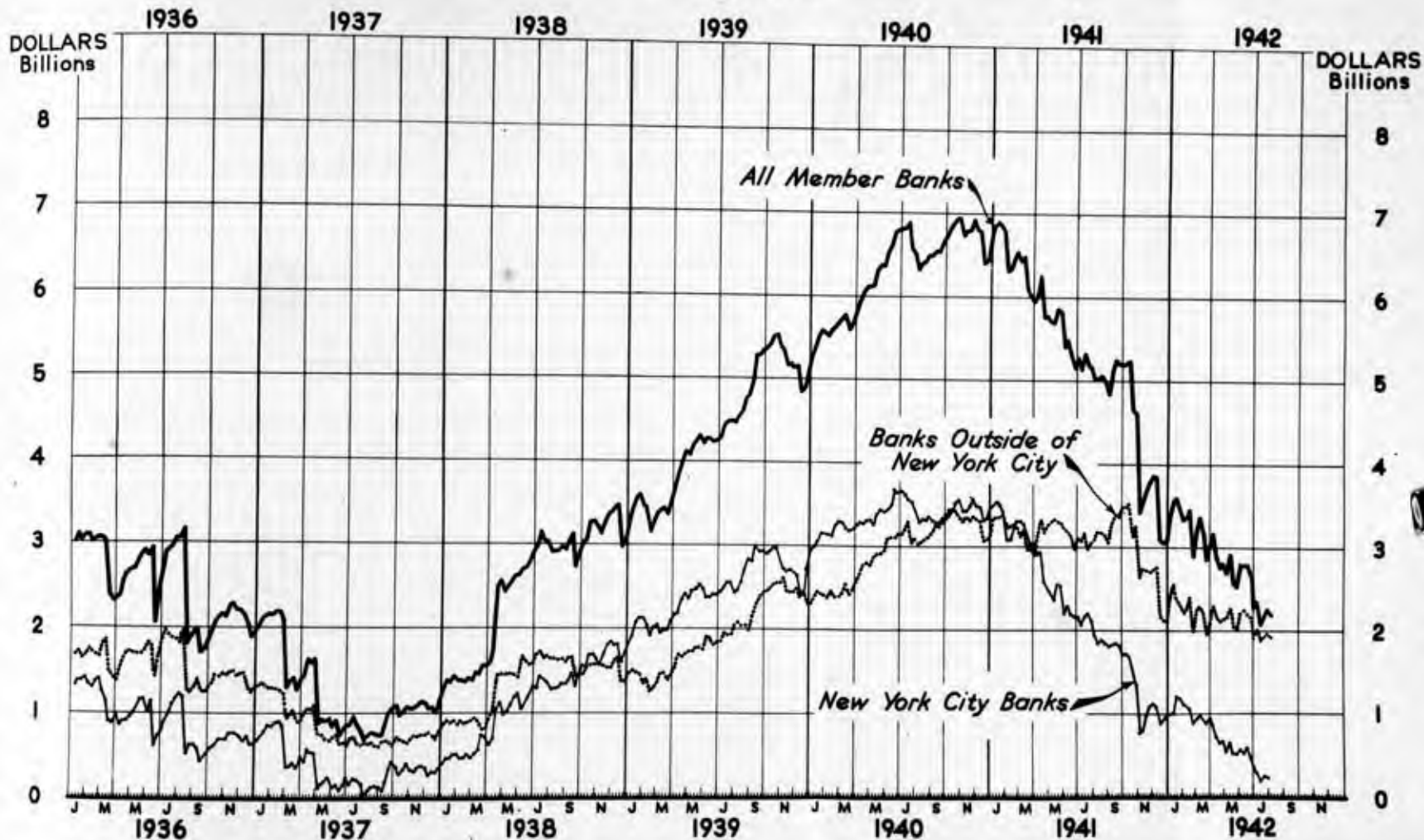
	: :Coupon: :	: :Estimated: : yield	: : Approxi- : mate : price
Certificate of indebtedness due 5/1/43 (8-1/2 months)...	3/4%	.73	100-1/64
Certificate of indebtedness due 8/1/43 (11-1/2 months)..	7/8%	.85	100-1/64

Attachments

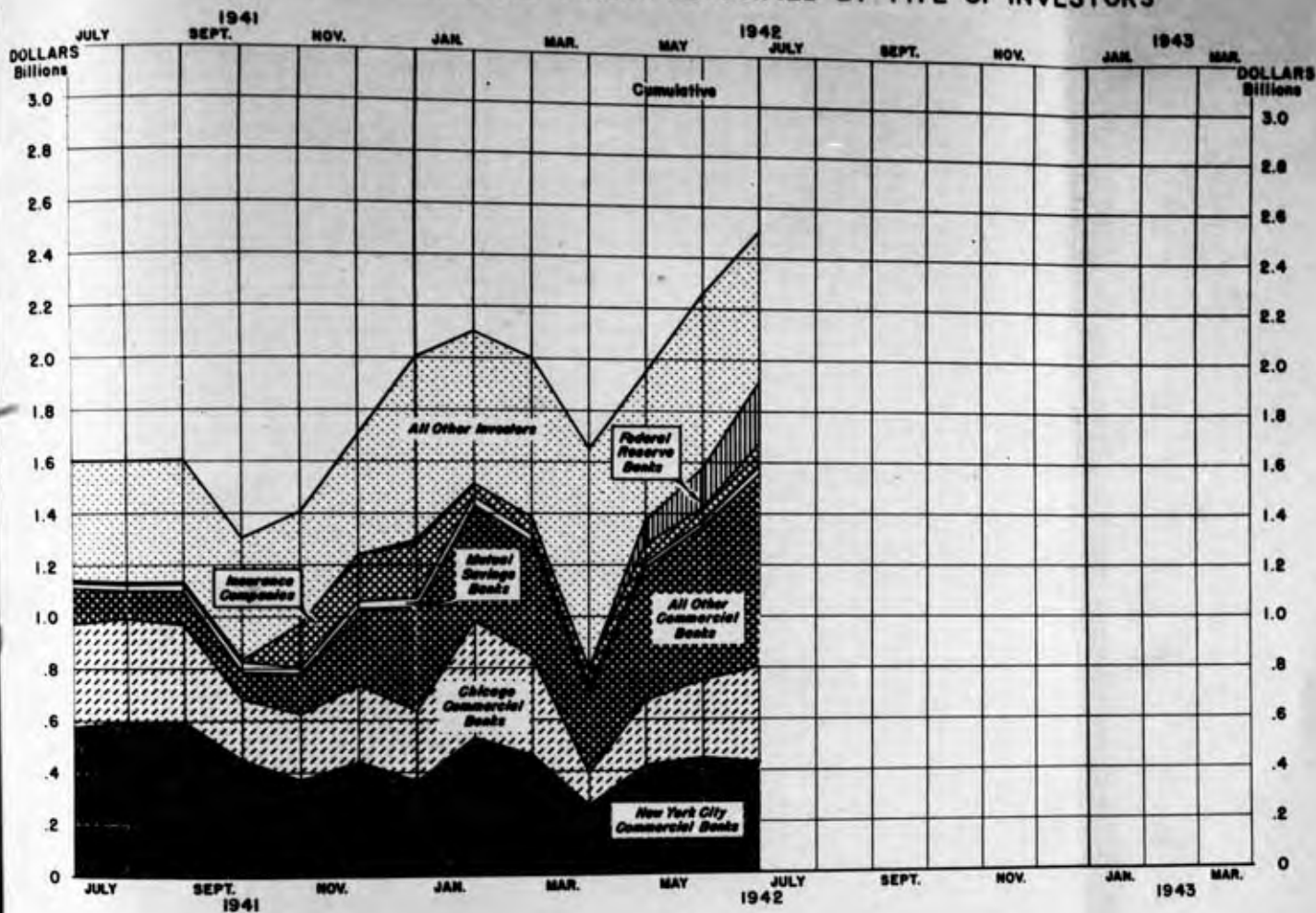
Chart I.

EXCESS RESERVES OF MEMBER BANKS

Wednesday Figures



OWNERSHIP OF TREASURY BILLS. CLASSIFIED BY TYPE OF INVESTORS



Plan of the Secretary of the Treasury
 Bureau of Finance and Statistics

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 31, 1942

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

With very few exceptions, prices of Government securities lost ground during the week ended last night, declines ranging up to $5/32$ in the case of the taxable 2-1/2's of 1952-54. The new 2's of December 1949-51 closed last night at $100-4/32$, down $2/32$ from a week ago, while the 2-1/2's of 1967-72 lost $3/32$. The restricted 2-1/2's of 1962-67 showed a decline of $4/32$ during the week, closing yesterday at $100-8/32$.

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, reflecting both amortization of premiums and, in the case of most of these issues, real market declines. Prices of longer-term bonds, however, are generally above their levels of that date. (See attached chart and tables.)

Certificates of indebtedness were firm during the week, the $5/8$ percent issue closing last night at a price to yield 0.59 percent, as compared with a yield of 0.60 percent a week ago. The average rate on the weekly offering of bills rose fractionally to 0.369 percent.

Purchases by the Federal Open Market Account during the week, amounting to \$121 millions, consisted of \$92 millions of bills, \$22 millions of certificates, and \$7 millions of taxable notes and bonds, principally the 2's of December 1949-51. Sales were confined to \$5 millions of the partially tax-exempt 2's of 1947 and bill maturities totaled \$25 millions, so that the net increase in the portfolio was \$91 millions.

Attachments.

File 7/31/42-303

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, August 3, 1942.
7/31/42

Press Service
No. 32-65

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of an additional amount of 2-1/2 percent Treasury Bonds of 1962-67, for which cash subscriptions are invited at par and accrued interest, the amount to be issued not being specifically limited. At the same time the Secretary announced that additional rights not heretofore accorded would be attached to the bonds, through provision for their optional redemption, at par and accrued interest, upon the death of the owner, for the purpose of satisfying Federal estate taxes, full particulars in such respect appearing in the official circular.

