DIARY

Book 524

May 5 and 6, 1942

- L -

- M -

- N -

- W -

May 5, 1942
2:00 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Hello, sir.

HMJr: How are you?

R: Fine. We're both tired. We've had a busy time the last twenty-four hours.

HMJr: Good. You don't mind getting tired if you're successful.

R: No, and we're over the top on the issue here now.

HMJr: You are.

R: We've got a billion, two hundred and seventy-seven million.

HMJr: On which issue?

R: The two's.

HMJr: A billion how much?

R: Two seven seven.

HMJr: That's just for New York?

R: Yeah.

HMJr: Just for New York?

R: Just for New York.

HMJr: Well, that's wonderful. That's wonderful.

R: Yeah. I'm very much pleased with that.

HMJr: A billion, two seventy-seven.

R: Yes, sir.

HMJr: Well, that's wonderful.

R: We had some late subscriptions come in. Then we had some trouble with the mail, so it's working out very well.

HMJr: Well, that's fine.

R: And the market is behaving pretty well.

HMJr: Yeah, I hear that they - my not giving out the closing statement at four o'clock kind of upset a couple of them.

R: Well, it did, because it gave them an idea that they'd be getting a large percentage of allotment - much larger than they thought.

HMJr: Yeah. Well, I asked at five minutes of four, you see, and the stuff wasn't in.

R: Sure.

HMJr: So I couldn't - I - and Dan said he wouldn't have anything until before five, so I'd rather be safe than be sorry.

R: (Laughs) Well, I was talking a little bit in Chicago yesterday as well as here, and they told me that the subscriptions didn't really begin to come in until well into the middle of the afternoon.

HMJr: Yeah. Well, that's good.

There's something I want ask you. The - oh, yes, how are the long 67-72's doing?

R: Very well. They were nineteen and twenty bid the end of last week, and they're generally eighteen bid today.

HMJr: Well, then.....

R: And you can't buy any of them.

HMJr: Then George Haas was upset unnecessarily.

R: Yes, I would say so.

HMJr: Yeah, and Bell.

R: The thing that's been in supply have been the June two's of 49-51.

HMJr: They've been in supply.

R: Yeah. We've bought about seven million this morning.

HMJr: I see.

R: But they worked out a differential there of about four or five thirty-seconds between the June's and September's now.....

HMJr: I see.

R: .....and as soon as we - if you can get your figures from over the country in time to say something about it late this afternoon, we'll have probably a better situation tomorrow.

HMJr: I'll do that.

R: Now, there's another thing I was just talking to Dan about, if I may mention it.....

HMJr: Go ahead.

R: .....that it would be helpful, I think, if you would be willing to give the market one or two days' notice before the closing of the books on the 2-½'s.

HMJr: I see. Well, that's.....

R: The banks and others are getting out letters and preparing advertising, and the only thing they can - they have now is your statement that you reserve the right to close the books at any time without notice.

HMJr: Yeah. Well, there's no reason why I shouldn't do that.

R: I don't see any reason at all.

HMJr: I'd be glad to do it.

R: Fine.

HMJr: What else?

R: That covers it.

HMJr: Now, how about the 2-½'s?

R: Well, the insurance companies, of course, you can count on.

HMJr: Yeah.

R: And they're doing a good job.

HMJr: Yeah.

R: The - as you know, the Equitable, a hundred million; the Metropolitan, a hundred million; the Prudential - the Mutual, sixty million; the New York, I believe, fifty; and I don't know the exact amount of the Prudential, but I understand that they're scraping the box.

HMJr: Are those other orders in already?

R: No, they're not all in.

HMJr: I see.

R: But they've had their meetings of their committees, and have made the decisions.

HMJr: I see.

R: I know that Chase Bank is sending over a hundred and eighty-seven million of subscriptions this afternoon, which represent part of those - part or all of those I've mentioned.

HMJr: For the 2-½'s.

R: Yeah.

HMJr: Yeah.

R: And paying by war loan.

HMJr: I see.

R: The volume of - I want to say this, too, that the subscriptions of banks generally in this part of the country were not inflated. They represented - seemed to represent about the same thing as they - in amounts - as they did before, but they were bought for investments and not for turn-over.

HMJr: Good.

R: It looks very healthy.

HMJr: Good.

R: The volume of subscription selling has been very light.

HMJr: Good. Well, it looks as though.....

R: We feel pretty well pleased with it, sir.

HMJr: Well, I'm very much pleased; and the only pat I give on myself on the back is that I never permit myself to have any personal hobbies on this thing, and so I take good advice.

R: Well, it's awfully hard for all of us not to get a little - to ride a hobby.

HMJr: But both you and Sproul were very good this time.

R: (Laughs) The other thing on the 2-½'s, you can count on - oh, on savings banks.

HMJr: Yeah.

R: They've had a fair decline in deposits, and they're beginning to level out.

HMJr: Yeah.

H: And they're coming in only in modest amounts for the 2-½'s.

HMJr: Well, I didn't count on them for much, but I hope to get, oh, some - well, I do hope there'll be some corporations that come in.

R: Yes. And, of course, there's been some selling of the C. I.'s by corporations and by the insurance companies to make room for these.

HMJr: How much premium are they - what are they selling at, the C's?

R: They're selling at par.

HMJr: At par.

R: Yeah.

HMJr: Put any pressure?

R: No, not really. We bought three million this morning. We bought a few yesterday.

HMJr: I see.

R: We bought twenty-four million yesterday.

HMJr: Twenty-four million.

R: That represented one of the insurance companies.

HMJr: I see.

R: One of the banks in town took half of them, and we took half.

HMJr: I see. But it's a - but everything.....

R: Another insurance company did the same thing.

HMJr: But it's all orderly.

