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May 9 - 12, 1942

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1942.

TO Secretary Morgenthau

FROM Abbot L. Mills, Jr.

Subject: REPORT ON DETROIT CONTACTS TO ENLIST ISSUING AGENTS IN THE AUTOMOBILE INDUSTRY.*

Contact No. 1 - Chrysler Corporation, May 6.

The contact was made by Mr. Frank N. Isbey, State Director for Michigan for the War Savings Staff, Mr. A. T. Sihler, Vice President of the Federal Reserve Bank of Chicago, Mr. H. J. Chalfont, Managing Director, Detroit branch of the Federal Reserve Bank of Chicago, and the writer. Representatives of the Chrysler Corporation were Messrs. Davies, Treasurer, and Trouest, Comptroller.

Previous consideration had been given by the Company to the program of becoming an issuing agent. Mr. Davies believes that his Company should become an issuing agent and his opinion was shared by Mr. Trouest. In result Mr. Davies gave a firm commitment that the Chrysler Corporation would become an issuing agent and indicated that approval to the program might be expected to be obtained at an early meeting of the Company's executive committee. Mr. Davies volunteered to advise other executives in the industry of the Chrysler Corporation's action as a means of assisting the Treasury's recruitment and later developments revealed that Mr. Davies had taken the courteous action that he suggested.

Contact No. 2 - Packard Motor Car Co., May 6.

The Treasury's presentation was made by the same group as in Contact No. 1. The Packard Motor Car Co. was represented by Treasurer Hugh Fery and Comptroller E. C. Hoelzle. The Packard representatives were both responsive to the Company's becoming an issuing agent, and the matter was left that Mr. Fery would recommend such action for ratification at an early meeting of the Company's executive committee. It is understood that Mr. Fery's recommendation may be considered final.

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Contact No. 3 - General Motors Corporation, May 7.

The Treasury's presentation was made by the same group as in Contacts No. 1 and No. 2. The General Motors Corporation was represented by Mr. H. L. Jackson who has been in charge of their Company's savings program for a long period and who now supervises their payroll savings activities as well as the plans that are under way for the Company to obtain War Savings Bonds with which to service their payroll savings plan. Mr. Jackson was entirely co-operative and appreciated the necessity of his Company's making arrangements that would provide prompt delivery of bonds to employees whose payroll deductions had accumulated to the necessary purchase prices.

Exhaustive study has been given the issuing agency program by the General Motors Corporation. In view of their extensive operations, the Company's management apparently does not consider it practicable to become an issuing agent through one central office from which to service their entire operations. Instead the Company's central office will service its local staff, and it is planned to service their other units through arrangements that have been made or will be made with prominent banks adjacent to the respective units, which banks are in all cases issuing agents and are believed to be fully equipped to service the needs of the local General Motors Corporation units. It was indicated to Mr. Jackson that the Treasury has no objection to arrangements of this nature where it is not practicable for the Company itself to become an issuing agent on a broad scale. Mr. Jackson was cautioned, however, as to the desirability of his Company's assuring itself that the issuing agents with whom service arrangements are being made are adequately equipped to render the services required.

Contact No. 4 - Ford Motor Company, May 8.

The Treasury's presentation was made by the same group as in previous contacts, together with Mr. Frank C. Padzieski, a Dearborn representative of Mr. Isbey's War Savings Staff. The Company was represented by its most responsible officials, including Mr. Harry Bennett, who has the last say in everything, Mr. Rausch, Superintendent of Production, and Paymaster Bosardy. The Company is in full sympathy with the payroll savings plan and with the desirability of their becoming an issuing agent. In fact, after a brief discussion the Company proceeded to qualify on the spot and at Mr. Sihler's instance executed the Treasury's application form.

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Contact No. 5 - Hudson Motor Car Co., May 8.

The Treasury's presentation in this instance was made by Mr. H. J. Chalfont, Managing Director, Detroit branch of the Federal Reserve Bank of Chicago, Mr. John Carstens, Deputy State Administrator under Mr. Isbey, and the writer. The Hudson Motor Car Co.'s Treasurer was ill at home and the Secretary absent from the city. The Company's representatives, therefore, were Messrs. Brown, Chief Accountant, and Wilson, Comptroller. The procedure necessary to engage as an issuing agent was discussed at some length and it is believed that the Company's representatives favor the idea. A decision will be reached on Monday or Tuesday of next week when the program will be presented for consideration to the Company's executive committee. Favorable action is expected.

*As shown from the above contacts, the automobile manufacturing industry as practically a unit has agreed to assume the issuing agency functions. There is little doubt but that the approval obtained can be attributed to the Treasury's cooperation in obtaining a simplification of the industry's accounting practices. The industry's leadership in the issuing agency field will assuredly be helpful in enlisting the cooperation of other industries and companies.

It will still be necessary to recruit the remaining large corporations located in Detroit which have not yet become issuing agents. Inasmuch, however, as Mr. Isbey was called to Washington and as Mr. Sihler will be absent for the greater part of the coming week at a Fiscal Agency meeting, the final approach is to be deferred for some ten days, by which time all of those present on the original contacts can again assemble. It is now planned to hold a group meeting among the remaining large corporations and to solicit their general acceptance of the issuing agency function. With the leadership now obtained from the automobile manufacturing industry, little difficulty should be experienced in obtaining the cooperation of the remaining large corporations in the Detroit area.

Abbot L. Mills, Jr.

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May 9, 1942.

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

Dear Secretary Morgenthau:

As requested by the Secretary of the Treasury, representatives of the securities industry met in Washington on Thursday and Friday, May 7th and 8th, and the Presidents of the Federal Reserve Banks met on Friday, May 8th, to discuss an organization to promote the distribution and sale of government securities.

After separate meetings the two groups appointed committees of five members each to consult together and with members of the Treasury staff. This joint committee was in general agreement as to the form of organization to be suggested to the Treasury, and it appointed the undersigned to prepare a final draft of recommendations. This procedure was reported back to the two larger groups at a joint meeting, and approved by them.

There is attached an outline of the organization which the two groups now propose for your consideration, together with a chart indicating the general form which the organization might take. There is also attached a list of those who participated in the group meetings, and the meetings of their sub-committees.

Yours faithfully,

Edward Hopkinson, Jr.
Allan Sproul

Edward Hopkinson, Jr.
Allan Sproul.

Encs. (3)

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Suggested Organization to Assist in the Distribution and Sale of Government Securities

1. National Committee

The whole organization would be under the direction of the Secretary of the Treasury.

(a) Presidents of the 12 Federal Reserve Banks
(b) Liaison between Board of Governors of the Federal Reserve System and the Treasury - Chairman of the Board of Governors.

2. Basis of Organization

The organization throughout the country should be set up by Federal Reserve Districts, with a committee for each district under the chairmanship of the President of the Federal Reserve Bank of the district.

3. District Committees

The District Committees would vary in size depending upon the geographical extent of the district and the location and number of its financial centers.

The personnel of the District Committees would be chosen primarily from the financial community including the securities industry and commercial bankers, but others whose position or personality would make their appointment appropriate and desirable could also be included.

The District Committee would be appointed by the President of the Federal Reserve Bank in each district, after consultation with representatives of the securities industry and the banking community, appointments to be subject to the approval of the Secretary of the Treasury.

A Secretary of the District Committee (and of Executive Committee if appointed) would be appointed by the Chairman of the Committee.

4. Executive Committee

If the circumstances of the district or of the work to be done require it, in the judgment of the District Committee, a small Executive Committee would be appointed from the District Committee membership.

5. Regional Committees

Committees for regional areas within districts would be appointed where necessary in the judgment of the District Committee. The size of such committees would be determined by the District Committee. Their personnel would be chosen, using the same criteria as in the case of the District Committee. Appointment would be by the Chairman of the District Committee subject to the approval of the Secretary of the Treasury.

6. Headquarters Organization

(a) Executive Manager who will have executive direction of the sales effort in each district, under the District Committee and its Executive Committee, if any.
(b) Quarters, equipment and staff to be provided by the Federal Reserve Banks on a fiscal agency reimbursable basis.
(c) Branch or regional headquarters to be set up on same basis in those districts where this is necessary.

7. Field to be Covered

This proposed organization would be designed to assist in all of the financing operations of the Treasury except the sale of Series E War Savings Bonds. In the sale of Series F and G War Savings Bonds it would, of course, work with the existing War Savings Organization.

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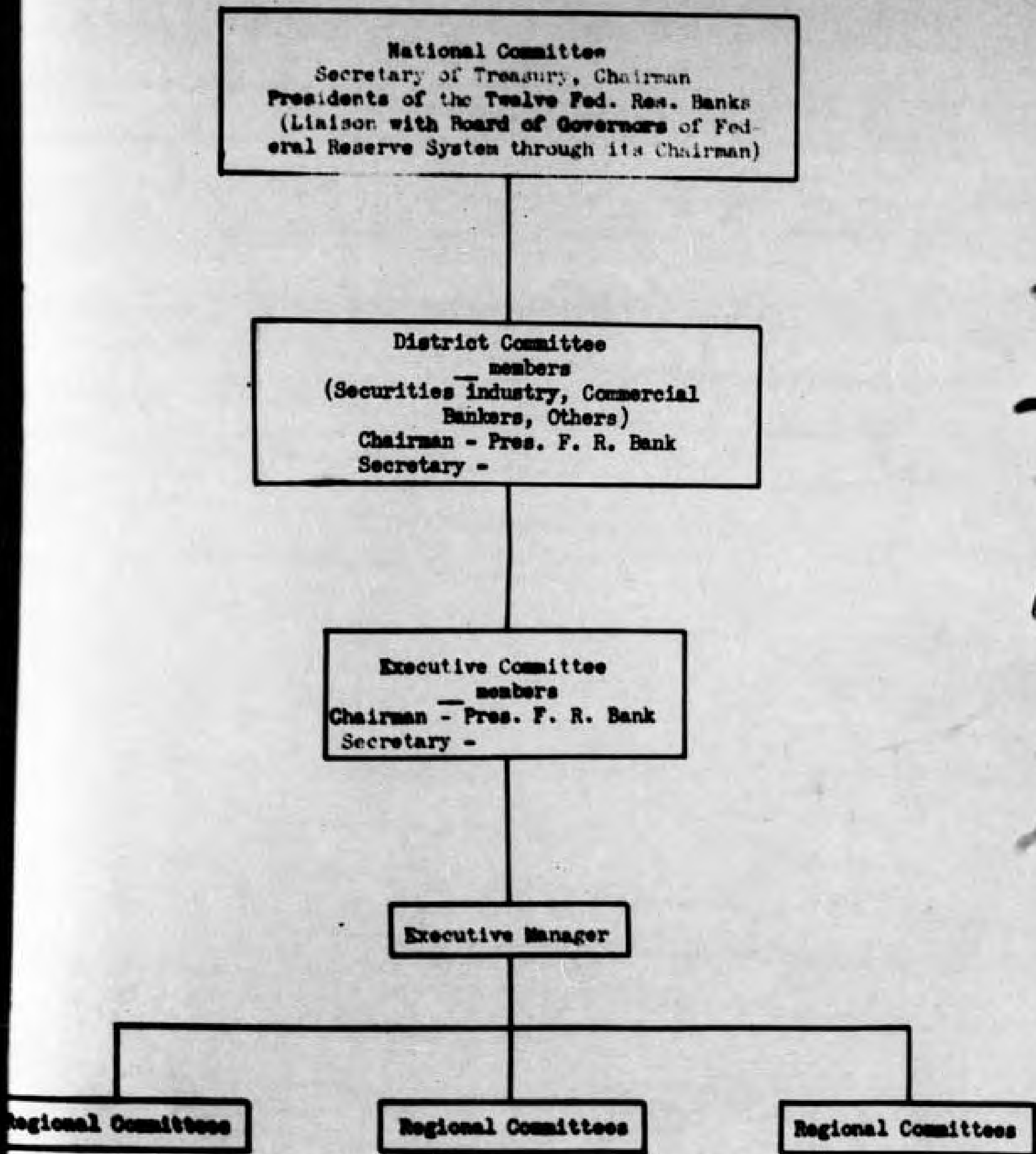
VICTORY FUND COMMITTEES TO BE ORGANIZED BY FEDERAL RESERVE DISTRICTS



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PARTICIPANTS IN MEETINGS OF REPRESENTATIVES
OF SECURITIES INDUSTRY AND FEDERAL RESERVE SYSTEM,
HELD AT WASHINGTON, D. C., MAY 7 and 8, 1942,
TO DISCUSS AN ORGANIZATION TO ASSIST IN THE
DISTRIBUTION AND SALE OF GOVERNMENT SECURITIES.

SECURITIES INDUSTRY

DEWAR, H. H., Chairman,
National Association of Securities Dealers,
National Bank of Commerce Building,
San Antonio, Texas.
FULTON, WALLACE H., Executive Director,
National Association of Securities Dealers,
1616 Walnut Street,
Philadelphia, Pennsylvania.

FLEEK, JOHN S., President,
Investment Bankers Association,
Union Commerce Building,
Cleveland, Ohio.

SCHRAM, EMIL, President,
New York Stock Exchange,
11 Wall Street,
New York, New York.

BURNS, JR., JAMES F., President,
Association of Stock Exchange Firms,
24 Broad Street,
New York, New York.

RICH, DOMINIC, Chairman,
Government Securities Dealers Group,
31 Nassau Street,
New York, New York.

GARLAND, CHARLES S., Partner,
Alex Brown and Sons,
135 East Baltimore Street,
Baltimore, Maryland.

BLYTH, CHARLES R., President,
Blyth and Company, Inc.,
Russ Building,
San Francisco, California.

PATTON, FRANCIS F., Vice President,
Becker, A. G., & Co., Inc.,
100 S. LaSalle Street,
Chicago, Illinois.

BAIRD, ROBERT W., President,
Wisconsin Company,
110 East Wisconsin Avenue,
Milwaukee, Wisconsin.

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(continued)

HALL, PERRY E., Vice President,
Morgan Stanley & Co., Inc.,
2 Wall Street,
New York, New York.

HOPKINSON, EDWARD, JR., Partner,
Drexel and Company,
15th and Walnut Streets,
Philadelphia, Pennsylvania.

STUBBS, JOHN O., Vice President,
Whiting, Weeks & Stubbs, Inc.,
36 Federal Street,
Boston, Massachusetts.

HILLIARD, EDWARD H., Partner,
J. J. B. Hilliard & Son,
419 W. Jefferson Street,
Louisville, Kentucky.

FEDERAL RESERVE SYSTEM

Board of Governors of the
Federal Reserve System

ECCLES, MARRINER S., Chairman
RANSOM, RONALD, Vice Chairman
SZYMCZAK, M. S.
McKEE, JOHN K.
DRAPER, ERNEST G.
EVANS, R. M.

FEDERAL RESERVE BANKS

NAME		CITY
PADDOCK, W. W.,	President	Boston
SPROUL, ALLAN	"	New York
WILLIAMS, ALFRED H.	"	Philadelphia
FLEMING, M. J.	"	Cleveland
LEACH, HUGH	"	Richmond
McLARIN, W. S., JR.	"	Atlanta
YOUNG, C. S.	"	Chicago
ATTEBERY, O. M.,	Vice President	St. Louis
PEYTON, J. N.,	President	Minneapolis
LEEDY, H. G.	"	Kansas City
GILBERT, R. R.	"	Dallas
DAY, WILLIAM A.	"	San Francisco

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SUB-COMMITTEES APPOINTED BY ABOVE GROUPS TO DISCUSS JOINT RECOMMENDATIONS

Securities Industry

BAIRD, ROBERT W., President,
Wisconsin Company,
110 East Wisconsin Avenue,
Milwaukee, Wisconsin.

BLYTH, CHARLES R., President,
Blyth and Company, Inc.,
Russ Building,
San Francisco, California.

FLEEK, JOHN S., President,
Investment Bankers Association,
Union Commerce Building,
Cleveland, Ohio.

HOPKINSON, EDWARD, JR., Partner,
Drexel and Company,
15th and Walnut Streets,
Philadelphia, Pennsylvania.

SCHRAM, EMIL, President,
New York Stock Exchange,
11 Wall Street,
New York, New York.

Federal Reserve System

DAY, WILLIAM A. President, Federal Reserve Bank of San Francisco.
SPROUL, ALLAN, President, Federal Reserve Bank of New York.
WILLIAMS, ALFRED H., President, Federal Reserve Bank of Philadelphia.
YOUNG, C. S., President, Federal Reserve Bank of Chicago.
ECCLES, MARRINER S., Chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

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Read at meeting
5/12-11:00 –

MAY 9 1942

Dear Mr. Purcell:

On behalf of the Secretary, I am acknowledging your letter of May 6, 1942, enclosing suggested draft of a letter to be sent to the President.

Inasmuch as the same group will meet with the Secretary, Tuesday, May 12, 1942, on the same general subject, it is suggested a decision be made at that time with respect to the draft submitted.

Sincerely yours,

(Signed)
George Buffington

George Buffington,
Assistant to the Secretary.

Mr. Ganson Purcell, Chairman,
Securities and Exchange Commission,
Philadelphia, Pennsylvania.

GB:amo

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Mr. Buffington:

The Secretary did not have an opportunity to read Mr. Purcell's letter and asked me to refer it to you.

N.M.Chauncey

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

May 6, 1942

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

My dear Secretary Morgenthau:

Thank you for calling the informal meeting last Wednesday of those who have expressed an interest in the use of capital funds during this war period. I appreciated the opportunity of discussing with such a group the matters which have given our Commission considerable concern and which we feel should also be of equal concern to the others.

I was gratified that the problems of initial impact in this field aroused the interest of this group. I feel that you have brought about a basis for real progress through the formation of the informal committee to handle matters relating to new issues on twenty-four hours' notice. There will be problems of this character to present to the committee from time to time and I will undertake to bring them to your attention. I have already asked Mr. Buffington to arrange a meeting at an early date to consider certain proposed issues which have come to our attention since the meeting.

It is my hope that this informal arrangement will also permit the consideration of other related problems which we feel are an integral part of this question, and that through this process we can develop an effective program to cope with whatever stresses may develop.

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I recall that something was said about informing the President, by letter, about our meeting and the tentative arrangement that has been made. I assume that this already has been done. However, since it may have been overlooked, I have prepared a suggested draft of a letter from you to the President which may be helpful to you.

Sincerely yours,

Ganson Purcell

Ganson Purcell
Chairman

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DRAFT

My dear Mr. President:

On Wednesday, April 29, 1942, a meeting was held at my office on the subject of capital funds control. Present were the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, and Mr. Lauchlin Currie, as well as myself.

Consideration was given to the desirability of instituting some control over capital issues with a view to avoiding competition between such issues and Government financing for the war. In particular, consideration was given to the necessity of controlling the amounts of such offerings and their timings so as not to interfere with Government financing of various types.

In addition, there was discussed the need for capital control in preventing the raising and employment of capital for non-essential activities and the consequent creation of competition for labor, materials, and transportation between non-essential activities and activities essential to the war effort.

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It was determined that a substantial problem exists which requires some governmental scrutiny and the persons present agreed to constitute themselves a committee to watch developments in this field and to meet upon call. It is expected that definite recommendations for executive action will be made at the moment the need appears.

Respectfully submitted,

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May 9, 1942

Telegram received from John A. Hartford, President
Great Atlantic and Pacific Tea Co.

"Consumer reaction to price ceilings continues favorable although volume of comments declining. Evidence continues that many people still believe prices will be uniform in all stores under ceiling. Business generally normal, with some local spots reporting consumers buying lightly in anticipation of lower prices.

"Pittsburgh sales Thursday 18 percent over two weeks ago. Accumulated four days sales 5-3/4 percent ahead of same period two weeks ago. Consumer comments fewer but continuing favorable. New York sales Thursday slightly above week ago. Buying appears normal with consumer comment declining. Boston sales generally normal. Some little evidence buying is lighter in anticipation ceiling effectiveness. Answers to store manager queries show some belief ceiling prices will be uniform. Chicago sales gaining over last week and two weeks ago. The few comments reported are favorable. Philadelphia sales continue slightly under last week and two weeks ago, but not attributable to widespread withholding for imposition of ceilings. Comment declining, answers to queries indicate consumers taking ceiling order in stride. Presume today's report completes information you requested."

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May 9, 1942

Telegram received from Mr. L.A. Warren,
President, Safeway Stores, Inc.

"In accordance with request for daily report, sales of Thursday show no appreciable change in sales volume due to price order. Indications of more than normal buying of coffee by some customers. Customer comment regarding order generally favorable."

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May 9, 1942

Telegram received from Mr. R. E. Wood,
Sears Roebuck and Company

"Mail order sales trend May 6th to 7th: No direct effect of price regulation noticeable. Retail, May 2nd 4th and 5th show definitely a slowing down from previous year, compared with increases during week immediately preceding April 28th of about eleven percent, but this may be due to elimination this year of last year's sales promotion during May, also auto tires and appliances such as refrigerators coming into season in May absent this year."

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

TO E. H. Foley, Jr. May 9, 1942

FROM Maurice Quint

George Murnane - Jean Monnet

From the Internal Revenue agent's reports delivered to you today on his examination of the records of (1) Monnet, Murnane & Company, the New York partnership, (2) Monnet, Murnane & Company, Ltd. of Hongkong, a corporation whose stock is divided equally between Monnet and Murnane, (3) Jean Monnet, individually, and (4) George Murnane, individually, and from my examination to date of the TFR-300 reports involving Murnane and Monnet, the following facts appear of interest concerning them.

1. Monnet, Murnane & Company, New York. This partnership was formed in 1935 under an agreement which up to December 31, 1940 provided that Monnet and Murnane divide the partnership income equally between them. The activities of the firm appear to consist of the financial and business advice given by Murnane to the various clients of the firm. Part of this advice appears to consist of assisting clients in their relations with Governments both United States and foreign.

During 1940 the partnership's net income was $78,000 derived from 17 clients. Included in this income was $15,000 from the American Bosch Corporation, $10,000 from the National Department Stores, Trenton, New Jersey, and $6,000 from the Trust Company of New Jersey, paid to Murnane as a director. Most of the rest of the income was based on service contracts with the partnership. It is interesting to note that Murnane turns over to the partnership all salary received by him as a director of various corporations as set forth on page 12 of the agent's report. In the year 1941, the partnership had a net income of $110,000 derived in the same manner from 22 clients. The agreement between the partners was changed in 1941 to provide for a division of 75 per cent to Murnane and 25 per cent to Monnet.

It should be noted that Monnet apparently devotes no time to the activities of the partnership, while Murnane apparently

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devotes all of his time to these activities. Nevertheless, the income is divided as before stated.

2. Monnet, Murnane & Company, Ltd., Hongkong. This corporation was organized in 1937 to engage in the same kind of business as that of the New York partnership. The agent considers that the probable purpose of organizing this corporation is to avoid paying a United States income tax.

Petschek Deal. Through this company in 1937 and 1938 the Petschek interests, formerly a private banking house of Prague, were enabled to liquidate certain assets in Germany and transfer the proceeds to the United States. The transaction appears to have been handled in the following manner. Petschek and Company was a creditor of certain German coal companies in 1937. An English subsidiary, the Industrial Mining and Development Corporation, owned certain shares in the German coal companies. Fearful of what Hitler might do to his German assets, Petschek in 1937 prevailed on Viscount Strathallan, (son of the Earl of Perth, former British Ambassador to Italy and once the head of the League of Nations, whom Monnet probably knew when he was associated with the League) London agent of Monnet, Murnane, Hongkong, to visit Berlin to protect his interests in the German coal companies. Strathallan apparently advised Petschek to organize a voting trust and to transfer all of the stock under his control to that trust. In any event, the trust was organized and Petschek appointed Murnane as a voting trustee. Murnane through Strathallan maintained active contact with the coal company officials in Berlin and was able to sell these Petschek German assets and to transfer the proceeds in an amount over $6,000,000 to the United States. For this service Monnet, Murnane, Hongkong received in 1938 a fee of more than $200,000.

3. Jean Monnet. Monnet's TFR-300 report on himself shows assets in the United States in 1941 of $109,000, of which $99,000 is represented by his interest in the partnership.

Monnet's gross 1940 income was $54,000. His expenses for 1940 appeared to be routine, the only interesting item being a final payment of $12,500 to John Foster Dulles on account of a $37,000 loan made in 1937. Monnet's receipts from the United States for 1940 aggregate about $60,000 including $37,000 borrowed from Monnet, Murnane & Company of Hongkong and $15,000 dividend from that Corporation. Monnet withdrew only $2,350 from the New York partnership in 1940 against withdrawals of $70,000 by Murnane.

4. George Murnane. Murnane was born in Brooklyn, New York in 1887. From 1910 to 1912 he worked for the New York

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Telephone Company and from 1912 to 1919 for H. K. McCann Company. From 1919 to 1928 he was Deputy Commissioner for the French American Red Cross and during the same period was Vice President of the New York Trust Company. From 1928 to 1935 he was a partner in Lee Higginson & Company, and from 1935 to date he has been a partner in Monnet, Murnane & Company.

In 1940 his net income was about $56,000, of which $39,000 was derived from the New York partnership and $15,000 as dividends from Monnet, Murnane & Company, Ltd., Hongkong. His expenses in 1940 (including a house expense of over $30,000) was in excess of $69,000.

In 1941 his income was about $88,000 and his expenses were roughly $77,000. Murnane' Long Island home (title in Mrs. Murnane) is carried on his books at about $474,000 and represents his major asset. There is a mortgage in an amount of $150,000 against it payable to Harry G. Cushing III. Murnane has borrowed approximately $10,000 on his life insurance policies. He owes Jean Monnet over $79,000 which until a recent assignment was a debt due from Murnane to the New York partnership for sums withdrawn from the firm capital. Murnane's expenses appear to be routine. The net worth of Murnane and his wife at the end of 1941 was $232,000, representing mostly the equity in the Long Island estate.

From these facts taken together with the other information in our possession, it appears that Murnane has no suspicious assets.

Among the more interesting of Murnane's many foreign associations are the following:

(a) Solvay-American Corporation. Murnane, together with Eli Whitney Debevoise, New York lawyer and John C. Traphagen, New York banker, as voting trustees, hold 300,000 shares of common stock of Solvay-American Corporation (all common stock outstanding) for the benefit of Solvay & Cie of Brussels. Solvay-American Corporation is an investment trust with a portfolio aggregating over $90,000,000. The principal asset in this portfolio is 500,000 shares Allied Chemical and Dye stock having a value of over $76,000,000. Actual ownership of Solvay & Cie is not known and I understand has been a matter of investigation by Foreign Funds for some time.

(b) United Continental Corporation. Monnet, Murnane & Company, New York, owns 20,000 shares of this stock which is

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subject to an option to purchase in Tresno Corporation which is owned by the Petschek interests mentioned above. This corporation is an investment trust having assets of about $6,000,000 in the United States.

(c) American Bosch Corporation. Murnane's status as voting trustee for the foreign owned shares of American Bosch Corporation is known.

The agent's examination has disclosed further evidence of the close relationship between Mannheimer, principal figure in Mendelssohn & Company, and Murnane. In explaining certain entries in his books, Murnane advised the agent that in 1938 Mannheimer carried a securities account for Murnane in excess of $185,000 under an arrangement whereby Murnane received profits and Mannheimer bore losses. This account was closed out with a debit balance of over $30,000 when Mendelssohn & Company failed in 1939. For some time this debit balance was carried on Murnane's books as a debt due Mendelssohn. Now Murnane claims there never was a debt.

(d) York Commercial Corporation. Murnane, together with one Ernest Frohknecht, a Dutch Jewish refugee banker, and Donald Mackenzie as voting trustees hold all of the stock of the York Commercial Corporation which has assets of about $2,000,000 in the United States. The stock is apparently held for the benefit of Frohknecht.

As regards Frohknecht it is of interest that in a TFR-300 report he states that he holds funds in the United States which he believes are beneficially owned by Germans. He says he is unable to furnish a list of these owners and that he believes the funds are German owned "because the oral instructions (re distribution to the owners) were given to me by a German."

It may be noted generally that the agent's examination and my examination have thus far not disclosed any evidence that Murnane or Monnet is presently representing or acting for Axis interests.

Maurice Avint
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 9 - 1942

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

By a memorandum, dated August 14, 1941, Mr. D. W. Bell, pursuant to your instructions, advised Mr. Delano that he should assign bank examiners and other personnel to assist in supervising foreign-owned banks and other commercial concerns placed under the jurisdiction of Foreign Funds Control, and advised that such supervisory personnel should be responsible to Mr. Delano.