The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942. They are identical in all respects with such bonds, with which they will be freely interchangeable. The bonds are dated May 5, 1942, and bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually, with the first payment due December 15, 1942. The bonds will mature June 15, 1967, but may be redeemed, at the option of the United States, on and after June 15, 1962. Bonds registered both as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000; they will not be issued in coupon form prior to May 5, 1952, but coupon bonds in these denominations will be available and freely interchangeable with the registered bonds after that date. These bonds will not be available for subscription by commercial banks accepting demand deposits, nor eligible for transfer to such banks for a period of ten years, from May 5. The bonds may be pledged as collateral for loans, including loans by commercial banks which accept demand deposits, but any such banks acquiring the bonds because of the

- 2 -

failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks. As the offering is not specifically limited in amount, it will remain open for a period longer than customary.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the bonds now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions and security dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full.

The right is reserved to close the books as to any or all subscriptions at any time without notice. Subscriptions will be allotted in full as received, and payment at par and accrued interest from May 5, 1942 must be made on August 3, 1942, or on later allotment. Accrued interest to August 3, 1942, is \$6.16293 per \$1,000, and each day's accrued interest thereafter is \$0.0683 per \$1,000. Delivery of bonds allotted hereunder will not be effected earlier than September 1.

The text of the official circular follows:

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1962-67

Dated and bearing interest from May 5, 1942

Due June 15, 1967

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON
AND AFTER JUNE 15, 1962

Interest payable June 15 and December 15

 ADDITIONAL ISSUE

 1942
 Department Circular No. 692

 TREASURY DEPARTMENT,
 Office of the Secretary,
 Washington, August 3, 1942.

 Fiscal Service
 Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1962-67. These bonds will not be available for subscription, for their own account, by commercial banks which accept demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1962-67 issued pursuant to Department Circular No. 685, dated May 4, 1942, will be freely interchangeable therewith, and are identical in all respects therewith.

2. The bonds will be dated May 5, 1942, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on June 15 and December 15 in each year until the principal amount becomes payable, the first payment being made December 15, 1942. They will mature June 15, 1967, but may be redeemed at the option of the United States on and after June 15, 1962, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

3. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

- 2 -

4. The bonds will not be acceptable to secure deposits of public moneys before May 5, 1952, they will not bear the circulation privilege, and they will not be entitled to any privilege of conversion.

5. Bonds registered as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The bonds will not be issued in coupon form prior to May 5, 1952, but will be available in coupon form after that date, in the same denominations as, and freely interchangeable with, the registered bonds of this issue. Under rules and regulations prescribed by the Secretary of the Treasury, provision will be made for the transfer of the bonds, other than to commercial banks which accept demand deposits, and for exchanges of denominations. They will not be eligible for transfer to commercial banks which accept demand deposits before May 5, 1952. However, the bonds may be pledged as collateral for loans, including loans by commercial banks which accept demand deposits, but any such bank acquiring such bonds before May 5, 1952, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

6. Any bonds issued hereunder, or under the provisions of Department Circular No. 685, dated May 4, 1942, which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of payment, 1/ Provided:

- (a) that the bonds were actually owned by the decedent at the time of his death; and
- (b) that the Secretary of the Treasury be authorized to apply the entire proceeds of redemption to the payment of Federal estate taxes.

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the transfer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date; 2/ bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the

1/ An exact half-year's interest is computed for each full half-year period irrespective of the actual number of days in the half year. For a fractional part of any half year, computation is on the basis of the actual number of days in such half year.

2/ The transfer books are closed from May 16 to June 15, and from November 16 to December 15 (both dates inclusive) in each year.

full six months interest due on the last day of the closed period will be forwarded to the owner in due course. All bonds submitted must be accompanied by Form PD 1782,^{1/} properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

7. Except as provided in the preceding paragraphs, the bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions and security dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest from May 5, 1942, for bonds allotted hereunder must be made on August 3, 1942, or on later allotment. Accrued interest from May 5, 1942 to August 3, 1942 inclusive is \$6.16293 per \$1,000. Each day's accrued interest thereafter is \$0.0683 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

^{1/} Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

July 31, 1942

FROM: THE SECRETARY:

TO: Mr. Gaston
Mr. Paul
Mr. Kuhn
Mr. Schwarz

also Mr. Graves.

For over a week, Senator Taft has been attacking the Treasury bond program and nobody in the Treasury has taken the initiative to prepare an answer.

The General Counsel's Office is supposed, each day, to watch for criticisms of the Treasury on the Hill.

In the future, I would like to put the responsibility on Mr. Kuhn to watch for any major criticism of the Treasury or me and bring it to my attention. Mr. Kuhn would rely on the group in the General Counsel's Office for information from the Hill and Mr. Schwarz' office should watch the newspapers and bring the clippings to Mr. Kuhn's attention.

Until Mr. Kuhn returns, I would appreciate it if Mr. Gaston would assume this assignment.

If this memorandum is not self-explanatory, I should be glad to talk to Mr. Gaston and Mr. Paul. In any event, I want to be sure to talk to Mr. Kuhn about this when he returns.

To sum up, we have two groups whose duty it is to watch for this sort of thing: (1) the group in the General Counsel's Office which is supposed to watch for criticism on the Hill, and (2) Mr. Schwarz' office which is supposed to watch the press and radio. They should bring this promptly each morning to the attention of Mr. Kuhn who, in turn, after consulting with whomsoever he wishes among the 9:30 group, should then promptly bring it to my attention with recommendation.

-2-

It seems ridiculous that I have to go to somebody like Alan Barth, outside the Treasury, to get the kind of material that I need. Attached hereto you will find a copy of what I asked Barth to do for me. I must be supplied with this sort of thing from now on.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 28, 1942

TO Secretary Morgenthau

FROM Alan Barth

Subject: Senate Debate on Editorial Criticism of Congress

The Senate yesterday rose to its own defense. A front page editorial, sharply critical of Congress, appearing in the Washington Post of the preceding day, was the immediate cause of this self-vindication. But the debate expanded into a general reply to the widespread and insistent criticism of Congressional behavior by newspaper and radio commentators.

There has been of late widespread editorial criticism directed at Congress as a body. The general charge most commonly leveled is that the legislative branch of the Government continues to engage in "politics as usual" without full awareness of the war.

Editorial discontent regarding Congress became pronounced with the quickly rescinded Congressional pension plan. Later it was expressed with renewed vigor over the granting of unlimited gasoline ration cards to Congressmen. More recently, the criticism has centered around Congressional failure to enact a satisfactory tax bill, obstruction of the OPA price control program, the conflict concerning dollar-a-year men, interference with WFB in connection with

synthetic rubber production and lack of resistance to farm and labor blocs.

The Washington Post editorial specifically accused Congress of "political profiteering." By implication, it blamed the legislative branch for the inferiority of American military equipment, for a failure to place ceilings on farm prices and wages, for confusion about tires and gasoline and for a general pandering to popular desires out of concern over the approaching Congressional election.

Senator Taft was alone in expressing specific condemnation of the Post editorial. He argued that the executive departments of the Government, rather than Congress, were responsible for the shortcomings enumerated in the editorial. He defended Congressional action on farm prices, wages and rubber, asserting that "if blame attaches to anyone of course, it must attach to the administrative officials." Congress, he said, cannot be blamed. And he ended by accusing the newspaper's editor of "deliberately fomenting dissatisfaction and disunity and the kind of bitter personal recrimination that is bound to interfere with the progress of the war to a greater degree than any action that Congress may or may not take."

At the conclusion of this speech, the Senate's attention was diverted temporarily to a consideration of war production. In a very short time, however, Senator Mahoney rose to discuss the general subject of criticism of Congress by

commentators and newspapers. He declared that for several years Congress has vigorously supported the Executive, appropriating most of the money requested by him and supporting every effort of the War and Navy Departments to expand war facilities. "More than that," he said, "I believe the record will show that the Congress has been far ahead of both the War Department and the Navy Department in its desire to prepare for war."

The Senator launched upon an analysis of the way in which editorial comments are devised. In his opinion "too many radio commentators and too many editors are merely propagandists who are trying to convey to their listeners or their readers the points of view which they themselves hold, even though, in many cases, they entertain these opinions without any factual basis." He cited Raymond Gram Swing as a notable exception, but accused broadcasters in general of filling the air every night with "meaningless words."

Mr. O'Mahoney's indictment prompted Senator Chandler to interrupt with an excoriation of radio commentators in general and Upton Close in particular. Senator Lucas joined the chorus, observing that so far as the Japanese situation is concerned, Close "was just as wrong as Kimmel and Short."

Senator O'Mahoney, thus encouraged, went on to assert that "The gentlemen of the press and of the radio who think they are defending democracy are undermining the very basis of democracy because they are destroying the faith and

confidence of the people of the United States in their elected representatives and they are building the ground-work upon which totalitarianism can be reared." He suggested that radio programs may be influenced by the advertisers who sponsor them, that newspaper headlines give distorted versions of events and concluded with a glowing defense of his colleagues. "I know of no member of Congress who is putting his political fortune ahead of his country.

Only Senator Pepper interposed any objections to Senator O'Mahoney's observations. The Senator from Florida felt that Congress could scarcely escape some share of responsibility for inadequate legislation.

Senator Lucas offered the suggestion that Mr. Elmer Davis "prepare a 15-minute radio address once or twice a week for the benefit of the millions of listeners he had throughout America prior to the time he accepted his present important position."

Senator O'Mahoney inserted into the record an article from the Washington Star by T. H. Thomas to the effect that the press has been so busy bolstering morale that it has given rose-colored news and a grossly optimistic version of the war's progress. According to the Washington Post, there were never more than 25 senators in the Chamber during the progress of the debate.

MEMORANDUM FOR THE SECRETARY.

July 31, 1942.

Mail Report

The volume of mail remains quite light, with the same general topics being discussed by our correspondents.

It is interesting to know that there are probably more endorsements of the Treasury tax program than there are protests, although certain definite types of tax still are very unpopular. This particularly includes the car use tax, and 1 out of 3 letters about it contains a complaint as to theft or loss. Other letters criticize both its justice and the method by which it is enforced.