R: Oh, yes. It's been no problem at all.

HMJr: Fine.

R: Fine.

HMJr: Okay.

R: Thanks a lot.

HMJr: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary Morgenthau

FROM Mr. Thompson

Through the cooperation of Cy Upham, it has been possible to squeeze the Comptroller's space assignments and make possible the release of a room for Tickton and Lindow.

May 5, 1942
2:13 p.m.

HMJr:	Hello.
Operator:	Mr. Upham.
HMJr:	Hello.
Mr. C. B. Upham:	Yes, sir.
HMJr:	Cy.
U:	Yes, sir.
HMJr:	Norman Thompson says you were very helpful and gave us a room or two.
U:	Well, I always like to do anything I can.
HMJr:	And I just wanted to say thank you.
U:	I appreciate it. Thank you, sir.
HMJr:	What was it, one or two rooms you gave him?
U:	Well, I'm not sure. We're going to give him whatever he needs.
HMJr:	Well.....
U:	One now and perhaps some more later.
HMJr:	Well, that's wonderful. Thank you.
U:	Thank you.

May 5, 1942
4:05 p.m.

HMJr: Hello.

Operator: Mr. Patterson is out of the building attending a meeting, and he won't be back for an hour or so.

HMJr: Well, see - Mr. Bell would like to talk with General Carter.

Operator: All right.

HMJr: Do you know who he is?

Operator: I don't, but I'll find out.

HMJr: A. H. Carter in the Fiscal Division.

Operator: All right.

HMJr: General A. H. Carter in the Fiscal Division, and he'll talk to him from here.

Operator: Right.

May 5, 1942
4:06 p.m.

Daniel Bell: Hello.

Operator: General Carter.

B: General Carter.

General A. H. Carter: Yes, Mr. Bell.

B: This is Bell over in the Treasury.

C: Yes, sir.

B: I thought that you told me a week ago Friday that that directive was going out that night.

C: Why I think it did go out.

B: Well, we understand in Detroit that they've never heard of it, and Chrysler has told us that they will not become an issuing agent because we'd done nothing about that matter and that we were promised - they were promised the thing would be settled in a couple of days.

C: Oh, my! Well, let me look into it, Mr. Bell.

B: Would you give me a ring this afternoon?

C: I'll let you know this afternoon. I'll look it up right away.

B: All right. Call me right back if you will.

C: Yes, sir.

B: Thanks.

May 5, 1942

My dear Mr. President:

I thought you would be interested in the enclosed copy of last Sunday's "The Sunday Courier" and the publicity that they ran on our War Bond campaign.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Enclosure was reprint of
Secy's April 25th letter.

n.m.c.

By Messenger Simmons 5-11

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary's Files

FROM Mr. Kuhn

This has been done and the broadcast is being arranged.

F. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 27, 1942.

TO Ted Gamble and Ferdinand Kuhn

FROM Secretary Morgenthau

Will the two of you talk over the following suggestion and please act on it this morning. I would like Mrs. Morgenthau to organize me a round table of women to go on the air for War Bonds very promptly. One or the other of you, or may be better yet, turn it over to Vincent Callahan. I'd like action. I think she could do this, and hit it up and do it very well. I want action this morning.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary's Files

FROM Mr. Kuhn

We already have great numbers of window signs printed bearing the slogan "We Are Buying War Bonds." I have told this to the Secretary, and told him that I feel the window cards carry out the President's suggestion, since they give the idea of continuous buying.

F.K.

April 15, 1942

Mr. Kuhn

Secretary Morgenthau

When I saw the President this morning he said that he wants a sign in everybody's window not just saying, "I Bought a War Bond," but "I Buy a War Bond Every Month."

Please talk to me about this at luncheon today.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary's Files

FROM Mr. Kuhn

The British authorities have been told that we would like their fliers to come here at the invitation of the Secretary of the Treasury. I have discussed the whole matter with the Secretary.

J.K.

April 30, 1942.

Ferdinand Kuhn

Secretary Morgenthau

Read last night's P. M. and see what the Hearst papers are doing about handling English propaganda. If you still have any doubts in your mind, that when these English heroes come over they should come publicly on the invitation of the Treasury, I think that you will be convinced after you have read the Hearst papers that I'm right in wanting them to come publicly on the invitation of the United States Treasury. I also think that when they tour the country, they should be escorted by American war heroes. Please let me know your reaction to this.

May 5, 1942.

Ted Gamble

Secretary Morgenthau

All of these telegrams that I received from people to ask whether they have payroll-deduction plans, I want photostats made to be distributed amongst our own organization, and send two copies right away to the State Administrator by Air mail. When you send the photostats of the telegrams to the various State Administrators, which, after all, is an answer to a telegram I sent them, I suggest that you send a copy of my original telegram to people who employ 5,000 or more, so that the State Administrators will know what the significance of the answer is. Also, if I answer the telegram, copies should be sent to the State Administrators. If this is not clear, ask me. Please see that this system is put into force without delay.
See Gamble's memo of 5/7-

Please talk to me today about my contacting the U. S. Chamber of Commerce and the National Association of Manufacturers with the idea of getting them to check amongst their own members as to whether they have adopted the payroll allotment plan. See Gamble's memo of 5/7

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary Morgenthau's files.

FROM Mr. Kuhn

Dr. Likert, who is doing the testing for us, has sent four interviewing crews to work as you suggested.

F.K.

May 4, 1942

Secretary Morgenthau

Mr. Kuhn

Here is some information from Dr. Likert on the subject of what people are doing with their increased earnings. It represents the result of about two hundred interviews in homes in cities and rural areas in this part of the country.