In accordance with those instructions several hundred bank examiners were taken from their regular work of examining banks and placed in such foreign business concerns. As rapidly as feasible these bank examiners have been replaced by newly-employed personnel. At present only a very few bank examiners are still being used in Foreign Funds supervision.

The bank examiners placed in business concerns were under the direct control of and reported directly to the various chief national bank examiners, rather than to the Foreign Funds Control Division of the Treasury or to the various Federal Reserve Banks as agents of Foreign Funds Control. As bank examiners were replaced by newly-employed personnel, this new personnel has continued to report directly to the various chief national bank examiners.

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The Comptroller of the Currency, his chief national bank examiners and their staffs have played an invaluable role in the supervision of foreign business enterprises. This was especially true immediately after Pearl Harbor when qualified personnel was needed without delay. Much of whatever success we have attained in this field has been due to their cooperation.

Since there are now very few bank examiners engaged in business supervision, newly-employed personnel having taken their place, it is believed that the time has come to place the business supervisory personnel directly under the authority of Foreign Funds Control rather than under the chief national bank examiners. This step will make it possible for the chief national bank examiners to return full-time to their regular duties in the banking field. In addition it will remove what is now an unnecessary intermediate step between Foreign Funds Control and the personnel which it has employed to supervise foreign business enterprises.

If you concur in the suggestion that the business supervisory personnel, other than national bank examiners, be

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placed directly under Foreign Funds Control, please indicate your approval below.

E. H. Foley Jr.

I APPROVE:

H. Morgenthau Jr.

Secretary of the Treasury.

DWB

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BOARD OF ECONOMIC WARFARE

~~ECONOMIC DEFENSE BOARD~~
WASHINGTON, D. C.

OFFICE OF THE EXECUTIVE DIRECTOR

May 9, 1942

The Honorable,

The Secretary of the Treasury

Dear Mr. Secretary:

The minutes of the meeting of the Board of Economic Warfare which was held on Thursday, May 7, are enclosed. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

Milo Perkins

Executive Director

Enclosure

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Minutes of the Meeting of the Board of Economic Warfare
Held May 7, 1942 at 10:00 A. M.

A meeting of the Board of Economic Warfare was held in the Vice President's office in the Capitol Building at 10:00 A. M. on May 7, 1942.

The meeting was attended by the following members of the Board:

The Vice President, Chairman of the Board
The Secretary of State
The Secretary of the Treasury
Mr. R. P. Patterson, representing the Secretary of War
The Attorney General
Mr. James V. Forrestal, representing the Secretary of the Navy
The Secretary of Agriculture
The Secretary of Commerce
Mr. Nelson Rockefeller

In addition, the following persons were present:

Mr. Milo Perkins, Executive Director of the Board of Economic Warfare
Mr. Harold Smith, Director, Bureau of the Budget
Mr. Dean Acheson, Assistant Secretary of State
Mr. Harry White, Assistant to the Secretary of the Treasury
Mr. Will Clayton, Department of Commerce
Mr. Laurence T. Duggan, Department of State
Mr. E. W. Gaumnitz, Special Assistant to the Executive Director, Board of Economic Warfare

The Vice President opened the meeting and announced that until further notice, meetings would be held every two weeks in his office at 10:00 A. M. on Thursdays. He discussed briefly the functions of the Board of Economic Warfare, noting that the Board had certain staff functions as well as administrative functions, the staff functions, as such, being particularly difficult. He indicated that the meetings should have as the principal objectives:

(1) Keeping members informed

(2) Keeping jurisdictional lines clear and making certain that responsibilities and powers were definitely fixed, and

(3) Most important, making certain that all important problems within the broad scope of the responsibility of the Board were being handled.

Elimination of Axis influence in Latin America.

The Vice President suggested that each of the agencies submit within a week a report with reference to this subject, outlining its responsibilities, programs and relationships with other agencies, with suggestions for additional work appearing desirable whether done by it or other agencies. These reports were to be submitted to Mr. Perkins, who was requested to have them summarized and recommendations prepared for presentation at a later meeting. These summaries are for the purpose of ascertaining particularly the points needing additional emphasis, and of determining whether all agencies were being used to the greatest possible advantage.

Relationship of the State Department to the Board of Economic Warfare.

Secretary Hull raised the general question of the relationship of the State Department to the Board of Economic Warfare, the Secretary stating that the State Department had for several years directed its energies towards promoting a more friendly relationship with South American countries, and that much progress had been made. Extreme care was necessary in order not to disturb further progress. In building this better relationship, the State Department has cooperated fully with other Government Departments having specific interests and has taken into consideration political, economic, military and cultural phases and interests. While recognizing the extreme urgency of action in Latin America, the Secretary indicated that the State Department was charged with the responsibility of handling relationships with foreign Governments. In prosecuting elimination of Axis influence in Latin America, consultation with the State Department, with reference to proposed action, therefore seemed essential, and jurisdictional lines should be carefully followed.

The Attorney General stated that two years ago, at the request of the State Department, the Department of Justice had instituted an Intelligence Section in South America and now had about 150 agents. It was his impression that there were many things remaining to be done such as guarding certain strategic points.

Freezing Argentina Funds.

Secretary Morganthau stated that immediate consideration should be given to the freezing of Argentina funds in the United States, these funds probably amounting to $500,000,000. He suggested that a sub-committee be appointed to consider this subject and make recommendations. It was decided that representatives of the interested agencies be called together by a representative of the Board of Economic Warfare, the agencies and representatives being as follows:

State - Dean Acheson
Department of Justice - (To be named later)
Treasury Department - Harry White
Board of Economic Warfare - Frank Coe
Coordinator of Inter-American Affairs - John E. Lockwood
Commerce Department - W. L. Clayton

Mr. Biddle suggested that a representative from the Office of the Custodian of Alien Property be added.

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Communications System among the American Republics.

The Vice President presented a letter from the President dated May 4 (copies of which were made available to the members of the Board) with reference to a survey of Inter-American communication facilities prepared by the Coordinator of Inter-American Affairs. The President stated that the reports should lead to an immediate action program and indicated his desire that the program should be administered under the Vice President as Chairman of the Board of Economic Warfare, utilizing for the financial aspects one or more corporations created under Executive Order No. 9128, and with the assistance of an advisory committee including representatives of all of the interested member agencies and the Federal Communications Commission. The Vice President was requested to discuss the proposals with the Board, appoint an advisory committee, and arrange for the necessary staff to effectuate the program. The President stated his desire to have a report by June 30 covering the program. All of the agencies had received copies of the Communications Report except Agriculture and Justice.

It was agreed that the Board should undertake the general task as requested, though it was recognized that the problems presented were especially delicate. Mr. Perkins pointed out that several agencies were directly concerned in communications, that there was probably a wide difference of opinion as to the methods to be followed, and that it was particularly important that the man selected as administrative head should be acceptable to all agencies. He suggested Mr. Ed Love, Vice President of the Chase National Bank of New York as a possibility for administrator. The Attorney General thought Mr. Love's background should be checked, and offered to make available data in the hands of his Department. Secretary Jones wished an opportunity to consult with his staff as to possible candidates and agreed, as did others, to present suggestions within a day or two. Secretary Jones also indicated that the Reconstruction Finance Corporation was financially involved in certain communications companies. Mr. Perkins also suggested the name of Clifford Durr of the Reconstruction Finance Corporation.

Secretary Hull indicated that the communications problem was particularly delicate in certain countries and that there would be resentment of outside financial influence. Mr. Perkins pointed out the difficulty of laying out in advance a single pattern of operation to be followed in all areas, and again stressed the importance of the appointment of a man acceptable to all agencies.

Mr. Perkins raised the question of whether the President's letter indicating that a new corporation should be formed met with approval. Before answering, Mr. Harold Smith requested information on the air line program undertaken some time ago.

Mr. Duggan indicated that while that program had worked out well, the communications problem was much more delicate and advised caution. He also stressed the fact that action taken in connection with communications might jeopardize other programs. Attention was directed to the importance of severing lines of communication between certain South American countries and the Axis power. Mr. Rockefeller pointed out that this problem was covered in the Communications Report as was the problem of "outlaw stations". Mr. Acheson stated that the policing job was one not within the scope of the proposed corporation.

Mr. Perkins asked for additional discussion on the question of whether the Board of Economic Warfare should handle any general corporation which might be established. Mr. Acheson indicated that any action involving governmental agencies in South America was a matter for the State Department. Further discussion developed this thought, that while many agencies were directly concerned with the communications problem in South America, an action agency must of necessity make decisions after consulting the wishes of those involved.

Returning to the question of relationship between agencies, Mr. Smith indicated that where several agencies were involved, it was not possible to set forth lines of authority which were final, but that a series of adjustments would need to be made. While appreciating the apprehension of the State Department in connection with action programs in foreign fields, it was his thought that with full cooperation on the part of all agencies, little real difficulty would be experienced.

The meeting adjourned at 12:20.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 9, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Outline of State Department documents on reciprocal aid.

Mr. Acheson's letter of May 8 encloses the documents on reciprocal aid negotiations between the State Department and the governments of the United Kingdom and Australia.

1 and 2. The first two memoranda, March 24, from the State Department to the British Embassy and from the State Department to the Australian Legation propose that the question be discussed, and ask whether the discussion should be joint or separate. The memoranda suggest the following arrangements:

a. Aid to American forces in the field.

(1) Troop pay	Dollars
(2) Supplies	Reciprocal aid when supplies are locally available, otherwise shipment from the U.S.

b. Exports.

(1) Military equipment	Reciprocal aid
(2) Commercial exports	Dollars

The memoranda also suggest that the dollar position of the British Commonwealth will have to be kept under consideration in making the arrangements.

3. A copy of the third memorandum, April 24, from Sir Frederick Phillips to the State Department was previously received by the Treasury and summarized in my memorandum to you of April 30. It states the British proposals for reciprocal aid. These proposals agree with those of the State Department excepting that the British specify that the United States should pay dollars (1) for items taken from British dollar contracts in the United States, (2) for oil purchased in the Sterling Area but previously bought by the British for dollars, and (3) for certain local troop supplies when "convenient." The British memorandum also discusses arrangements for financing the

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construction and maintenance of bases. The British suggest that the Government making the base should bear the cost with no apportionment of expense on the basis of use and with no Lend-Lease or reciprocal aid obligation, excepting that all dollar costs would be met by the United States or provided on Lend-Lease, and the United Kingdom would provide supplies and service for all projects in the United Kingdom or its colonies.

4. A copy of the fourth memorandum, April 24, from the Australian Legation to the State Department was also received previously by the Treasury and outlined in my memorandum to you of April 30. This memorandum states that the Australian Government agrees in general with the British memorandum of April 24, but that the problem is larger in Australia and the Australian Government would like to discuss it further.

5, 6 and 7. The next three memoranda, May 4 and May 6, from the Australian Legation to the State Department present estimates of Australia's receipts and expenditures of American and Canadian dollars and of sterling for the year 1941-42, and estimates of the effect of reciprocal aid on those receipts and expenditures.

a. The Australians anticipate a deficit of American dollars of $51 million, of Canadian dollars of $51 million, and of sterling of $105 million. Under existing arrangements the dollar deficiencies will be met by the Sterling Area and additional sterling obligations will be substituted for them.

b. On the assumption that the United States will have an average of 100,000 troops in Australia, the Australians anticipate dollar receipts from pay and allowances of $30 million and from incidental expenditures of $15 million or $45 million in all.

c. On the same assumption the Australians anticipate local expenditures on account of American troops for supplies and bases of $160 million a year, an expenditure that would be made almost entirely in Australian pounds.

d. The amount of this that would represent a dollar cost to the Australian Government will depend upon the diversion of man-power from export trades to the servicing of American troops, the diversion of food and other materials from the export trade to consumption by American troops, and by the need of increased imports for components of goods provided through reciprocal aid. The Australian memorandum estimates that the first two of these causes will not cost more than $16 million, and that the third should be discussed with the United Kingdom and Canada in order to provide a means of financing it. The Australian memorandum therefore concludes that Australia's dollar deficit should be a temporary phase and that later in the year it should be made up.

8. The last item is a letter from Mr. Acheson to Mr. Perkins sent as a cover with the same group of memoranda that Mr. Acheson has sent to us. The letter summarizes the contents of the memoranda.

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ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

May 8, 1942

Dear Harry:

In order to keep you and Secretary Morgenthau informed of the course of the discussion of reciprocal aid with the United Kingdom and Australia, I am enclosing a copy of a letter to Milo Perkins reviewing the situation and copies of papers which have been exchanged between the Department and the British and Australian missions.

I think that it will be desirable for us to meet within a few days to talk this over before my next talk with the British and Australians.

Sincerely yours,

Dean Acheson

Dean Acheson,
Assistant Secretary.

Enclosures:

1. Memorandum of March 24, 1942 to the British Embassy;
2. Memorandum of March 24, 1942 to the Australian Legation;
3. Letter from Sir Frederick Phillips dated April 24, 1942 with enclosures;
4. Letters from Mr. J. B. Brigden dated April 24, May 4, and May 6, 1942 with enclosures;
5. Letter of May 8 (copy) from Mr. Acheson to Mr. Milo Perkins.

RECEIVED
Treasury Department
MAY 1942
Division of
Monetary Research

The Honorable
Harry D. White,
Assistant to the Secretary,
Treasury Department.

FOR DEFENSE BUY UNITED STATES SAVINGS BONDS AND STAMPS

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MEMORANDUM

The United States Government wishes to take up with the British Government and with certain of the Dominion Governments (at present Australia) through whatever procedures are mutually agreeable to them certain questions outlined below which arise from, but are not necessarily related solely to, the presence of American military and naval forces in British and Dominion territory. The first step is to ascertain the desired procedure for these discussions. Should this be by joint discussion or by separate discussions?

The Questions to be Discussed

The presence of American forces in Australia and in Northern Ireland raises questions as to how these forces are to be supplied and the necessary tasks performed in connection with their operations, including the question

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as to how lend-lease and reciprocal lend-lease procedures can be most effectively and equitably utilized.

1. Lend-Lease Agreement. There is a growing necessity for the shipment of articles under lend-lease to Australia. It is assumed that the principles governing such shipment and the procedures established thereunder would be consistent with the political, military, and financial arrangements between the British and Australian Governments. It is also assumed that any procedures devised should maintain the organization heretofore established in the interest of unity of command and decision. The problem here is to devise arrangements for extending to Australia in a manner mutually agreeable the principles contained in the Lend-Lease Agreement recently entered into between the United States and the United Kingdom.

2. Aid to American Forces in the Field. This heading involves the implementation of the broader agreement

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which may be reached under the preceding paragraph. It is assumed that the efficient use of tonnage requires the shipment from the United States of such articles as do not already exist in Australia or Northern Ireland and that, wherever practicable, the American forces should look to the authorities of those areasfor such supplies as already exist there and for the performance of such tasks as can be performed there. A further question arises as to the financing of such arrangements. It would seem desirable as a general principle that whatever may be furnished or performed within the area should be furnished or performed as reciprocal aid, and that shipments from the United States for the American forces be limited to such goods as are necessary to supplement supplies of the area. This will leave available the maximum tonnage for Lend-Lease shipments of materials urgently needed by the local authorities. This matter will require mutual study and discussion, and it may be

found

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found that a certain degree of flexibility is necessary. So far as the payment of American forces in the field is concerned, it appears desirable that that should be undertaken by the United States through such financial arrangements as may be mutually agreeable.

3. Shipments to the United States or upon Its Order. When the other Governments concerned may be able to provide military equipment for the use of the United States, it seems desirable that that should be provided as reciprocal aid. In respect of other imports, it would not seem wise at the present time to disturb the existing arrangements for payment in dollars.

4. British Commonwealth Dollar and Exchange Position. In view of the fact that decisions upon the subjects suggested above may affect or be affected by the dollar and exchange positions of the British Commonwealth, that subject will also require consideration.

Since the matters suggested above are pressing and since tentative procedures are already being inaugurated

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in Australia, it is hoped that mutually agreeable procedures for the inauguration of the discussions can be determined upon at the earliest possible moment and the discussions begun.

Department of State,

Washington, March 24, 1942

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MEMORANDUM

The United States Government wishes to take up with the Australian Government and the British Government through whatever procedures are mutually agreeable to them certain questions outlined below which arise from, but are not necessarily related solely to, the presence of American military and naval forces in British and Dominion territory. The first step is to ascertain the desired procedure for these discussions. Should this be by joint discussion or by separate discussions?

<u>The Questions to be Discussed</u>

The presence of American forces in Australia and in Northern Ireland raises questions as to how these forces are to be supplied and the necessary tasks performed in connection with their operations, including the question as to how lend-lease and reciprocal lend-lease procedures

can be

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can be most effectively and equitably utilized.

1. Lend-Lease Agreement. There is a growing necessity for the shipment of articles under lend-lease to Australia. It is assumed that the principles governing such shipment and the procedures established thereunder would be consistent with the political, military, and financial arrangements between the British and Australian Governments. It is also assumed that any procedures devised should maintain the organization heretofore established in the interest of unity of command and decision. The problem here is to devise arrangements for extending to Australia in a manner mutually agreeable the principles contained in the Lend-Lease Agreement recently entered into between the United States and the United Kingdom.

2. Aid to American Forces in the Field. This heading involves the implementation of the broader agreement which may be reached under the preceding paragraph. It is assumed that the efficient use of tonnage requires the shipment from the United States of such articles as do not

already

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already exist in Australia or Northern Ireland and that, wherever practicable, the American forces should look to the authorities of those areas for such supplies as already exist there and for the performance of such tasks as can be performed there. A further question arises as to the financing of such arrangements. It would seem desirable as a general principle that whatever may be furnished or performed within the area should be furnished or performed as reciprocal aid, and that shipments from the United States for the American forces be limited to such goods as are necessary to supplement supplies of the area. This will leave available the maximum tonnage for lend-lease shipments of materials urgently needed by the local authorities. This matter will require mutual study and discussion, and it may be found that a certain degree of flexibility is necessary. So far as the payment of American forces in the field is concerned, it appears desirable that that should be undertaken by the United States through such financial arrangements as may be mutually agreeable.

3. Shipments

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3. Shipments to the United States or upon Its Order. When the other Governments concerned may be able to provide military equipment for the use of the United States, it seems desirable that that should be provided as reciprocal aid. In respect of other imports, it would not seem wise at the present time to disturb the existing arrangements for payment in dollars.

4. British Commonwealth Dollar and Exchange Position. In view of the fact that decisions upon the subjects suggested above may affect or be affected by the dollar and exchange positions of the British Commonwealth, that subject will also require consideration.

Since the matters suggested above are pressing and since tentative procedures are already being inaugurated in Australia, it is hoped that mutually agreeable procedures for the inauguration of the discussions can be determined upon at the earliest possible moment and the discussions begun.

Department of State,
Washington, March 24, 1942.

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Willard Hotel,

Washington, D. C.,

April 24, 1942.

Dear Mr. Acheson,

I am sorry that we have not been able to meet to-day and I thought that it might help when we do meet next week if you had an opportunity of perusing the enclosed note which sets out our views on the scope of reverse lend-lease in practice. Do not treat it as an Aide Memoire, but as a preliminary paper to help oral discussions.

I understand the Australian Legation are sending you a note complementary to ours setting out certain important special considerations affecting Australia.

Mr. Nash has seen these papers, and is, I understand in general agreement, though again there are certain points of importance to New Zealand which he will be bringing forward when we get into discussions.

Yours sincerely,

F. PHILLIPS

The Honourable

Dean Acheson,

Department of State,

Washington, D. C.

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MEMORANDUM

1. MILITARY STORES

We propose to supply munitions, military and naval stores (not including local supplies for United States forces abroad for which see below) and associated services on Lend-lease terms to the United States Government. These supplies if requested from and furnished through a recognised Government organisation would be made on Lend-Lease terms whether they are issues from stores or whether they involve the placing of special contracts by the supplying Government. They would similarly be made available to contractors working for the United States Government on specific request of the United States Government to that effect, and on the assurance that the contractor is acting on behalf of the United States Government and that steps will be taken to prevent his making an uncovenanted profit.

The above offer would not apply to commercial supplies or to raw materials except that minor supplies of raw materials might be more properly dealt with as military stores and furnished on Lend-Lease terms at the discretion of the supplying Government.

Munitions, etc., off United Kingdom dollar contracts would not be transferred under reverse lend-lease, but should be paid for in dollars. We should not, however, claim dollars for materials which had already entered our depots except when they can be distinguished from Lend-Lease or sterling materials.

2. UNITED STATES FORCES IN STERLING AREA

United States would purchase the local currency required for pay and allowances and for local cash disbursements.

As regards supplies other than munitions and strictly military stores for American forces in the sterling area, it is not possible owing to the variety of considerations which may arise, to lay down precise rules in advance. It would have to be settled on considerations of convenience from the point of view of supply, shipping and administration whether particular supplies should be made available on reverse lend-lease by local purchase or by importation by the United States Government.

As regards American forces in the United Kingdom, the arrangements would be settled in London between the Service Departments and the United States Missions who are in daily contact on these matters, and broadly speaking, the supplies such as food, fuel, etc., are being treated on the same lines as munitions.

Arrangements

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Arrangements would have to be made to avoid possible criticism if United States Purchasing Officers paid for particular goods previously received by the United Kingdom under Lend-Lease. This would be done by refunding in any particular cases claimed by the United States authorities. If desired a short list of important articles could be agreed on which a general refund would be made of a proportion of the cost corresponding to the proportion of Lend-Lease supplies to the total supplies in the United Kingdom.

Oil is a special case. Broadly speaking, H.M.G. would provide both Lend-Lease and sterling oil on reverse lend-lease, but would expect to be recouped any dollar expenditure in the case of oil supplies (e.g., from Bahrein) which had involved the United Kingdom Government in such expenditure.

3. TASKS AND OTHER CAPITAL WORKS

The original conception of tasks and other capital works as works carried out on our behalf by the United States should, since the entry of the United States into the war, be revised to a conception of them as joint works carried out for the mutual benefit of the two countries. It is suggested that:-

(i) The initial cost should lie where it falls; i.e., the government responsible for construction, maintenance, and/or operation should bear the cost, including the provision of local currency, except for such supplies and services as it may be convenient for other governments to contribute. Dollar costs would, in all cases, be provided on Lend-Lease. We should be willing to make available supplies and services for tasks being carried out by the United States Government in United Kingdom and the Colonial Empire. In the Middle East, whichever government has assumed responsibility as above should normally itself obtain supplies and services by local purchase wherever expenditure in local currency is involved.

(ii) The contribution by each government to the capital and running costs should finally dispose of the question of the respective liability of the two countries and no attempt should be made on either side to record Lend-Lease or reverse Lend-lease liabilities or to apportion the liability according to user benefit. This disappearance of book records and apportionments might, it is suggested, be made retrospective.

H.M.G. would like the above principle of no account and no liability in connection with works of mutual benefit extended as widely as possible.

4. PROCEDURE

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4. PROCEDURE

United States demands for reverse Lend-Lease should be presented not to the Missions in Washington, but to the appropriate department in London by the appropriate United States Mission. In the case of assignable stores the appropriate department would keep the London Munitions Assignment Board informed, and its decisions would be communicated to the Combined Munitions Assignment Committee in Washington. It is important that the American requests should follow the above channel and not be presented direct to the suppliers.

5. DOMINIONS AND COLONIES

We will take the responsibility as regards the Colonies and the same principles will be applied as in the United Kingdom.

As regards the Dominions and India they have been, and will be, kept informed of our views. So far as possible uniform criteria for reverse lend-lease will be applied, but there will no doubt be difference of detail between the various Dominions.

6. RECORDS

We cannot keep complete priced records, and there can be no joint accounts or records. We must ask the United States not to expect full records from us. No standardized requisition form is suggested for reverse Lend-Lease. In particular no records are being kept of services (e.g., repairs of army trucks) rendered by British to United States forces. In view of the fact that records of such services must in any case be extremely incomplete we suggest that it is important that the principle should be followed that no record should be kept on either side in the case of miscellaneous services.

7. SHIPPING

Under the head of shipping, questions of reverse lend-lease depend rather intimately on the arrangements made as regards direct Lend-Lease, and in view of the complications and technicalities involved, the matter needs direct discussion between the War Shipping Administration and the British Shipping Mission.

F. P.

Willard Hotel,

Washington, D. C.,

April 24, 1942.

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AUSTRALIAN LEGATION

Washington, D. C.

April 24, 1942

Dear Mr. Acheson,

I have to inform you that I have now been authorised by Dr. Evatt and the Australian Prime Minister to represent Australia in discussions on Reciprocal Lend Lease, and it is desired that such discussions should commence jointly with representatives of the United Kingdom. I shall be at your service at any time except that I have an old engagement in New York on Tuesday next.

I understand that Sir Frederick Phillips is sending you some informal and personal notes to assist in the discussions, and I attach a similar memo stating briefly the Australian point of view.

Appreciating your great assistance in reaching the present stage, I am,

Yours sincerely,

J. B. BRIGDEN

The Hon. Dean G. Acheson,
Assistant Secretary of State,
State Department,
Washington, D. C.

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AUSTRALIAN LEGATION
Washington, D. C.
April 23, 1942

RECIPROCAL LEND LEASE

1. Australia is supplying war stores to United States Forces in Australia, and has provided supplies for United States Forces in the Philippines to the value of about £500,000. It has also approved the construction of special defence works in Australia to the value of about £5,000,000 in excess of the requirements of its own forces, and is considering a much larger programme of the same kind, estimated at present to cost about £50,000,000 and required by the United States Forces.

2. Australia desires to come to an arrangement with the United States on these matters, and to enter into joint discussion on aspects of mutual interest with representatives of the United States and of the United Kingdom, with a view to a common understanding on the principles to be followed based on the terms of the Mutual Aid Agreement of February 23rd between the United States and the United Kingdom, and on views which have been expressed by the Department of State.

3. In the discussions proposed there are certain special considerations which the Minister desired to bring prominently to notice. A memo of current date setting out the proposals of the United Kingdom has been noted, and the Australian view is generally in accord with the suggestions made therein. The following paragraphs state briefly the special problems which concern Australia, and

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AUSTRALIAN LEGATION
Washington, D. C.
April 23, 1942

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its

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its ability to carry out the intentions of Reciprocal Lend Lease.

4. The magnitude of Australian supplies to United States Forces is likely to be proportionately greater than those of the United Kingdom or of any other country, with respect to -

(a) the range of supplies, and
(b) the population and resources of the country, e.g.

(i) The range of stores to be supplied will include prepared foods and personal equipment for the Forces, which in other theatres will normally be provided from the United States. It may also include a larger proportion of arms andammunition and other military stores and maintenance than could be provided locally to United States Forces in other countries.

(ii) The supply of all such stores to United States Forces in the South-Western Pacific Areas other than Australia may become large also, particularly when a strong offensive is launched with Australia as a base.

(iii) The Works proposed are much in excess of the needs of Australia, other than as a base for United Nations operations. The addition of these "Tasks" to an already crowded programme will strain the resources of the country and reduce production for commercial export, with consequential reductions in oversea funds.

5. Australia

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5. Australia is a debtor country with large annual liabilities for interest, etc. It also has very heavy liabilities in sterling and in U. S. A. and Canadian dollars, for special war expenditures both with respect -

(a) to the maintenance of its Forces in various theatres of war, and

(b) to the purchase of war equipment and components in the United States, Canada and the United Kingdom.

Despite certain countervailing credits, which can be discussed, and severe restrictions on civil imports from all sources, Australia is at present faced with a heavy deficit on oversea account.

6. It is the desire of the Australian Government to contribute what is needed in and from Australia to the fullest possible extent, but its circumstances are difficult and peculiar to itself. It is realised that these facts are appreciated both by the United States and the United Kingdom, and it is hoped that a solution satisfactory to all concerned will emerge from the proposed discussions.

The State Department,

Washington, D. C.

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(COMP: ap)

AUSTRALIAN LEGATION,
WASHINGTON, D.C.

MAY 4, 1942

Dear Mr. Acheson,

I very much regret that you were not sent a copy of our Estimates of Australian Oversea Balances immediately after our meeting last week. I thought this had been done, but I now attach a copy.

While sending this I may perhaps attach a draft of a further statement giving rough estimates of the magnitude of Reciprocal Lend-Lease in Australia.

I am occupied with our own army in consultation with yours on the scope of supplies that can be provided in Australia. This has no immediate reference to our discussions, but it assists the estimates I am trying to make. Your Army Officers are concerned to get all they can in Australia from a point of view of shipping space and the like, quite apart from any considerations of payment, which is not their affair.

The draft notes I attach are quite likely to understate the values involved.