A number of letters point out the desirability of an excess profits tax on individuals, as well as on corporations. Income ceilings are frequently endorsed, one letter setting the top figure at \$15,000. The ratio of comment on joint returns is 3 pro and 2 anti. Two writers consider the withholding tax unconstitutional, and others regard it as cumbersome and sure to involve much red tape in its application. There are, however, a few endorsements of the idea. Exemptions for insurance premiums have been particularly urged, and many persons ask for an income tax stamp of small denomination to be used instead of the complicated Tax Anticipation Certificates. Suggestions for further taxes include checks, marriage licenses, photographs, radios, Unions, beer sold by the glass, etc.

There has been a new wave of economy letters, many reporting instances of extravagance in connection with local projects.

Gas rationing has brought several protests from salesmen unable to continue their work, and a few other persons,

- 2 -

Memorandum for the Secretary.

July 31, 1942.

including some labor leaders, have asked intervention of the Treasury to secure additional gas. Letters of this type usually quote commendatory letters in connection with Bond sales as their excuse for asking help.

In connection with Bonds, the 10% buttons and 90% stickers have, on the whole, been liked. Several persons urge that an individual who has pledged 10% should receive a button, regardless of what record has been made in his employer's firm. There are occasional requests for tokens instead of War Stamps. Letters both from employers and employees are more and more mentioning the tendency to cash Bonds at the expiration of the sixty-day period. Others say that buyers intend to cash their Bonds when income taxes fall due next March. There are scattered suggestions for a change in the regulations to provide that Bonds must be held for the duration, and other suggestions for counteracting this condition. Complaints as to handling Bonds have fallen off, with 11 mentioning delays to 3 complaining of failure to receive interest.

Anonymous abusive communications have been decidedly fewer during the past weeks. For the last few days, however, or since the Secretary's most recent appearance on the Hill, they have again increased to some extent. There are also many anonymous letters sending clippings of editorials or statements criticizing the Administration. Communications of this type continue to bear the postmarks of Chicago, Boston and New York, with a very few from the far West.



- 1 -

GENERAL COMMENTS

J. J. Perling, Chevy Chase, Md. * * * Mr. Secretary, as a youthful Professor of Economics, I too enunciated the theory of scarce goods and inflationary effects of "excess purchasing power". But that text-book sophistry is not applicable to intelligent, far-seeing, industrial America today. The best proof is that, already during 1941 and in the first half of 1942, the national income has increased by billions and there are still nationwide "reduction sales" of consumer goods - and no stampede to buy. * * * Inflation comes when holders of a national currency are beset with doubts about the value of their money - and panic-stricken about future purchasing power, people rush to convert into material things the currency in which they have lost faith. Or when food essentials drop to famine levels. * * * Price ceilings, properly adjusted, and rent control should keep the cost of goods and shelter within reasonable bounds. There is not the slightest logic in the deliberate attempt to lower the standard of living by a planned reduction - through excessive taxation - of their income. On the contrary, unless plant facilities or manpower are needed for the war effort, production for civilian use should be encouraged to absorb unemployment and maintain morale. How can it serve the Nation or aid in winning the war to have tens of thousands of unemployed in New York or in other cities? Tax the American people to the limit necessary to finance Victory, but not to lower their standard of living. * * * Let consumer goods be produced where men and machines cannot be utilized for the war effort; let FREE Americans decide for themselves what they need. * * * This is not from a partisan critic of the Administration, but from the author of "The Third Term Legend" which dared to predict that Munich was a surrender, and that Franklin Roosevelt would be the leader to consolidate South American opposition to the Nazis -- this in 1938.

A. K. Getman, Associate Administrator, State Education Dept., Albany, N. Y. * * * You are doing a magnificent piece of work in public finance. You are putting real vitality into the President's seven-point program. * * * Indeed, it seems to me that your leadership in that office is more closely in step with the needs of the people than that of any of your predecessors. * * *

- 2 -

Favorable Comments on Taxation

Edward Zuelke, Chicago, Ill. I would like to submit a tax bill that I believe would be fair and stop a lot of chiseling. This must be a payroll tax and should vary as to the individual income. There should be no exemptions such as for married persons or for children. There should be no surtax. We should also have a 5% Sales Tax on everything but food and medicine. We are going to have to pay for this war, one way or the other, so let's start now, with every one paying his share.

C. W. Hendel, New Haven, Conn. Good talking! That Tax Statement to the Senate Committee was good argument. The "special privileges" way of presenting the case was excellent. You have got behind the plausible appearance of individual right in the case of joint returns and exposed the "hideout of tax exempts". * * * I have tax exempts myself because I never knew how to buy safely outside, and my wife and I will pay much more with joint returns - but it is the right thing to do, and you ought to have this reassurance from some of us that we agree with your reasoning and principles. "The pre-Pearl Harbor exemption" is a wonderful stroke of pleading, and "special tax shelters".

L. N. Minks, Oakland, Calif. I'm sure the House fails in estimating the attitude of the public in general, relative to taxes. I firmly believe that the masses would rather pay twice the taxes they are now paying. This opinion comes to me continually from the common ranks. I believe if the Government actually knew how the middle-class feel about it, we would raise our taxes, carry our war debt as we go. Our taxes at present are only about 50% of what they should be. The working man would rather pay twice the taxes to help in the war effort while he is working, and making good money, than to be encumbered with a large war debt to pay after the war is over.

- 3 -

Lillian S. Nadal, N.Y.C. I wish to express my support of your and President Roosevelt's tax program, which is based on the ability-to-pay, and which excludes a general Sales Tax. * * * Please continue your fight against those who would pass a Bill favoring special interests and disregarding the peoples' ability-to-pay.

Lewis Merrill, President, United Office and Professional Workers of America, N.Y.C. The statement you made to the Senate Finance Committee was one of the most important documents which has appeared in recent months, and certainly, if anything can, this should rescue the President's Seven Point Program, which, being indivisible in nature, must be put into entire operation to prove efficacious. * * * I think that your statement makes it possible to enact the Program into appropriate legislation.

Unfavorable Comments on Taxation

Brown Motors, Inc., Reno, Nev. (Night Letter) We are distributors for Packard, Desota, Plymouth motor cars and International trucks. Last year our sales volume amounted to over one million dollars. The freezing of automobiles and trucks cut our sales down to practically nothing this year. To date this year we have delivered only nineteen new automobiles. As of June 30 we are paying interest, insurance, and warehouse charges on \$153,754.00 worth of new motor vehicles; we are paying \$1,390.00 a month rent for various locations covered by leases. On July 23 your local Revenue Office mailed us notice of tax lien in the amount of \$10,398.81, which represented the total amount of income and excess profit tax for 1941. Unless we can immediately get this lien released, it will put us out of business. We have always paid our taxes in the past. * * * The Collector here was advised a few days previous to this lien that we were working on a deal with a large Government contractor, which would make it possible for us to pay the tax in full. We also advised the Collector at that time that we were arranging for the R.F.C. to make us a loan covering carrying charges we had advanced on new cars and trucks so far this year. At no time were we ever threatened with a lien, and it came out of a clear sky. If this lien can be released immediately we will be able to stay in business and our income and excess profit tax for 1941 will be paid before the end of this year, in full. * * * Thanking you for immediate action in this case so that we may remain in business.

Dr. H. Fielding Willinson, Bellingham, Wash. We understand there are some advocates in both the House and the Senate for allowing some deduction on income tax for insurance premiums. We don't think we are mistaken when we say that at the present time, and for some years past, income from an annuity is taxable the same as unearned income. We have never understood the rationale back of that ruling. * * * At the present time we are building an annuity which will pay us \$200 a month at the age of 65. Each year when we pay income tax, we pay a tax on the money we put towards

- 5 -

that annuity. Then when we start getting \$200 a month at the age of 65, we again pay income tax on whatever amount we receive over the exemption at that time, which at the present outlook would appear to be on nearly all of it. * * * But by comparison, had we placed the same amount of money each year in a savings account or Government obligations, at the age of 65 we would only pay an income tax on the interest earned, and not the principal sum, as we doled it out to ourselves at regular intervals. * * * We feel that some ruling should be made whereby that portion of an annuity which represents the principal sum of savings should be exempt from income tax, and a tax only applied on whatever the improvement amounted to over the period of years the savings accumulated. * * *

H. D. Tudor, President, Red Elephant Mines, Inc., San Francisco, Calif. I am writing this letter to you and hope you will read it personally as I can't believe you are not sufficiently fair minded to see the justice of the complaint, and do something before it is too late. * * * New mines that have no previous production record are being unfairly legislated against by excess profits tax. The large corporations are not hit hard because they have been in business many years, with established earning records. Comes the little fellow with a business just starting and you plan to take his shirt, perhaps not intentionally, but by interpretations and your rulings. Take for instance our case. This mine was started last year when there was exemption on strategic metals because the Government wanted to encourage production. Relying on this exemption, we opened this quicksilver mine, and borrowed \$85,000 to get it into production. Having no earnings record, all our income, except 8% invested capital, is excess profits, and how can we pay off our borrowings? It is these little operations that one Department of the Government encourages all they can because they need the production for war purposes, and another Department takes away in taxes nearly all they make, and prevents their going ahead. Canada has this same problem and gives three years' exemption to encourage such, and then when they are firmly established, start taxing like any other corporation. * * * I know a dozen mines, possible producers of strategic

- 6 -

metals, shut down for just this cause. If they borrow money to produce, and make good, taxes take so much profit that they can't pay their debts and stand in danger of losing their property. * * *

Wm. Appleby-Robinson, Nantucket Island, Mass. Your statement to the Senate Finance Committee was a masterly exposition of the tax situation, but the remarks re the "Tax Exempts" ignores the fact that these securities were borrowed, or rather, sold, at a much lower interest rate than the non-tax-exempts, and to tax them now would be a breach of contract. The fact is also ignored that, in making "Joint Returns" mandatory, a person is being taxed on property over which he (or she) has no legal control. If a man splits the income he makes with his wife, that is one thing, but to tax him on his wife's personal estate, which she owned before marriage, is just as unethical as to make the partners in a business lump the whole of their respective incomes for the purpose of taxation. * * *

- 7 -

Favorable Comments on Bonds

Harry I. Cohen, Houston, Texas. (Telegram) I respectfully suggest that payment in War Bonds be added to the options offered by the Veterans' Administration on maturing endowment and similar lump sum Government Insurance policies. I have an endowment policy maturing September 1, and would be proud to receive payment in Series E War Bonds. I am sure that thousands of other veterans of World War I would feel the same way about it. * * * Unable actively to participate because of physical disability, I offer this suggestion with the hope that it may prove workable and contribute toward winning the war.