1. 9/10 of those interviewed felt that more money is being earned now than before the war. Of these 9/10:

> 1/3 felt the extra money was being spent on essentials like food, clothing and household furnishings;
>
> 1/3 felt the public was saving its increased earnings, and most of these (22% to be exact) said the extra money was going into War Savings Bonds.
>
> Of the remaining 1/3, 23% felt the extra money was being spent on luxuries; only 3% said the extra money was being absorbed by the rising cost of living, and 8% felt the extra money was going to pay off debts.

This breakdown involves some duplication, since some of those who were interviewed gave more than one explanation of where the money was going.

FK:blb

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1942

TO Secretary Morgenthau

FROM Mr. Ferdinand Kuhn

This is just to tell you that Dr. Likert will be delighted to put four interviewing crews on the job, and says he can start them immediately in the four areas you mentioned.

F. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 1, 1942.

TO Ferdinand Kuhn

FROM Secretary Morgenthau

The man who is doing the testing for us - I can't think of his name but who worked formerly for the Department of Agriculture - please talk to me about him at the 9:30 meeting. I want him to put on another crew to start at New Orleans and work up the Mississippi Valley, up to the Canadian border. I want him to put on a third crew in San Diego to work from the Mexican border up to the Canadian border. From what you have told me about his first report, I think this is terribly important. I'd like, if possible, to start the second or third crew off not later than Monday, and I want a fourth crew to work the New England States. Please bring this up at 9:30, as I want it cleared.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO The Secretary of the Treasury

FROM Mr. Houghteling

I think you will be interested in the attached record of the purchase of War Bonds and Stamps by Negroes in Richmond, Virginia, as reported at a great rally last Sunday, at which Dr. William Pickens of my staff was the principal speaker.

State Administrator Nelson of Virginia has been organizing a very effective work among Negroes, with the cooperation of Negro members of the National Organizations Division of the War Savings Staff.

J.L. Houghteling

RECORD OF STAMPS AND BONDS PURCHASED BY NEGROES IN
CITY OF RICHMOND, VIRGINIA
AS REPORTED AT GIGANTIC WAR SAVING STAMPS AND BONDS RALLY
MOSQUE AUDITORIUM SUNDAY, APRIL 26, 1942

NAME	NO BONDS PURCHASED
Astoria Beneficial Club	$2,500.00
Good Samaritans, State Grand Lodge #6	1,000.00
Lone Star Lodge #1340, Odd Fellows	1,000.00
Thebans Beneficial Club	2,000.00
Imperial Order of King David	1,000.00
National Ideal Benefit Society	1,000.00
Oriental Beneficial Club	1,000.00
United Brotherhood of Carpenters & Joyners, Local #917	1,000.00
CIO Local #	1,000.00
Capital City Lodge Elks	100.00
Independent Order of St. Luke	35,000.00
Richmond Beneficial Insurance Company	50,000.00
Southern Aid Society of Virginia, Inc.	60,000.00
Virginia Mutual Benefit Life Insurance Company-	40,000.00
The Richmond Afro-American - - in bonds	47,000.00
The Richmond Afro-American - - sold in stamps	500.00
The Consolidated Bank & Trust Company has sold in bonds	153,000.00
Sold in Public Schools	6,398.25
G R A N D T O T A L	$403,498.25

TREASURY DEPARTMENT
WASHINGTON

May 5, 1942.

MEMORANDUM FOR THE SECRETARY:

Attached is a list showing the Payroll Savings Plans in the Government Departments and Agencies, requested by you.

You will be interested to know that we have set a meeting for tomorrow with Admiral Conard relative to stepping up the work here in Washington. This will be followed on Saturday with a joint meeting with Admiral Conard's people and the District of Columbia Staff for the purpose of availing ourselves of all help to increase the number of plans as well as the number of people participating here in Washington.

Mr. Kuhn has suggested that we concentrate on such Agencies as OPA, OFF, OGR, WPB, OEM, as well as the Department of Agriculture, in order to make certain that those who have been most critical of this program are advised of the need and advantages of the Payroll Savings Plan.

Ted R. Gamble

FEDERAL DEPARTMENTS, AGENCIES, AND ESTABLISHMENTS THAT ARE PARTICIPATING IN THE PAYROLL SAVINGS PLAN

Commerce Department

Emergency Relief

Navy Department

War Department

Federal Works Agency:
- W. P. A.
- E. R.

National Labor Relief Board

Treasury Department:
- Accounts
- Chief Clerk
- Comptroller of Currency
- Customs
- Appraiser of Merchandise - Baltimore
- Custom Supervising Agent - Baltimore
- Appraiser of Merchandise - Norfolk
- Collector of Customs - Norfolk
- Collector of Customs - Wilmington, N. C.
- Division of Disbursements
- Bureau of Engraving and Printing
- Internal Revenue
- Collector of Customs - Baltimore
- Collector of Customs - Greensboro, North Carolina
- Agent in Charge - Greensboro, North Carolina
- Collector of Customs - Huntington, W. Va.
- Collector of Customs - Richmond, Va.
- A. T. U. - Baltimore
- Internal Revenue - Parkersburg, W. Va.
- Narcotics
- Personnel

Procurement

Public Debt

Supt. of Treasury Building

Treasurer of the United States

United States Secret Service

Emergency Relief

Federal Deposits Insurance Corp.

Federal Reserve Commission

Tennessee Valley Authority

Library of Congress

Department of Interior:

Bonneville Power Administration

FEDERAL DEPARTMENTS, AGENCIES, AND ESTABLISHMENTS THAT ARE NOT NOW PARTICIPATING IN THE PAYROLL SAVINGS PLAN.