Yours sincerely,

J. B. BRIGDEN

The Honourable Dean G. Acheson,
Assistant Secretary of State,
State Department of the United States,
Washington, D.C.

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COPY:EU:MEL)
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AUSTRALIAN LEGATION,
WASHINGTON, D.C.

May 4, 1942

AUSTRALIAN OVERSEA BALANCES 1941-42

(AS ESTIMATED BY THE TREASURY, CANBERRA, APRIL 6, 1942)

ALL FIGURES ARE IN MILLIONS OF AUSTRALIAN POUNDS.

AUSTRALIAN DEBITS OVERSEA.	U.S.A.:	CANADA:	TOTAL AMERICAN	U.K. AND OTHER:	TOTALS:
(a) Imports	24	15	39	112	151
(b) War expenditure	7	5	12	53	65
Interest etc.	4	-	4	32	36
TOTALS:	35	20	55	197	252
AUSTRALIAN CREDITS OVERSEA					
(c) Exports	10	4	14	114	128
Gold	9	-	9	5	14
Capital	-	-	-	10	10
Recoveries	-	-	-	35	35
TOTALS:	19	4	23	164	187
(D) DEFICIENCIES:	16	16	32	33	65

NOTES:

(a) The 112 debit for imports from U.K. and other non-American sources includes 8 for motor spirit from the N.E.I., which in future may be a debit in the U.S.A.

The 24 from U.S.A. includes oils, machinery, vehicles, etc. and the 15 from Canada includes vehicles etc., all imported by private firms chiefly for war contracts.

(b) The previous estimated total was 76. The present estimate is 65 (the same as the Deficiency), and is comprised of 44 for the maintenance of forces and 21 for direct war imports (as distinct from those included in (a) above.)

The expenditure in the U.S.A. comprises 3 for Aircraft and 4 for Munitions, plant and materials; total 7 not under Lend-Lease.

The expenditure in Canada comprises 3.4 for the Empire Air scheme, and 1.6 for Munitions, plant and materials.

(c) Exports

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(c) Exports include wool sold to United Kingdom and sent to the United States on United Kingdom account.

(d) The total Deficiency of 66 is a minimum. It is estimated at from 65 to 70.

LONDON BALANCES.

No figures are given for estimated sterling funds at the end of the year, but 25 millions are immobilised there as Note Issue Reserve, and there are large short-term debts which need attention. There was about 80 millions credit (Australian value) in London last June.

The interest item in the Table includes current debt redemptions due this year as required (e.g.) in U.S. bonds.

The Commonwealth Bank in February last considered that no more than 33 million could be provided from its London funds towards any deficiency in 1941-42.

The dollar deficiencies on Australian account are met out of Empire dollar pool, and are sterling obligations in Australia.

All the figures however are given in Australian Pounds.

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OMPARED: McA

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RECIPROCAL LEND-LEASE - UNITED STATES AND AUSTRALIA

ROUGH ESTIMATES OF -

(A) Annual expenditures in Australia by United States.
(B) Annual expenditures in Australia by Australia.
(C) Effects of R.L.L. on Australian Oversea Balances.
(D) Possible action by U.S.

NOTE:

The totals will be less inaccurate than individual items, based on a rough estimate of the number of U.S. troops in Australia in 1942-43.

A. EXPENDITURES IN AUSTRALIA BY UNITED STATES.

1. These will be of two kinds both requiring the sale of dollars and the purchase of Australian currency. They involve -

(a) pay and allowances. A minimum average of 50 cents per man per day is suggested, requiring about 18 million dollars a year or (say) £A. 5,700,000.

(b) special expenditures, not in R.L.L. (i.e. by local Commanding Officers and incidental to the handling of stores of U.S. origin for U.S. troops, etc).

Another 12 million dollars a year may be allowed.

2. The minimum is 30 million dollars a year, or nearly £A.10 millions.

B. ANNUAL EXPENDITURES IN AUSTRALIA BY AUSTRALIA. (For U.S. Forces in Australia).

3. The accommodation, transport, and food (provided locally) the minimum cost can be estimated at a dollar per day per man or 6 shillings Australian.

The annual cost is therefore about £A. 11 millions.

4. Other supplies will include some clothing, field equipment and Q.M. stores, maintenance, and the like, e.g. construction of motor truck bodies to save shipping space.

5. TANKS. Constructed works of all kinds as per the £A. 50 million programme, are being pushed ahead.

A reasonable estimate of the total of 4 and 5 would be about £A. 20 million a year.

6. Although rough, the preceding estimates give an order of magnitude totalling some £A. 31 million, or 100 million dollars a year.

C. EFFECTS

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C. EFFECTS OF R.L.L. ON AUSTRALIAN OVERSEA BALANCES.

7. Australian deficiencies in U.S. dollars should be neglibible in future, and possibly be converted into credits.

Australia should get some 30 million dollars a year from the pay of U.S. expenditures outside R.L.L.

8. Recent transfers of procurement in U.S. from cash to Lend Lease may reduce our dollar liabilities at the rate of 30 million per year at the present scale of procurement. These transfers are only now taking effect but will operate fully for 1942-43.

9. Against these credits there will be losses of exports to sterling areas (foodstuffs by diversion to U.S. forces in Australia, and other exports by diversion of war power etc.) The extent of this will probably not exceed the value of £A. 8 millions.

10. These effects will be to reduce the total future annual Australian deficiency, and to avoid it altogether in terms of U.S. Dollars.

Questions of Canadian dollars and of sterling in future transactions are to be the subject of arrangement between the United Kingdom and Australia.

D. POSSIBLE UNITED STATES ACTION.

11. The extent to which R.L.L. can be applied by Australia is a matter outside these notes, which assume it to apply only to a given number of United States troops in Australia. It is desirable for this scope of R.L.L. to clear the present Australian position as much as possible.

The April estimates from Australia indicate a prospective deficit for the year ending June 30th 1942 of £A.16 million in U.S. dollars and a further £A 16 millions in Canadian dollars. Because of recent transfers of procurement in U.S. from cash to Lend Lease, the U.S. total may be less.

12. Retrospective action to transfer purchases for cash to procurement under Lend Lease is suggested by Australia. This might cover most of the U.S. dollar deficiency.

13. A simpler possibility might be to transfer the ownership of certain supplies (e.g. aircraft, tanks, vehicles including army trucks from Canada, gasoline and lubricants) to the U.S. and its forces in Australia, for disposal there through the Allied Supply Council.

It is assumed that some form of "Supply pool" may be appropriate.

14. To

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14. To some extent it may be possible for the U.S. to advance dollars in U.S. to meet Australian civil liabilities, (interest in New York, and dollars in Canada) against Australian currency to be drawn for pay etc. in Australia later in the calendar year.

May 4, 1942
JBB:6

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Treasury Department
MAY 8 1942
Division of
Monetary Research

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AUSTRALIAN LEGATION,
WASHINGTON, D. C.,
May 6, 1942.

Dear Mr. Acheson,

Two days ago I sent you a draft memo on estimates of expenditures in Australia. This was very rough, and it understated the prospective position.

I now send herewith a revised memo and would be glad if you would substitute it for the draft you have.

Yours sincerely,
J. B. BRIGDEN

The Honourable Dean G. Acheson,
Assistant Secretary of State,
State Department of the United States,
Washington, D. C.

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SECRET.

AUSTRALIAN LEGATION,
WASHINGTON, D. C.

May 6, 1942

RECIPROCAL LEND LEASE - UNITED STATES AND AUSTRALIA

ROUGH ESTIMATES OF -

A. Annual expenditures in Australia by United States.
B. Annual expenditures by Australia for United States Forces.
C. Effects of A. and B. on Australian oversea balances.

Based on an entirely arbitrary assumption of 100,000 U.S. troops in Australia for a full year -

A. ANNUAL EXPENDITURES IN AUSTRALIA BY UNITED STATES.

1. There will be three kinds of expenditure, each requiring the sale of dollars for Australian currency, i.e.

(a) Pay and allowances.
(b) Special expenditures by Commanding Officers outside R.L.L., and
(c) other expenditures either incidental to the handling of U.S. stores, or in relation to U.S. forces elsewhere.

2. Estimates of average requirements per U.S. man (all ranks) for local pay etc. vary from 50 to 100 cents per day, having regard to experience to date in Australia and recent increases in rates of pay. 30 million dollars averages 82 cents per day per man.

3. A total of £A.14 million for all three may be a reasonable estimate at present, or (say) 45 million dollars.

B. ANNUAL EXPENDITURES BY AUSTRALIA FOR U.S. FORCES.

4. These expenditures will include accommodation (some billeting), transport, food, some clothing, some camp and

field

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field equipment, Q.M. and Ordnance stores, construction of army truck bodies, etc. and some maintenance of personnel and equipment.

5. For accommodation, transport and food, the U.K. estimates are a dollar a day. For rough approximation at present the Australian expenditures on all items (other than Tasks) may be assumed at between 2 and 3 dollars a day, or (say) 100 million dollars a year. (In £A. (say) 32 millions).

6. TASKS. The construction of works of all kinds as per the £A 50 million programme is being pushed ahead, but the larger the scale of supply the less may be possible in this field. Works to the cost of £A.18 a year might be the physical limit.

7. TOTAL. These rough estimates gave a total of £A.50 millions or 160 million dollars a year. (This is approximately 22 dollars per head of population. Australian war expenditure for 1941-42, to June 30th next was recently estimated by the Federal Treasurer to exceed £A.300 millions (1000 million dollars).

C. EFFECTS OF A. AND B. ON AUSTRALIAN OVERSEA BALANCES.

8. There are problems in Australia of physical capacity and of internal finance, but the effect on oversea balances are of importance here, in view of the present adverse position.

9. The adverse effects on oversea balances will be due to:

(a) restriction on production for normal export by diversion of manpower etc.,

(b) diversion of food etc. from export to U.K. etc., to consumption by U.S. forces in Australia.

(c) greater imports for cash in sterling etc. for components of goods provided under R.L.L.

Of these three, the total for (a) and (b) should not exceed £A.5 million. The cost of imports under (c) is a matter

for

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for discussion with the U.K. and possibly Canada.

10. The present Australian deficiency in terms of U.S. dollars should therefore be a temporary phase. In due course the current account should be in credit, through -

(a) The recently extended scope of Lend-Lease, now covering procurements for which dollars were formerly needed, and

(b) U.S. purchase of Australian currency as estimated above.

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May 8, 1942

Dear Milo:

Thank you very much for your letter of May 5 informing me that you have designated Mr. Frank Coe, Chief of your British Empire Division, as the representative of the Board of Economic Warfare to advise with the Department upon lend-lease matters.

In accordance with our telephone conversation, I am enclosing the papers pertaining to lend-lease in reverse, or reciprocal aid, from the United Kingdom and Australia to this country. I assume that you will wish to look these over and pass them on to Mr. Coe. The following brief resumé of the situation will inform you and Mr. Coe of the present status of the matter. As soon as you have had an opportunity to discuss the matter with Mr. Coe, I shall be very glad to meet with you or him and get your advice and help in connection with discussions with the British and Australians.

The matter of reciprocal aid was precipitated by the arrival of American forces both in Australia and in Northern Ireland. In Australia our Army and Navy created a Joint Purchasing Board for the purpose of local procurement for the forces. General Roop, the former Director of the Budget, is the Chairman of this Board and has been designated by the President to sit on what is known as the Australian Supply Council, which is composed of Australian Cabinet Ministers, I believe a New Zealander, and possibly a Dutch representative, although I am not sure about the

last.

The Honorable
Milo Perkins,
Executive Director,
Board of Economic Warfare,
Washington, D. C.

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last. The Council is already supplying commodities and services to our forces, leaving the arrangements ultimately to be entered into to be determined in Washington.

The Secretary of the Treasury, after several conferences on the subject, asked this Department to work out a procedure for discussing these matters with the British and Australians and to have an exchange of ideas with them.

Accordingly, on March 24 we addressed memoranda to the British and Australian diplomatic missions, raising the question of procedure and outlining the subjects to be discussed. Copies are enclosed. After a very considerable delay, during which the British and Australians were discussing the matter of procedure between themselves, we received from Sir Frederick Phillips and Mr. Brigden of the Australian Legation the memoranda, both dated April 24, copies of which are also enclosed. Under date of May 4 Mr. Brigden furnished some additional information, some of which he corrected by an additional memorandum dated May 6, which I have just received. I am also enclosing a copy of that. The foregoing, I believe constitute all the papers on the subject.

Sir Frederick and Mr. Brigden called in person to present their memoranda of April 24 and went over them with me. We have arranged to meet again as soon as we have had an opportunity to analyze these papers and formulate some suggestions. This is being done here and also by Mr. Koker of the Office of Lend-Lease Administration.

Within a few days I should like to meet with Mr. Coe and Mr. Koker and advise with them.

In view of the present British need for dollars in connection with pre-lend-lease contracts and other obligations in this country which fall outside the scope of lend-lease aid, it does not seem possible at the outset to extend reciprocal aid to cover imports into this country. I believe that the matter of pre-lend-lease

contracts

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contracts is receiving periodic consideration by the President and by the Secretary of the Treasury, but up to date it has not been thought expedient to change the existing situation.

Most sincerely yours,

Dean Acheson,
Assistant Secretary.

Enclosures:

1. Memorandum of March 24, 1942 to the British Embassy.
2. Memorandum of March 24, 1942 to the Australian Legation.
3. From Sir Frederick Phillips dated April 24, 1942 with enclosures.
4. From Mr. J. B. Brigden dated April 24, May 4 and May 6, 1942 with enclosures.

RECEIVED
Treasury Department
MAY 8 1942
Division of
Monetary Research

A-A:DA:BE:MGW:SS

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UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

Return to 212 Treasury

May 9, 1942

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

Attention: Mr. Andrew M. Kamarck

Dear Sir:

Enclosed is a memorandum which Dr. James, the Head of our Latin American Section, prepared at my direction in response to your inquiry received yesterday afternoon. Attached is a list of the following documents prepared in this Section with regard to Argentina.

Sincerely yours,

James P. Baxter 3d

James P. Baxter, 3d
Deputy Coordinator

Enclosures

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COORDINATOR OF INFORMATION

INTEROFFICE MEMO

FROM: Preston E. James DATE May 8, 1942

TO: James P. Baxter

SUBJECT: Evidence of Argentine cooperation and non-cooperation

Three examples can be cited of Argentine cooperation with the United States in the program of hemisphere defense. The first is the action of the Argentine government in freezing axis funds. The second is the opening of the Argentine ports to United States warships without time restrictions. The third is the fact that the Argentine delegation to the conference at Rio de Janeiro signed the declarations of that conference together with the other American nations.

Unfortunately the examples of non-cooperation speak more loudly than those of cooperation. At least five items can be listed on this side of the ledger: 1. the Argentine government has not broken relations with the axis; 2. the government has taken action against newspapers and political groups which express open sympathy with the United States, while pro-axis expressions are permitted freely; 3. the government has permitted Buenos Aires to become the center of axis espionage and propaganda in Latin America; 4. President Castillo has selected several well-known pro-Nazis to act on his advisory council; and 5. the Argentine government has negotiated trade agreements with Spain, and has undertaken to compete with the United States in the purchase of such essential strategic raw materials as rubber from sources within the hemisphere.

+ El Paraguay

PJ 9/17

While the government of Argentina has adopted a policy of isolation and non-cooperation, the great majority of the people of the country are strongly in favor of closer cooperation in the war against the Nazis. Pro-democratic groups take frequent opportunities to express their feelings. There can be no doubt that the government does not represent the wishes of the majority of the Argentines today.

P.E.J.

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Report No. 3	POSITION OF THE CATHOLIC CHURCH IN ARGENTINA
Interview No. 9	PRO-AXIS AND ANTI-AXIS FORCES IN ARGENTINA
Latin American No. 9	REPORT ON ANTI-ARGENTINA ACTIVITIES
Latin American No. 28	THE POLITICAL SITUATION IN ARGENTINA
Latin American No. 37	RECENT DEVELOPMENTS IN ARGENTINA

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CONFIDENTIAL

COORDINATOR OF INFORMATION

POSITION OF THE CATHOLIC CHURCH IN ARGENTINA

Report No. 3

February 26, 1942

Copy No. _____

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CONFIDENTIAL

COORDINATOR OF INFORMATION

Research and Analysis Branch

Latin America Section

POSITION OF THE CATHOLIC CHURCH IN ARGENTINA

Report No. 3

February 26, 1942

Regraded Unclassified

CONFIDENTIAL

Latin American Section

Report No. 28

THE POSITION OF THE CATHOLIC CHURCH IN ARGENTINA

Recent information regarding the position of the Argentine Catholic clergy in international affairs has been disturbing. A large part of the church hierarchy regularly disseminates Nazi propaganda,and it is a strong supporter of the dangerous and anti-democratic "nationalist" movement. This information comes both from our mission in Buenos Aires and from the Catholic organization "Center of Information Pro Deo" (C.I.P.).

The success of the Nazi propaganda effort within the church began with the civil war in Spain when defense of Franco's actions become identified with his political and social ideology as well as his relations with the church. That Nazi success became more notable with the entry of Italy in the war, and has reached its peak since the German attack on Russia.

The propaganda emanating from the anti-democratic clergy attacks England and the United States as materialistic, Protestant, and Free Mason countries allied with the atheistic Soviet Union. Germany is said to be a friend of the church, maintaining good relations with the Vatican. It is held that the German Government pays large subsidies to churches and priests and that only

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CONFIDENTIAL

Latin American Section

Report No. 28

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"democratic" priests invoke punishment by the State. It is even alleged that Hitler is a good Catholic and attends mass.

Many of the Spanish, Italian and German clergy are being subsidized by their respective embassies, and German priests throughout the country are visited weekly by Gestapo agents. These priests attack democratic ideas in public sermons and published writings, and this attitude has been unheeded and unrebuked by the Episcopate, particularly by the Cardinal.

On the contrary, the Cardinal has actually condoned these conditions by banning reference to the persecution of the church and the clergy in Europe, particularly in Germany, in public sermons and addresses delivered by members of the clergy. This ban has rendered those members of the clergy who are anti-totalitarian practically helpless to employ defense measures, especially those provided by Papal encyclicals. In fact the Cardinal forbade any reference in sermons to the encyclical "Mit Brennender Sorge."

These conditions are highlighted by the following specific events:

(1) Last fall there were violent protests in clerical circles against anti-Nazi lectures delivered by a Belgian Jesuit, Father Charles.

(2) Nazi-inspired claims that Myron Taylor tried to exercise pressure on the Pope have been used to arouse personal

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resentment against President Roosevelt.

(3) Father Filipo, parish priest in Buenos Aires, publishes violent anti-democratic and anti-United States articles in the weekly "Clarinete." He has also, with ecclesiastical approbation, published a booklet and a book pointing out the "dangers" of an invasion of Argentina by England and the United States. On the other hand, a popular Argentine writer on church subjects for responsible publications, Eugenio Silveyra de Oyuela, was prevented from publishing an article on "The New Religion in Germany" written expressly for La Nacion. The article might have gone a long way toward making the Argentine laity understand the true aims of Nazism in the field of religion.

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Copy No. 3

CONFIDENTIAL

COORDINATOR OF INFORMATION

INTERVIEW NO. 9

With: Mr. Duncan Hayms

Dates: April 23, 1942

Subject: Pro-Axis and Anti-Axis Forces in Argentina

Place: Washington, D. C.

Mr. Hayms is an Argentine business man, about sixty years old, head of an export-import company trading mostly with the United States. He gives the impression of being an intelligent and well-informed observer; when asked questions on subjects about which he did not have good information or proof, he refused to make guesses or conjectures.

Mr. Hayms is a member of various pro-democratic and anti-Nazi organizations in Argentina, including the Democratic Commission for Aid to Countries Fighting Nazi-Fascism, the Association of the Friends of China, and the Committee Against Racism and Anti-Semitism. His wife is a member of the executive committee of the "Junta de la Victoria." His son, Duncan Hayms, Jr., is representative in this country for the Argentine Merchant Marine.

1/ The following were present at the luncheon meeting:

Preston E. James	C. O. I.
Maurice Halperin	C. O. I.
John S. Fox	C. O. I.
Charles Flato	Office of Inter-American Affairs
Willard Park	Office of Inter-American Affairs
Joseph Gregg	Hemisphere Corporation
Eric Beecroft	War Production Board
David Efron	National Planning Association

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Mr. Hayms named several people as being key pro-Nazis in high positions in the Argentine Government. These include Judges Repetto and Anchorena, of the Supreme Court. Along with Judge Mejia, who is ultra reactionary but not necessarily an overt Nazi, they form a majority of the Supreme Court of five members. Another key figure is General Martinez, Chief of Police in the Federal Capital, and Postmaster-General Rivarola. The latter is in position to control pro-Nazi and anti-Nazi material passing through the mails. Probably the most important pro-Nazi figure is sub-Secretary of Interior Castells, who is actually the directing figure in the secretariat and who can control both the federal police and the provincial governors.

As important anti-Nazis, Mr. Hayms named President Ortiz, General Justo, and former Minister of Finance, Federico Pinedo.

Mr. Hayms spoke briefly of the rather well-known pro-Nazi and anti-Nazi organized groups in Argentina, but he laid stress on important sectors of the population which are neither one nor the other, and which both sides are making every effort to penetrate. These include the Agrarian Federation of about 100,000 farmers, mostly tenant farmers; and large parts of the Union Civica Radical (Radical Party) in the interior of the country, that is, outside of Buenos Aires.

Mr. Hayms made a point of distinguishing between the Nazi-inspired neutrality of the Castillo clique, and the genuinely Argentinian neutrality of many of the people. The Radical Party, for example, has a tradition of neutrality remaining from the World War, but the great majority of its members are strongly anti-Fascist.

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Another point on which Mr. Hayms laid stress was the position of the great meat-packing companies, many of which are British and American-owned. These companies furnish Castillo his greatest support; without their support he would be unable to carry out his program and his government would probably fall. The interest of the meat packers in Castillo lies in his domestic reactionary and repressive policies.

Mr. Hayms also spoke about the American newspaper correspondents in Argentina, saying that they send badly informed dispatches or else they ignore very important events. He mentioned as an example our complete lack of news about the recent arrest of so-called communists (see below). As a result the American public is badly informed about the situation in Argentina.

With regard to recent developments in Argentina, Mr. Hayms said that the March congressional elections were completely fraudulent outside of the Federal Capital and Cordoba. It was his opinion that in a free election the Conservative Party would get only about 30% of the vote.

About two weeks ago the Castillo government ordered the arrest and the expulsion or internment of some fifty alleged "communists." Mr. Hayms said this was one of a series of deliberate maneuvers to destroy the militant anti-Fascist leaders and forces. From his personal knowledge he said that eight of the people on the list are leaders in the "Congreso de la Juventud" (Youth Congress), one of the most important anti-Nazi organizations in the country. Two of those arrested are leading anti-Nazi influences in the Agrarian Federation.

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Another, Crestes Chioldi, is director of the newspaper "La Hora," one of the most outspoken anti-Nazi papers in the country. Three of the arrested people are officials of the Democratic Commission for Aid to Countries Fighting Nazi-Fascism, including Dr. Augusto Bunge, formerly a national deputy and president of the Commission.

Many of those arrested were in Cordoba province, which has a Radical provincial government and where the Castillo campaign against the pro-democratic forces has been least effective. Mr. Hayms offered as proof of the weakness of Castillo that the governor of Cordoba declared the expulsion decree unconstitutional, refusing to carry it out.

Mr. Hayms spoke at length about the "Junta de la Victoria," a woman's organization of over 20,000 members from all classes of the population, including some of the wealthiest and most aristocratic families in Argentina. This organization which started in October 1941, is so powerful that Castillo has perforce refrained from attempting to impose the restrictive measures used against other anti-Nazi groups.

The Junta, in conjunction with the Pan-American Commission of Women, held a dinner on April 14th as part of its National Congress. Public support for its fight against Nazism was received from President Ortiz and from important Catholic organizations.

When asked about a possible program for the United States to adopt, Mr. Hayms emphasized that basically the Argentine people must be allowed to solve their own domestic problems; that this government should direct its action primarily toward creating a situation in which the Argentines' pro-democratic feelings could find expression; and that the American public should be better informed

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about Argentina. Along those lines he suggested the following:

(1) A publicity campaign to restore civil liberties and democratic government in Argentina. This campaign should not attack Argentina for its neutrality policy, but should let that attack be made by the Argentines themselves.

(2) Public opinion in the United States regarding the relations between the Castillo government and the Argentine people should be clarified by intelligent publicity.

(3) Argentine anti-Nazi groups need not be helped directly with economic support, but with (a) publicity; (b) intelligent and indirect pressure from this government, for example, to have Castells removed; (c) reform of the American Embassy in Buenos Aires, which ignores most important aspects of the situation; for example, in a recent contact with the Embassy Mr. Hayms was informed that they knew nothing about the existence of the Agrarian Federation.*/

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*/ The Latin American Section merely reports Mr. Hayms' opinions and recommendations without in any way associating itself with them.

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Drafted by
Latin American Section

October 27, 1941

REPORT ON ANTI-ARGENTINA ACTIVITIES
Special Situation Memo #1

SOURCES:

(Argentina) Chamber of Deputies of the Nation.

Investigating Committee of Anti-Argentine Activities.

Report No. 1, August 29, 1941
Report No. 2, September 5, 1941
Report No. 3, September 17, 1941

"Non-American Activities in Argentina Report for September, 1941" by S. Pinckney Tuck, Counselor of U. S. Embassy in Argentina.

Report No. 4 of the Argentine Chamber of Deputies Investigating Committee was not made available to this Section.

Chief points made in the reports listed above are:

1. The Nazis are the principal organizers of Axis propaganda activities in Argentina.

   In number of people affected, in organizing ability, and in thoroughness of organization the Nazi groups completely overshadow their Axis partners. Italian activities are subordinated to those of the Nazis; Japanese activities are confined principally to the commercial sphere. The Spanish groups are still in the process of being organized.

   According to Mr. Tuck, the Falangist groups may well be expected to take over many of the functions of the German machine in time. However, the Investigating Committee believes it will be the Italian groups which will take over.

2. The Nazis are trying to organize both the German born

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population and those of German descent, basing their appeal on the theory of dual citizenship.

The Argentine German National Socialist Party was dissolved by executive decree in May, 1939. Since then many groups have been organized to take over the function of the dissolved party. These include "benevolent and cultural" associations, the German Trades Union (to replace the dissolved Labor Front), commercial and industrial federations, regional federations of Germans, children's organizations such as Boy Scouts, etc.

The members of the organizations were regarded as German citizens regardless of their place of birth or their previous acquisition of Argentine citizenship. Through the German Embassy they were registered both in Argentina and in Germany. When the Union Alemana de Gremios (more than 12,000 members) was organized in 1939 it issued membership cards which were signed by government functionaries in the Reich and which bore characteristic numbers coordinated with numbers in the central records of the German Nazi party. The Committee also uncovered the existence of a military Nazi organization counting more than 64,000 members.

3. These groups are financed by business concerns and individuals having German connections.

By such devices as "Winter Help" campaigns, compulsory contributions are deducted from the pay envelopes of employees in German firms. In the 1940-1941 collection the German Embassy "mobilized", through these channels, more than 7,700,000 pesos. An insignificant amount is used for relief purposes in Argentina, the balance being used for organizational and propaganda activities.

4. The organization of news agencies is another major activity.

The Transocean Press, the South American Journalistic Post Information Agency, and a branch of DNB are the principal propaganda disseminating agencies in Argentina. Chief among these, Transocean provides service for sixty weekly periodicals and seventy daily newspapers in Argentina, and supports three regular radio programs.

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5. <u>The news agencies are subsidized by the German Government which makes up their large deficits.</u>

The agencies provide their services without cost to newspapers and periodicals, and in many cases pay subsidies to have their material printed (through paid-up advertisements which were not published). Thus they operate under heavy deficits, which are made up by funds sent directly from Germany. Transocean, for example, incurred expenses from January 1, 1937 to July 31, 1941, of over a million pesos; their receipts in Argentina for services rendered were less than 27,000 pesos; and more than 800,000 pesos were remittances sent from Berlin. Similar operating deficits occur in the operations of the other agencies.

N. S. Manfred Zapp, testifying before the Dies Committee, said that Transocean deficits in the United States were made up out of the "profits" of the company in Argentina.

6. <u>Less important propaganda agencies organized by the Germans include radio and cinema groups, a publishing house, an agency</u> of the German Railways, and a delegation of the Leipsig Fair.