F. R. Moyer, Treasurer, Pennsylvania Thresherman and Farmers' Mutual Casualty Insurance Co., Harrisburg, Pa. * * * Our Finance Board met on Monday and we purchased \$25,000 worth of Series G Bonds through the Dauphin Deposit Trust Co., Harrisburg, Pa., and \$25,000 through the Valley Trust Company, Palmyra, Pa. Earlier we had already bought \$50,000 worth of these Bonds, and you will find that in 1941 we bought \$50,000. We are willing to help at all times, and we note what you say about our employees. We can assure you that at this time we have approximately 65% and we are working to get this still higher. We are going to do all we can to help pull this over, but we think at times that the Government is pretty extravagant. And if this treatment is to go on, which is dished out by Leon Henderson, the gasoline king, I am sure that the Pennsylvania people will not be so strong in buying Bonds. We have about 45 employees that go out on the road in Pennsylvania, adjusting accidents and claims, and also auditors, auditing payroll accounts, and on this "A Basic Gasoline Ration" card, which gives them eight tickets to pull off, and four gallons on a ticket, making thirty-two gallons - all told, one hundred and ninety-two gallons - and this to last until September 22, 1942. Now this is utterly out of the question. Our men make from 50 to 250 miles a day in Pennsylvania to various places. * * * We would appreciate it very much if you could get in touch with the celebrated Leon Henderson and tell him

- 8 -

that the people in the East cannot understand why the gasoline must be muzzled down on them, and yet the Western part or half of Pennsylvania has all the gas that is needed. * * * Pennsylvania has always been standing up in the front - was also at the front at the time of the Revolution, and had many good men help to fight the Red Skins and make United States what it is. Hope you can do something for us. If you cannot, I am afraid our whole force will have to quit buying Bonds, as well as the Company. I do not like to write in this way, but the treatment we are getting is more red tape than a Pennsylvania Dutchman can devour.

Carl F. Clarke, President, Monroe Steel Castings Company, Detroit, Mich. * * * Here in our plant we have 328 employees and 324 are Bond buyers, and the purchase of Bonds now equals 7.4% of payroll. The boys are getting after the four who are not now Bond buyers, and we are endeavoring to increase the percent of purchase to payroll. * * * It appears to the writer that much of the Bond selling advertising is like circus bally-hoo, and does not reflect the seriousness that the occasion warrants. Perhaps circus bally-hoo is what the people like best -- they voted for it and have stood for it for three terms. It has been demonstrated several times that the people are way ahead of the Government in patriotism. The people are willing to sacrifice, but the party in power will not deal honestly with taxes, will not do the necessary thing in regard to farm prices, or take any action in an effort to curb labor in its holding up of defense production, or place a ceiling on wages until after election -- all politics! * * *

M. L. Blumenthal, Elkins Park, Pa. While talking to one of our Soldiers yesterday, I was told that his outfit had subscribed 100% to the purchase of War Savings Bonds, and that the same is true of many other outfits in the same Camp. Unless there is something against its use, this would seem to be marvelous advertising and propaganda material. I have never seen or heard of any publicity given to the fact that not only are our boys fighting for us, but also buying securities to finance the war effort. This should be highly inspiring to the public, outside the Armed Services.

- 9 -

Philip F. Walsh, War Savings Bonds Coordinator, Southern California Water Company, Los Angeles, Calif. We of this Company are proud of the part we are taking in the Treasury Department's Pay Roll Allotment Plan. The enclosed letter is one proof of our results so far. * * * Mr. John Nero is an employee in the Construction Division of this Company, and is an elderly immigrant Italian laborer who literally earns his money by the sweat of his brow. From his very nominal salary, earned by digging ditches, he has pledged a deduction of \$1.40 for every day he works. His deductions started from the inauguration of the Pay Roll Plan, and to date he has purchased five \$25.00 Bonds. At present he averages two \$25.00 Bonds a month. * * * (Letter from John Nero). * * * "Thank you very kind for the button which you have sent to me. I shall always have it with me to indicate my Bond plan. I have told every one about my plan. I hope that we have new company. To speed one Bond 2 weeks ahead, if at the end of pay day the money deducted does not amount \$18.85, and it need one, to, 3 dollars, deduct them of the following week. I am very proud of my Defense Bond plan. A party told me the other day - you are doing that only to save money. That is not my object - it is to help win war."

Harry Halden, Chairman, War Bonds and Stamps Committee, Lakeland, Fla., sends letter addressed to him by J. A. Greenwald, Jr., Personnel Director, Food Machinery Corp., Lakeland, Fla. -- We are in receipt today of a pamphlet issued by the War Savings Staff, Treasury Department, outlining the Bond drive for factory by General Motors employees. We would like to submit comparative figures for this concern, who, as you know, is engaged in the manufacture of Amphibian Tanks for the U. S. Navy. The General Motors letter states that at the end of their drive, Bond purchases as a percent of total payroll was 6.9%. For Food Machinery this figure is 11.2% at present, and is apt to rise in the near future. The percent of employee participation for General Motors is 99.2%. For Food Machinery it has been 100% ever since early February. * * * I am hopeful that some official governmental recognition of our achievement here may be made in such a form that it could be posted on our factory bulletin boards. We did receive a certificate stating that over 90% of Food Machinery employees are now participating, but our boys are so proud of their 100% participation that they will not permit me to post the above-mentioned certificate. * * *

- 10 -

Unfavorable Comments on Bonds

R. W. Smith, President, Orange & Rockland Electric Co., Monroe, N. Y. In regard to your 10% subscription plan of gross payroll, we are quite certain you are right insofar as the majority of employees of plants manufacturing war products are concerned, or for those persons employed in projects similar to Stewart Air Field near West Point. Incidentally, this particular project is giving a good many local people a sick feeling because of the huge amount of money being spent to cut down forests, move hills and fill in valleys in order to make a level air field of that particular spot, instead of locating their field on much more nearly level ground nearby, where the cost would have been only a fraction. This sick feeling I speak of is due to many local people believing that much more money will be spent in this moving of mountains than all the people of this county, and several adjacent counties, can possibly contribute, and the money they pledge does not directly help the war effort in any particular way. * * * We hear of young boys employed as oilers on shovels getting \$90 per week, and shovel operators \$22 a day, while farmers are losing their help to work at Stewart Air Field for \$8.00 and \$10.00 a day. Yes, these people can afford to pay the 10% you suggest, but people employed locally by the little local electric company or the local telephone company or the employees of stores and local garages are not receiving these high war wages, overtime and bonuses. * * * In my own case, most of my life savings are invested in the common stock of this company, which is not earning or paying any dividends, and I have certain fixed obligations such as interest on borrowed money and on mortgages, taxes, insurance premiums, and the only thing I can do is to discontinue life insurance in order to eliminate paying the premiums so as to pay Federal taxes. The prospects are anything but bright. * * *

James M. Portmore, Wellesley, Mass. The writer has operated for several years as a one man business and has always made deliveries in my car (a passenger Sedan) - this being the most economical method of combining sales and deliveries. * * * The local boards, including the

- 11 -

State Board, rule that they can give no gasoline for delivery purposes, even as in my line - essential operating supplies for war industries, if used in a so-called passenger car. There must be many others in my class - who, if forced to buy a light truck for deliveries, will find that their expenses will eat up all and more of the income tax paid last year, and there cannot possibly be any this year, if so operated. Also, if a truck is required, it means four more tires to grind out and that uses the cash that might otherwise be used to buy War Bonds - in fact, we agreed to purchase \$500 worth of Bonds each year for the duration, but have been holding off to see what cooperation we could get from the Government, but as there appears to be none, our agreement to buy Bonds, of necessity, has to be cancelled and the cash used to buy a truck.

Junker Spencer, Beaumont, Tex. I have purchased to date approximately \$2,000 in Defense Bonds, but I have not bought a single Defense Stamp of any denomination because of the slight inconvenience. * * * I know that I should not think in such terms, and yet I must admit that I do. And I believe that others feel the same. By inconvenience, I mean in the first place, that I seldom find myself at a place where Defense Stamps are sold. At the bank, I withdraw money at a window far from the Stamp window. At the Post Office, the Stamp window is not on my regular path and there is always a crowd waiting. I seldom go into the Department Stores which have Victory Booths. * * * My wife, who frequents Department Stores and places where Stamps are sold, buys no Stamps either, in spite of the fact that she could carry them much easier than I can. She prefers to put coins in a coin bank and buys a Bond when the bank is filled. * * * Why not, in addition to Defense Stamps, issue Defense Coins of the same denominations as the present Stamps? There is, of course, much less trouble in handling coins, and in carrying them too, once purchased. Cashiers of every store, cafe, club, or any place that changes money could have these Defense Coins for sale or exchange for part of the change given back to the customer. * * *

- 12 -

Franklin Batdorf, College Station, Tex. * * * I am an instructor in English at the Agricultural and Mechanical College of Texas. The administrative officers of the College have made it known to the instructors that the latter are expected to devote 10% of their income to the purchase of War Bonds, and that the Treasury has been promoting this policy of pressure through the employer. Please understand: I am willing to devote more than 10% of my income to the purchase of Bonds if such action will make even the slightest contribution to the winning of the war for the United Nations, and to the ultimate destruction of Nazi-Fascist ideology. * * * My point is that the policy of the Treasury is dishonest - it pretends to make the purchase of Bonds voluntary. Actually, it brings pressure on the individual in the form of veiled threats of loss of position in case the Bonds are not purchased. * * * The "voluntary" support which is obtained for the Bond purchasing program by these methods is too much like the "voluntary" support which Hitler got by the plebiscite in the Saar. You may say that the Treasury does not possess the power to put a compulsory program into effect. Quite right. But the solution to the problem is not for the Treasury to usurp that power in this irregular fashion. * * * One thing which seems not to be realized sufficiently in Washington is that the American people do not want the special favors and political plums which the politicians seem anxious to hand out nowadays in the form of moderate policies and exemptions from sacrifice. The American people want to do what is necessary for victory. If we must have compulsory savings, then let us have compulsory savings; but deliver us from this weak-kneed, dishonest, Nazified policy under which we are now suffering.