Executive Office of the President

Office for Emergency Management

Department of State

Department of Justice

Post Office Department

Interior Department

Agriculture Department

Labor Department

Federal Securities Agency

Federal Works Agency

Federal Loan Agency

Federal Power Commission

Federal Trade Commission

Federal Communication Commission

General Accounting Office

Government Printing Office

Interstate Commerce Commission

Railroad Retirement Board

Securities and Exchange Commission

National Archives

United States Civil Service Commission

United States Employees Compensation Commission

United States Maritime Commission

United States Tariff Commission

Veterans Administration

Maritime Labor Board

National Mediation Board

Smithsonian Institute

Council of National Defense

Board of Economic Warfare

Selective Service Commission

Co-ordination of Information

Office of Censorship

White House 41

Tully

Watson

42

For White House.

handed to me - 5 May '42

FEDERAL DEPARTMENTS, AGENCIES, AND ESTABLISHMENTS THAT ARE NOT NOW PARTICIPATING IN THE PAYROLL SAVINGS PLAN.

Executive Office of the President

Office for Emergency Management

Department of State

Department of Justice

Post Office Department

Interior Department

Agriculture Department

Labor Department

Federal Securities Agency

Federal Works Agency

Federal Loan Agency

Federal Power Commission

Federal Trade Commission

Federal Communication Commission

General Accounting Office

Government Printing Office

Interstate Commerce Commission

Railroad Retirement Board

Securities and Exchange Commission

National Archives

United States Civil Service Commission

United States Employees Compensation Commission

United States Maritime Commission

United States Tariff Commission

Veterans Administration

Maritime Labor Board

National Mediation Board

Smithsonian Institute

Council of National Defense

Board of Economic Warfare

Selective Service Commission

Co-ordination of Information

Office of Censorship

FEDERAL DEPARTMENTS, AGENCIES, AND ESTABLISHMENTS THAT ARE PARTICIPATING IN THE PAYROLL SAVINGS PLAN

Commerce Department

Emergency Relief

Navy Department

War Department

Federal Works Agency:
W. P. A.
E. R.

National Labor Relief Board

Treasury Department:
Accounts

Chief Clerk

Comptroller of Currency

Customs

Appraiser of Merchandise - Baltimore

Custom Supervising Agent - Baltimore

Appraiser of Merchandise - Norfolk

Collector of Customs - Norfolk

Collector of Customs - Wilmington, N. C.

Division of Disbursements

Bureau of Engraving and Printing

Internal Revenue

Collector of Customs - Baltimore

Collector of Customs - Greensboro, North Carolina

Agent in Charge - Greensboro, North Carolina

Collector of Customs - Huntington, W. Va.

Collector of Customs - Richmond, Va.

A. T. U. - Baltimore

Internal Revenue - Parkersburg, W. Va.

Narcotics

Personnel

Procurement

Public Debt

Supt. of Treasury Building

Treasurer of the United States

United States Secret Service

Emergency Relief

Federal Deposits Insurance Corp.

Federal Reserve Commission

Tennessee Valley Authority

Library of Congress

Department of Interior:

Bonneville Power Administration

Office of the Postmaster General
Washington, D. C.

May 5, 1942

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

Dear Henry:

I have your letter of April 25th enclosing copies of a letter and leaflet which have been sent to 20,000 companies concerning the payroll savings plan for the purchase of War Savings Bonds.

After careful study of your program I find that I have no suggestions or criticisms to offer. I feel that you are doing a splendid job and firmly believe that the people of this nation will patriotically participate in your program so that the quota for bond sales will be attained.

You have my assurance that the Post Office Department will give every assistance and cooperate in every way possible in this highly important work.

Sincerely,

Frank Walker

WAR PRODUCTION BOARD
WASHINGTON, D. C.

OFFICE OF
DONALD M. NELSON
CHAIRMAN

May 5, 1942

Dear Mr. Morganthau:

I greatly appreciate having your letter of April 25, with which you enclosed a leaflet and other material, regarding the program to encourage the purchase of United States Savings Bonds. The facts which have been stressed in the form letter of April 25 are particularly pertinent, and I am sure they will have a salutory effect on the initial success of the program.

I am confident that employers and employees as well as the general citizenry of the country will make every possible effort to meet the needs which you have outlined.

Sincerely,

D. M. Nelson

Donald M. Nelson

Hon. Henry Morganthau, Jr.

Secretary of the Treasury

WAR DEPARTMENT
HEADQUARTERS, SERVICES OF SUPPLY
WASHINGTON, D. C.

May 5, 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Your letter of April twenty-seventh with regard to the directive issued by this office on payroll deductions under cost-plus-a-fixed-fee contracts is very deeply appreciated. I have communicated it to the members of my staff who worked on the directive and I can assure you that it has meant a great deal to them.

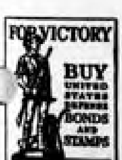
I must add, however, that it was easier to accomplish this work as a result of the very cooperative attitude of the members of your staff who participated.

Thank you again for your very kind letter.

Sincerely yours,

A. H. Carter

A. H. CARTER
Brigadier General
Director, Fiscal Division



Comparison of Employment in Companies with
Payroll Savings Plans and in Companies Acting
as Issuing Agents, by Size of Company, May 2, 1942

Size of Company	Estimated Number of Employees: All Companies with Plans	Estimated Number of Employees: Companies Acting as Issuing Agents	Percent of Employees Working in Companies Acting as Issuing Agents
000 or more employees	8,000,000	2,764,544	34.6
500 - 4,999 "	5,500,000	1,042,432	19.0
100 - 499 "	5,000,000	126,267	2.5
Under 100 "	1,500,000	1,205	0.1
Total	20,000,000	3,934,448	19.7

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

May 5, 1942

Corporations Acting as Issuing Agents for Savings Bonds
Purchased by Their Employees Under Payroll Savings Plans
January 31, 1942 to date

Date	Number of corporations acting as issuing agents	Number of employees in corporations acting as issuing agents	Number of employees in all corporations with payroll plans in the country	Percent of employees in corporations acting as issuing agents
January 31...	351	*	15,000,000	*
February 28..	686	*	17,000,000	*
March 28.....	931	*	19,000,000	*
April 4......	980	*	19,000,000	*
April 11.....	1,050	*	20,000,000	*
April 18.....	1,110	3,179,349	20,000,000	15.9
April 25.....	1,223	3,449,927	20,000,000	17.2
May 2........	1,331	3,934,448	20,000,000	19.7

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

May 5, 1942

* Not available.