7. <u>Other Axis propaganda news agencies.</u>

These include the <u>Stefani Agency</u> (Italian), and <u>Andi Agency</u> (nationality not defined), and <u>Havas</u> (French). The Committee considers the Stefani Agency as the one most likely to take over the functions of Transocean, should that group be outlawed. At present, however, Stefani is poorly organized and much less efficient than the German agency.

8. <u>Nazi organization activities are directed through the German Embassy.</u>

In 1937, the overseas section of "Germans Abroad" became part of the German Foreign Office, with the result that it could work through diplomatic channels and take advantage of all diplomatic prerogatives of the German Embassy.

The Embassy employs a staff of fifty-nine persons, compared with eighteen in the British Embassy, fourteen in the United States, and thirteen in the Italian. In 1940-1941, the expenditures of the German Embassy totaled almost six

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million pesos; the British Embassy spent less than two million, and the United States about half a million pesos.

The Press Attaché of the German Embassy seems to be the head of Nazi activities in Argentina. Until he fled the country in August 1941, the Civil Attaché is believed to have been the Gestapo chief of staff.

9. <u>The German Embassy in Argentina is also a headquarters of Nazi activities throughout Latin America.</u>

Between July 2 and August 13, 1941, the Embassy sent from Buenos Aires to other American countries about 4,400 kilograms of "printed anti-democratic matter." In the same period the amount of printed matter which passed through the British Embassy was 700 kilograms.

10. <u>Several high Argentine army officials are clearly implicated in Nazi activities.</u>

An attempt was made by this group to blackmail the Committee and discredit the United States at the beginning of the investigation. A group of officers including Lt. Col. Bartolomé de la Colina, Chief of Supplies, and a Major San Martín, in a denunciation made to the General Staff, accused three Argentines and one British subject of engaging in espionage activities in behalf of the United States. The General Staff promptly rejected the denunciation. The accusers are supposed to be heavily in debt to the Banco Germanico.

11. <u>The Federal Government has hampered the work of the Committee.</u>

The Government has adopted an attitude of studied official indifference to the work of the Committee, thus detracting from the effects of the material uncovered. The Minister of Interior (Dr. Miguel S. Culaciati) withdrew the cooperation of the police.

Gottfried Sandstede, ostensibly employed by a local shipping firm, Delfino, and attached to the German Embassy as Civil Attaché, was the Gestapo chief of staff for Argentina, as mentioned above. When the Committee had orders for his arrest, he fled the country on August 26, 1941, and it is believed that the authorities permitted his departure as the best solution of an embarrassing problem.

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COORDINATOR OF INFORMATION

Latin American Section

Special Memorandum No. 12

THE POLITICAL SITUATION IN ARGENTINA

December 3rd, 1941.

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Latin American Section

Special Memorandum No. 12

THE POLITICAL SITUATION IN ARGENTINA

Summary

Political tension is increasing to the point of threatening the present form of government. The political picture, which formerly could have been presented as a struggle between the Conservative and Radical parties, now is made more complicated by the international situation and by the personal ambitions of certain military officers. These political adventurers, admirers of Nazi methods and military successes, want to establish a dictatorship. Should they succeed, Argentina's foreign policies will be definitely pro-Axis.

The opposing pro-democratic forces are themselves weakened by internal schisms and lack of strong leadership. This weakness may make a coup possible.

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IV. Leaders and Possibilities . . . . Page 7

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Latin American Section

Special Memorandum No. 12

THE POLITICAL SITUATION IN ARGENTINA

I. SIGNS OF AN IMPENDING POLITICAL CRISIS

1. Pressure on Castillo to establish a reactionary dictatorship.

About a month ago a group of Nazi-minded "nationalist" Army officers presented Acting President Castillo with a list of demands which included, in part, the indefinite postponement of the Buenos Aires provincial elections (scheduled for December 7th), the elimination from national politics of General Agustin P. Justo, the suppression of certain newspapers, including the influential La Critica, and the establishment of an open dictatorship.

2. The Air Corps affair of September 23rd.

There has never been a satisfactory public statement of the affair of September 23rd. According to an ONI "Intelligence Report", however, it was apparently an incipient attempt of certain high-ranking Air Corps officers (who are identified as reactionaries in domestic affairs and pro-Axis) to effect a coup d'etat directed against Justo. The group of eleven plotters in the affair was headed by General Benjamin Menendez, retired, about whom there is definite and concrete evidence that he takes

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instructions from von Thermann, German Ambassador in Buenos Aires; Lt. Col. Bartolome de la Colina, Director of Materiel, Army Air Corps, who is supposed to be heavily in debt to the Banco Germanico, and General Avelino J. Alvarez, retired, formerly director of the Infantry School. The cabal also included several of the highest ranking Air Corps officers. Its focal point was the Aviation School at Cordoba.

3. Recent political maneuvers indicate a heightened tension.

Identified as attempts to line up public support for various forces are recent public political meetings. On November 18th several small pro-Axis parties formed a new united party called Partido Union Nacional Argentina under the leadership of Manuel Fresco, former Conservative governor of Buenos Aires and an avowed Axis partisan. This party has no popular strength, but its formation at the present time when anti-Axis public demonstrations are becoming more pronounced lends it considerable significance.

On October 23rd, Castillo issued a decree abridging the right of assembly, and it is considered that this was done to hinder the Radicals' election campaign.

On November 28th, Castillo personally (and over the head of Minister of the Interior Culaciati) instructed the police to forbid the pro-Democratic meetings scheduled for the following day. Under the aegis of Accion Argentina, some 5,000 mass

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meetings were to be held throughout the country, and they had been widely advertised for some time. Castillo's announced reason was that the meetings conflicted with the government's international policies, although the Supreme Court recently declared that interference with the people's right of assembly is unconstitutional.

II. NATURE OF THE POLITICAL CRISIS

1. The Conservative-Radical struggle for control of the government

Fundamentally the political struggle in Argentina revolves around the Radical and Conservative parties' attempts to control the national government. In its present form it dates from 1930 when the Conservatives, in a military coup, replaced Radical President Irigoyen by General Uriburu and installed a succession of Conservative governments through the widespread use of electoral fraud. At present, the Radical party, undoubtedly the majority party in most provinces, has control of the Chamber of Deputies, but the Senate and the Executive are Conservative-controlled.

Because of the December 7 elections in Buenos Aires province and the fact that that province which is so heavily populated can be decisive in the outcome of the 1943 presidential elections, the party struggle is becoming more intense. The Radicals would probably register an overwhelming victory in an honest election, but Castillo gives evidence that he is preparing to steal the

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elections for the Conservatives.

2. The Current crisis centers in a small group of leaders.

There is no general popular support in either party for drastic action in the current crisis. As has been cited above, certain groups are prepared to back Castillo in a coup d'etat, but these are principally political and military leaders with very little popular following. On the other hand, the forces in opposition to Castillo, both civilian and military, are divided, although they have considerably more backing in the general population and the important press of Buenos Aires than the pro-Castillo group. Basically, therefore, should there be an open break the action would be of the nature of a "palace revolution".

III. COMPLICATIONS IN THE POLITICAL PICTURE

1. Castillo's foreign policies are unpopular.

Castillo has been playing a very cautious game in foreign affairs. Despite a preponderantly popular anti-Axis sentiment, he has been extremely careful not to offend the Nazis who are using Argentina as their chief base for organizational and propaganda activities in South America. The unpopularity of Castillo's foreign policies cuts across party lines, and many fellow Conservatives such as Justo and Culaciati are opposed to him on these grounds.

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2. Castillo's pro-Nazi advisers.

Some of Castillo's closest advisers are avowed pro-Nazis, including General Juan B. Molina, Senator Matias Sanchez Sorendo, and Manuel Fresco. These advisers along with an influential group of Army leaders, are convinced that an Axis victory is inevitable and that Argentina should act accordingly. They have had a tremendous influence on Castillo and his Foreign Minister, Enrique Ruiz Guinazu.

3. Nazi sympathizers in the Armed Forces.

The German Army, through long years of an instruction mission, has built a large party of sympathizers in the Argentine Army. This has been reinforced by German military successes in the present war, and El Pampero, the chief Nazi newspaper, has a wide circulation among Army officers. The main strength of this sympathy is found in the Aviation and Cavalry Corps.

An example of this is found in an incident at the beginning of the Chamber of Deputies Committee investigation of anti-Argentine activities. An attempt was made by certain officers to blackmail the Committee and discredit the United States. These included the aforementioned Lt. Col. Bartolome de la Colina and his assistant, Major Juan San Martin. They accused three Argentines and a British subject of engaging in espionage activities on behalf of the United States. The denunciation, made to the General Staff, was promptly rejected.

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The accusers are supposed to be heavily in debt to the Banco Germanico, which is closely allied to the German Embassy.

4. The Radical Party may not be strong enough to prevent a coup.

The Radical Party has weaknesses which may make a Conservative or pro-Axis coup d'etat possible. These include:

(a). Lack of Army support. The Army has become a strong factor in national politics in the past ten years. The Radicals may at the present time count on some support in the Army, but it does not have many partisans.

(b). Lack of a popular leader. The Radicals do not have a strong popular leader behind whom to rally, such as Irigoyen was. Former president, Marcelo Alvear, present head of the party, is too old to be very active. This explains, in part, the rise of provincial leaders and branches of the party which has had the effect of dissipating its potential strength.

RESUME: Thus the traditional domestic struggle between Conservatives and Radicals is complicated by international pressures and a strong movement to scrap the Constitution of 1853 and establish a dictatorship. This movement has both Conservative and military backing, but for different ends. The movement is motivated partly by a desire to retain control of government and partly by desire to establish a military dictatorship. On the

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other hand, the Radical party is weakened by internal schisms and lack of a strong popular leader, although it is still the strongest political party numerically.

IV. LEADERS AND POSSIBILITIES

1. Military Adventurers.

There have already been mentioned in this report the names of several military leaders who are engaged in equivocal political activities. These include Menendez, Molina, de la Colina, and Alvarez. In addition, there are others not previously cited, including Captain Leon Scasso, former Minister of the Navy and head of the Legion de Mayo; General Basilio B. Pertine, former Minister of War; and General Angel Zuloaga, Chief of Aviation at the time he was caught in the September 23rd incident.

These military leaders have strong personal political ambitions, but mutual jealousies have prevented them from effecting a union which would seriously threaten the present form of government. Should such a union ever be formed, and the German Embassy is trying to do so, it would be extremely dangerous to Hemisphere defense plans because it would be friendly to the Axis powers.

2. Castillo

As has been seen, there is considerable pressure on Castillo to effect a coup d'etat. This would be done by

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finding some pretext to dissolve the Parliament and institute a regime by decree. However, he may not have enough strength both in his party and in the Army to be able to effect a coup.

3. Ortiz.

According to Dr. Damonte Taborda, President Ortiz is well enough, except for his eyesight, to resume the presidency. He has not made this move, however, because of fear that it may force Castillo into a political or military adventure, with unpredictable consequences.

4. Justo.

Former president Justo is the strongest individual leader in the Army, and he can probably count on the support of the bulk of the armed forces. There is evidence that the Radicals are flirting with the idea of uniting behind him as the least of the possible evils. They would do this only with the greatest reluctance because he is a Conservative and was involved in the repressions and frauds which that party has used in great measure in the past ten years.

5. Le Breton.

A possible dark horse in the political race is Dr. Thomas Le Breton, recently returned from his post as Ambassador in London. He has been absent from Argentina in the diplomatic service for some years and is therefore relatively unknown in

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the country. However, there has been considerable political conversation among party leaders since he returned and he may be found acceptable to a union of anti-Castillo forces.

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Sources

Interviews with:

Dr. Raul Damonte Taborda

Dr. Hugo Fernandez Artucio

Dr. Alfredo Metraux

M. I. D. Reports

O. N. I. Reports

State Department Despatches

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COORDINATOR OF INFORMATION

Latin American Section

Special Situation Memorandum No. 21

RECENT DEVELOPMENTS IN ARGENTINA

January 10, 1942.

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Latin American Section

Special Situation
Memorandum No. 21

RECENT DEVELOPMENTS IN ARGENTINA

Recent political events in Argentina continue to indicate strongly that Castillo is following the program of pro-totalitarian and "nationalist" military officers in order to bolster his own weak political position.

In October 1941 the "nationalist" army officers handed Castillo a list of demands which included the following items:

1. Dissolution of the Board of Aldermen of the Federal Capital.
2. Withdrawal of General Justo from politics.
3. The dissolution of Congress.
4. Proclamation of a state of seige.
5. The suppression of certain newspapers, including La Critica.
6. The resignation of the Ministers of War, Navy, and Interior.
7. Maintenance of an international policy of strict neutrality.
8. Indefinite postponement of elections in the intervened provinces.

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This "nationalist" group is the strongest anti-United States force operating among Argentines and, combined with the strength which can be mustered by the German groups, it constitutes a real menace to our interests. One objective, for example, is to halt the building of the Uruguay naval and air bases. A propaganda campaign is under way, largely in the pro-Nazi El Pampero, that the United States is trying to obtain military domination over the Estuary of La Plata. El Pampero has a wide circulation among military officers. 1/

In recent actions Castillo has already complied with a large part of the program listed above. On December 16, 1941, a state of siege was declared. Events since that date refute any belief that the state of siege was designed to suppress pro-totalitarian progaganda and subversive activities. The application of the restrictive measures has operated to prevent public expressions of support for the United States on the part of the large majority of the public and press which favor the democratic cause. Even if the decree were enforced against pro-totalitarian organs and opinion, the fact remains that these are a very small minority.

Other indications that Castillo is following the "nationalist" program are that he has dissolved the Board of Alderman of the Federal District and there is strong reason to believe that the Ministers of War and Interior may be eliminated in an impending reshuffling of the Cabinet. Their elimination would involve a curtailment of the influence of General Justo.2/ The state of seige itself precludes the necessity of suppressing the pro-democratic newspapers and of dissolving the Congress. The executive rules by decree.

1/ Despatch No. 3366, Buenos Aires, October 24, 1941
2/ Despatch No. 3740, Buenos Aires, Dec. 24, 1941

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Another indication of Castillo's strong ties with the pro-totalitarian army groups has been the release after a brief period of confinement of the officers involved in the abortive Air Corps "revolt" of last September. Furthermore, it was announced on December 27, 1941, that two of these officers were restored to active service. Lieut. Col. Edmundo Sustaita was named commander of the San Luis air base, and Major Bernardo Menendez was assigned to the aeronautical supplies division. 3/

Mr. Armour's despatches from Buenos Aires confirm the belief that the Castillo government will continue to follow a policy of procrastination and evasion in questions of continental solidarity, and that a considerable influence is being exerted on its policies by the actual course of the war. The fall of Manila is another event which should be added to the attack on Pearl Harbor as having an adverse political effect for us in Argentina. Mr. Armour summarized the situation in his statement that the Argentine Government "...intends to do nothing more in the direction of full collaboration with us unless and until it feels compelled to do so." 4/

The most recent example of the Argentine Government's present attitude in international relations is furnished by a speech and interview of Ruiz Guinazu on January 7, 1942. He not only emphasized the wish to continue a policy of neutrality but also stated that Argentina would not perform any acts of "pre-belligerency." That statement is broad enough to preclude any effective continental collaboration. Furthermore

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3/ New York Herald Tribune, Dec. 28, 1941
4/ Despatch No. 3740, Buenos Aires, Dec. 24, 1941

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he rebuked the Central American governments that declared war on the Axis for not having consulted with all the other American republics before taking that step. These announcements can be contrasted with the action of the Uruguayan cabinet on the same day in instructing its delegation to the Rio de Janeiro conference to propose that all American republics sever diplomatic relations with all Axis powers and their allies. The cabinet also urged that all powers fighting the Axis be regarded as non-belligerents. Ruiz Guinazu has made it plain that he would oppose such a decision.5/

5/ New York Times, Jan. 8, 1942

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DEPARTMENT OF STATE
Washington

May 9, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 369 dated May 7, 1942 from the American Embassy, Quito, Ecuador, concerning a change in the dollar sucre exchange rate.

The Department's telegram no. 298 of May 5, referred to in the above-mentioned telegram, was transmitted to the Treasury on May 6.

Enclosure:

To Embassy, Quito,
no. 369, May 9, 1942.

FL

copy:kma:5/9/42

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GRAY

C
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Quito

Dated May 7, 1942

Rec'd. 3:10 a.m., 8th

Secretary of State,

Washington.

369, May 7, 10 p.m.

Referring to Department's telegram 298, May 5, 10 p.m. from the Minister of Finance to the Secretary of the Treasury.

The dollar sucre exchange rate was changed to 13.70 buying and 14.10 selling on April 29th. When Dr. Eduardo Salazar brought the stabilization agreement to Ecuador he indicated that consultation was essential in the case of any change in rates "de importancia." He indicated that this referred to changes in rates in excess of 10% since the present change was less than 10% it was not felt that consultation was necessary but if Dr. Salazar's interpretation of Article no. 10 is incorrect I shall be pleased to have your views regarding this point.

LONG

BB

Copy:emk:5.9.42

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Treasury Department
Division of Monetary Research

100

Date May 11, 1942

To: Miss Chauncey

From: Mr. Southard

General

For the Secretary's Files.

Need not be shown to him.

MR. WHITE
Branch 2058 - Room 214½

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C
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TELEGRAM SENT

MJF

GRAY

May 9, 1942

3 p.m.

AMEMBASSY,

QUITO, (ECUADOR)

310

Your 369 May 7, 10 p.m.

Treasury says:

(1) It has no recollection of having indicated to Salizar what it considers to be a QUOTE substantial change END QUOTE;

(2) That Treasury in fact regards a change of six per cent as substantial;

(3) Treasury asks whether its message has been delivered to the Minister of Finance.

HULL
(FL)

FD:FL:BM

Copy:bj:5-11-42

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

Capetown

Dated May 9, 1942

Rec'd 4:01 p.m.

Secretary of State,

Washington.

74, May 9, 11 p.m.

Referring to Department's telegram no. 11 February 9 to the Legation.

The Consulate General on May 8 took delivery of United States currency totaling $122,692 from the South African Reserve Bank.

DENBY

CSB

Copy:bj:5-12-42

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COPY NO 13

BRITISH MOST SECRET.

(U.S. SECRET)

OPTEL No. 153.

Information received up to 7 a.m. 9th May, 1942.

1. NAVAL.

8th. Six ME's 109 attacked one of H.M. Trawlers off Worthing. The trawler was damaged but destroyed 1 aircraft and claims damage to another.

2. MILITARY.

Burma. Reports are inconclusive. It is probable that our troops are disposed between Pyingaing (30 miles east of Kalewa) and Kalewa and are crossing River Chindwin at Kalewa (some having already crossed) with strengths considerably reduced. Japanese are in Yeu. Chinese troops from Irrawaddy Front are probably moving east to contact the remainder of Chinese forces retiring towards China.

3. AIR OPERATIONS.

Western Front. In raids night 7th/8th, 18 R.C.A.F. (1 missing) and 9 New Zealand aircraft took part.

8th. 6 Bostons, supported by 15 squadrons of fighters, attacked the railway centre at Dieppe. No enemy fighters encountered. Hostile activity against United Kingdom was on a small scale. Two Spitfires attacked 12 ME's 109, destroying 1 and damaging another.

8th/9th. Aircraft were despatched. Warnefunde 194, aerodromes in France and Holland 12, Leeuwarden 3, sea mining (Heligoland) 3 19 of our aircraft are missing. Our "Intruders" destroyed 1 enemy bomber over Ijmuiden and probably destroyed another. A 7,000 ton ship off Haugesund was attacked and set on fire. About 35 enemy aircraft were plotted in the Norwich area but no concentrated attack developed and no serious damage reported. One enemy bomber was destroyed by balloon barrage.

Malta. Between 2.06 p.m. 6th and 11.26 a.m. 8th, 78 German and Italian bombers, supported by fighters, attacked the Island. Fighters and anti-aircraft guns destroyed 5, probably destroyed 5 and damaged 5.

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India. 8th. 28 enemy aircraft bombed and machine-gunned Chittagong aerodrome 1 Blenheim was destroyed on the ground and an aerodrome rendered temporarily unserviceable.

Burma. 8th. 5 United States aircraft attacked dock area Rangoon and another attacked Mingaladon aerodrome.

Regraded Unclassified

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 154

Information received up to 7 A.M., 10th May, 1942.

1. MADAGASCAR

The terms of surrender were signed on the 8th. One German and two Italian merchant ships were scuttled at PORT NIEVRE. Our casualties do not exceed 500 and we took over 2,000 prisoners. The occupation of ORONJIA PENINSULA is proceeding. Direct communication between the War Office and our land forces has now been established.

2. NAVAL

8th. One of H.M. submarines sank after striking a mine when leaving MALTA. Large number of survivors.

3. MILITARY

The withdrawal of our forces continues, the majority now being in the KALEWA area. Reports covering period up to 0300/8 indicate most formations intact but substantial loss of vehicles must be expected owing to difficulty of ferrying CHINDWIN RIVER.

4. AIR OPERATIONS

WESTERN FRONT. 8th/9th. About 222 tons of H.E. and incendiaries dropped on Heinkel Works at WARNEMUNDE and about 60 tons on the town. Searchlight activity was intense and results difficult to observe. 26 R.C.A.F., 5 missing, and 10 R.A.A.F. aircraft took part.

9th. 12 Bostons supported by 35 squadrons of Spitfires bombed railway centre at HAZEBROUCK and oil cisterns at BRUGES. No direct hits are claimed. One enemy fighter destroyed, 6 damaged. 8 Spitfires missing. 2 Me. 109's also destroyed off PORTLAND.

9th/10th. 20 bombers laid 38 mines off east coast of DENMARK and HELIGOLAND.

EGYPT. 8th/9th. 35 Wellingtons despatched to attack shipping at BENGHAZI. 1 hit claimed on 5,000 ton merchant vessel.

MALTA. Between 1518/8 and 1114/9, 28 bombers with fighter escort attacked. Spitfires destroyed 3 Me 109's, probably destroyed two and damaged three. 2 Spitfires lost.

9th. Reinforcements of Spitfires arrived MALTA having been flown off aircraft carrier.

INDIA. 9th. Enemy aircraft made two attacks on CHITTAGONG.

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TREASURY DEPARTMENT

BUREAU OF THE PUBLIC DEBT

106

May 11, 1942.

TO THE SECRETARY:

Subscriptions to 2-1/2% Treasury Bonds 1962-67:

Total today:	$ 14 M
Total to date:	756 M

MR. KILBY

Regraded Unclassified

TREASURY BILLS

	May 13	May 6	April 29	April 22
Amount offered	$ 250 M	$ 150 M	$ 150 M	$ 150 M
Bids tendered	546	355	375	333
Low rate	0 2/	.245%	0 1/	.158%
High rate	.376%	.372	.356%	.340
Average rate	.368%	.358	.335	.317
Amount in New York	$ 92 M	$ 63 M	$ 90 M	$ 85 M
Amount in Chicago	101	58	29	30
Amount in San Francisco.	6	2	4	14
Amount in balance of country	51	27	27	21

1/ $ 50,000 bid at 100.00; $5,000 bid at 99.980, next low rate 0.198%

2/ $5,000 bid at 100.00; $10,000 at 99.985, next low rate 0.245%

May 11, 1942

mrt

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 11 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Analysis of reports received concerning subscriptions to the issue of 1/2 percent Certificates of Indebtedness.

During the past 2 weeks Mr. Buffington has transmitted to my office (1) the letters and telegrams received by the Treasury in response to your telegram of April 1, announcing the issuance of 1/2 percent Certificates of Indebtedness, and (2) the reports prepared by members of the securities industry covering their activities in acquainting business concerns with the offering of these securities. An analysis of the letters, telegrams and reports follows.

I. The letters and telegrams.

(1) Only 1,986 corporations and governmental units out of the 8,256 such organizations to which telegrams were dispatched sent replies. Of those replying, 768 were interested in subscribing to the new issue of certificates, while the remainder expressed either a lack of interest or stated they might be interested at a later date. A summary of the telegrams sent and replies received appears in the table that follows:

	Non-financial corporations	Banks, insurance companies and other financial corporations	State and local governments	Total
1. Number of telegrams sent.................	6,900	269	1,087	8,256
2. Replies received:				
(a) Interested in subscribing.....	664	39	65	768
(b) Not interested now but may be later..........	666	71	93	830
(c) Not interested..	342	11	35	388
Total...............	1,672	121	193	1,986
3. Remainder for which no replies received.	5,228	148	894	6,270

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Secretary Morgenthau - 2

(2) The failure of the Department to receive a greater number of direct replies to the telegrams dispatched is probably accounted for by a number of factors. Among these may be mentioned the following:

(a) Many corporations passed their replies on to the Treasury through the members of the securities industry, who contacted them.

(b) Many corporations and governmental units felt no response was necessary because handy arrangements were available for placing subscriptions with their local bank or with the Federal Reserve Bank in their District.

(c) Many corporations and governmental units did not wish to put themselves on record as not having been interested in subscribing.

(3) Practically all the replies that indicated that the corporation or governmental unit was not interested in the certificate issue gave "lack of funds" as the reason. A few investors stated that the rate was too low and half a dozen or so said they preferred other types of Government securities.

II. <u>The reports from the securities industry</u>.

(1) The members of the securities industry contacted approximately 7,000 corporations located in 24 States and the District of Columbia. Some 1,135 of these corporations indicated they would place subscriptions for Certificates of Indebtedness in amounts approximately as follows:

	Number	Amount (millions)
Non-financial corporations...	1,009	$ 384
Banks........................	48	23
Insurance companies..........	78	296
Total........................	1,135	$ 703

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Secretary Morgenthau - 3

(2) In those 21 States and the District of Columbia for which the information was submitted by the members of the securities industry, 635 corporations out of the 6,388 contacted -- approximately 10 percent -- indicated that they were borrowing funds at the present time. They were not, therefore, in the market for a short-term 1/2 percent security.

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CONFIDENTIAL

111

Sales of United States Savings Bonds
From May 1 through May 9, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual Sales		Quota, May 1 to Date	Sales to Date as % of Quota	Actual Sales		Quota, May 1 to Date	Sales to Date as % of Quota	Actual Sales		Quota, May 1 to Date	Sales to Date as % of Quota
	Daily	May 1 to Date			Daily	May 1 to Date			Daily	May 1 to Date		
1	$ 12.7	$ 12.7	$ 14.0	90.7%	$ 7.3	$ 7.3	$ 9.0	81.1%	$ 20.0	$ 20.0	$ 23.0	87.0%
2	11.6	24.3	25.7	94.6	7.9	15.2	16.0	95.0	19.4	39.4	41.7	94.5
4	22.3	46.5	47.8	97.3	10.3	25.5	29.5	86.4	32.6	72.0	77.3	93.1
5	8.9	55.5	57.8	96.0	7.6	33.1	37.1	89.2	16.6	88.6	94.9	93.4
6	18.4	73.8	70.5	104.7	15.6	48.8	49.8	98.0	34.0	122.6	120.3	101.9
7	23.2	97.0	84.0	115.5	12.1	60.8	60.3	100.8	35.3	157.9	144.3	109.4
8	17.2	114.2	98.0	116.5	6.4	67.2	69.3	97.0	23.6	181.4	167.3	108.4
9	14.5	128.7	109.7	117.3	5.6	72.8	76.3	95.4	20.0	201.5	186.0	108.3
11			131.8				89.8				221.6	
12			141.8				97.4				239.2	
13			154.5				110.1				264.6	
14			168.0				120.6				288.6	
15			182.0				129.6				311.6	
16			193.7				136.6				330.3	
18			215.8				150.1				365.9	
19			225.8				157.7				383.5	
20			238.5				170.3				408.8	
21			252.0				180.8				432.8	
22			266.0				189.8				455.8	
23			277.7				196.8				474.5	
25			299.8				210.3				510.1	
26			309.8				217.9				527.7	
27			322.5				230.5				553.0	
28			336.0				241.0				577.0	
29			350.0				250.0				600.0	

Office of the Secretary of the Treasury, Division of Research and Statistics. May 11, 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.

Regraded Unclassified

see his reply of 5/13.

May 11, 1942

Dear Frank:

I am writing you about a rather serious obstacle that has arisen in our efforts to strengthen the war spirit and to sell War Bonds by means of public rallies in many parts of the country.

As you know, the Navy has been most cooperative with us in many ways in making such patriotic rallies possible. We find, however, that the Navy Department will not provide officers and men for parades or color guards, even in small numbers, unless we pay for transporting, quartering and feeding them. Since ours is a voluntary effort on the part of communities and individuals throughout the country, this means that the volunteers themselves are being asked to pay the cost, and we are, in some cases, quite unable to have the rallies at all.