July 31, 1942.

My dear Lieutenant Kamarek:

I just wanted to let you know that the memo you sent me recently was one I particularly enjoyed reading. I hope that if you have an opportunity to jot down your comments and observations, you will send them to me in the future. I should be much interested in any notes you might be able to make, and trust that you will let me hear from you from time to time.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

First Lieutenant Andrew Kamarek,
Field Artillery,
9th Battalion, 3rd F.A.F.R.,
Fort Bragg, North Carolina.

GHF/dbs

File in Diary

July 31, 1942.

Dear Dave:

It was a pleasure to have your letter and to know that you were not only busy, but enjoying the work that has been given you to do. We miss you very much from this part of the world, and hope that you will always send us any news you may be able to pass on.

The Treasury is a busy place, as usual, with taxes and bonds occupying much of our thoughts and time.

Thank you for your word of greeting to Mrs. Morgenthau, and to others here in the Treasury. I send warm regards from us all and shall look forward to hearing from you again whenever you are able to write.

Sincerely,

(Signed) H. Morgenthau, Jr.

Captain Dave E. Morris, Jr.,
Maj. Det., A.P.O. 501,
c/o Postmaster,
San Francisco, California.

GHY/abc

File in Diary

Hdq. Det.,
A.P.O. 501
c/o Postmaster
SAN FRANCISCO. CALIF.

July 14, 1942.

Dear Mr. Secretary,

I have been meaning, for such a long time, to write you that I am now almost too embarrassed to do it. However, as such a feeling obviously does not make sense I am writing and at the same time apologising for not doing it sooner.

Whenever I read news items about the Treasury they fill me with special interest and are constant reminders to me of the wonderful work you are doing and the very happy and interesting time I had working with you on small bits of the program. I hope my successor is doing the fine job I believe he could do and, as a matter of fact it should be much better than what I did.

There is very little publishable news because of censorship regulations and about all I can say is that I am in charge of one Section and that the work keeps me busy.

With kind personal regards to Mrs. Morgenthau, yourself and my other associates at the Treasury.

I am,

Very sincerely yours,

David H. Moring

The Honorable,
The Secretary of The Treasury,
WASHINGTON, D.C.

Capt. Dave H. Morris Jr.
O-198837 A.U.S.,
Hdq. Det.,
A.P.O. 501,
c/o Postmaster,
SAN FRANCISCO, CALIF.



Opened by U.S. Censor

EXAMINED BY
THEATRE CENSOR

The Honorable
The Secretary of the U.S. Treasury,
WASHINGTON, D.C. U.S.A.

Person

331
10

*Control by
back to moving
Capt. A-H-65*

WAR DEPARTMENT
HEADQUARTERS OF THE ARMY AIR FORCES
WASHINGTON

July 31, 1942

The Honorable,

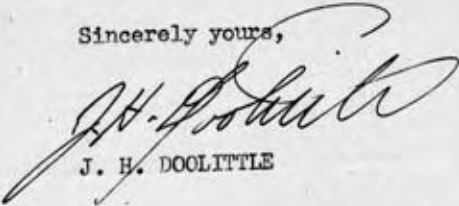
The Secretary of the Treasury.

Dear Mr. Secretary:

Many thanks for your kind letter of July 29th enclosing the autographed picture of yourself and our boys at Walter Reed. Everyone was honored by your presence and I will prize the picture with my most treasured mementos of the Tokyo expedition.

With all good wishes, I am,

Sincerely yours,



J. H. DOOLITTLE



July 29, 1942.

My dear General Doolittle:

It was very good of you to autograph the pictures taken at Walter Reed Hospital when you bestowed the decorations on our wounded heroes there. I am very glad to have these as a memento of a most interesting and inspiring occasion.

It has given me great pleasure to autograph one of the pictures showing the entire group, and I am sending it to you with my compliments.

Sincerely,

(Signed) H. Morgenthau, Jr.

Brigadier-General James H. Doolittle,
Army Air Forces,
Maritime Building,
Washington, D. C.

Enclosure.

OMF/dbs

By Messenger

Chart 9:22

7-30-42

334

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 31, 1942

TO Miss Chauncey

FROM Julian Street, Jr.

Attached are correspondence and actual statements from all of the wives and widows of former Presidents of the United States, except Mrs. Roosevelt's. Although Mrs. Roosevelt didn't feel that she was up to it, I still believe there is a possibility she may change her mind.



C
O
P
Y

UNITED STATES SENATE

June 1, 1942

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

My dear Mr. Secretary:

I have received your letter of May twenty-fifth,
and I enclose herewith a statement which you may use
over my mother's name, if it is in satisfactory form.

With best wishes,

Sincerely yours,

s/ Robert Taft

RT:Mc
Encl.

STATEMENT FROM MRS. WILLIAM HOWARD TAFT

In this message I have written what I think my husband would have wished me to say about the purchase of War Bonds and Stamps in this great crisis in the history of our country.

The United States is engaged in the greatest war of modern times. Every American I know is determined that it must be carried to a successful conclusion. There is no stopping short of complete victory. Obviously we have to manufacture more planes, tanks, ships and guns than Germany, Italy and Japan put together, and transport them where they can bring an end to this terrible war.

The Government can't make these munitions without money. Some of it they can raise by taxes, and taxes are going to be higher even than they are today. But still they have to borrow a large part of the total expenses, and it is your duty and mine to lend the Government all the money we can save over the strict necessities of life.

Only a percentage of the people can engage in active war work, but here is something that everyone can help in. It is the most important thing that most of us can do to help win the war.

After all, it isn't so hard to save now, because a lot of things are not available at the stores. We can't buy as much gasoline or as many tires. Most people probably spent about twenty per cent of their income on keeping up the automobile, and most of that can be saved, and used to buy United States War Bonds and War Savings Stamps. Besides helping the Government, it is the most sensible thing to do. No one knows what conditions may be after the war.

- 2 -

Some people will be out of work and will need the money. Others can cash in their bonds and buy the peacetime goods that they can't buy now.

So I am very glad to join in the appeal of the Government for a larger purchase of War Savings Bonds and Stamps. It is necessary to preserve the nation which we have inherited from the past. It is necessary to preserve the American life and traditions which our boys are fighting for on every continent.

C
O
P
Y

2340 S Street, N. W.
Washington, D. C.

30th May, 1942.

My dear Mr. Secretary:

I am very happy to comply with the request contained in your letter of 25th May asking if I, "as the wife of a former President", would give you a message "regarding the importance of the War Savings effort."

I know of no better way I can do this than to quote the first paragraph of the Proclamation written and issued by my husband on October 12, 1917, declaring October 24th, 1917, to be Liberty Day:

"The Second Liberty Loan gives the people of the United States another opportunity to lend their funds to their Government to sustain their country at war. The might of the United States is being mobilized and organized to strike a mortal blow at autocracy in defense of outraged American rights and of the cause of liberty. Billions of dollars are required to arm, feed, and clothe the brave men who are going forth to fight our country's battles and to assist the nations with whom we are making common cause against a common foe. To subscribe to the Liberty Loan is to perform a service of patriotism."

The need today for buying War Savings Bonds seems to me even more urgent than it was to buy Liberty Bonds; and I am sure my fellow countrymen will respond to the present call in the same enthusiastic and patriotic way they did in 1917.

Sincerely yours,

s/ Edith Bolling Wilson
(Mrs. Woodrow Wilson)

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

623 Mirada
Stanford University
California

July 21, 1942

The Secretary of the Treasury
Washington, D C.

My dear Mr. Secretary:

On returning to Stanford I find awaiting me your recent letter in which you ask my opinion on your campaign for the purchase of War Savings Bonds and Stamps. I am very glad to give it.

We are in this war. The only way out is to win it. It cannot be won without financial support to our government. And that support will require every resource we possess. Subscribing to the War Savings campaign by the purchase of Bonds and Stamps is one very necessary support. We should buy them not because of the appeal as an "investment", but because it is vital to win the war. And the sacrifice of our savings is but a small sacrifice beside the sacrifice that our men are making on the battle fronts.

Wishing you success in your campaign.

I am,

Yours sincerely,

(signed) Mrs. Herbert Hoover

Copy

C
O
P
YWESTLAND
PRINCETON, NEW JERSEY

27 May '42

To the
Secretary of the Treasury,
Washington, D. C.

Dear Sir:

Of course I stand ready and anxious to do anything I can to help this stupendous War effort and to cooperate in any way in my power with the Governments places.

I hope Mr. Street will come with about what you would like me to say, as I am not equipped with much besides "You - We - Must - Buy!"

I expect to be here for a couple of weeks, and barring anything very serious and unforeseen, I can arrange to see Mr. Street at any time convenient to him.

Very truly

s/ Frances F. Cleveland Preston.

(Mrs. Thos. J.)

For some years my home has been in Princeton, where my first husband, Grover Cleveland, spent the last years of his life. Twice now I've seen the young men of this peaceful university town finding themselves for war. They are fine young men who came to college for training which would make them better and more useful citizens.

From my talks with them and with those who teach them, I know how today their minds are more than ever focused on pioneering for a better life, not only for themselves, but for everybody here in their own country. Once again they go to battle for the right to live the kind of life they believe in, the kind of life their fathers and their fathers' fathers pioneered and fought to build.

What is it that makes these young men determined to fight this war to a victorious finish? For one thing they are deeply offended. In their own words, they do not intend "to let anybody push them around." What they are really fighting for is their ideals. They have seen how the Nazis slaughtered truth, justice and freedom in all lands they have invaded, and most of all in Germany itself. The light of reason which once shone from such of their Universities as Heidelberg and Bonn has been snuffed out by infamy and corruption. I know from reading the editorials in the Princeton college paper how bitterly these students resent the vicious Nazi attacks on their beliefs. They are prepared to fight and die in order that their ideals may live.