Companies Qualifying as Issuing Agents
April 25 and May 2, 1942

Week ended April 25

Company	Number of Employees
1. Companies with 5,000 or more employees	
Louisville & Nashville R. R. Co., Louisville, Kentucky..................	31,400
Oregon Shipbuilding Corporation, Portland, Oregon......................	28,214
Great Atlantic & Pacific Tea Co., (Eastern Division), New York, N. Y....	20,000
Endicott Johnson Corp., Endicott, N.Y..	19,324
Allis Chalmers Mfg. Co.,Milwaukee, Wis.	18,710
Phelps Dodge Corp., New York, N. Y.....	15,699
Consolidated Coal Corp., New York,N.Y..	9,998
Texas & Pacific Railway Company, Dallas, Texas.........................	8,618
Geo. A. Fuller Co. & Merrit Chapman & Scott Co., Quonset, R. I.............	6,729
General Aniline & Film Corp., New York, N. Y.......................	5,994
American Chain & Cable Co., Bridgeport, Conn......................	5,871
Mack Manufacturing Co., Long Island City, New York............	5,670
General American Transportation, Chicago, Ill.........................	5,267
Socony Vacuum Oil Co., New York, N. Y......................	5,000
Subtotal Companies with 5,000 or more employees..................	186,494
2. All other companies....................	84,084
3. Total all companies qualifying.........	270,578

Week ended May 2

Company	Number of Employees
1. Companies with 5,000 or more employees	
Bethlehem Steel Corporation, Behtlehem, Pennsylvania............	198,453
Western Electric Corporation, New York, New York.................	66,239
Baltimore & Ohio Railroad, Baltimore, Maryland................	54,732
Crane Co., Chicago, Ill.............	16,711
Philadelphia Suburban Transportation, Philadelphia, Pa..................	10,362
United Shoe Machinery, Boston,Mass..	10,000
Colgate Palmolive Peet Company, Jersey City, N. J..................	6,843
Waldorf System, Boston, Mass........	6,000
Columbia Pictures Corporation, New York, N. Y.....................	5,494
Southern New England Telephone, New Haven, Conn....................	5,343
L. Bamberger & Company, Newark, N. J.......................	5,159
City Ice and Fuel Company, Cleveland, Ohio....................	5,106
William Filene Sons Co., Boston, Mass.......................	5,000
Subtotal Companies with 5,000 or more employees.............	395,442
2. All other companies..................	89,079
3. Total all companies qualifying.......	484,521

Office of the Secretary of the Treasury, Division of Research and Statistics. May 5, 1942.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales during April and May 1942, by days
On basis of issue price

(In millions of dollars)

Day	Series E		Series F		Series G		Total	
	April	May	April	May	April	May	April	May
1	$ 13.0	$ 12.7	$ 2.4	$ 1.5	$ 9.6	$ 5.8	$ 25.0	$ 20.0
2	11.3	11.6	2.1	1.0	7.6	6.9	21.0	19.4
3	10.8	Sunday	1.2	Sunday	6.2	Sunday	18.2	Sunday
4	12.1	22.3	1.4	2.7	5.3	7.6	18.8	32.6
5	Sunday		Sunday		Sunday		Sunday	
6	18.0		2.3		8.0		28.4	
7	8.7		.8		9.0		18.5	
8	11.9		1.1		6.6		19.6	
9	12.2		1.0		5.7		18.9	
10	10.8		1.6		5.3		17.6	
11	7.4		.7		2.7		10.8	
12	Sunday		Sunday		Sunday		Sunday	
13	22.2		2.4		8.6		33.2	
14	8.7		1.1		3.3		13.1	
15	7.7		1.3		5.4		14.3	
16	13.5		1.4		7.8		22.7	
17	10.8		.8		3.7		15.3	
18	10.3		.9		3.3		14.5	
19	Sunday		Sunday		Sunday		Sunday	
20	18.6		2.2		9.0		29.8	
21	9.4		1.0		3.7		14.0	
22	12.0		1.9		6.8		20.8	
23	12.5		1.8		5.9		20.2	
24	14.4		1.7		5.7		21.8	
25	11.3		1.3		4.6		17.2	
26	Sunday		Sunday		Sunday		Sunday	
27	21.0		2.3		8.0		31.3	
28	11.8		1.6		6.1		19.5	
29	13.3		2.1		9.1		24.4	
30	13.1		1.5		6.9		21.6	
Total	$326.7		$ 40.0		$163.8		$530.5	

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

May 5, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.
Note: Figures have been rounded and will not necessarily add to totals.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in May Compared with April, 1942
On Basis of Issue Price

First Three Business Days
(May 1-4, April 1-3)

(Amounts in thousands of dollars)

Item	Sales		Increase or Decrease (-) In May Compared with April	
	May	April	Amount	Percent
Series E	$46,532	$35,050	$11,482	32.8%
Series F	5,192	5,684	- 492	- 8.7
Series G	20,323	23,413	- 3,090	- 13.2
Total	$72,048	$64,147	$ 7,901	12.3%

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

May 5, 1942.