Almost invariably at these meetings we include a mass induction of recruits and we do everything possible to help the war effort generally, in addition to pushing the War Bond campaign. I wonder, therefore, whether you would mind looking into this matter so that we may make some new and more practical arrangement with the Navy Department on the subject.

We are most anxious to push this program of public rallies throughout the spring and summer, and I sincerely hope that the Navy Department can change its policy so as to make this possible.

Sincerely,

(Signed) Henry

Honorable Frank Knox,
Secretary of the Navy,
Washington, D. C.

N.M.C.
Copies to Thompson

FK/ogk

By Messenger Vest 3:40
5/12/42

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1942.

TO The Secretary

FROM Harold Graves

In accordance with your request, I am supplying you the following schedule of State meetings:

Monday,	May 11	Chicago
Tuesday,	May 12	Detroit
Thursday,	May 14	Philadelphia
Friday,	May 15	Newark, N. J.
Monday,	May 18	New York City
Tuesday,	May 19	Hartford, Conn.
Wednesday,	May 20	Boston

Meetings will later be scheduled for Ohio, Missouri, and California.

The ten States to be covered by these meetings represent about two-thirds of our total volume of sales.

Regraded Unclassified

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

May 11, 1942

I thought you would be interested in the attached editorial from the Chicago Sun, written by Irving Brant. It calls a spade a spade. I have ordered more copies but have not received them yet.

Attachment

Regraded Unclassified

CHICAGO (ILLINOIS) SUN - May 9, 1942

Wartime Taxes

Secretary Morgenthau, who asked last winter for $7,600,000,000 additional revenue, has lifted his figure to $8,700,000,000. The cost of the war this year has jumped more than ten-billion dollars above January estimates, due to faster production of munitions. Nobody can deny the need of paying at least one tenth of the added cost by added taxation.

To obtain this extra $1,100,000,000, Mr. Morgenthau would reduce income-tax exemptions from $1,500 to $1,200 for a married couple, from $750 to $600 for an unmarried person, and from $400 to $300 for each dependent. This would cause 6,900,000 additional persons to pay income taxes, but only $100,000,000 would come out of this very low-income group. The rest of the $1,100,000,000—an even billion—would come from reducing the exemptions of those who already pay an income tax.

The House ways and means committee has greeted this request with a Bronx cheer. That may seem strange, because it is right in line with what the committee has been advocating—namely, that the war taxes should reach into lower-income brackets. It may not be so strange, if you examine the human side of the case.

Here are a few facts. A congressman's salary is $10,000. Secretary Morgenthau offered a tax plan which would increase the income tax of a married congressman with two children from $1,117 to $2,143 per year. Lower the exemptions and it will go to $2,321. For this and other reasons a powerful group in Congress wants, instead, a general sales tax which would fall four times as heavily on a family earning $500 a year as on a congressman earning $10,000.

Facts like these are not talked about openly in Washington. They are not considered decent. But they contain a lot of meat and they affect the well-being of the great mass of wage earners, small-business men and farmers in America—the little fellows who would bear the burden of a sales tax.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. Kuhn

I think you will be interested in these items from the Axis radio, picked up by the Federal Communications Commission.

1. An attempt to discourage the buying of War Bonds is being made by both the official German and Japanese short wave radios and the unofficial Nazi station called "Debunk." Berlin tells American listeners that the bonds will have little value when the time comes for them to be turned in, and cites the depreciation of Liberty Bonds to prove its point. The Tokyo radio consistently refers to our War Bonds as "red ink bonds." Station "Debunk" advises listeners to borrow money now and buy things, to ask for higher wages, to make England pay cash, to avoid the buying of War Bonds, and to make periodical searches of houses of rich people to see "if they have more of this or that than you do."

2. Tokyo has devoted two full length commentaries to the subject of Japanese treatment of war prisoners. The broadcasts imply that there are two kinds of prisoners who will be given no mercy: (1) enemy pilots who have landed on Japanese-controlled territory, and (2) any soldiers "who are known to have saved their own necks at the expense of native troops." Regarding the first group, the Japanese radio says: "Least of all, there can be no mercy for those pilots and their navigators who would subject the innocent and helpless to raids over Japan. They may as well abandon all hopes for a life of ease on this earth. There is no mercy for those enemies who would surrender after committing such atrocious acts." Regarding the second group of prisoners, it seems clear that the Japanese will give harsher treatment to white prisoners than to natives. America is given notice that "those captured who are known to have saved their own necks at the expense of the native troops are certainly not going to receive the same kind of treatment as those who were brave enough to come into contact with the Japanese." Practically the whole body of white soldiers on our side is accused of this kind of cowardice.

F. K.

Regraded Unclassified

May 11, 1942

Dear Henry:

I was greatly interested in reading the telegram which you received from the Great Atlantic and Pacific Tea Company. Thank you for your thoughtfulness in sending it to me.

Sincerely,

Claude

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

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May 11, 1942

Telegram received from Mr. R. E. Wood,
Sears Roebuck and Company

"Mail order May 8th, no sales increase. Retail May 6th, decrease 10 percent from corresponding days last year. This compares with increases during week ending April 28th of 17 percent mail order and 4 percent retail. We expect to have details by merchandise groups May 15th to disclose and eliminate the effect of major appliances and other seasonal lines whose present trends are different than last year."

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, Week ending May 9, 1942.

Summary

(1) National income payments rose to a new high in March, attaining an annual rate of nearly $106 billions. This compares with annual income payments of $92 billions in 1941 and less than $83 billions in 1929. However, due to the more rapid rise in living costs, the estimated purchasing power of national income payments again declined.

(2) The additional restrictions imposed on consumer credit by the Federal Reserve Board last week should accentuate somewhat the slowing up in retail trade recently in evidence. Department store sales in April declined contra-seasonally, and by the last week of the month were running only 8 percent above year-earlier levels.

(3) In meetings with trade representatives relative to the recent general price order, the OPA has indicated that the March retail price ceiling must be maintained at the expense of other adjustments. Despite the ceiling order, the BLS index of basic commodity prices rose moderately last week, largely as a result of price increases for exempted farm products. Prices for wheat, corn and flaxseed were noticeably higher.

(4) The imminent rationing of gasoline has served to intensify consideration of domestic transportation problems. Many local transit companies are expected to be hard pressed to handle the increased traffic, and plans are reported under consideration to restrict passenger traffic by rail. Shipment of grains on the Great Lakes has been banned in order to provide additional shipping space for iron ore.

(5) The WPB has clamped down on civilian iron and steel consumption. By progressive stages, iron and steel as well as substitute metals, except gold and silver, will be barred in the fabrication of around 400 specified articles.

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National income at new high

National income payments continued to expand in March and attained an annual rate of nearly $106 billions, thus exceeding the previous record high reached in February by more than $500,000,000. (See Chart 1.) In contrast, national income payments totalled $92 billions in 1941 and less than $83 billions in the boom year of 1929. The gain in income in March was particularly noticeable with respect to payments for wages and salaries. During the first quarter of this year, payments of wages and salaries ran 25 percent above the corresponding period of 1941, while other payments gained 19 percent.

Living costs in March, however, rose at a more rapid rate than national income payments. As a consequence, the purchasing power of income payments again declined. (Refer to Chart 1.)

Restrictions on consumer credit tightened

Nevertheless, even after allowing for rising living costs, income payments continue at exceptionally high levels. At another step in the program to restrict consumer buying and combat inflation, the Federal Reserve Board last week considerably tightened restrictions on consumer credit. In addition to stiffening the regulations on installment selling, and greatly widening the range of articles affected, it also brought open charge accounts under credit control for the first time. Although open charge accounts for food will not be affected, those covering such important items as clothing, shoes, hats and haberdashery will hereafter be subject to control.

Retail trade slows down

This tightening of restrictions on consumer credit is likely to accentuate the slowing up in retail sales volume that had been noted even before the recent price ceiling order. Thus, department store sales in April declined contra-seasonally, and ran only 8 percent above year-earlier levels, as compared with a gain of 27 percent in March. Moreover, in the week ended May 2, department store sales were only 8 percent above the corresponding week in 1941. (See Chart 2.) Since prices of typical department store items at the beginning of April were about 19 percent higher than a year earlier, it will be seen that the volume of goods sold since that time has actually dropped noticeably below corresponding 1941 levels.

In commenting on general retail trade last week, Dun and Bradstreet reports that sales barely maintained a margin over year-earlier levels. Further decline was noted in advance

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buying, while wholesale trade was said to be continuing to show the hesitation that followed the general ceiling order.

Preliminary reports from the New York area indicated that retail trade last week held around the levels of the previous week. Reports differed on the extent to which customers were withholding purchases in anticipation of the May 18 ceilings. However, it was generally agreed that registration for sugar rationing had cut down store attendance in the early part of the week.

Commodity prices little changed

Commodity prices moved irregularly last week, as the commodity markets awaited further interpretation of the general price order. The BLS price index of 28 basic commodities advanced slightly despite the ceiling order, largely because of price increases for exempt farm products. Wheat, corn and flaxseed rose noticeably, and renewed strength was shown by cotton, wool, and cotton print cloth. (See Chart 3.)

The strength in the wheat market doubtless reflects expectations that the price should eventually advance toward the loan rate. Corn prices made a substantial advance to a new season's high on reports of large consumption. Flaxseed prices advanced for the first time in a month on report of a large Government purchase of linseed oil for shipment to Russia.

Prices for hogs and steers remained practically unchanged. Packers were reluctant to buy hogs and steers at present levels, in view of the price regulations effective today on pork and beef, but bought sheep more freely since lamb is exempt from the ceiling order. Butter prices declined somewhat on temporary cessation of Government buying.

The BLS all-commodity index moved slightly upward in the week before last (ended May 2) to 98.7. (See Chart 4.) This is 31.6 percent above the pre-war level of August 1939, and 7.0 percent above that of the week before the Pearl Harbor attack.

General price ceiling developments

Clarification of the general price order, at OPA meetings with various trade groups, has been characterized by OPA insistence that the March retail price ceiling must be maintained at the expense of other adjustments.

Regraded Unclassified

A supplemental order for ceilings on seasonal goods, a difficult price problem, has been promised shortly. The need for such an order was emphasized in a meeting of coat and suit manufacturers at New York, where it was stated that the uncertainty over the establishment of "March ceilings" for goods to be made and sold in the fall, had caused retailers in many instances to cancel orders or ask for deferment of shipments.

There are further indications that in the canned foods industry prices paid for fruits and vegetables to stimulate this year's production may necessitate a subsidy. Secretary Wickard told a meeting of the National Canners' Association on Friday that it may become necessary for the Government to buy canned products at levels above the price ceilings, and then resell at prices which would permit their distribution at the ceilings.

Farm groups oppose cut in 110 percent ceiling

Representatives of leading farmers' organizations joined the Senate farm bloc last week in opposing the President's proposal that farmers accept a reduction in the price ceiling on farm products to 100 percent of parity. At the conference called by the Senate Agricultural Committee, recommendations were made also for legislation to prevent sale below parity of Government-owned or controlled commodities; for continuance of existing CCC loans for one year in order to prevent 1941 loan stocks from being sold by the Government; for a study of parity by Congress to arrive at a higher formula than that employed by the Department of Agriculture; and for more emphasis on price floors, to prevent a post-war depression.

Meanwhile two proposals for remuneration to farmers for adjusting production have been under discussion in the press. A British plan proposed for expanding food production in this country is based on certain principles now applied to industry. Under this proposal a differential price would be paid for additional output, without changing the price paid for the rest. Secretary Wickard recently suggested that parity for wheat be maintained only for the output required for domestic flour milling, say from 40 million acres, compared with our present national allotment of 55 million acres. Wheat grown in excess would be sold at a lower price for feed, for industrial uses, and for exports.

Stock prices slightly firmer

Stock prices have shown some improvement since the President's announcement of the inflation-control program.

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After touching on April 28 a new low since 1934, industrial stock prices as measured by the Dow-Jones averages have since moved gradually upward, and at the end of the week stood about 6 percent above the recent lows. Railroad and public utilities stocks also rallied slightly since the date mentioned, and then moved in a very narrow range during the past week. (See Chart 5.)

Trading activity has continued very slow, with daily transactions on the New York Stock Exchange recently averaging around 300,000 shares. Total sales last month were less than 7,600,000 shares — a figure 32 percent below year-earlier levels, and the smallest April total since 1918. Bond trading on the New York Stock Exchange in April also fell below year-earlier levels, but held up much better than stock trading, thus continuing to reflect a tendency to shift speculative activity from stocks to bonds.

Domestic transportation problems to the fore

The imminent drastic rationing of gasoline has served to bring into sharper focus the gravity and complexity of domestic transportation problems. In addition to tightening up on gasoline consumption, an executive order has been issued to enable the Office of Defense Transportation to exercise closer control over all rubber-borne transportation.

Traffic of most local transit systems has already increased sharply, and it is predicted that some transit companies will find it extremely difficult, if not impossible, to handle the traffic when gasoline rationing becomes effective. In San Diego, first quarter transit traffic was 76 percent above year-earlier levels, while the Capital Transit Company of Washington showed a corresponding gain of 44 percent. The Cleveland Railway Company in the first quarter showed a gain of only 9 percent over 1941 levels, but by October the company expects traffic to be 50 percent above the present rate.

Ban on Great Lakes grain shipments

Traffic problems of the railroads continue to mount, and the Office of Defense Transportation is reported to be considering plans for restricting civilian passenger travel by railroad. Further freight burdens will be thrown upon the railroads as the result of an order, effective May 15, banning all grain shipments via Great Lakes vessels except by specific permission of the Office of Defense Transportation. This action was taken in order to divert ships to iron ore traffic, in a drive to move an unprecedented volume of ore down the Great Lakes during the current shipping season.

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The forced diversion of freight traffic from ships to more costly rail routes is complicating the effort to impose ceilings on commodity prices. Thus OPA is reported to be considering the granting of subsidies to railroads handling coal and petroleum products to New England which formerly moved by ships. These proposed subsidies would enable the railroads to reduce transportation charges, and thus enable dealers to maintain OPA price ceilings.

Civilian steel consumption restricted

The WPB during the past week moved to cut down on iron and steel use for civilian purposes by issuing a broad restriction order, which will go into effect in progressive stages and become fully effective by August 3. By that date no iron and steel nor any substitute metals except gold and silver may be delivered, processed or assembled for the manufacture of about 400 specified products. In addition to its significance from the standpoint of conserving metal for war purposes, the restriction order may force the eventual shutdown of numerous small plants throughout the country.

In connection with the strides made by the metal-working industry in carrying out the war effort, the editor of the "Iron Age" editorially commented last week that "what is now taking place in our metal working industry is so great and vast and astonishing as to be inexpressible. It leaves no doubt whatever in my mind as to the outcome of this war."

Heavy construction awards at record high

Further evidence of the vast scope of the war effort came to light in last week's heavy construction contract awards as reported by the Engineering News Record. These awards soared to $435,000,000, or 45 percent above the previous record high set in the week ended July 10, 1941. As a result of last week's heavy awards, our 4-week moving average of contract lettings shown in Chart 6 also moved up to a record high. Due to censorship requirements, details of the various projects making up the record figure are not available.

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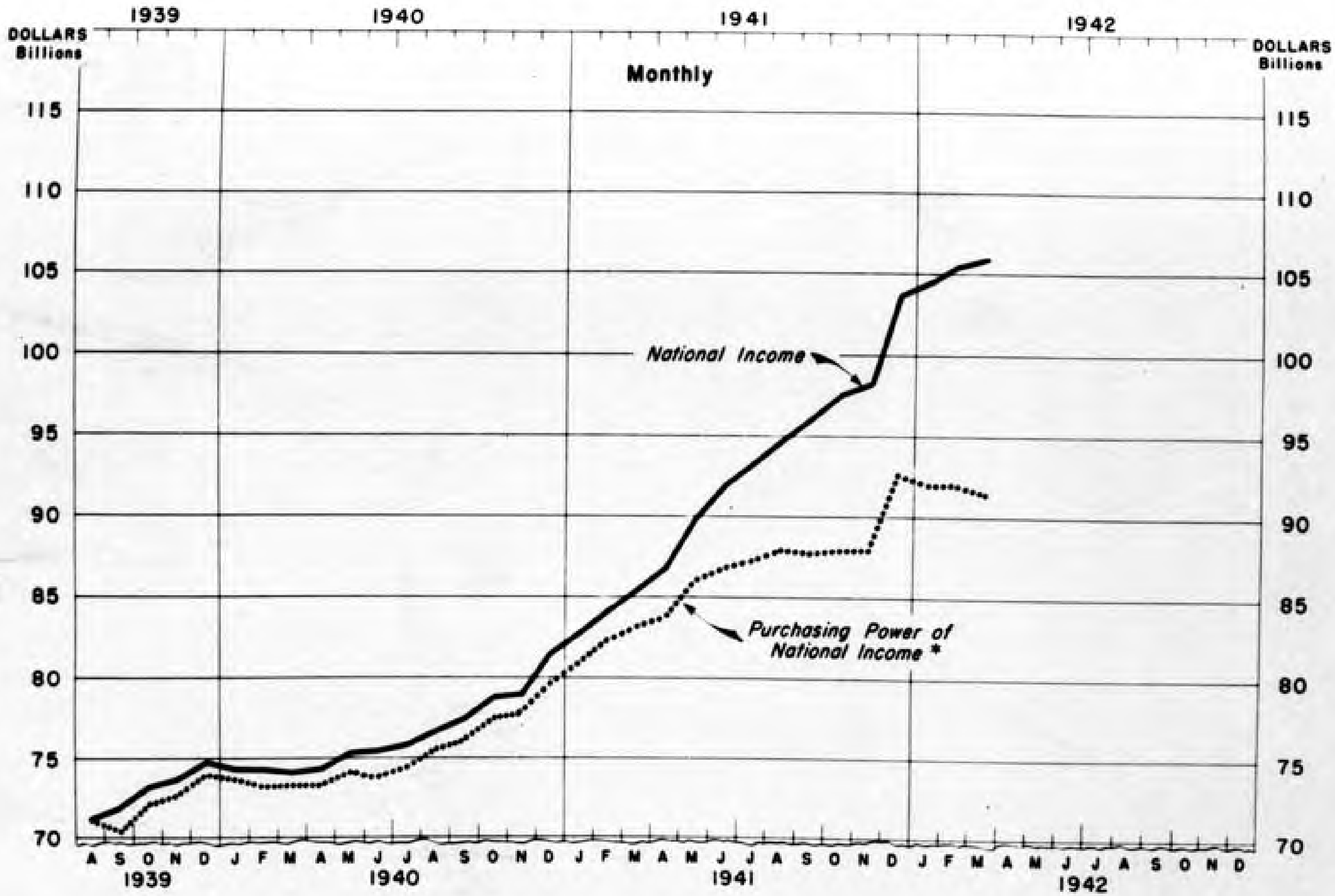
NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



* Based on cost of living index of B.L.S. Aug. 1939 = 100

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

C-415-A

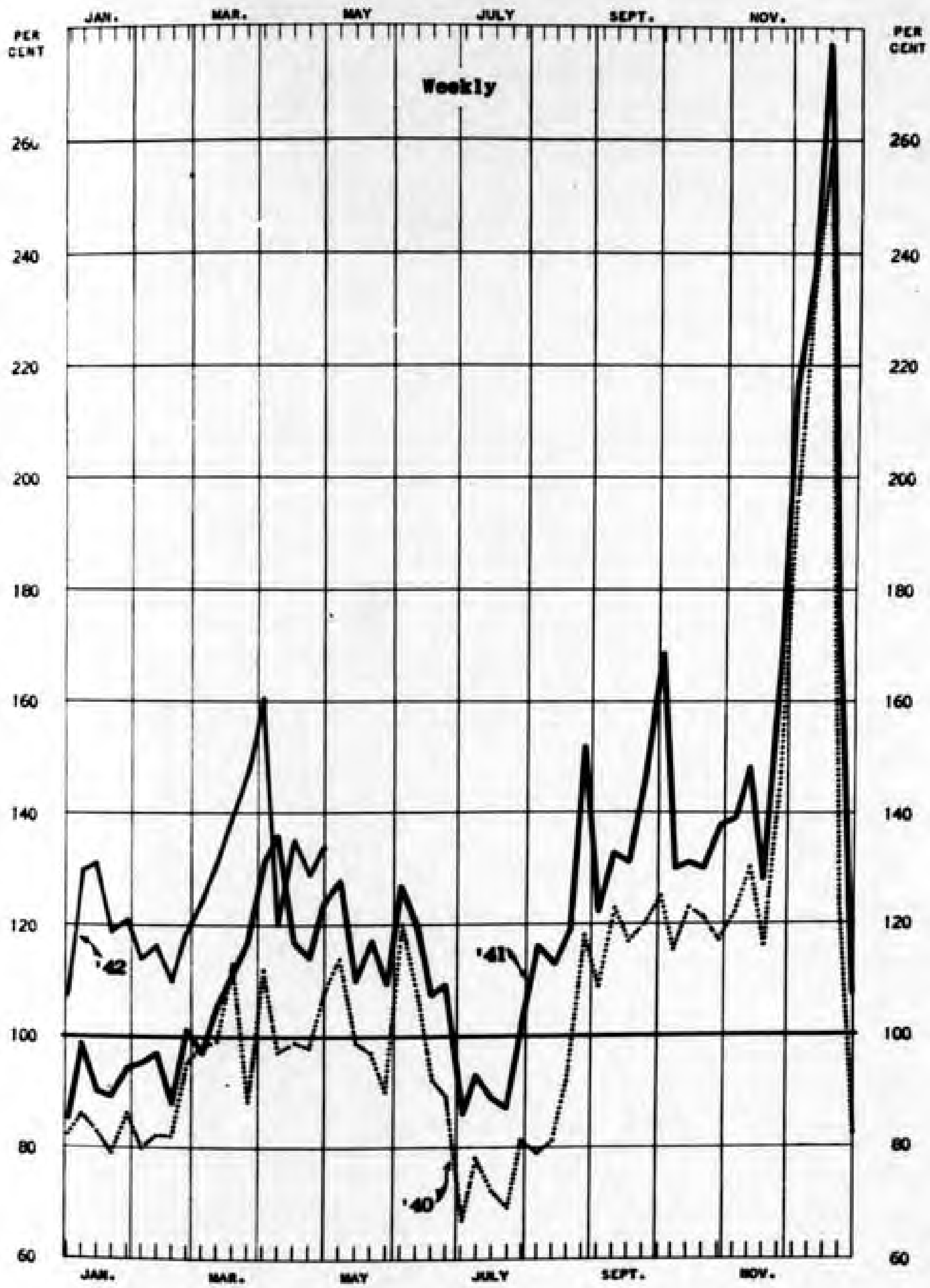
Chart 1
125

Regraded Unclassified

Chart 2

DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



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

C - 390

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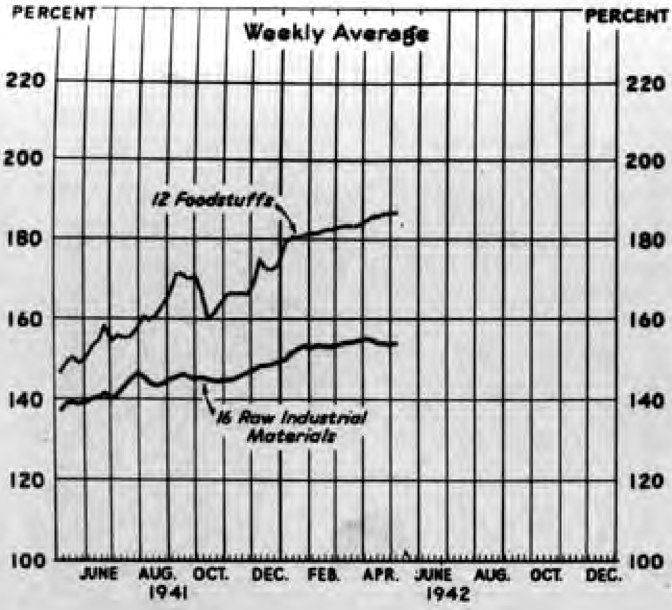
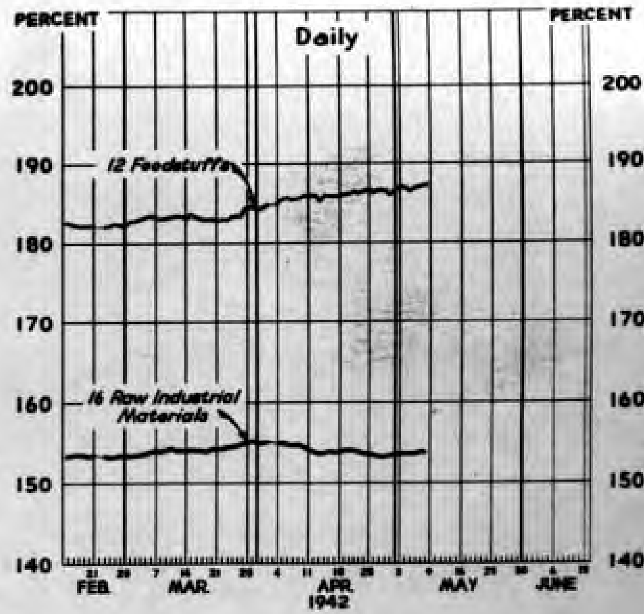
MOVEMENT OF BASIC COMMODITY PRICES

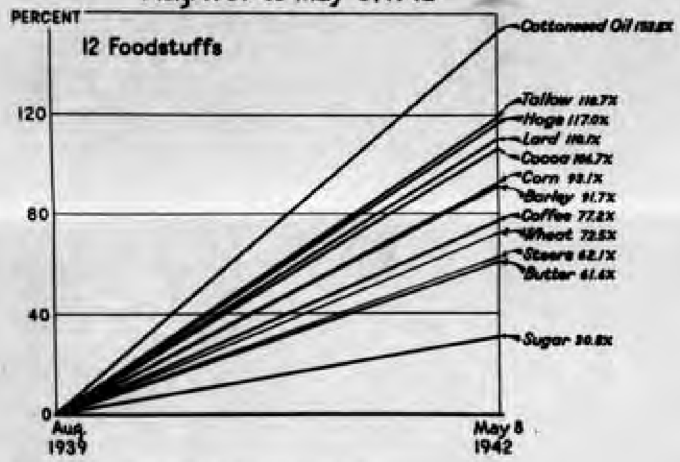
AUGUST 1939 = 100

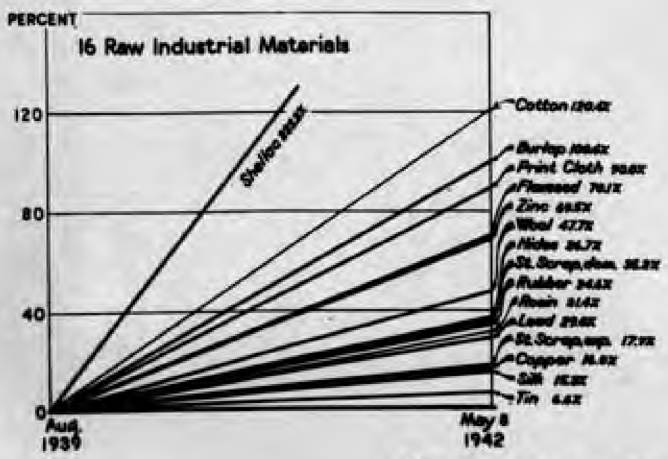




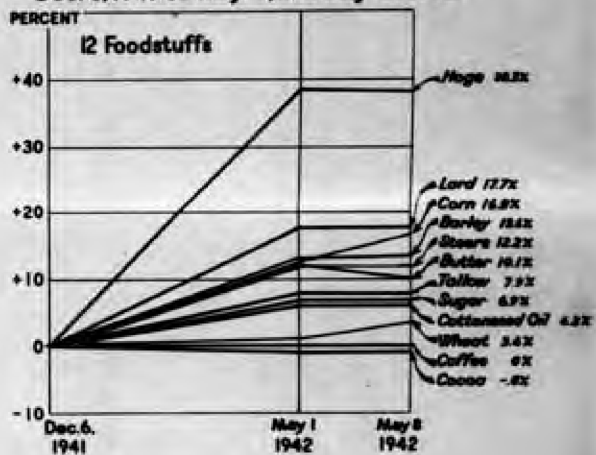
PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES*