Now comes the question: How much do their ideals mean to you and me? What are they worth to us?

- 2 -

There is one very simple yardstick of the extent to which we are willing to back up the young men of America and their beliefs. It can be measured by the volume of our voluntary purchase of War Bonds and Stamps.

By investing in these Government Bonds, we are doing two definite things for our young men. We are helping to purchase the implements of war they need for victory. We are also helping to build a strong and stable future in which they can again take up the peaceful and constructive labors which they have for the present laid aside.

(Signed) _____

Mrs. Thomas Jex Preston.

C
O
P
Y

MRS. BENJAMIN HARRISON
29 EAST 64TH STREET
NEW YORK

May 28th, 1942

Hon. Henry Morgenthau, Jr.
Secretary of the Treasury

My dear Mr. Secretary -

If I can be of service to our Government in these trying times, you may be sure I am happy to do so.

I will be very glad to write a message in regard to the purchasing of War Saving Bonds and Stamps.

You say Mr. Street or one of your Representatives, will call and give me the necessary details and information and if he will telephone me or write me I will make an appointment to meet his convenience.

Believe me

Very sincerely yours,

s/ Mary Lord Harrison

O

O

P

Y

MRS. BENJAMIN HARRISON

29 East 64th Street

New York

Before becoming President of the United States, my husband, Benjamin Harrison, was a soldier. When men were called in the Civil War, he recruited a regiment and went with them as their Colonel. He rose to the rank of Brigadier General.

His grandfather, the 9th President of the United States was one of America's most famous warriors - well remembered as the hero of the battle of Tippecanoe - which he won over a vastly superior force of Indians.

My own ancestors fought in the Revolutionary War with the Pennsylvania troops. My mother's brothers and my own half brothers fought through the Civil War.

These facts bring the great American tradition of willing sacrifice for great causes close to me. That tradition is as strong today as it has ever been in the past. We have gone into this war grimly, resolutely, knowing that by giving our best efforts on the battlefield, in the factory and in the home, we, the united free peoples of the world, shall be victorious.

There is no one who cannot serve in the great struggle, and there is one effort in which we can all enlist - an effort which can combine an adventure in economy, ingenuity and sacrifice.

Each one of us can directly and immediately help our country by saving as much as we possibly can, and investing to the full extent of our ability in War Bonds and Stamps.

This is our opportunity to serve our Country and the cause of freedom everywhere.

s/ Mary Lord Harrison

(Mrs. Benjamin Harrison.)

345

Mrs. Coolidge did not answer The Secretary's letter but talked to Mr. Street on the phone and said she would be very glad to write a statement.

STATEMENT FROM MRS. CALVIN COOLIDGE

1. We like the knowledge that the money we put into them is buying War materials for our army, navy and air force.
 2. We are doubly pleased because we know we are placing our money in the safest investment in the world.
 3. We like War Bonds because the United States Government guarantees to pay us back every single dollar we invest -- plus good interest.
 4. That means that for every THREE DOLLARS we invest today the Treasury Department in ten years time will give us back FOUR DOLLARS.
 5. War Savings Stamps also appeal to our sense of thrift and give us a place where we can save our pennies, dimes and quarters. (But we try to convert our Stamps into Bonds as soon as possible because you don't get any interest paid on your Stamps until you've turned them in for Bonds)
 6. Several older women I know are buying them regularly every two weeks or every month with the idea that they are acquiring a competence for their later years; younger married women are thinking of them in terms of an educational endowment with which to send their children to college. There are a lot of other arguments -- many of them very important -- why the people of this country should buy Bonds. Every dollar you put into them gives our nation just that much more strength with which to crush the Axis.
- This is, of course, the thing we all want to do most of all. But at the same time let us not fail to appreciate what an attractive business opportunity our Government is giving. Our Dollars invested in War Savings Bonds are a favor that works both ways.

Approved
June 26, 1945.

s/ Grace Coolidge

Analysis of Exposure to Payroll Savings Plans

July 25, 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.....	481	485	99
(2) Firms with 500 to 4,999 employees.....	5,099	6,152	83
(3) Firms with 100 to 499 employees.....	<u>21,038</u>	<u>27,056</u>	<u>78</u>
(4) Subtotal - large firms.....	26,618	33,693	79
(5) Firms with less than 100 employees.....	95,275	*	*
(6) Total business organizations.....	121,893	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>121,893</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,826,262	*	*
(2) Firms with 500 to 4,999 employees.....	6,833,094	*	*
(3) Firms with 100 to 499 employees.....	<u>4,895,173</u>	*	*
(4) Subtotal - large firms.....	19,554,529	*	*
(5) Firms with less than 100 employees.....	<u>2,474,370</u>	*	*
(6) Total business organizations.....	22,028,899	30,000,000 ^{1/}	73
II. Governmental organizations			
(1) Federal Government.....	1,357,603	2,100,000 ^{1/}	65
(2) State and local governments.....	<u>1,171,372</u>	<u>2,700,000</u>	43
(3) Total governmental organizations.....	<u>2,528,982</u>	<u>4,800,000</u>	<u>53</u>
III. Grand total.....	<u>24,557,881</u>	<u>34,800,000^{1/}</u>	<u>71</u>

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

July 31, 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 War 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 18	July 25		Apr. 18	July 18	July 25
Alabama.....	149	229	229*	285	52	80	80
Arizona.....	43	64	64	64	67	100	100
Arkansas.....	44	53	55	142	31	37	39
Northern California.....	512	631	634	634	81	99	100
Southern California.....	756	890	916	1,178	64	76	78
Colorado.....	113	125	127	127	89	98	100
Connecticut.....	277	363	382	622	45	58	61
Delaware.....	21	51	51	87	24	59	59
District of Columbia.....	52	101	104	152	34	66	68
Florida.....	147	186	187	187	79	99	100
Georgia.....	133	334	353	410	32	81	86
Idaho.....	31	31	31	34	91	91	91
Illinois.....	1,300	1,716	1,743	2,253	58	76	77
Indiana.....	415	600	603	603	69	99	100
Iowa.....	165	202	204	272	61	74	75
Kansas.....	276	279	284	284	97	98	100
Kentucky.....	136	185	185*	313	43	59	59
Louisiana.....	179	266	267	385	46	69	69
Maine.....	60	141	143	198	30	71	72
Maryland.....	177	248	253	405	44	61	62
Massachusetts.....	639	840	861	1,532	42	55	56
Michigan.....	689	881	884	1,050	67	86	86
Minnesota.....	376	424	428	428	88	99	100
Mississippi.....	59	63	63	143	41	44	44
Missouri.....	472	635	639	664	71	96	96
Montana.....	40	45	45*	45	89	100	100
Nebraska.....	103	112	113	123	84	91	92
Nevada.....	14	16	17	21	67	76	81
New Hampshire.....	89	128	132	145	61	88	91
New Jersey.....	463	794	811	870	53	91	93
New Mexico.....	33	38	39	42	79	90	93
New York.....	2,060	3,180	3,207	4,257	48	75	75
North Carolina.....	282	409	409	499	57	82	82
North Dakota.....	14	19	19	19	74	100	100
Ohio.....	1,126	1,317	1,351	1,740	65	76	78
Oklahoma.....	166	218	219	348	48	63	63
Oregon.....	211	275	276	276	76	99	100
Pennsylvania.....	1,682	2,006	2,022	2,035	83	99	99
Rhode Island.....	154	226	228	335	46	67	68
South Carolina.....	71	138	140	177	40	78	79
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	305	308	449	44	68	69
Texas.....	326	506	506*	1,378	24	37	37
Utah.....	36	44	44*	44	82	100	100
Vermont.....	59	61	61	63	94	97	97
Virginia.....	281	371	374	374	75	99	100
Washington.....	234	326	333	333	70	98	100
West Virginia.....	134	186	187	272	49	68	69
Wisconsin.....	278	407	411	680	41	60	60
Wyoming.....	17	19	20	20	85	95	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,365	20,760	21,038	27,056	57	77	78

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

July 31, 1942

* Data are for July 18, inasmuch as no July 25 report was received.

Regraded Unclassified

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War 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 18	July 25		Apr. 18	July 18	July 25
Alabama.....	41	62	62*	83	49	75	75
Arizona.....	9	13	13	13	69	100	100
Arkansas.....	16	17	17	22	73	77	77
Northern California.....	122	129	130	174	70	74	75
Southern California.....	121	135	137	144	84	94	95
Colorado.....	25	30	30	30	83	100	100
Connecticut.....	114	129	132	158	72	82	84
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	37	39	42	76	88	93
Florida.....	28	32	33	63	44	51	52
Georgia.....	86	118	119	121	71	98	98
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	440	446	559	70	79	80
Indiana.....	88	127	127	165	53	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	95	95
Maryland.....	84	93	93	105	80	89	89
Massachusetts.....	237	283	286	336	71	84	85
Michigan.....	265	281	281	303	87	93	93
Minnesota.....	79	80	80	82	96	98	98
Mississippi.....	26	31	31	38	68	82	82
Missouri.....	103	121	124	141	73	86	88
Montana.....	3	3	3*	3	100	100	100
Nebraska.....	23	25	25	32	72	78	78
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	175	178	210	68	83	85
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	840	843	1,087	70	77	78
North Carolina.....	103	129	129	139	74	93	93
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	432	435	498	83	87	87
Oklahoma.....	31	40	41	50	62	80	82
Oregon.....	48	54	54	54	89	100	100
Pennsylvania.....	551	585	586	629	88	93	93
Rhode Island.....	61	73	73	97	63	75	75
South Carolina.....	84	94	94	103	82	91	91
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	65	66	115	43	57	57
Texas.....	63	82	82*	140	45	59	59
Utah.....	8	10	10*	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	105	105	105	89	100	100
Washington.....	49	67	68	77	64	87	88
West Virginia.....	36	66	66	70	51	94	94
Wisconsin.....	127	138	139	154	82	90	90
Wyoming.....	1	2	3	3	33	67	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	4,864	5,543	5,580	6,637	73	84	84