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

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

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Daily Sales - May, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
May 1942									
1	$ 3,219	$ 9,460	$ 1,479	$ 5,824	$ 16,762	$ 12,679	$ 1,479	$ 5,824	$ 19,981
2	3,140	8,444	1,002	6,864	16,309	11,584	1,002	6,864	19,449
4	6,015	16,254	2,712	7,636	26,602	22,270	2,712	7,636	32,618
Total	$ 12,374	$ 34,158	$ 5,192	$ 20,323	$ 59,674	$ 46,532	$ 5,192	$ 20,323	$ 72,048

Office of the Secretary of the Treasury, Division of Research and Statistics. May 5, 1942.

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary Morgenthau

FROM Mr. Kuhn

Here is the detailed popularity rating of American, British, and other war heroes, as shown in a telegraphic poll of 364 interviews in scattered cities throughout the country. The question asked was whether the people interviewed would be very likely, only fairly likely, or not at all likely to go to hear these fighting men if they should give a talk about their experiences.

Taking the "very likely" answers, they go as follows:

The flier who dropped the first bomb over Tokyo	59%
A U. S. Navy flier who shot down six Japanese fliers in the Pacific . . .	57%
The American Army officer who led the flight from Australia to attack the Philippines	56%
A leader of the American Volunteer Air Squadron which has been fighting in Burma	54%
A British flier who has taken part in bombing raids on Germany	53%
A Russian Tank Corps officer who helped to keep the Germans out of Moscow	44%
A British Commando who has taken part in raids on France and Norway	43%
A Russian flier who has been fighting on the German-Russian front	42%
A Dutch submarine officer who saw action against the Japanese in the East Indies	41%
An Australian flier who fought the Japanese in the Indies	39%
A Serbian guerilla who had been fighting the Italians and Germans in the Yugoslav mountains	38%
A Chinese flier who had been fighting against the Japanese in the Far East .	37%

As I wrote you yesterday, I feel that the 59-53 ratio between the American who bombed Tokyo and the English who bombed Germany is a clear indication that British bomber crews would get a tremendous welcome in this country.

I attach a complete breakdown of these figures in case you are interested. I should like very much to send a copy of this to Air Marshal Evill and General Beaumont Nesbitt. OK to do?

F.K.

Telegraphic Poll
364 Interviews

May 2, 1942

OFFICE OF FACTS AND FIGURES

Question (asked about three different groups of people).

1. Suppose these persons were giving a talk about their experiences, would you be very likely to go hear the first one, only fairly likely, or not at all likely to go hear him? How about the second, how about the third, how about the last one?

2. How about the group on this card, assuming that they could all speak good English, would you be very likely to go hear the first one, only fairly likely, or not at all likely to go hear him?

3. Same as 2 above.

First Group

A. Leader of the American Volunteer Air Squadron which has been fighting in Burma

Very likely	54%
Fairly likely	23%
Not likely	20%
D. K.	3%

B. U. S. navy flier who shot down six Japanese fliers in Pacific

Very likely	57%
Fairly likely	24%
Not likely	18%
D. K.	1%

C. The American army officer who led the flight from Australia to attack the Philippines

Very likely	56%
Fairly likely	24%
Not likely	18%
D. K.	2%

D. The flier who dropped the first bomb over Tokyo

Very likely	59%
Fairly likely	16%
Not likely	23%
D. K.	2%

<u>Second Group</u>

A. A Russian flier who has been fighting on the German-Russian front

Very likely	42%
Fairly likely	27%
Not likely	27%
D. K.	4%

B. A Chinese flier who has been fighting against the Japanese in the Far East

Very likely	37%
Fairly likely	29%
Not likely	32%
D. K.	2%

C. British flier who has taken part in bombing raids on Germany

Very likely	53%
Fairly likely	22%
Not likely	24%
D. K.	1%

D. Australian flier who fought Japanese in Dutch East Indies

Very likely	39%
Fairly likely	32%
Not likely	27%
D. K.	2%

<u>Third Group</u>

A. Dutch submarine officer who had seen action against the Japanese in the Dutch East Indies

Very likely	41%
Fairly likely	26%
Not likely	29%
D. K.	4%

B. Russian tank corps officer who had helped keep the Germans out of Moscow

Very likely	44%
Fairly likely	27%
Not likely	26%
D. K.	3%

C. British Commando who has taken part in raids on France and Norway

Very likely	43%
Fairly likely	26%
Not likely	28%
D. K.	3%

D. Serbian guerilla who had been fighting the Italians and Germans in the Yugoslavia mountains

Very likely	38%
Fairly likely	22%
Not likely	35%
D. K.	5%

May 5, 1942

My dear Mr. President:

I thought you would be interested in the enclosed telegraphic report from the Atlantic and Pacific Tea Company.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

n.m.c.
S.S. Agt. 10:55

May 5, 1942

Telegram received this morning from John A. Hartford, President, Great Atlantic and Pacific Tea Company, New York

"More extensive surveys in seventeen cities of weekend business show considerable holding off in buying at many points, awaiting lower prices. Outstanding are Louisville, Indianapolis Saginaw, Flint and Detroit. Somewhat slower business in Chicago, New York and Philadelphia partially attributable to no sugar sales, which constitute two and half percent of our business, and shortage of coffee. Slightest reaction is in New England area.

"Many inquiries in stores over weekend throughout territory as to when ceilings will go into effect. Numerous customers state prices have been soaring too fast and about time something was done. Still continue to get comments butter should be under ceiling, and complaints on coffee prices. Appears people expecting much more drastic price reductions than will be the case.