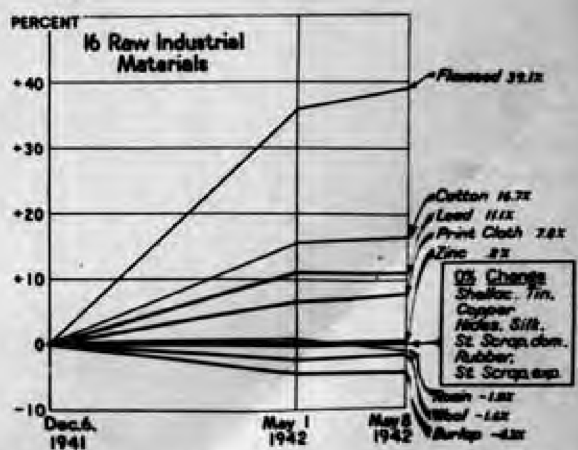
Aug. 1939 to May 8, 1942





Dec. 6, 1941 to May 1, and May 8, 1942





*Black lines indicate commodities under price ceilings or other control

P-284-12

Regraded Unclassified

# COMMODITY PRICES
1926=100

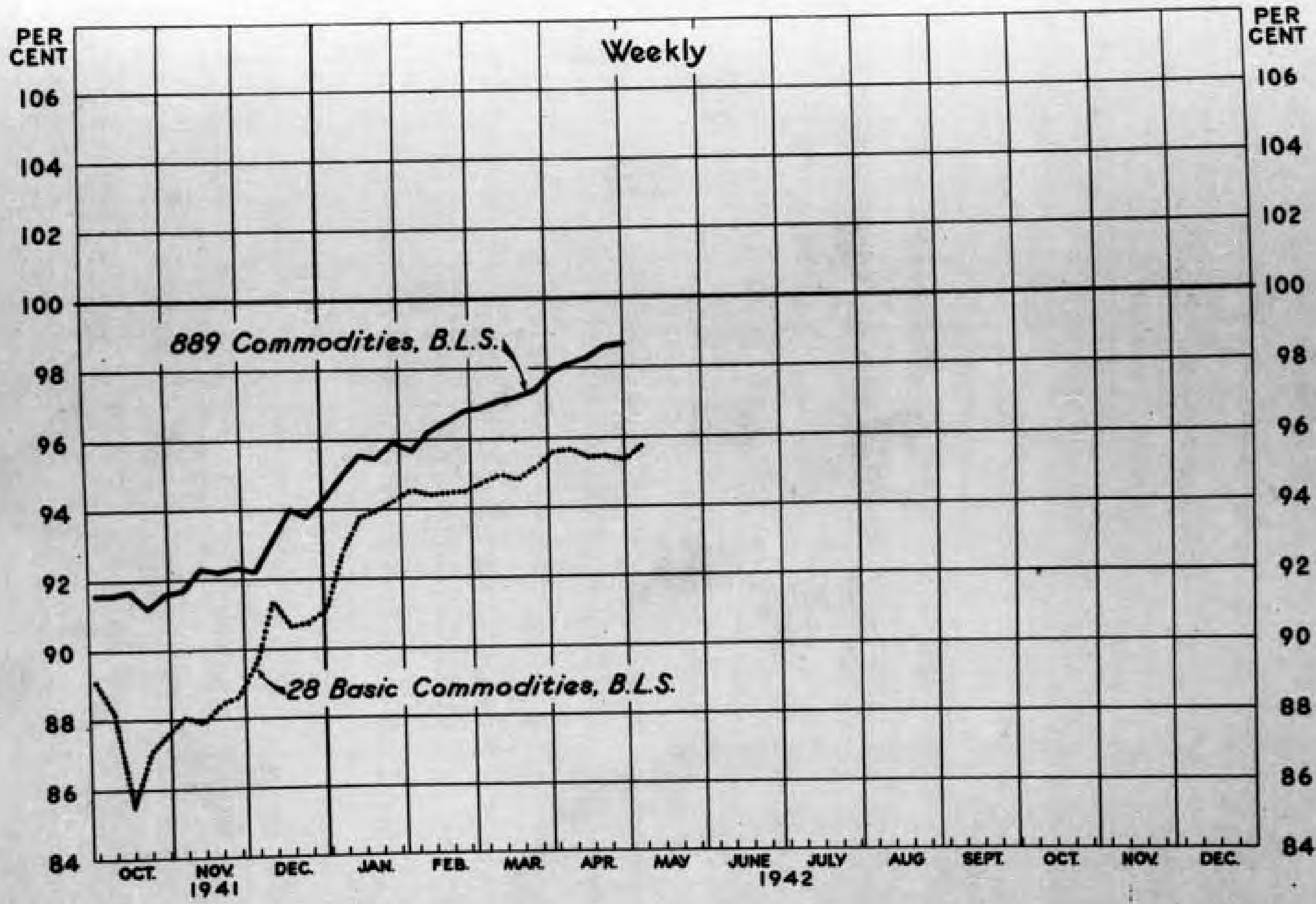


Chart 4

128

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

P-196-D

Regraded Unclassified

STOCK PRICES, DOW-JONES AVERAGES

Weekly Range

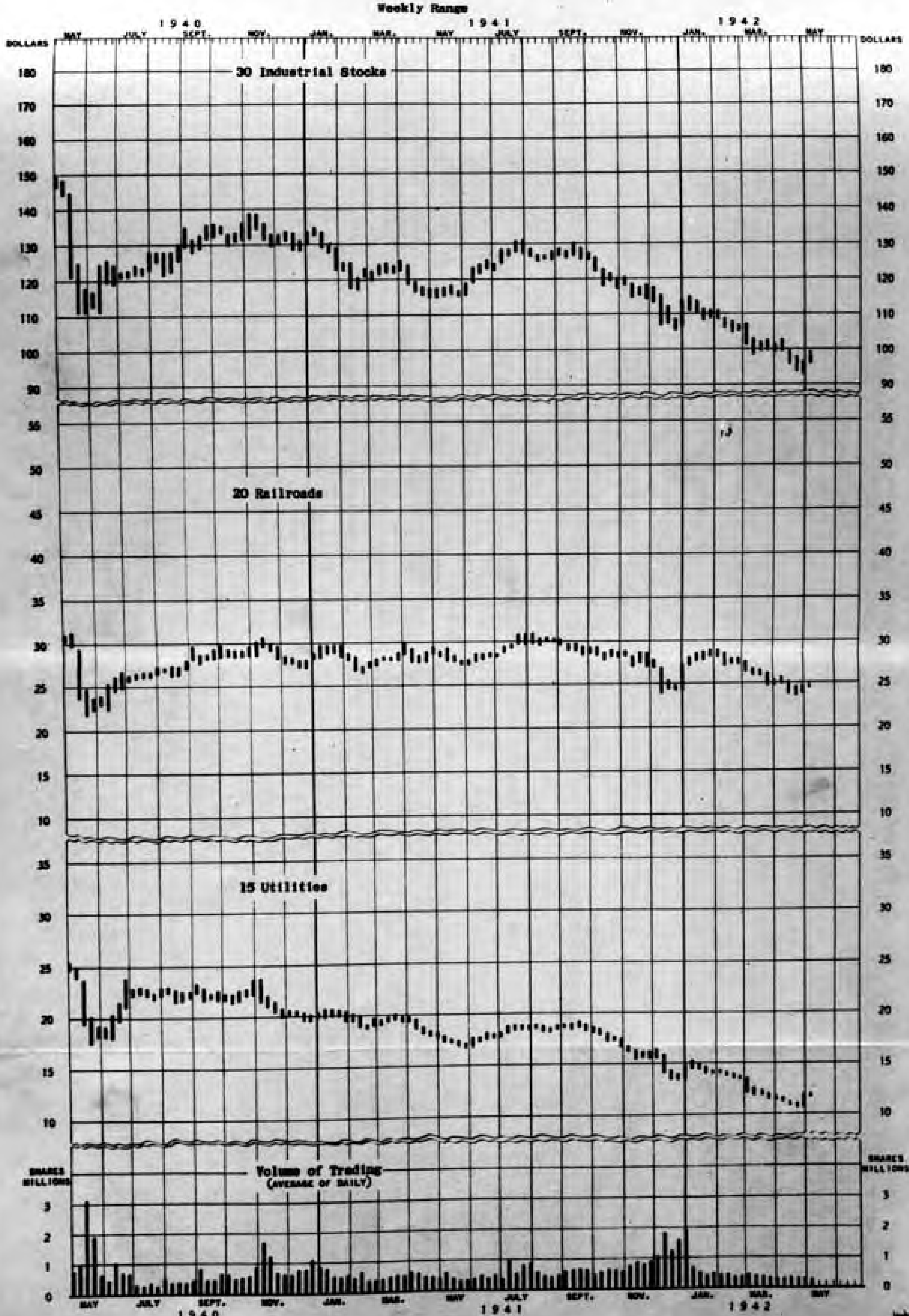


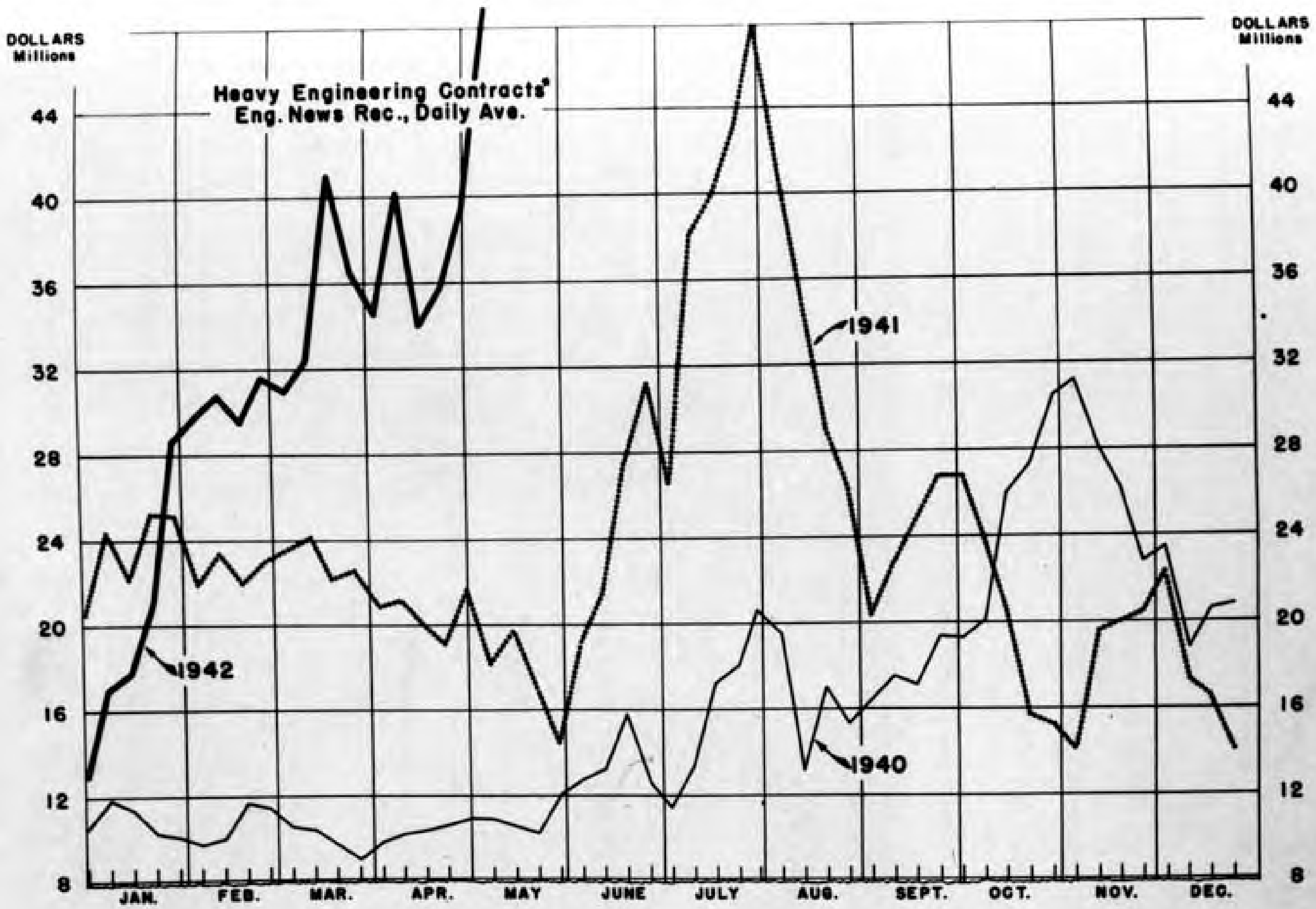
Chart 129

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

P-144-0-3

Regraded Unclassified

HEAVY CONSTRUCTIC . CONTRACT AWARDS



*Four-week moving average placed on fourth week

Chart 6

130

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

C-383-A-1

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Shipment of Planes to British Forces, Week Ended May 5, 1942

1. In the week ending May 5, 1942, a total of 118 planes of all types (114 combat planes) were shipped to British forces.

2. Since January 1, 1941, the United States has furnished over 7,000 planes to British air strength. The three main categories which have been sent are pursuit, 35 percent of the total; light and medium bombers, 33 percent; trainers, 26 percent; and all other types, 6 percent.

3. In surveying the distribution of American planes among the various British fields of action, it is clear that our planes in 1942 have won more important assignments than they had in 1941.

In 1941, the following main purposes were served by American planes:

(a) The Curtiss Tomahawk and Kittyhawk fighters and Martin Maryland and Baltimore bombers were the main-stay of the British Middle Eastern front.

(b) In the Battle of the Atlantic, the Lockheed Hudsons and the Consolidated Catalinas and Liberators took an active part.

(c) The Douglas Boston (A-20) bombers proved to be efficient in their converted form as Havoc night fighters.

(d) Over 1,500 American trainers, North American Harvards and Cessna T-50's were used to train flying personnel all over the world, but principally in Canada.

In 1942, American planes are still continuing in their 1941 roles, but have also won two more important jobs.

(a) The Douglas Boston (A-20) bombers are now the most important British day bombers, having displaced the Blenheims for this purpose.

(b) In the Bell Airacobra and North American Mustang fighters, the United States is finally providing the British with fighters which the R.A.F. considers good enough for use in Western Europe.

Regraded Unclassified

Table A - Shipments by Area

	Week Ending May 5,1942		Total shipped in 1942 to date		Total shipped since Jan. 1, 1941	
To the United Kingdom						
Light and medium bombers	11		236		1,397	
Heavy bombers	2		47		151	
Naval patrol bombers	0		8		110	
Pursuit	63		642		953	
Army cooperation	0		59		90	
Trainers	0		0		24	
Total to the United Kingdom		76		992		2,725
To the Middle East						
Light and medium bombers	0		192		522	
Heavy bombers	0		0		5	
Pursuit	28		194		1,042	
Army cooperation	0		12		12	
Trainers	0		8		150	
Total to the Middle East		28		406		1,7[illegible]
To the Canadian Forces						
Light and medium bombers	3		35		203	
Heavy bombers	0		1		1	
Naval patrol bombers	0		23		31	
Pursuit	0		30		72	
Trainers	4		317		1,558	
Total to the Canadian Forces		7		406		1,865
To the British Pacific Forces						
Light and medium bombers	0		121		216	
Naval patrol bombers	0		0		27	
Pursuit	7		155		323	
Trainers	0		0		105	
Total to Pacific Forces		7		276		671
To the British Indian Forces						
Pursuit	0		40		40	
Total to Indian Forces		0		40		40
Totals						
Light and medium bombers	14		584		2,338	
Heavy bombers	2		48		157	
Naval patrol bombers	0		31		168	
Pursuit	98		1,061		2,430	
Army cooperation	0		71		102	
Trainers	4		325		1,837	
Grand Total -		118		2,120		7,032

Regraded Unclassified

Table B - Shipments by Types

	Week Ending May 5,1942	Total shipped in 1942 to date	Total shipped since Jan. 1, 1941
Bell Airacobra	3	314	468
Boeing B-17	0	11	31
Boston III	5	10	34
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	4	40	40
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	2	37	126
Curtiss Kittyhawk	35	383	765
Tomahawk	0	0	544
Douglas Boston I, II, and III	0	0	492
Fairchild 24 R-9	0	61	83
Glenn Martin Baltimore	0	195	263
Maryland	0	0	150
Grumman Martlet II	1	46	87
Lockheed Hudson	2	269	1,239
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	7	92	92
North American B-25 B	0	6	6
Harvard II	0	51	948
Mustang	59	315	395
Pitcairn Autogiro	0	0	5
Stearman PT-27	0	148	149
Vought-Sikorsky Chesapeake	0	0	50
Vultee Stinson O-49	0	10	14
Grand Total - All Types	118	2,120	7,032

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Table C - Plane Shipments to the British by Weeks

Week Ended	Light and medium bombers	Heavy bombers	Naval patrol bombers	Pursuit	Army Cooperation	Trainers	Total
Weekly average of shipments in 1941	36	2	3	28	1	30	100
January 6, 1942	24	0	5	30	4	9	72
January 13,1942	3	0	2	58	0	42	105
January 20,1942	8	0	0	14	0	60	82
January 27,1942	24	0	1	100	5	13	143
February 3,1942	9	0	3	10	4	4	30
February 10,1942	33	0	3	59	0	4	99
February 17,1942	12	0	2	41	7	0	62
February 24,1942	33	0	2	86	7	1	129
March 3,1942	26	0	1	80	6	0	113
March 10,1942	29	2	0	78	1	0	110
March 17,1942	34	1	0	94	8	0	137
March 24,1942	94	9	12	79	0	84	278
March 31,1942	49	1	0	58	4	10	122
April 7,1942	69	2	0	8	4	5	88
April 14,1942	55	7	0	86	6	29	183
April 21,1942	55	11	0	43	15	34	158
April 28,1942	35	10	0	39	0	26	110
May 5,1942	14	2	0	98	0	4	118
Total shipments since Jan. 1, 1941 to date *	2,338	157	168	2,430	102	1,837	7,032

* The cumulative total includes planes shipped in 1942 prior to March 17, which are not listed in the weekly figures.

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TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

May 11, 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 April 29, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

LAP-5/11/42

Regraded Unclassified

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 11, 1942

TO Secretary Morgenthau For Miss Chauncey

FROM Mr. Dietrich

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
May 4	-	-	-	-
5	-	-	-	-
6	-	-	-	-
7	-	-	-	-
8	-	-	-	-
9	-	-	-	-
	-	-	-	-
Sales from Feb.22,1940 to May 2, 1942	9,847,610-1/6	281,858,763	45,648,016	37,474,216
Sales from Feb.22,1940 to May 9, 1942	9,847,610-1/6	281,858,763	45,648,016	37,474,216

Regraded Unclassified

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chauncey

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	$ Proceeds of Shares Sold	$ Proceeds of Bonds Sold	Total	
May 4	-	-	-	
5	-	-	-	
6	-	-	-	
7	-	-	-	
8	-	-	-	
9	-	-	-	
	-	-	-	
Sales from Feb.22,1940 to May 2, 1942	281,858,763	37,474,216	319,332,979	
Sales from Feb.22,1940 to May 9, 1942	281,858,763	37,474,216	319,332,979	319,332,979
$ proceeds of non-vested securities sold April 27, 1942 - May 2, 1942			400,000	
$ Proceeds of non-vested securities sold Sept. 1, 1939 - April 25, 1942			247,200,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 - May 2, 1942			247,600,000	247,600,000
			GRAND TOTAL	566,932,979

Jan. 7, 1942 - Cash Dividend on 156 Shares	$ 61
Jan. 9, 1942 - Partial Liquidating Dividend	125
9 Units sold from Aug. 18, 1941 - May 9, 1942 for	42
11 Shares Stock Dividend sold Aug. 18, 1941 - May 9, 1942 for	123
56,007 Rights sold from July 24, 1941 - May 9, 1942 for	102,938

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THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

May 11, 1942.

Dear Dr. White,

I mentioned to you a little while back that we were running short of silver for coinage, and might wish to raise later the possibility of obtaining silver on loan. I have now been informed that present stocks of silver available for coinage will cover requirements until about the end of October, and we do not propose to pursue this matter further at the present time. Our needs for coinage have been running at about two to two-and-one-half million fine ounces a month.

But other uses of silver for war purposes, e.g., in substitution for tin (for solder) have come along, and for non-coinage purposes, requirements are put at five million fine ounces over the next twelve months. We are proposing to put in a requisition under lend-lease through the Raw Materials Board for this amount.

Yours sincerely,

F Phillips

Dr. H. D. White,
Director of Monetary Research,
United States Treasury,
Washington, D.C.

RECEIVED
Treasury Department
MAY 18 1942
Division of
Monetary Research

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MEMORANDUM

To fulfil their part of the Brazilian Iron Ore agreement of the 3rd March 1942 the British Government have, under Clause 2, to transfer unencumbered to the Brazilian Government the Brazilian property of the British Itabira Company. The Company's issued capital is all sterling capital but a block of the first preference shares (18,663 shares representing about 30% of the prior preference issue) is owned by American citizens living in this country. These shares will, it is understood, be acquired by the British Government under their existing powers over the Company in London.

His Majesty's Treasury propose to pay in sterling for the shares owned by non-residents of the United Kingdom, but to allow them a free choice of sterling securities for re-investment of the proceeds. The proceeds of sale of sterling securities by a non-resident are normally payable only to a blocked account, which means that the money is available for re-investment only in certain British Government securities, about 30 in number. Since the Itabira shares are to be acquired compulsorily it is thought fair in this case to allow the holders to reinvest in any sterling securities they please. The securities they might so buy would naturally be subject to all the ordinary restrictions. In effect it would be an exchange of one blocked sterling security for another.

T. [illegible]

Willard Hotel,

Washington, D.C.,

May 11, 1942.

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THE WHITE HOUSE

WASHINGTON

May 11, 1942.

MEMORANDUM FOR H.M. Jr.

1. In regard to the American Bosch ownership, I think you should continue to keep Donald Nelson in touch.

2. After reading your memorandum, I am extremely doubtful as to the free and clear ownership of these shares by Swedes.

As long as this question is in doubt, I think the U. S. Government should in some effective way (a) take over the shares in escrow or in trust and (b) place our people in the company in such a way as to have complete information as to operations, personnel, etc.

F.D.R.

FDR

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THE WHITE HOUSE
WASHINGTON

May 11, 1942.

MEMORANDUM FOR
H.M. Jr.

The American Bosch and other cases impel me to study foreign ownership of American corporations.

In 1919 and 1920, for example, Owen Young presented to me a plan to organize an R.C.A. to buy the Navy controlled radio patents and stations. His corporation was to be tied up to the British Marconi Company, the latter to put up about 49% of the capital and to be given radio control in Europe, Asia and Africa, the radio control in North and South America to be given to R.C.A.

I objected strongly to the set-up and when the R.C.A. was actually formed, very nearly all of the capital was American and the exclusive arrangements with British Marconi was abandoned.

I wish you would have some study made as to some form of law which would cover the following points:

(a) All American corporations which we have taken over to be divested of 90% of their foreign ownership.

(b) Not more than 10% of the stock of any American operation to be held by foreign citizens.

The above is just something to study and there may be many other ways of accomplishing the same objective.

For example, I do not want to forbid individual foreigners from owning stock or bonds in American companies as individual investments on the basis of wide diversification, but I do want to prevent any foreigner or any foreign corporation from owning large blocks of stocks or bonds in American corporations.

At the same time, it may be worthwhile studying the general subject of interlocking corporations with the object of doing away with all subsidiaries.

F.D.R.

FDR

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Request of the Motion Picture Industry, and of R.K.O. in particular, for release of its funds blocked in the Sterling Area.

The Motion Picture Industry has requested the Treasury's assistance in obtaining the release of its funds blocked in the Sterling Area, on the grounds that they are necessary to compensate in part for the revenue formerly derived from Continental Europe and Asia, and R.K.O. has particularly requested our assistance in having its funds released, on the grounds that its financial situation is critical. I attach a memorandum left by Mr. Will Hays on the general request, and a memorandum from the president of R.K.O. on that company's request.

1. Under the terms of an agreement reached last October the British Treasury agreed to permit American motion picture companies operating in the United Kingdom to withdraw up to $20 million of their sterling earnings for the year beginning October 1941, and 50 percent of the balances accumulated to that time. We do not know what rate of withdrawal is permitted by other Sterling Area governments. Mr. Hays' memorandum states that the Industry's blocked funds will be approximately as follows at the ends of the current agreement years:

United Kingdom	- through October 24, 1942	$38.4 million
Australia	- through February 28, 1943	8.0 million
New Zealand	- through December 31, 1942	1.6 million
India	- through October 31, 1942	.5 million
Total		$48.5 million

Thus by the end of 1942 the amount involved will be approximately $50 million.

2. Mr. Hays suggests that the United States buy the blocked sterling balances from the Industry and use them to pay for the expenses of American troops in the Sterling Area. This suggestion raises the following problems:

a. Using sterling purchased from the Motion Picture Industry for American troop expenditures will necessitate finding other means of relief for the British Treasury. Dollar receipts from the expenditures of American troops

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have been counted upon in the plans for financing Britain's dollar deficit. To the extent, therefore, that sterling for these purposes is obtained by purchases from the American Motion Picture Industry, the British dollar deficit will increase and, since that position must be maintained, some other source of dollar funds to Britain would have to be found.

b. Can the Motion Picture Industry be given special treatment for its blocked funds? Many other American industries have funds blocked in the Sterling Area, and the Treasury has previously had requests for assistance in obtaining their release. If the request of the Motion Picture Industry is granted, it must be done on the grounds that there is a special justification in this case. A special justification may exist, for Mr. Hays states that the Motion Picture Industry is accepting blocked sterling for its pictures only because it believes that American motion pictures are essential to the British war effort, and because the Industry does not want to do anything to hinder that effort.

c. Does the American Treasury need $50 million worth of sterling? The American Treasury's need for sterling will depend in part upon the outcome of reciprocal aid negotiations. Sterling required for troop pay, however, which will almost certainly not be provided as reciprocal aid, will amount during this year to more than four times this amount.

3. Since United States Treasury purchase of the blocked funds of the Motion Picture Industry would constitute special treatment for the Motion Picture Industry, it might not be well received by the public. However, the same results might be obtained with a different mechanism: Mr. Hays claims that the British regard American motion pictures as essential, and therefore the Industry should be able to demand payment in dollars. In that event, the British could ask our approval of the expenditure, and obtain from the Treasury an assurance that, in line with our general policy of maintaining Britain's dollar balances, some method of offsetting her loss would be found. The advantage of this method is that it would appear to be a private transaction between the British government and the American Motion Picture Industry.

4. The request of R.K.O. for release of its blocked sterling, amounting to about $5 million, arises from the fact that their financial position is very critical. If the funds of the entire Motion Picture Industry are to be released, R.K.O.'s problem will of course be solved. But if it is not feasible to ask for the release of the funds of all the companies, it may be possible to justify assistance to R.K.O. alone on the grounds of its special

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need and of the small amount involved. Since the amount is small, the British government might release all or part of it simply in response to your request. Mr. Hays has assured me that, although the Industry is primarily interested in obtaining the release of all of its funds, it would not object, if that should prove impossible, to having R.K.O. receive special treatment. If the Treasury is to act on the basis of R.K.O.'s financial situation, we should of course go into their financial condition very carefully. I have not yet done this.

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May 6, 1942.

Dear Mr. Schaefer:

I have received your memorandum on the financial position of RKO and can assure you we will give the matter our most careful consideration without delay.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Mr. G. J. Schaefer,
President, RKO Radio Pictures, Inc.,
RKO Building,
New York, New York.

5/8/42 - Mailed by LS (Incoming material to Mrs. Hallock for photostating.)

FILE COPY

[illegible]
5/6/42

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RKO RADIO PICTURES, INC.
RKO BUILDING
NEW YORK

OFFICE OF THE
PRESIDENT

May 5, 1942.

Mr. Harry D. White,
Director of Monetary Research,
Treasury Department,
Washington, D. C.

Dear Mr. White:

Pursuant to our understanding, I am enclosing a very brief and simple statement of the necessities with which RKO unfortunately is now confronted. If anything can be done in the direction of relief, it would be very much appreciated.

I am familiar with Mr. Hays' visit with you yesterday, and join with the other companies in the hope that the relief asked for may be obtained. In my opinion it is as right in principle as it is necessary, as a practical matter, if the industry's service, which is so important, is to be maintained.