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

July 31, 1942

* Data are for July 18, inasmuch as no July 25 report was received

Regraded Unclassified

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	Cumulative sales by business days			July as percent of June
	daily sales	July	June	May	
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
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0
20	31,368	327,712	261,321	257,374	125.4
21	12,239	339,951	280,742	271,079	121.1
22	18,184	358,135	291,729	290,485	122.8
23	18,261	376,396	321,114	309,584	117.2
24	18,588	394,984	331,806	323,705	119.0
25	10,695	405,679	347,673	347,494	116.7
27	32,577	438,256	362,550	360,564	120.9
28	17,449	455,706	378,505	375,702	120.4
29	18,256	473,962	392,224	392,627	120.8
30	14,211	488,173	417,117	408,409	117.0

July 31, 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 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
17	15,314	221,147	112,279	114,129		197.0
18	9,696	230,842	119,749	123,534		192.8
20	21,888	252,731	126,048	127,724		200.5
21	9,447	262,178	134,062	138,908		195.6
22	16,327	278,505	137,429	149,502		202.7
23	15,174	293,679	147,698	156,587		198.8
24	14,399	308,077	153,532	161,404		200.7
25	8,816	316,893	162,774	171,335		194.7
27	21,244	338,137	170,547	179,208		198.3
28	12,385	350,522	176,410	189,271		198.7
29	14,783	365,305	183,433	196,192		199.1
30	15,731	381,036	192,398	206,874		198.0

July 31, 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.

352
CONFIDENTIAL

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	June	May	July as percent of June
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
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2
18	21,929	527,186	368,782	371,066	143.0
20	53,257	580,443	387,369	385,098	149.8
21	21,686	602,129	414,804	409,987	145.2
22	34,511	636,640	429,158	439,987	148.3
23	33,434	670,075	468,812	466,171	142.9
24	32,987	703,062	485,338	485,109	144.9
25	19,510	722,572	510,446	518,829	141.6
27	53,821	776,393	533,097	539,771	145.6
28	29,834	806,228	554,915	564,973	145.3
29	33,039	839,266	575,657	588,819	145.8
30	29,942	869,209	609,516	615,283	142.6

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

July 31, 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 30, 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
	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	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20	31.4	327.7	411.8	79.6	21.9	252.7	223.9	112.9	53.3	580.4	635.7	91.3
21	12.2	340.0	425.9	79.8	9.4	262.2	231.8	113.1	21.7	602.1	657.7	91.5
22	18.2	358.1	451.1	79.4	16.3	278.5	247.0	112.8	34.5	636.6	698.1	91.2
23	18.3	376.4	477.5	78.8	15.2	293.7	260.1	112.9	33.4	670.1	737.6	90.8
24	18.6	395.0	503.8	78.4	14.4	308.1	270.7	113.8	33.0	703.1	774.5	90.8
25	10.7	405.7	525.0	77.3	8.8	316.9	279.5	113.4	19.5	722.6	804.5	89.8
27	32.6	438.3	562.7	77.9	21.2	338.1	295.1	114.6	53.8	776.4	857.8	90.5
28	17.4	455.7	577.2	79.0	12.4	350.5	304.3	115.2	29.8	806.2	881.5	91.5
29	18.3	474.0	601.3	78.8	14.8	365.3	322.1	113.4	33.0	839.3	923.4	90.9
30	14.2	488.2	625.8	78.0	15.7	381.0	337.5	112.9	29.9	869.2	963.3	90.2
31			650.0				350.0				1,000.0	

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

July 31, 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.

July 31, 1942.

Telephone conversation of Mr. White and Mr. Bewley,

Friday, July 31, 1942 -- 10:45 A. M.

Mr. Bewley called Mr. White to inquire whether the Treasury had received the expected letter from Mr. Hays or from R.K.O., stating that the movie industry was willing to consider R.K.O.'s plea for the return of its blocked funds as a special case within the movie industry. Mr. White replied that the Treasury had received only copies of cables sent by Hays to Allport.

J. E. Hicks

JUL 31 1942

Dear Mr. Deolittle:

I am in receipt of your letter of July 15, 1942, referring to the proposal of General Aniline and Film Corporation to acquire a piece of property in Poughkeepsie to be used by that Corporation as a laboratory, and soliciting my assistance in having the company locate there.

In view of the fact that the Alien Property Custodian, Mr. Leo Crowley, now holds the stock of General Aniline and Film Corporation taken over by the Government and is responsible for protecting the Government's interest therein, I would suggest that representations in this regard be made to his office.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. J. E. Deolittle
Chairman, Industrial Committee
Poughkeepsie Chamber of Commerce
57 Market Street,
Poughkeepsie, New York.

JJO'C. Jr/lsw
7-29-42

Filed in Diary

356ley

POUGHKEEPSIE CHAMBER OF COMMERCE

POUGHKEEPSIE, NEW YORK

OFFICERS

JAMES L. LUMB, PRESIDENT
EDWARD A. CHAPPELL, 1ST VICE-PRES.
STEPHEN P. BECKER, 2ND VICE-PRES.
CHARLES O. CONGER, SECRETARY
EDITH M. PEARCE, ASST. SECRETARY
DEAN H. TEMPLE, TREASURER

57 MARKET STREET

TELEPHONE 522

DIRECTORS

STEPHEN P. BECKER	J. ERNEST DOOLITTLE
DR. WALTER R. BEDELL	JOHN R. EVANS
E. NORMAN BULL	JAMES L. LUMB
GEO. D. CAMPBELL, JR.	RICHMOND F. MEYER
EDW. A. CHAPPELL	CHAS. T. OVERDORF
CLAUDE M. CONGER	EDW. L. SCHRAUTH
NIGEL H. DIAMOND	DEAN H. TEMPLE
	RALPH T. WATERMAN

July 15, 1942

Hon. Henry Morgenthau, Secretary
U. S. Treasury
Washington, D.C.

Dear Sir:

For the past four weeks we have been working with representatives of the General Aniline & Film Corp., 230 Park Avenue, New York, N. Y., with which I understand you are connected, regarding the purchase of a factory in Poughkeepsie to be used by them as a laboratory.

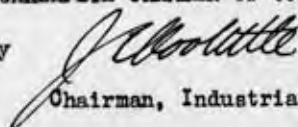
It is our understanding that negotiations were progressing satisfactorily until their attorneys decided that present restrictions in the zoning law would be a detriment to their use of the property. We have been assured by the city officials that these can be changed to meet their requirements.

In the meantime we have been informed further that the firm has rented another space temporarily rather than proceed with this project during the present emergency. At such time as this firm is prepared to again consider a permanent location for its laboratory, we would appreciate any help which you could give to have them locate in Poughkeepsie.

Yours very truly,

POUGHKEEPSIE CHAMBER OF COMMERCE

By



Chairman, Industrial Committee.

JEDoolittle:A

Aug 6. 1942
Told ^{Hamm} _{White} to push this thru if possible
M.H.P.

July 31, 1942.

MEMORANDUM:

Re: Latin-American Bemberg Companies

The Latin-American Bemberg companies, which constitute one of the largest financial interests in Argentina, have assets of about \$25,000,000 in cash and securities in the United States. It has recently come to our attention that these companies have been transferring large sums from the United States to the Argentine. It is estimated that the companies had, in 1938, approximately \$50,000,000 in the United States.

Information which we have obtained indicates that the Latin-American Bemberg companies are controlled by their affiliated companies in France, Brasserie Argentine Quilmes and Societe Industrielle et Financiere pour l'Amerique du Sud, "SIFAS", now located in Nimes, but formerly with head offices in Paris. In a petition filed with the United States Board of Tax Appeals in December 1937 by Credito, top holding company of the Argentine group, Credito states that at all times its entire capital

- 2 -

stock was owned and controlled directly or indirectly by Brasserie Argentine Quilmes.

There is every indication that this ownership and control by the French companies has continued to the present date. Directions with respect to the conduct of the Argentine enterprises, according to numerous intercepts, emanate from France; also, the French companies receive large remittances, about 40,000,000 French francs, in 1941, from the Argentine companies to pay dividends and taxes in France. Although the Bembergs have stated that these remittances were made solely in order to pay French taxes, intercepted information establishes that these remittances were also made for the purpose of paying dividends.

This information would clearly appear to require the blocking of the accounts of the Argentine Bembergs in the United States as French. It is important that such action be taken immediately so as to prevent further withdrawals from the United States, as there is indication that these withdrawals may be used for the benefit of the Axis powers.

From time to time in the past weeks we have discussed with the State Department the blocking of the Bembergs.

- 3 -

On July 23, the State Department was again informed that Treasury was contemplating the blocking of the Argentine *Bemberg* interests in the United States as French. The State Department informed Treasury that it desired to communicate with the Mission in Argentina, as they were also examining the Bemberg matter. The reply from the Mission indicates a decided reluctance to approve blocking the Bemberg interests.

At a conference with State Department officials today, an unwillingness to accept the Treasury Department's information establishing continuance of French control of Argentine Bemberg interests was indicated. The State Department stated that their information indicates the Bembergs are pro-Ally and that blocking of their funds in the United States would be interpreted in Argentina as equivalent to being placed on The Proclaimed List and might affect their friendship for the United Nations. The State Department has requested that the Treasury again delay action on blocking the Bembergs' accounts in the United States until the State Department has had an opportunity to resubmit the matter to the Mission in Argentina.

It is thought that if the Treasury delays action until the matter has been re-examined in Argentina, it will lead

- 4 -

to endless delays and will give the Bembergs full opportunity to withdraw their funds from the United States.

361

8/1

① Photostats to Dr. White and Mr. Bell
per Secretary instructions.



THE SECRETARY OF STATE
WASHINGTON

July 31, 1942

Dear Mr. Secretary:

By your letter of July 20, 1942 you have raised the question of provision for a currency that United Nations armed forces would need within a few days or weeks after invasion of any enemy occupied territory; and also the problem of provision for a sound monetary, banking and fiscal order in any such areas, which the occupation authorities would have to administer behind the advancing armies. You enclosed an able memorandum on the subject, which has been carefully considered.