"Still getting inquiries as to whether ceilings will be alike in all stores on all commodities. High percentage of customers not acquainted with details of regulations. Believe strong educational campaign will be required. Some however already asking to see our ceiling lists. Some hoarding noted on evaporated milk and coffee substitutes such as postum. Manufacturers report practically no business from wholesalers. As result many reducing prices in advance of May 11 deadline."

John A. Hartford, President,
Great Atlantic and Pacific Tea Company

May 5, 1942

ack'd filed 5/11/42

Dear Claude:

I thought you would be interested in the enclosed telegraphic report from the Atlantic and Pacific Tea Company.

Sincerely yours,

(Signed) Henry

Honorable Claude Wickard,
Secretary of Agriculture,
Washington, D.C.

By Messenger V [illegible] 10:55

May 5, 1942

Dear Don:

I thought you would be interested in the enclosed telegraphic report from the Atlantic and Pacific Tea Company.

Sincerely yours,

(Signed) Henry

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

By Messenger Veach 10:55

May 5, 1942

Dear Leon:

I thought you would be interested in the enclosed telegraphic report from the Atlantic and Pacific Tea Company.

Sincerely yours,

(Signed) Henry

Honorable Leon Henderson,
Administrator,
Office of Price Administration,
Washington, D.C.

P.S. I think you have got off to a good start

By Messenger Vent 16:55

MAY 5 1942

My dear Mr. President:

Further reference is made to your memorandum of April 21, 1942, transmitting a letter addressed to Mrs. Roosevelt on April 13, 1942, by Mr. C. L. Brown of Lubec, Maine, with respect to charges for customs services rendered on Sundays at the Campobello auto ferry.

The customs overtime laws require that overtime compensation at the statutory rates be collected by the collectors of customs from private interests for customs services rendered at night or on Sundays or holidays. It is contended in suits now pending against the Government in the Court of Claims that this requirement applies even though the services are within the regular tours of duty of the officers or employees and are not in excess of the number of hours of service regularly required. This is the type of so-called overtime service that is being furnished at the Campobello ferry.

In view of the pending litigation, collectors of customs have been instructed to demand payment of overtime compensation for all such services performed at night or on Sundays or holidays on regular tours of duty and hold all money collected in special deposit accounts until the controversy has been finally settled. These demands at least give notice to the parties in interest that they may be held liable. In cases where such demands are not complied with, however, no action is now being taken to enforce payment.

Accordingly, the collector of customs at Portland, Maine, is being instructed to continue to furnish customs service on Sunday at the Campobello ferry even though his bills for overtime compensation are not paid.

The letter from Mr. Brown, transmitted with your memorandum, is returned herewith.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

S.S. Apr. 3:45

Photo file [illegible]

File to Thompson

May 5, 1942.

George Haas

Secretary Morgenthau

For the Thursday luncheon, I wish you would have some right up-to-the-minute charts on food. I want to know what's happening, particularly to the basic farm commodities. Is Wickard doing all that he can? From your weekly report it doesn't seem as though he is. I have often wondered, on his buying for Lend-Lease, how much attention he pays to the general cost of food, and if he ever lets-up in his buying, when they rush the market up on him.

5/7 - Mr. Haas furnished HMJr with this inf. before noon Thurs.

May 5, 1942

Dear Mr. Bewley:

Thank you for your letter of May 4th, giving figures on your available gold and dollars as at April 3rd, 10th, 17th and 24th.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Mr. T. K. Bewley,
The British Supply Council in
North America,
Box 680 Benjamin Franklin Station,
Washington, D. C.

LS
5/5/42

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

BOX 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

SECRET

May 4, 1942

Dear Dr. White,

You will find below the figures of our available gold and dollars as at various dates in April. The figures for the end of the month are not in. I will let you have them when they come to hand.

	1942			
	April 3	April 10	April 17	April 24
Total Gold (Including Belgian)	643	645	661	671
Official Dollar Balance	55	52	59	58
Total Gold and Dollars	698	697	720	729
Less: Belgian Gold	105	105	105	105
Scattered Gold	91	92	108	110
Gold reserve against immediate liabilities	10	10	10	10
Available Gold and Dollars	492	490	497	504

Yours sincerely,

T. K. Bewley

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

C
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Department of State

Financial Division

May 5, 1942

To: Mr. Harry White

From: Mr. Livesey

Copies of letter of March 18 from Sir Frederick Phillips and of proposed reply regarding Near East Lend-Lease proceeds.

FD:FL:BMcB

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My dear Sir Frederick:

We have considered and have discussed with the Lend-Lease Administration and the Treasury the question raised in your letter of March 18, 1942 relative to the terms on which lend-lease supplies for the civilian population in Middle Eastern countries should be distributed. The result of these discussions is that we agree with you that such supplies should be sold rather than given away, for the reasons given in your letter.

The net proceeds after allowing, of course, for all expenses of distribution should, we think, be held in any convenient depository, either a bank or the Treasury of the country in which the distribution occurs, in the local currency of that country, to the credit of the United States.

This Government would not expect to transfer such funds into dollars, but to use them locally for its own expenditures, either payroll, or for the purchase of local products or the like.

If this arrangement seems appropriate to you, we will instruct our representatives in the Middle East Supply Centre accordingly, and will write appropriate clauses into the Lend-Lease agreements to be negotiated with the governments of these countries.

Sincerely yours,

Sir Frederick Phillips,
The British Supply Council in North America,
Box 680, Benjamin Franklin Station,
Washington, D. C.

C
O
P
Y

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Telephone: REpublic 7860

Box 680
Benjamin Franklin Station
Washington, D. C.

Dear Mr. Acheson,

May I ask for your advice on the question of the terms on which lend-lease supplies to certain Middle Eastern countries, which we hope will be furnished through the Middle East Supply Centre, should be handed on to the recipient countries?