Sincerely yours,

G. J. Schaefer

GJS:LC
Enclosure:

RECEIVED
Treasury Department
MAY 1942
Division of
Monetary Research

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Memorandum

Radio-Keith-Orpheum Corporation is a holding company and its principal subsidiary is RKO Radio Pictures, Inc. which produces motion pictures and distributes them throughout the world. RKO acquired as of January 1, 1940 all the assets of its predecessor at the end of seven years of reorganization proceedings in the Federal Courts. After reorganization, the capitalization of RKO consisted of 6% preferred stock and common stock and no debt. No dividends have been paid on any of its stock except $2 per share on the preferred stock paid May 1, 1941 (the accumulations on which will be $11.50 per share on May 1, 1942), notwithstanding that the holders of this stock were bondholders of the predecessor company who received no interest for many years.

Under the plan of reorganization RKO was furnished with approximately $2,000,000 cash. After giving effect to cash allowances in the proceedings of $600,000 and reorganization expenses of $150,000, its initial cash balance was from a practical standpoint $1,250,000. This was a minimum cash balance for a parent company in a business as extensive and volatile as that of the RKO enterprise. Approximately $650,000 of this initial cash was utilized by RKO during 1941 in acquiring 7% preferred stock of its principal theatre operating subsidiary, as an incident of the retirement by that subsidiary of about $5,000,000 of such stock. The reorganization of RKO did not furnish the Picture Company with any new working capital, that subsidiary having operated throughout the period of the proceedings on its own modest working capital.

The operation of motion picture companies has recently been and now is most difficult because of the many uncertainties, both foreign and domestic. The war has had a very adverse effect upon the industry generally. Many foreign territories have been completely lost to distribution of pictures (all of

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Continental Europe and most of the Far East). In addition, the business has been affected through substantial depreciation in the rates of exchange on foreign currencies and, more seriously, through restrictions placed upon the withdrawal of cash from the more important foreign countries. The dollar receipts of the Picture Company from foreign sources for the year 1941 were approximately $1,000,000 less than during 1940. Prior to the war approximately one-third of the gross income of the Picture Company from distribution was derived from foreign sources, the larger portion from the United Kingdom and Australasia. During the first year of the restrictions upon withdrawal of foreign funds, the major motion picture companies were able to withdraw from the United Kingdom approximately 50% of the average amount withdrawn in the previous three years; during the second year of such restrictions only approximately 30%. It is estimated that the Embassy Agreement of last October with the British fiscal authorities will enable the withdrawal of approximately 45% of the sterling revenues accruing to the major companies during the current year (in addition to the remittance during such year of 50% of the frozen balances remaining due to them on October 25, 1941).

The difficulties of operations in the domestic market result from the uncertainties inherent in distributing feature pictures pursuant to the provisions of the so-called Consent Decree. The decree makes it necessary to "trade-show" feature pictures in advance of selling and the distributor is limited in selling to blocks of five. Prior to the decree, film companies could promptly realize cash from their investments in feature pictures by selling them for exhibition as soon as production was completed. As a practical matter, it is now necessary for our Picture Company to accumulate at least five completed but unreleased pictures before a "trade-showing". Since feature pictures are expensive commodities the large increase in required inventory is

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apparent. Moreover, the adverse effect upon the cash position is accentuated by the fact that the distributor must delay actual selling of completed pictures and at the same time continue its production program in order to build inventory against future periodic "trade-showings". The present estimate is that our Picture Company must maintain at all times an inventory of approximately ten completed but unreleased feature pictures to meet present selling conditions. In still another aspect the new selling methods affect the cash position of picture companies. Experience definitely indicates that the rate at which income is being received by picture companies from feature pictures sold under the decree is considerably slower than the rate of its receipt prior to the decree. At the present stage, it appears that the cumulative results from distribution by the Picture Company under the new selling methods of the average feature picture will not be equal to such cumulative results under the pre-decree selling methods until a date six to nine months from release. It also appears that the amount of deferred income of the Picture Company is now in excess of $1,000,000 due to the new selling methods, and that, so long as they continue, at least that amount of its income will at any given time be deferred.

The foreign and domestic conditions have been peculiarly difficult for RKO. Its goodwill and operations were necessarily affected during the long period of administration of its affairs by the courts. It did not build up substantial cash reserves during the period which would have served as a cushion against the shocks of the subsequent conditions. RKO's plan of reorganization was formulated and adopted long before the war or the Consent Decree and naturally did not anticipate, nor provide the organization with adequate cash against, the later uncertainties. The plan was confirmed eight months before hostilities in Europe commenced and was finally consummated by the transfer of assets more than four months after hostilities. Accordingly,

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from its inception the new RKO corporation was in a relatively unfavorable position to contend with the new conditions.

The results of operations of the Picture Company after all charges were losses of approximately $1,625,000 for 1940 and of approximately $580,000 (estimated) for 1941. However, during those years charges aggregating $785,000 and $530,000 respectively were made against the profit and loss account of the Picture Company to maintain its reserve for contingencies (created for the purpose primarily of providing against the foreign uncertainties, particularly the restrictions upon withdrawal of funds). Accordingly, before taking into consideration the charges to maintain this reserve, the net loss from operations for the two years period was about $890,000.

To provide the necessary working capital to finance the initial increase in inventory, the Picture Company arranged last year with a bank for a revolving fund credit in the maximum amount of $4,500,000, bearing interest at the net rate of 3½% per annum and secured principally by pledged negatives of pictures. In addition RKO has furnished the Picture Company with $750,000 of cash, which has been subordinated to the bank loan.

The Picture Company has reached the limit of credit available under the bank arrangement, and RKO is not in a position to furnish additional cash (its cash balance being presently about $500,000). Recently a thoroughgoing and realistic reappraisal of all sources of working capital of the Picture Company has been made. It is estimated that, in order to complete its minimum production program for the current year, the Picture Company needs approximately $2,500,000 additional working capital, after taking into consideration all working capital which will become available to it during the period (including the anticipated funds to be received under the Embassy Agreement).

The Picture Company has a complex studio organization at Hollywood

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and an extensive and efficient distributing organization throughout the United States and other territories in the Western Hemisphere engaged in marketing its own product and that of outstanding independent producers, including Walt Disney Productions. It is important to maintain a fairly even tempo of production at the studio in order to have available completed pictures ready for release at proper intervals in the future and in order to avoid shortages in labor and facilities which would be incurred by "peaks" and "valleys" in production. Unreasonable curtailment of the production program would cause expensive dislocations and impair the value of the producing and distributing organizations. RKO is a well integrated organization for the production, distribution and exhibition of motion pictures and its general administrative expenses are relatively low, including the salaries of its executives.

Because of the many uncertainties in the foreign and domestic situation, the present is not the most propitious time to make satisfactory arrangements with the usual sources for permanent working capital. It is estimated that on May 2, 1942 the Picture Company will have a balance of approximately $3,000,000 due from its subsidiaries operating in the United Kingdom and Australasia (consisting of accounts receivable and undivided surpluses) which, except for the restriction upon withdrawal of foreign funds, would be available to it. The acuteness of the cash situation and the present difficulty of arranging permanent financing through the usual channels, prompt the respectful and earnest request that some arrangements be made to enable the Picture Company to realize American dollars on these frozen currencies (either by sale or pledge thereof for a loan or in some other feasible manner).

Regraded Unclassified

MEMORANDA

for

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury

- - - - - -

In Re: Motion Picture Industry's Frozen Funds in British Empire.

1. The continued presentation of American motion pictures and news reels to theatre audiences in this country and throughout the world must be regarded as one of the services of supply essential to the war effort of the United Nations.

Modern warfare is total war involving civilians behind the lines as well as combatants in the front lines and requiring intensive effort on farms and in factories as well as in the trenches. All civilians, as well as enlisted personnel, are subject to physical danger and nervous tension.

Wholesome entertainment constantly offered in the motion picture theatres is essential for the maintenance of morale.

2. Several foreign governments have subsidized local motion picture production and controlled content of films. The American motion picture industry has never been subsidized by government or any other agency. It is a free commercial enterprise which can continue its vital and necessary service only by paying its own way. Because the American motion picture became the favorite form of mass entertainment throughout the world, our industry in normal years received from 35% to 40% of its revenue from countries outside the United States. Axis domination of foreign countries, depreci-

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ation of foreign exchange against the dollar and the freezing of foreign exchange, occasioned by the dislocation of world business, have cut off about 30% of the normal revenue received by American companies from the world market. On the other hand, production costs have increased and standards of quality which audiences have come to expect must be maintained.

3. By agreement with the governments of the United Kingdom, Australia and New Zealand, the American motion picture companies have continued their full service of supply since the outbreak of the war. Because of the extreme scarcity of dollar funds available to the British Treasury, the American companies have allowed a substantial portion of the funds due for rentals to remain in the sterling area in the form of blocked exchange. This mounting total will approximate $50,000,000 by the end of 1942. This imposes a severe handicap even upon the strongest companies. For the smaller companies it has become a dangerous strain.

4. It is now apparent that during 1942 our own government will be expending large sums for military purposes in the United Kingdom, Australia and New Zealand. To meet the urgent necessity of the motion picture companies and insure a continuance of their world-wide service, it is suggested that the proper spending agencies of the government be authorized to use blocked sterling belonging to the motion picture companies in the above mentioned areas and reimburse the companies in corresponding amounts in the United States. This procedure would impose no strain upon the dollar resources of the British Government and it would require no expenditure by our

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own Government. In fact, the additional revenue thus made available to the motion picture companies would produce substantial increases in domestic income taxes payable by these companies during 1942. Also, the motion picture industry is so unique both in the amount of funds now blocked and in the essential character of service rendered, that no embarrassing precedent would be created for applications by other industries.

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EXHIBIT A

DETAILED FIGURES SUPPORTING THE ESTIMATE OF THE TOTAL AMOUNT OF FROZEN FUNDS THAT THE AMERICAN INDUSTRY WILL HAVE IN THE BRITISH EMPIRE AT THE END OF 1942.

1. Amounts actually frozen at expiration of past exchange agreements, at present exchange rates:

United Kingdom - at end of 2nd agreement year, 10/25/41	$ 18,350,000
Australia, estimated at end of 2nd agreement year, 2/28/42	5,000,000
New Zealand, estimated at end of 3rd agreement year, 12/31/41	1,250,000
	$ 24,600,000

2. Estimated additional amounts which will be frozen annually under the terms of the most recent exchange agreements and restrictions at present rates of exchange, (1 year's restrictions in the case of India), taking into account reported increased business in the territories:

United Kingdom - 10/24/42	$ 20,000,000
Australia - 2/28/43; if remittances continued on basis of last agreement	3,000,000
New Zealand - 12/31/42; if remittances continued on basis of last agreement	400,000
India - as of 10/31/42, the end of the first year's restrictions	500,000
	$ 23,900,000

3. Estimated total frozen funds in above countries at end of present agreement years, and after 1 year's restrictions in the case of India — $ 48,500,000

Beyond the expiration of the present agreement year in the case of the United Kingdom there will be two months until the end of the calendar year 1942, with probable amounts frozen during these two months equaling more than $3,000,000. It is believed therefore that the estimate of $50,000,000 frozen in the British Empire at the end of 1942 is a conservative figure.

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ESTIMATED ANNUAL LOSSES OF WORLD REVENUE TO THE AMERICAN MOTION PICTURE INDUSTRY IN RELATION TO ANNUAL TOTAL PRODUCTION COSTS

		LOSSES	% of bare cost of production ($175,000,000)
1. Annual normal revenue from territories from which all revenue has ceased:			
(a) Continental Europe	$13,804,570		
(b) Far East	3,688,100	$ 17,492,670	10%
2. Estimated annual losses in the British Empire due to the decreased value of currencies.		$ 10,125,000	5.8%
3. Estimated annual losses due to fall in value of Latin American currencies, restrictions on purchase of exchange, etc.		$ 1,000,000	0.6%
Total estimated annual losses		$ 28,617,670	16.4%
4. Estimated amounts frozen annually in the British Empire under most recent remittance restrictions.		$ 23,900,000	13.6%
5. Total reduction in amounts available annually to the industry from foreign countries since remittance restrictions and the war.		$ 52,517,670	30 %

See following pages for supporting figures.

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(1) ANNUAL NORMAL REVENUE FROM TERRITORIES FROM WHICH ALL REVENUE HAS CEASED:

CONTINENTAL EUROPE.	Gross billings in (Dollars)	Estimated remittables: 65% of gross (Dollars)	% of bare cos[t] of production ($175,000,000)
1. Albania (included with Italy or Greece)			
2. Austria (some included with Germany)	307,100		
Baltic States:	173,500		
3. Esthonia			
4. Latvia			
5. Lithuania			
6. Belgium (some included with France)	1,633,600		
7. Bulgaria	99,200		
8. Czechoslovakia	969,900		
9. Danzig (included in Poland)			
10. Denmark	682,300		
11. Finland	326,100		
12. France	4,691,700		
13. Germany	2,209,800		
14. Greece	302,600		
15. Holland	1,268,500		
16. Hungary	451,100		
17. Italy	5,269,600		
18. Luxemburg (included with France & Belgium)			
19. Norway	758,100		
20. Poland	1,276,500		
21. Rumania	450,600		
22. Spain	2,144,000		
23. Yugoslavia	367,600		
Sub-totals, Europe	$ 21,237,800	$ 13,804,570	7.89 %
FAR EAST			
24. China	745,000		
25. Dutch East Indies	1,079,000		
26. French Indo-China	59,000		
27. Hong Kong	71,000		
28. Japan	1,286,000		
29. Philippine Islands	1,593,000		
30. Siam	37,000		
31. Singapore-Malay States-Straits Settlements	804,000		
Sub-totals, Far East	$ 5,674,000	$ 3,688,100	2.11 %
Total Europe and Far East	$ 26,911,800	$ 17,492,670	10.00 %

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(2) ESTIMATED ANNUAL LOSSES IN THE BRITISH EMPIRE DUE TO THE DECREASED VALUE OF CURRENCIES

(a) United Kingdom - based on present business-agreement year ending 10/24/42 - pound at $4.00, present rate	$ 8,600,000
(b) Australia - based on present business-agreement year ending 2/28/43 - pound at $3.22, present rate	1,000,000
(c) New Zealand - based on present business-agreement year ending 12/31/42 - pound at $3.22, present rate	350,000
(d) India - based on present business-for calendar year 1942-rupee at $0.30, present rate	175,000
	$ 10,125,000

(4) ESTIMATED AMOUNTS FROZEN ANNUALLY IN THE BRITISH EMPIRE UNDER THE TERMS OF THE MOST RECENT EXCHANGE AGREEMENTS, (ONE YEAR'S RESTRICTIONS IN CASE OF INDIA) TAKING INTO ACCOUNT INCREASED BUSINESS IN THE TERRITORIES

(a) United Kingdom - under terms present agreement ending 10/24/42	$ 20,000,000
(b) Australia - under terms last agreement ending 2/28/42, which will probably be extended	3,000,000
(c) New Zealand - under terms last agreement ending 12/31/42, which is being extended	400,000
(d) India - until end of first year's restrictions 10/31/42	500,000
	$ 23,900,000

Regraded Unclassified

MAY 11 1942

Dear Sir:

Reference is made to your letter of May 7, 1942, requesting that the bank accounts of General Aniline & Film Corporation be released under Executive Order No. 8389.

Instructions have been sent to the Federal Reserve Bank of New York and the Federal Reserve Bank of San Francisco to issue licenses to General Aniline & Film Corporation and its wholly-owned subsidiaries, Collway Colors, Inc., Agfa Ansco, Ltd., Agfa Film Products, Inc., and Agfa Raw Film Corporation, licensing all such corporations as generally licensed nationals. The Federal Reserve Bank of Cleveland has also been instructed to issue a license licensing as a generally licensed national Plaskon Co., Inc., which was previously blocked because of the interest therein of General Aniline & Film Corporation. The respective Federal Reserve banks have been instructed to send copies of the relative licenses directly to you.

The license issued to General Aniline & Film Corporation licensing it as a generally licensed national will specifically provide that such action shall not affect the status as a blocked national of Alba Pharmaceutical Co., Inc., and Winthrop Chemical Co. (Dela.).

Very truly yours,

(Signed) E. H. Foley Jr.

Acting Secretary of the Treasury.

Mr. James E. Markham,
Deputy Alien Property Custodian,
National Press Building,
Washington, D. C.

JWPehle:mgt 5/9/42

Regraded Unclassified

MAY 11 1942

FOREIGN PROPERTY CONTROL DEPARTMENT

FEDERAL RESERVE BANK OF NEW YORK

YOU ARE AUTHORIZED AND INSTRUCTED TO ISSUE TO GENERAL ANILINE & FILM CORPORATION, NEW YORK, COLLWAY COLORS, INC., NEW JERSEY, AGFA FILM PRODUCTS, INC., NEW YORK, AND AGFA ANSCO, LTD., CANADA, LICENSES LICENSING SUCH CORPORATIONS AS GENERALLY LICENSED NATIONALS. THE LICENSE ISSUED TO GENERAL ANILINE & FILM CORPORATION SHOULD CONTAIN THE FOLLOWING STIPULATION "PROVIDED, HOWEVER, THAT THE LICENSING OF GENERAL ANILINE & FILM CORPORATION AS A GENERALLY LICENSED NATIONAL SHALL NOT AFFECT THE STATUS AS A BLOCKED NATIONAL OF ALBA PHARMACEUTICAL CO., INC., AND WINTHROP CHEMICAL CO.(DELA.)." ADVISE BANKS IN NEW YORK AND OTHER INTERESTED PERSONS IN YOUR DISTRICT OF THE ISSUANCE OF SUCH LICENSES. ALSO ADVISE ANY OTHER INTERESTED FEDERAL RESERVE BANKS OF THE ISSUANCE OF SUCH LICENSES AND SEND COPIES OF EACH LICENSE TO JAMES E. MARKHAM, DEPUTY ALIEN PROPERTY CUSTODIAN, NATIONAL PRESS BUILDING, WASHINGTON, D. C., AND TO GENERAL ANILINE & FILM CORPORATION, 230 PARK AVENUE, NEW YORK CITY. REVOKE ALL OPERATING LICENSES OUTSTANDING FOR GENERAL ANILINE & FILM CORPORATION AND COLLWAY COLORS, INC.

(Initialed) J. W. P.

JWPehle:mgt 5/9/42

Regraded Unclassified

FOREIGN FUNDS CONTROL

200/10120
Salaries and Expenses
Foreign Exchange Control 1940 and 1941

MAY 1 1 1942

FEDERAL RESERVE BANK OF SAN FRANCISCO

SAN FRANCISCO, CALIFORNIA

YOU ARE AUTHORIZED AND INSTRUCTED TO ISSUE TO AGFA RAW FILM CORPORATION A LICENSE LICENSING SUCH CORPORATION AS A GENERALLY LICENSED NATIONAL. ADVISE BANKS AND OTHER INTERESTED PERSONS IN YOUR DISTRICT OF THE ISSUANCE OF SUCH LICENSE. ALSO ADVISE ANY OTHER INTERESTED FEDERAL RESERVE BANKS OF THE ISSUANCE OF SUCH LICENSE AND SEND A COPY OF SUCH LICENSE TO JAMES E. MARKHAM, DEPUTY ALIEN PROPERTY CUSTODIAN, NATIONAL PRESS BUILDING, WASHINGTON, D. C., AND TO GENERAL ANILINE & FILM CORPORATION, 230 PARK AVENUE, NEW YORK CITY. REVOKE OUTSTANDING OPERATING LICENSE OF AGFA RAW FILM CORPORATION.

(Initialed) J. W. P.

J. W. Pehle
Assistant to the Secretary

JWPehle:mgt 5/9/42

Regraded Unclassified

Washington, D. C.
May 7, 1942

Attention: Edward H. Foley, Jr.
General Counsel

My dear Mr. Secretary:

Under date of April 24, 1942 you transferred and released to the Alien Property Custodian all supervision, management and control over General Aniline & Film Corporation, but I understand that certain freezing orders issued by you are still in effect with relation to such corporation's bank accounts. It would be appreciated if you would do whatever is necessary to release all bank accounts of such corporation from the effects of any and all freezing orders issued by you, and notify the banks involved that you have done so. It would also be appreciated if you would send to such corporation and to the undersigned a copy of the letter or other instrument executed by you releasing such bank accounts from all such freezing orders.

Very truly yours,

/s/ James E. Markham

James E. Markham
Deputy Alien Property Custodian

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

Regraded Unclassified

Treasury Department 163
Division of Monetary Research

Date May 11 1942

To: Secretary Morgenthau

From: Mr. White

Original of this report appended to prepared letter to the President.

Regraded Unclassified

May 11, 1942

Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the ten-day period ending April 20, 1942

1. Exports to Russia

Exports to Russia, as reported during the ten-day period ending April 20, 1942, amounted to nearly $67,000,000. Motor trucks and military tanks were the principal items. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the period under review amounted to about $5,335,000. Military equipment accounted for about 80% of the total. (See Appendix D.)

Exports to Burma amounted to $639,000. (See Appendix E.)

3. Exports to France

No exports to France were reported during the period under review.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A. Most important were exports to Switzerland amounting to $2,093,000.

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**SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/**

July 28, 1941 to April 20, 1942.

(In thousands of dollars)

	July 28 to Mar. 31	Period ended April 10	Period ended April 20	Total Domestic Exports
U. S. S. R.	$279,183	$51,698	$66,850	$397,731
Free China	60,695	4,836	5,335	70,866
Burma 2/	11,110	447	639	12,196
France 3/	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	28	-	-	28
Spain	2,833	12	4	2,849
Switzerland	7,679	11	2,093	9,783
Sweden	15,900	1,572	19	17,491
Portugal	7,411	1,077	256	8,744
French North Africa 4/	6,283	-	5/	6,283

Treasury Department, Division of Monetary Research May 8, 1942.

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

2/ From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

3/ Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.

4/ Includes Morocco, Algeria, and Tunisia.

5/ Less than $500.

JMV:rl 5/8/42

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APPENDIX B

Exports from the U. S. to Free China, Burma and U.S.S.R. as reported to the Treasury Department July 26, 1941 - April 20, 1942
(Thousands of Dollars)

	Exports to Free China	Exports to Burma 3/	Exports to U.S.S.R.
July 26 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		553
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281 2/		5,217
Sept. 15 - Sept. 20	3,822 2/		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,225	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,845
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	8,247
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,938	923	9,608
Feb. 1 - Feb. 10 4/	4,889	1,054	13,315
Feb. 10 - Feb. 20	4,853	583	26,174
Feb. 20 - Feb. 28 5/	2,921	-	28,119
Mar. 1 - Mar. 10	2,879	23	32,509
Mar. 10 - Mar. 20	8,058	3	28,558
Mar. 20 - Mar. 31 6/	2	2	42,435
Apr. 1 - Apr. 10	4,836	447	51,698
April 11 - Apr. 20	5,335	639	66,905
Total	73,469	11,083	398,222

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 8-day period.
6. 11-day period.

Treasury Department, Division of Monetary Research — May 11, 1942

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APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
April 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	$ 66,906
Principal Items:	
Motor trucks	8,272
Military tanks - light	5,642
Military tanks - medium	5,183
Dried egg products	4,778
Sausage, canned	3,976
Landplanes - bombardment	2,290
Other aircraft parts and accessories	2,116
Explosive shells and projectiles	2,056
Landplanes - pursuit and fighter	2,000
Pork, canned	1,605
Steel sheets	1,717
Steel bars	1,386
Lard	1,322
Brass and bronze plates and sheets	1,154
Insulated copper wire	1,132
Aircraft engines	1,113
Sugar, refined	1,036

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APPENDIX D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
April 20, 1942

(Thousands of Dollars)

TOTAL EXPORTS	$ 5,335
Principal Items:	
Military equipment	4,243
Absorbent cotton,gauze and sterilized bandage	220
Printed matter	180
Medicinal and pharmaceutical preparations	119
Boric acid	101
Harness and saddles	92
Auto parts (for assembly)	86
Zinc slabs and plates	75
Industrial chemicals	56
Motor trucks	52

Treasury Department, Division of Monetary Research May 11,1942

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APPENDIX E

**Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the ten-day period ending
April 20, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	$ 639
Principal Items:	
Military equipment	220
Motor trucks	171
Barbed wire	127
Copper wire - bare	64
Auto replacement parts	33

Treasury Department, Division of Monetary Research May 11,1942

ISF/efs
5/11/42

Regraded Unclassified

original to Thompson

May 11, 1942

In reply refer to
SD 740.00115 Pacific War/504

My dear Mr. Secretary:

I have received your letter of May 4, 1942 stating that there are five Treasury Department representatives at Manila and inquiring in regard to the possible evacuation of American official personnel in the Philippine Islands.

The Japanese Government has indicated that it is not agreeable to the inclusion in the exchange arrangements now under negotiation of American nationals in the Philippine Islands. It is hoped, however, that an understanding may be reached later whereby the return to the continental United States of American Government officials and employees in the Philippines may be effected, and I wish to assure you in that connection that the Department will do whatever may be possible to arrange the evacuation of the personnel of the Treasury Department.

I may add that since the Philippine Islands are American territory the same considerations do not apply there as elsewhere regarding arrangements for the exchange of American nationals in enemy and enemy-occupied areas.

Sincerely yours,

Sumner Welles

Under Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Regraded Unclassified

MAY 4 1942

Dear Mr. Welles:

Reference is made to your letter dated April 18th, indicating the attitude of the Japanese Government with respect to a reciprocal arrangement for exchanging official personnel. It is noted in your letter that negotiations are progressing satisfactorily looking toward the return to the United States of official personnel in Japan and Japanese occupied areas with the exception of the Philippines.

As pointed out to you in earlier correspondence, there are in Manila five Treasury representatives over and above the office staff left there by High Commissioner Sayre. I appreciate fully the many difficulties to be encountered in working out these exchange principles and wish to compliment those in the State Department who have been responsible for the splendid progress thus far attained. On the other hand, I should like to be informed of any action taken or contemplated for the future respecting the personnel left in the Philippines.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
Acting Secretary of State,
Department of State,
Washington, D. C.

Photo file N.M.C.
File to Thompson

CSB:em:ic

Regraded Unclassified

Treasury Department
Division of Monetary Research 172

Date May 11, 1942

To: Miss Chauncey

From: H. D. White HDW

The attached are for your files.

Regraded Unclassified

Handed to Mr. White by Dr. Clark in Mr. White's Office, May 7, 1942.

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NOTE ON CANADIAN U.S. DOLLAR POSITION IN FIRST QUARTER OF 1942 IN COMPARISON WITH LATEST FORECAST

During the first quarter of 1942 there was a net gain of 42.8 million dollars in Canada's official reserves of U.S. dollars (and gold). This contrasts with the forecast of a decline of 2 million dollars made in the tables prepared in February and early March, dated March 9th. While a complete reconciliation of the two figures must await the compilation of detailed trade returns for March, it is possible to indicate where the major differences between results and forecasts arose.

On the side of receipts, there were larger sales of Canadian securities and other imports of capital than were anticipated -- about 33 million instead of the 20 million forecast. Similarly the sale by Canadians of U.S. securities and other capital receipts were $7 million higher than expected (i.e., $17 million instead of $10 million). $2 million of this was accounted for by settlements of marine insurance claims. Interest, dividends and profits receipts were $5 million greater than expected (15 instead of 10), due in considerable part to unanticipated large transfers by several companies in March. Newfoundland's net receipts of U.S. dollars were $7 million rather than $5. Correction of these items would increase receipts by $27 million. On the other hand, receipts by War Supplies Limited

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for exports under the Hyde Park Agreement were $24 million less than the forecast, which it was noted at the time was likely to be on the high side. Preliminary adjustment of our foreign trade figures for the first quarter indicated that receipts from exports other than "Hyde Park" exports were about $138 million, compared with the forecast of $131 million -- i.e., about $7 million higher than expected. One reason for this difference was probably to be found in the accumulation of inventories of newsprint by U.S. buyers. The various items noted above would increase the total receipts by a net amount of $10 million above the forecast.

On the expenditure side, the forecasts were too high in a number of items. Funds required for bond maturities turned out to be only $4 million instead of $6 million, apparently because we had overestimated the holdings of non-residents, and possibly because of a lag by some agencies in obtaining cover for redemptions. Other capital payments were only about $1 million instead of $2 million, as forecast. Transfers of profits to parent companies are lagging behind last year and the expenditure for dividends and profits is down by 3 millions below the forecast of $23 million. In addition, we received from the United Kingdom adjustments for certain transfers of dividends and interest which had previously been paid to the sterling area in U.S. dollars, and these were offset against the amounts required currently for these types of payments. This reduced net requirements for interest by $2 million and for dividends by $1 million below the forecast figures.