I shall, of course, be glad to sit down with you, or anyone you designate, as well as with a representative of the War Department, to discuss a recommendation to the President in respect of these very important problems. I have designated Assistant Secretary Adolf A. Berle, Dr. Herbert Feis, and Dr. Leo Pasvolsky, of this Department, who will be available at your convenience.

It may be useful for me to put before you certain tentative lines of thought which have developed in our own talk on the subject and which I submit for your consideration.

(1) An agreement between ourselves and the British to assure either joint or completely coordinated action in this field would appear to be essential. In any re-occupied territory it must be contemplated that there may be both British and American troops. The pay of these troops, and any cash outlays that may be made by the several occupying forces would at once become a large element in the currency circulation of the region. It would seem clearly desirable to avoid all possibility either of divergent policy or of conflicting policy, and

clearly

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

-2-

clearly desirable that there should either be a coordinated policy agreed upon in advance or a joint policy.

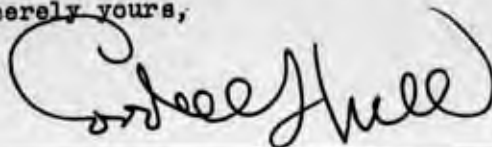
The agreed-on arrangement could obviously take one of various forms and I assume this is one of the first matters to be discussed between the three Departments.

(2) It seems to me that despite certain possible advantages it would be on the whole undesirable to issue special dollar or pound sterling occupation currencies for such regions as distinguished from regular dollar and pound sterling currencies. This view rests on various considerations which I presume you will want to review carefully in discussion. Among them I may cite the opinion that any special currency of this character would be less acceptable to the fighting forces and less likely to win over local populations than would a regular currency.

(3) I am in agreement that it would be essential, as soon as practicable after the occupation of any region, to provide that region with a satisfactory currency of its own in substitution for the local currency in circulation at the moment of occupation. The best ways and means of achieving this I recognize also will require much further consideration. The suggestions and alternatives contained in the Treasury memorandum seem to be a helpful starting point for such discussions. I assume that payment to the troops would continue to be in dollars and pounds, with option of or ample opportunity for exchange into these new local currencies.

(4) The second broad question raised, namely, that of providing a sound banking and monetary system for such regions, can probably be more satisfactorily settled after conclusions have been reached on the foregoing matters. They would, also, very considerably depend on circumstances. If, for example, the United Nations were to occupy an entire country, and thereby fully control its banking and central banking system and its currency mechanisms, the problem would be different than that which would exist if only a segment of a country were occupied. Further, as the Treasury memorandum indicates, the situation would differ as between the reoccupation of countries friendly to the United Nations and invasion and occupation of Axis homelands. I shall wait to hear when you wish these discussions to be carried forward further.

Sincerely yours,



For Miss Chaunoy

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

July 31, 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 22, 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 are financed.

A

lap-7/31/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

July 30, 1942

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

I am enclosing our compilation for the week ended July 22, 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/ Robert G. Rouse

Robert G. Rouse,
Vice President.

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

Enclosure

Copy:vw:7-31-42

STATEMENTS OF BRITISH AND FRENCH ACCOUNTS
(In millions of Dollars)

Week ended July 22, 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 (c)	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 (e)	416.6 (e)	449.7	1,095.3 (e)	900.2	195.1 (e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.8	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	69.3	-	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	+ 20.9	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	65.1	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	69.0	72.6	17.3	113.6	-	-	113.6	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3
WEEK ENDED:															
July 1	21.8	18.0	3.8	7.5	-	-	7.5	- 14.3	-	-	-	-	-	-	-
8	22.8	19.5	3.3	13.1	-	-	13.1	- 9.7	-	-	-	0.1	-	0.1	+ 0.1
15	18.3	11.6	6.7	29.2	-	-	29.2	+ 10.9	-	-	-	0.1	-	0.1	+ 0.1
22	10.2	5.6	4.6	31.2	-	-	31.2 (f)	+ 21.0	0.1	-	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) 36.5 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)

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

Week ended July 22, 1942 \$ -
Cumulation from July 6, 1940 \$ 162.7

million
million

- (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.
- (f) Includes:

\$11.0 million	transferred from New York accounts of British authorized banks.
\$ 8.8	" deposited by British Purchasing Commission, presumably representing refunds on advances to American concerns.
\$ 3.3	" representing proceeds of wool sales.
\$ 1.0	" held for credit of U. S. Navy.
\$ 0.6	" deposited by Lloyds Underwriters Insurance Co., presumably representing dollar proceeds of premiums paid by American policy holders.

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

Strictly
Week Ended July 22, 1942 Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS				CREDITS					DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.6	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1941	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
Jan. 1 - Jan. 28 1942	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	41.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9
Apr. 30 - June 3	54.2	-	54.2	47.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4
June 4 - July 1	47.2	-	47.2	72.5	16.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5
WEEK ENDED:																
July 1	19.6	-	19.6	6.8	2.8	-	-	4.0	- 12.8	1.6	0.5	1.1	0.9	-	0.9	- 0.7
8	7.9	-	7.9	7.7	0.2	-	-	7.5	- 0.2	1.1	-	1.1	15.7	-	15.7	+ 14.6
15	11.7	-	11.7	15.8	3.5	-	-	12.3	+ 4.1	14.5	12.0	2.5	2.6	-	2.6	- 11.9
22	24.1	-	24.1	18.1	3.3	-	-	14.8(A)	- 6.0(B)	-	-	-	0.9	-	0.9	+ 0.9

Weekly Average of Total Debits Since Outbreak of War

Through July 22, 1942 \$ 8.2 million

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

(b) Since this represents the change in all dollar funds held here by the Canadian Government, it does not reflect the net purchase of \$1.1 billion

(a) Includes \$3.8 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

Regraded Unclassified

CORRECTED COPY

JMH

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

Chungking via N.R.

Dated July 31, 1942

Rec'd. 1:58 p.m., August 1

Secretary of State,

Washington.

891, July 31, 10 a.m.

FOR SECRETARY OF THE TREASURY FROM CURRIE

Hall-Patch, who would personally welcome Adler's functioning on Stabilization Board, insists that your recommendation is not in accordance with Article 2 of Sino-American Agreement of April 1, 1941, and that he cannot function on Board in that capacity. Hall-Patch also feels certain that your recommendation is at variance with Dr. Kung's appointment of Adler as acting member on July 17 (mentioned in Adler's TF-51 of July 20) which would be acceptable to British if confirmed by you. As Chairman most reluctant to call Board meetings without American participation, Board's business is being held up. In view of Adler's good record Chungking your confirmation of Dr. Kung's action of July 17 appears advisable to get out of existing impasse.

GAUSS

MRM

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

Chungking

Dated July 31, 1942

Rec'd 10:47 a.m.

Secretary of State,
Washington.

893, July 31, 2 p.m.

FOR SECRETARY OF THE TREASURY FROM CURRIE.

Have indicated informally to Dr. Kung the growing
resentment of our diplomatic and military and chari-
table organizations over declining purchasing power of
United States dollar in China. Raised the question
of leaving official rate as is but giving special rate
for special purposes. It would be helpful if you
make inquiry of Adler here as to what, if anything, is
being considered to meet the situation and ask what
rate of exchange would restore purchasing power of
United States dollar in China to that of one year,
two years ago.

GAUSS

WSB

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 262

Information received up to 7 A.M., 31st July, 1942.

1. MILITARY

EGYPT. The enemy is reported to be relaying the mines in the SANYET EL MITEIYYA sector, which were removed during our recent attack, and to be strengthening his southern sector. The recent lull in the fighting continues, and the tactical situation remains unchanged.

RUSSIA. The position at VORONEZH is unchanged. The German drive towards STALINGRAD has made no appreciable progress. Heavy fighting continues. There is no confirmation of the German claim to have reached the entire course of the DON below KALACH, but in the Southward drive across the DON they have reached the Rivers SAL and MANICH.

2. AIR OPERATIONS

WESTERN FRONT. 29th/30th. SAARBRUCKEN. 243 bombers including 126 heavy, attacked and dropped about 550 tons of high explosive and incendiaries including 103 4,000 pound bombs. Weather was quite good and cloud was not enough to prevent the majority of crews identifying the target area. Many fires were reported, with a particularly good concentration in the centre of the town. Woods north of the town were burning fiercely. One steel works appeared to be well alight and a gas container exploded. Many aircraft attacked from below 4,000 feet. There were several fights with night fighters, three of which are claimed destroyed.

30th. Two Mosquitos dropped bombs at LUBECK and a town believed to be HAVERN. Hurricane bombers sank a 1,000 ton vessel and damaged two more off BREST PENINSULA, while other Hurricane bombers attacked an aerodrome at ST. OMER. 4 of these aircraft are missing. Spitfires acting as escort and on sweeps over Northern FRANCE destroyed 7 Focke Wulfs 190, probably destroyed 2 Fighters and damaged 9. 14 Spitfires are missing, but two pilots are safe. A Sunderland destroyed a German floatplane off USHANT.

30th/31st. About 58 enemy aircraft were plotted of which about 45 operated over the MIDLANDS. 8 were destroyed, one probably destroyed and 3 damaged.

EGYPT. 28th/29th. Halifaxes and Wellingtons bombed shipping and Harbour installations at TOBRUK, one ship was hit and set on fire. Good fires were started in the Harbour area.

29th. Operations were restricted by dust storms. Fighter bombers damaged about 50 enemy vehicles.

29th/30th. About 8 enemy aircraft attacked aerodromes in the CAIRO area, damaging two workshops and some mechanical transport at HELIOPOLIS

- 2 -

3. HOME SECURITY

BIRMINGHAM. 29th/30th. Casualties now reported 71 killed, 264 seriously injured. All fires out by evening 30th. Repairs to utility services well in hand and transport normal.

30th/31st. BIRMINGHAM was again attacked, but the main concentration was over the WOLVERHAMPTON-WALSALL area. It was principally a fire raid and about 70 fires were started, but all were reported under control by dawn. Transport and utility services at both places were to some extent affected.