.. 3

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It is difficult as yet to make the necessary adjustments in trade figures of imports to eliminate the items not requiring payment, and it appears that this adjustment in the first quarter should be in the neighbourhood of 40 or 50 million Canadian dollars. On this basis it appears that the U.S.dollars required for imports in the first quarter, including war imports, was about $235 to $244 million, compared with our forecast of $247 million.

It appears that the forecasts of receipts and expenditures of U.S. dollars outside the United States (excluding Newfoundland, already noted above) were approximately correct.

The items mentioned above indicate that expenditures of U.S. dollars were about $12 to $21 million less than the total forecast, with some uncertainty arising from the lack of information needed to adjust import figures. Taken together with the $10 million dollar increase of total receipts over the forecast, they account for $22 to $31 million of the $45 million divergence between the actual and forecast change in the official reserve position. It appears likely that the remainder of the divergence is mainly due to the lag in buying U.S. dollars for imports, etc., and an acceleration in the selling of U.S. dollars received from exports etc., because of a fairly widespread expectation of a change in the exchange rate.

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Regraded Unclassified

During April the official Canadian reserves of U.S. dollars and gold declined by 4.8 million dollars (U.S.). This is less than the average rate forecast for the second quarter -- $66 million for the quarter, or $22 million per month -- but it was expected the rate of decline would increase during the quarter. Statistics for April are not yet available on any of the other items of the forecast.

RBB.
2/5/42

Regraded Unclassified

CANADIAN LEGATION
WASHINGTON

March 18, 1942.

Dear Mr. White:

I enclose herewith the new "Forecast of Canada's U.S. Dollar Position" as revised up to March 9, 1942.

Yours sincerely,

A.F.W. Plumptre

A.F.W. Plumptre
Financial Attaché

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

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STRICTLY CONFIDENTIAL

Handed to Mr. White by Mr. Plumptre in Mr. White's office, March 18, 1942, 12:30 p.m.

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE I. GOLD AND U.S. DOLLARS
(in millions of U.S.dollars)

	Sept.15, 1939 to Dec. 31, 1940	Calendar Years		Quarters of 1942			
		1941	1942	1st	2nd	3rd	4th
Financing Canada's Deficiency of U.S. Dollars							
Depletion of Liquid Reserves	61	142	79	2	66	9	2
Liquidation of other U.S. assets by Canada	81	40	35	10	9	8	8
Reduction of Canada's U.S. dollar assets	142	182	114	12	75	17	10
New Investment in Canada	27	54	50	20	8	14	8
Sub-total: factors increasing Canada's net U.S. dollar debt	169	236	164	32	83	31	18
Gold and U.S. Dollars bought from the U.K.	227	Nil	Nil	Nil	Nil	Nil	Nil
Net effect of the Hyde Park agreement	-	57	379	78	68	102	131
Total (equals total cash deficiency)	396	293	543	110	151	133	149
Official and Private Liquid Reserves							
Held at Beginning of Period:							
Official - gold	205	136	136	136	136	c	c
U.S. dollar balances	56	194	52	52	50	c	c
Total (a)	261	330	188	188	186	120	111
Private (b)	130	-	-	-	-	-	-
Total liquid reserves	391	330	188	188	186	120	111
Net decrease during period	61	142	79	2	66	9	2
Total held at end of period	330	188	109	186	120	111	109

(a) Total "official" holdings - Foreign Exchange Control Board, Minister of Finance and Bank of Canada.

(b) Total holdings of U.S. dollars by all other residents of Canada, excluding Canadian banks and insurance companies whose holdings of U.S. dollars are required for the purposes of their U.S. business. The totals shown are exclusive of $20 million in minimum working balances.

(c) No forecast is attempted as to the extent to which gold rather than balances will be drawn upon in these periods.

Revised March 9, 1942.

Photostats sent to Viner, Foley and Bell, 3/19/42
Photostat in Aid-to-Canada file.

Regraded Unclassified

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE Ia. EFFECTS OF HYDE PARK AGREEMENT
(in millions of U.S. dollars)

	Calendar Years		Quarters of 1942			
	1941	1942	1st	2nd	3rd	4th
Receipts from exports of war supplies and materials pursuant to Hyde Park agreement[a]	61	350	79	63	88	120
of which advance payments	50	45	45	-	-	-
deliveries against advance payments (-)	-1	-35	-3	-6	-11	-15
Deduct: U.S. dollar content of such exports[b]	6	19	5	4	5	5
Net cash receipts from "Hyde Park" exports	55	331	74	59	83	115
Defence articles imported into Canada and charged to U.K. Lend-Lease account pursuant to Hyde Park agreement	2	48	4	9	19	16
Net effect on Canada's U.S. dollar position of Hyde Park transactions of both types	57	379	78	68	102	131
Net cash receipts or outgo (-) excluding Hyde Park	-199	-458	-80	-134	-111	-133
Net cash receipts or outgo (-) including Hyde Park, as in Table III	-142	-79	-2	-66	-9	-2

(a) These figures are taken from the report of the Economics and Statistics Branch of the Department of Munitions and Supply, dated February 26, 1941, which was submitted to the Joint Economic Committees. The figures given here include the receipts of the prepayments, shown separately in the line below, and the later effects of such prepayments in reducing the receipts at the time of delivery, indicated by negative items in the second line below. These figures cover the exports made by War Supplies Limited (including merchant ships) as well as sales of aluminum and lead to the Metals Reserve Company and sales under a sub-contract relating to tank production. It now appears likely that the estimate of this item for the first quarter of 1942 will prove to be too high.

(b) Including freight payable in U.S. dollars. This item for 1942 appears low in relation to the value of Hyde Park exports when account is taken of the ratio of U.S. content to other war production.

Revised March 9, 1942.

Regraded Unclassified

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE II. IMPORTS FROM U.S.A. OF MUNITIONS AND MATERIALS FOR WAR PRODUCTION

(in millions of U.S. dollars)

	Calendar Years		Quarters of 1942			
	1941	1942	1st	2nd	3rd	4th
Total Imports for War Purposes	294	542	116	134	147	145
Imports to Canada obtained by U.K. under Lend-Lease pursuant to Hyde Park agreement	2	48	4	9	19	16
Imports requiring expenditures of U.S. dollars by Canada[a]						
Total: (for war purposes)	292	494	112	125	128	129
for account of Canada	115	252	51	65	67	69
for account U.K. and other Empire	172	225	56	56	57	56
for account of War Supplies Ltd. (in re sales to U.S.A.)	5	17	5	4	4	4
Memo: imports for other than war purposes	550	505	135	135	120	115
Total imports requiring expenditure of U.S. dollars	842	999	247	260	248	244
Total imports including Lend-Lease items	844	1047	251	269	267	260

	Total		For Canada		For U.K. and Empire		For War Supplies Ltd. (U.S.)	
	1941	1942	1941	1942	1941	1942	1941	1942
Expenditure of U.S. dollars on imports for war purposes by categories of end products:								
aircraft	68	79	25	43	42	32	1	4
mechanical transport, tanks, etc.	80	237	15	106	63	128	2	3
guns and small arms	4	12	1	3	2	6	1	3
ammunition	17	28	1	2	15	22	1	4
machine tools and equipment	84	73	41	46	43	27	-	-
miscellaneous	65	107	42	73	22	30	1	5
Total	318	536	125	273	187	244	6	19
Less freight	26	42	10	21	15	19	1	2
Total, as above	292	494	115	252	172	225	5	17

(a) Including additional items for capital projects in the 3rd and 4th quarters of 1942, as explained in Note (a) of part C. of Table III.

Revised March 9, 1942.

Regraded Unclassified

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE III. RECEIPTS AND EXPENDITURES OF U.S. DOLLARS
(in millions of U.S. Dollars)

	Calendar Years		1942 by Quarters			
	1941	1942	1st	2nd	3rd	4th
1. Summary						
Total Estimated Receipts (ex "Hyde Park" Exports)	1102	1025	263	256	261	245
Total Estimated Payments (ex Lend-Lease imports)	1303	1454	344	385	358	367
Excess of Payments over Receipts, excluding "Hyde Park" items	201	429	81	129	97	122
Receipts from "Hyde Park" Exports[a]	61	350	79	63	88	120
Excess of Payments over Receipts including "Hyde Park" exports	140	79	2	66	9	2
Residual item and unknown changes in private balances	2	-	-	-	-	-
Actual or forecast net cash deficit	142	79	2	66	9	2
Memo: "Hyde Park" imports under Lend-Lease to U.K.[b]	2	48	4	9	19	16

(a) Receipts from exports pursuant to the Hyde Park agreement including exports by War Supplies Limited (including merchant ships), exports of aluminum and lead to the Metals Reserve Company, and a sub-contract relating to tank production. The effects of prepayments are taken into account here (prepayments are shown separately in Table Ia.). These figures are taken from a report of the Economics and Statistics Branch of the Department of Munitions and Supply, dated February 26, 1942. It now appears likely that the estimate of this item for the first quarter of 1942 will prove to be too high.

(b) The Lend-Lease imports here included are those imported into Canada and charged to the United Kingdom on Lend-Lease account in accordance with the second portion of the Hyde Park agreement.

Revised March 9, 1942.

Regraded Unclassified

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE III (Cont'd.) RECEIPTS AND EXPENDITURES OF U.S. DOLLARS
(in millions of U.S. dollars)

	Calendar Years		Quarters of 1942			
	1941	1942	1st	2nd	3rd	4th
Receipts						
Receipts by Canada from U.S.A.:						
Exports (ex Hyde Park exports)(a)	506	526	131	128	131	136
Sale of newly mined gold	185	160	42	45	39	36
Interest, dividends and profits(b)	47	41	10	12	10	9
Tourist Trade	73	40	6	10	17	7
Freight(c)	54	60	14	15	15	16
Other services and miscellaneous income(d)	40	40	10	10	10	10
Sales of U.S. securities and other U.S. assets(e)	40	35	10	9	8	8
Sales of Canadian securities and other imports of capital(e)	54	50	20	8	14	8
Total receipts from U.S.A.	999	952	243	235	244	230
Newfoundland's net receipts of U.S. dollars	15	15	5	5	3	2
Receipts of gold or U.S. dollars from U.K. and other sterling area	Nil	Nil	Nil	Nil	Nil	Nil
Receipts of gold or U.S. dollars from other countries(f)	88	58	15	16	14	13
Total Receipts (excluding receipts from Hyde Park Exports)	1102	1025	263	256	261	245

) See note on preceding page re Hyde Park Exports. This item includes all exports except those included under "Hyde Park" Exports, and includes therefore all base metal exports other than the lead and aluminium sales to the Metals Reserve Company.

) Includes insurance company and other profits, formerly included under "Miscellaneous Income".

) A considerable part of this item arises from freight on "in transit" items not related to Canadian trade. The particular nature of Hyde Park exports has been allowed for in estimating this item.

) See note (b) above, which explains a reduction in this item in comparison with previous estimates.

) Forecasts of these items are necessarily uncertain.

) In 1941 included dividends and profit transfers of $27 million, and in 1942, it is estimated, this will be $25 million. Remainder is almost entirely from exports.

Revised March 9, 1942.

Regraded Unclassified

FORECAST OF CANADA'S U.S. DOLLAR POSITION

TABLE III (Cont'd.) RECEIPTS AND EXPENDITURES OF U.S. DOLLARS
(in millions of U.S. dollars)

	Calendar Years		Quarters of 1942			
	1941	1942	1st	2nd	3rd	4th
C. Expenditures						
Expenditures by Canada in U.S.A.:						
Imports for direct war purposes (excluding items obtained on Lend-Lease)[a]	292	494	112	125	128	129
Imports for other purposes[b]	550	505	135	135	120	115
Total Imports	842	999	247	260	248	244
Interest	85	85	19	24	18	24
Dividends and Profits[c]	118	118	23	36	24	35
Tourists and travel	15	15	4	4	4	3
Freight	86	96	20	28	28	20
Other services and miscellaneous income[d]	45	45	11	12	11	11
Bond maturities[e]	26	39	6	7	10	16
Other debt repayments	7	6	2	1	1	2
Total Expenditures in U.S.A.	1224	1403	332	372	344	355
Expenditures in other countries outside the sterling area[f]	79	51	12	13	14	12
Total expenditures (ex Lend-Lease imports)	1303	1454	344	385	358	367

(a) Imports for war purposes as recorded here do not include the imports charged to Britain under the Lend-Lease Act, which are included elsewhere in the tables. These figures are based upon the estimates furnished by the Department of Munitions and Supply. However, an estimate has been made of the amount of freight included in the figures furnished by that Department and has been deducted to obtain these figures, and the freight is included separately under that heading. The estimates of the Department of Munitions and Supply do not include any provision for capital assistance projects beyond the second quarter of 1942. The figures given in this table include 16 million dollars on this account for the third and fourth quarters of 1942. This is the same figure that is included on this account in the Munitions and Supply estimate for the second quarter. It seems proper for the purpose of this exchange estimate to assume that some capital expenditure on war production will be continued beyond the first half of 1942, even though the Department of Munitions and Supply naturally cannot make an accurate estimate of the amount involved.

(b) "Imports for other purposes" here may include certain items which are indirectly for war purposes, such, for example, as the requirements of railroads or of other essential undertakings which serve war industries or the armed forces. It may also include some U.S. content of war production which is not in fact traceable in any way and has not, therefore, been included in imports for war purposes. These import figures reflect adjustments of the trade figures to exclude items not paid for by Canada and to correct over-valuation.

(c) Includes transfers of profits which were included under "Other services and miscellaneous income" in previous estimates.

.. 2

Revised March 9, 1942.

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(d) See note (c) above, which explains a reduction in this item in comparison with previous estimates.

(e) In 1942 this includes a number of provincial and municipal maturities, some of which may be refunded, consequent upon the amendment of the Neutrality Act.

(f) Almost entirely for imports.

Regraded Unclassified

C O P Y

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FF 840.51 Frozen Credits/6239

May 11, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for the information of the Treasury Department copies of a paraphrase of telegram no. 1565 of May 8, 1942 from the American Embassy at Rio de Janeiro, which indicates that the French Government is attempting to have the Brazilian Government unblock French funds and securities in Brazil on the grounds that France is not a belligerent nation.

It is suggested that a telegram be despatched to the American Embassy, encouraging the present attitude of the Brazilian authorities to deny the appeal of the French Government.

The Secretary of State would appreciate receiving an expression of the views of the Treasury Department.

Enclosure:

From Rio de Janeiro,
no. 1565, May 8, 1942.

Copy:lc:5/12/42

Regraded Unclassified

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Rio de Janeiro

TO: Secretary of State, Washington

DATE: May 8, 1942, 4 p.m.

NUMBER: 1565

An appeal has been made to the Ministry of Foreign Affairs here by the French Ambassador to unblock French securities and funds in Brazil on the grounds that France is a non-belligerent country. The case is being studied by the Ministries of Foreign Affairs, Finance and the Bank of Brazil and indications have been received from them that the request will not be approved.

CAFFERY

Copy:lc:5/12/42

Regraded Unclassified

Treasury Department 187
Division of Monetary Research

Date May 14 1942

To: Miss Chauncey

From: Mr. Southard

Need not be brought to the Secretary's attention.

General

Diary

Regraded Unclassified

Treasury Department 188
Division of Monetary Research

Date May 13 1942

To:

From: NOTE

Receipts of U.S. paper currency from Argentina, as reported by banks in the New York district, were as follows:

January,	1942	$ 505,000
February,	1942	253,000
March,	1942	367,000
April,	1942	931,000
Total		$2,056,000

R.H.

Regraded Unclassified

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DEPARTMENT OF STATE
WASHINGTON

May 11, 1942

In reply refer to
FF 840.51 Frozen
Credits/6243

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for his information a copy of despatch no. 4890 dated April 29, 1942 from the American Embassy at Buenos Aires concerning shipments of dollar currency from Argentina to the United States by the Pan American Airways System for the period January 5 to April 24, 1942 inclusive.

Enclosure:

From Embassy,
Buenos Aires,
no. 4890, dated
April 29, 1942.

Regraded Unclassified

Buenos Aires, Argentina, April 29, 1942.

No. 4890

Subject: SHIPMENTS OF DOLLAR CURRENCY FROM ARGENTINA TO THE UNITED STATES.

CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

With reference to the Embassy's despatch No. 4696 of April 10 last and previous despatches regarding the repatriation of United States currency from or through Argentina, I have the honor to enclose four copies of a list of shipments of United States currency by the Pan American Airways system, with indications of the shippers, consignees, destinations and dates, for the period January 5 to April 24, 1942, inclusive. This list was furnished in confidence by Mr. Sylvester J. Roll, General Manager of the Pan American Airways System in Argentina.

It will be noted that these shipments aggregated $869,807, and that of this amount, $862,311 were consigned to New York and Miami, the remaining $7,496 being shipped to La Paz and Lima. Inasmuch as there are no restrictions on the purchase and sale of dollar currency either here or in the United States, and as it is not practicable to ship by steamer, the figure of $862,311 is probably a close approximation of the total flow of such currency from Argentina to the United States thus far this year.

With respect to the shipments by the Pan American Airways to its own office in Miami, Mr. Roll states that these are for settling the balances due the home office, it being found more advantageous to buy the currency and ship it to the United States than to buy drafts on New York. It will be noted that, aside from the Pan American Airways System itself, most of the dollar currency shipped to the United States by air this year has been sent by Shaw, Strupp y Compania.

Of particular interest is the fact that shipments during the three weeks period from April 1 to 24 amounted to the substantial sum of $363,342. It is reported in financial circles here that there have recently been large offerings of dollar currency due to the fact that substantial amounts of such currency were brought to Buenos Aires several weeks ago on a Spanish vessel.

Owing to the increasing traffic here in United States currency, a considerable proportion of which presumably represents loot from the occupied countries of Europe, and in view of the reports that members of the Spanish Commercial mission due here shortly will bring large amounts of confiscated

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dollar currency (the Embassy's telegram No. 680 of April 16, 1942), it is believed that it might serve a useful purpose if steps could be taken by the United States Government in the near future to discourage such traffic, such as the adoption of one of the measures mentioned in the Embassy's despatches No. 4396 of March 12, 1942 (page 2) and No. 4647 of April 4, 1942 (page 4).

Respectfully yours,

For the Ambassador:

Edward L. Reed,
Counselor of Embassy

Enclosure:

No. 1. List (in quadruplicate).

File No. 851.5

JWG:je

A true copy of the signed original. (i) J.E.

Copy:bj:5-13-42

Regraded Unclassified

LISTA DE EMBARQUES DE BILLETES SALIDOS

No. AWB	SHIPPER	CONSIGNEE	DESTINATION	DATE SHIPPED	AMOUNT	CURRENCY
941271	A. WEILL	CHASE NATIONAL BANK	NEW YORK	5.1.42	$ 10.000	USA
941314	PASCUAL HNOS.	BANCO DE BOLIVIA	LA PAZ	7.1.42	3.238	USA
932266	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	9.1.42	16.300	USA
941457	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	10.1.42	12.000	USA
941440	A. SONCHEIN	ROSA GARCIA DE SONCHEIN	NEW YORK	10.1.42	16.600	USA
932274	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	11.1.42	12.000	USA
932289	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	14.1.42	12.000	USA
941612	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	15.1.42	15.000	USA
941747	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	16.1.42	11.000	USA
941890	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	22.1.42	15.000	USA
932306	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	25.1.42	4.000	USA
942415	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	31.1.42	15.000	USA
932359	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	1.2.42	22.000	USA
932408	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	6.2.42	15.000	USA
942851	CASA BEHAR	ROYAL BANK OF CANADA	NEW YORK	14.2.42	14.000	USA
942926	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	14.2.42	10.000	USA
942992	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	14.2.42	15.000	USA
932456	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	15.2.42	900	USA
957318	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	21.2.42	25.000	USA
932495	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	25.2.42	11.537	USA
957455	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	25.2.42	15.000	USA
958787	PASCUAL HNOS	BANCO DE BOLIVIA	LA PAZ	4.3.42	2.800	USA
958834	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	4.3.42	6.317	USA
932534	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	4.3.42	7.537.53	USA
958887	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	5.3.42	15.000	USA
946231	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	12.3.42	15.000	USA
946329	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	14.3.42	12.000	USA
946463	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	18.3.42	20.000	USA
946519	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	19.3.42	30.000	USA
946544	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	21.3.42	35.000	USA
946784	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	27.3.42	30.000	USA
933628	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	25.3.42	13.230.59	USA
933629	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	25.3.42	39.006.70	USA
946856	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	28.3.42	20.000	USA
947130	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	2.4.42	30.000	USA

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932793	PAN AMERICAN	PAN AMERICAN AIRWAYS INC	MIAMI	10.4.42	15.000	USA
955548	PASCUAL	BANCO DEL PERU	LIMA	15.4.42	1.458	USA
955636	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	15.4.42	30.000	USA
955624	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	15.4.42	25.000	USA
955664	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	16.4.42	30.000	USA
955681	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	17.4.42	25.000	USA
935586	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	24.4.42	22.000	USA
935551	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	24.4.42	10.000	USA
935670	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	25.4.42	41.000	USA
958115	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	21.4.42	30.000	USA
958117	SHAW STRUPP	CHASE NATIONAL BANK	NEW YORK	21.4.42	11.000	USA
935506	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	23.4.42	33.450	USA
935531	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	23.4.42	14.875.45	USA
935530	PAN AMERICAN	PAN AMERICAN AIRWAYS	MIAMI	24.4.42	34.559.00	USA
					$869.807.00	USA

eh:copy
5-13-42

193

Regraded Unclassified

Treasury Department
Division of Monetary Research

Date May 14 1942

To: Miss Chauncey

From: Mr. White

The Secretary will want to read this.

It is an interesting indication of the excellent spirit of cooperation which the Australians are giving the American forces in the financial field.

Regraded Unclassified

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

E. R. Stettinius, Jr.
Administrator

May 11, 1942

Mr. Harry D. White
Special Assistant to the Secretary
Treasury Department
Washington, D. C.

Dear Mr. White,

I am sending you herewith a copy of cable No. 258 just received from William Wasserman, our Lend-Lease representative, in Australia as I believe the information which it contains will be of interest to you.

With best wishes,

Sincerely yours,

Thomas B. McCabe

Thomas B. McCabe
Acting Administrator

Enclosure

RECEIVED
Treasury Department
MAY 12 1942
Division of
Monetary Research

FOR DEFENSE
BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

Regraded Unclassified

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

Canberra

Dated May 11, 1942

Rec'd 8:20 a.m.

Secretary of State,

Washington.

RUSH

280, May 11, 2 p.m.

TO McCABE FROM WASSERMAN

Complete and accurate reverse Lend-Lease figures not yet available from United States Army or Australian Government sources. It will be a few weeks more before the Army bookkeeping will be adequate to render complete and accurate records. From available figures United States armed forces had received from Australia under reverse lend lease goods, services and commitments totaling at least $62,000,000.- to April 20. From present records it is impossible to break this total figure into a monthly classification, this total figure includes certain unpaid items not definitely placed under reverse Lend Lease such as approximately $2,500,000 for transportation and freight but which we presume will be so placed when final agreements are (*). This total figure includes an item of $874,800 the estimated value of rations supplied by Australian army to the United States forces. Basis of valuing these

rations

Regraded Unclassified

-2- ,#258, May 11, 2 p.m. from Canberra

rations has not yet been finally settled so figure only an approximation. Total figure does not include substantial amounts of gasoline and lubricants taken by United States forces from Australian Army. This amount might be considerable but there is absolutely no basis for reasonable estimate at present. There are also other miscellaneous items probably inconsequential not included. By June 1 the United States Army hopes to have reasonably complete and accurate figures up to April 30 when we will forward them.

United States Army records show that as on May 8 American Army has made actual cash expenditures in Australia amounting to $15,825,865. Figures are not available here as to United States Navy cash expenditures. We are informed that such are transmitted direct to Washington.

For dramatic instances of reciprocal aid would cite the release of school houses, convents, bank buildings, ball parks and private homes many under reverse lend lease; purchase for cash 3500 cars and trucks for the United States forces; purchase of two million dollars signal equipment for joint use;

undertaking

Regraded Unclassified

-3- #258, May 11, 2 p.m. from Canberra

undertaking the manufacture of certain radio equipment; cheerful acceptance of severe civilian rationing resulting from the presence of our forces.

JOHNSON.

(*) Apparent Omission.

WWC

RECEIVED
Treasury Department
MAY 12 1942
Division of
Monetary Research

SA/E:hjg
5/11/42
Copies to:
Mr. Hopkins (2)
Mr. McCabe (1) via Stettinius
Mr. Stettinius (1)

Regraded Unclassified

Treasury Department 199
Division of Monetary Research

Date 5/11/42 19

To: Miss Chauncey

From: Mr. White

The Secretary might be interested in this summary.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Digest of cable from Adler dated May 6, 1942.

1. Adler informed by Dr. Kung that all Chinese Government property in Burma had to be destroyed.

2. Dr. Kung informed that Secretary Morgenthau is especially concerned that Stabilization Board should do all possible to aid China's war effort and Dr. Kung sends thanks to the Secretary for his concern.

3. Dr. Kung glad to hear of Mr. Fox's return to China and wishes the Secretary to be assured that the Chinese Government will continue to cooperate fully with the Stabilization Board.

Regraded Unclassified

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

Chungking

Dated May 6, 1942

Rec'd 2:48 p.m.

Secretary of State,

Washington.

513, May 6, 9 a.m. (SECTION ONE)

CONFIDENTIAL FROM ADLER FOR SECRETARY OF THE TREASURY.

"TF 33

One. Re your 344, May 1. Have informed Board members that you and Fox believe that November 1st agreement should continue in effect. No decision will be taken by Board on Central Bank application until Fox's return. Central Bank's net over sold position in April United States dollars 124,974 and sterling 190,230. Thus Central Bank application now totals approximately United States dollars 6,944,250 and sterling 5,341,458.

There would appear to be some misunderstanding of TF 31 of April 27, paragraph 6 where it was indicated that attempt at this time to centralize exchange control in hands of Board would involve friction with Chinese Government but not that either

Chinese Government

Regraded Unclassified

-2- #513, May 6, 9 a.m. (SECTION ONE) from Chungking

Chinese Government or Exchange Control Commission has objection to continuation of November 1 agreement. TF 18 of March 4 had indicated it was British who were worried about continuation of November 1st agreement.

Two. Minister of Finance informed me yesterday all Chinese Government property in Burma had had to be destroyed. He was naturally depressed by this news. Took the opportunity to tell him of Fox's return in near future and of fact that (?) is especially concerned that Board should do all possible to aid Chinese war effort. Dr. Kung was glad to hear of Fox's return. He wished to thank you for your concern that Board should make maximum contribution to China's war effort and to assure you that Chinese Government would continue to cooperate fully with Board.

GAUSS

RR

Regraded Unclassified

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

Chungking

Dated May 6, 1942

Rec'd 1:30 p.m.

Secretary of State,

Washington.

513, May 6, 9 a.m. (SECTION TWO)

Three. Re your 325 of April 24. Paragraphs one and two duly noted and communicated to board. Re your paragraph three, formal decision had of course been taken by full board meeting and incorporated in board resolution no. 20 new series.

Four. Actuaryal report of board's operations to March 31, 1942, prepared by Lovelock and Lewes of Calcutta now to hand and being forwarded by pouch. Figures are preliminary as only Bank of England statement of account available at time of preparation. Net payments made to March 31, 1942, (to nearest currency unit); total, United States dollars 15,868,425 sterling 2,695,343. Breakdown: Shanghai and Hong Kong, United States dollars 11,611,346, sterling 1,612,326; Kunming, United States dollars 4,071,324, sterling 1,072,293; Chungking United States dollars 185,755, sterling 10,724. Total Chinese national currency notes (in Chinese national

dollars)

Regraded Unclassified

-2-#513, May 6, 9 a.m. (SECTION TWO) from Chungking

dollars) held against: (a) United States dollars 298,796,479, of which 219,129,893 were deposited in Shanghai and Hong Kong and 30 million of remainder have been withdrawn to purchase Chinese Government treasury notes. (b) Sterling 207,943,162 of which 96,404,076 were deposited in Shanghai and Hong Kong, and 19 million of remainder withdrawn for purchase of treasury notes.

Five. There have been several inquiries from Ministry of Finance as to the present status of United States dollar letters of credit issued by American banks in Hong Kong and Shanghai before outbreak of Pacific war to Chinese Ministry Free China. Ministry has also evinced interest post-war status of Chinese deposits in American banks in Hong Kong and Shanghai made prior to Pacific war.

Six. In TF-32 of April 30, section two, paragraph two, note (E), substitute 5,650 for 5,450.

(END OF MESSAGE).

GAUSS

KLP

Regraded Unclassified