The question which gives rise to difficulty is that of goods distributed to the civilian population of the countries concerned, in particular Egypt, Iraq and Iran; a typical case would be wheat or wheat flour.

If the supplies are distributed free of charge to the civilian population the present dangerous inflationary tendencies in those countries will be increased since the money which would have been spent on essentials will be available for expenditure on other things. Moreover, in the case of foodstuffs, free issues to the civilian population would have a bad effect on the campaign to produce more food locally on which we rest our main hope of saving shipping later. Further, it is almost impossible to work a system under which some food is sold, while other food (lend-lease) is given away. Any attempt to work such a system in the Middle East would surely lead to graft on the largest scale.

The question then is as to the disposal of the proceeds of sale.

These goods are provided to ensure the political stability of the countries concerned and hence to help on the war effort, and we see no reason why these supplies should result in budgetary relief to the countries concerned. If you agree as to this, one solution which occurs to us is that the money should be retained by the Middle East Supply Centre and used to meet your and our needs for local currency arising out of our war activities in that area. Another possibility is that the money should be set aside and used to provide a fund which could later on be used for the benefit of the countries concerned. Other alternative solutions could no doubt be devised.

As political as well as purely financial considerations are clearly involved I thought that I should put the matter before you in the first place, but the Lend-Lease Administration are already aware of the problem, and the Treasury may also be interested. Perhaps I might discuss it with you and, if you think useful, with representatives of other interested departments, at a convenient opportunity? The matter has a certain urgency as the arrangements must be set on foot.

Yours sincerely,

F. PHILLIPS

Mr. Dean Acheson,
Assistant Secretary of State,
Washington,
D. C.

May 5, 1942

Dear Breckinridge:

I have initialed the memorandum of your conversation with the Minister of Sweden regarding insurance for the GRIPSHOLM and am returning it herewith. Thank you for also sending a carbon for my files, which I have retained.

Yours sincerely,

(Signed) Henry

Hon. Breckinridge Long,
Assistant Secretary of State,
State Department,
Washington, D. C.

File N. M. C.
By Messenger Givens 3:40
Photostat to Foley

DEPARTMENT OF STATE
WASHINGTON

May 1, 1942

My dear Henry:

Attached herewith is a memorandum of my conversations with the Minister of Sweden and with yourself on the subject of the insurance for the Gripsholm and the release of free dollars in the amount of the loss in case the vessel should be lost.

You suggested that you would initial a memorandum. Also attached is a carbon for your files.

Very sincerely,

Breckinridge Long

Enclosures:

Memorandum of
conversation and
carbon copy.

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

MEMORANDUM

May 1, 1942

Subject: Insurance on the Gripsholm.

Participants: The Swedish Minister and Mr. Long;
The Secretary of the Treasury and Mr. Long.

The Swedish Minister telephoned me to say that his Government desired to retain in Sweden some of the insurance on the Gripsholm for the reason that in case the vessel were lost they anticipated difficulty about getting funds remitted from the United States. The cost to the United States of the insurance retained in Sweden would run between $300,000 and $400,000. The alternative is for the United States Government to assume the entire amount of insurance, which could be done at practically no cost unless the vessel should happen to be lost, in which case the American Government should agree to transmit in free dollars to the Swedish Government funds in the amount of the insurance. He said that if he could get assurances from this Government so that he could send assurances to his Government, he was of the opinion that the Swedish Government would immediately withdraw from its position and consent to the charter party.

I discussed the matter with the Secretary of the Treasury in the Cabinet Room of the White House and he gave me his assurances that in case the American Government assumed the full insurance on the Gripsholm and in case that vessel should be lost, that the Treasury would permit the transfer of free dollars to Sweden in the amount of the loss.

I telephoned to the Minister of Sweden and advised him and he said that he would immediately send assurances to his Government and would urge them to withdraw from the position which they had held and to consent to the charter party.

Cleared with Pehle by telephone as being in accordance with our understanding
S.W.M. 5/1/42

B. L.

H.M.Jr.

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TREASURY DEPARTMENT

United States Mint Service

New York, N.Y.

Office of
The Superintendent
U. S. Assay Office
32 Old Slip

May 5, 1942

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

Att: Frank Dietrich

Honorable Sir:

We herewith enclose 10 copies of Form 42A, as instructed in your letter of April 17.

This covers the deposit made at this office on April 21, 1942 for credit of the Secretary of the Treasury, Special Account.

Respectfully,

(Sgd.) E. R. Lynch

Acting Superintendent.

L/E
Enclosures

Copy:lms
5/7/42

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

Sydney

Dated May 5, 1942

Rec'd 5:18 a.m.

Secretary of State,

Washington.

246, May 5, 11 a.m.

Reference is made to Department's telegram no. 173, May 1.

Date and number of bill under reference 3299, April 7, 1942.

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DEPARTMENT OF STATE

Washington

In reply refer to
FD 854.516/181

May 5, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of confidential despatch no. 7122, dated April 22, 1942, from the American Embassy at Rio de Janeiro, transmitting information regarding a proposal from the Bank of International Settlements, Basel, that the Bank of Brazil exchange about 500 kilograms of gold for account of the Bank of International Settlements against the same weight in bars or American coins at Buenos Aires, or alternatively ship the gold by air.

Enclosure:

From Embassy, Rio de Janeiro,
despatch no. 7122, April 22, 1942.

eh:copy
5-6-42

No.7122

Rio de Janeiro, Brazil, April 22, 1942. 80

Subject: Proposal of a Swiss Bank to the Bank of Brazil

CONFIDENTIAL

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to report that the Director of Exchange of the Bank of Brazil has informed my Commercial Attache that the Bank received the following proposal from the Banque Reglements Internationaux-Bale in telegram dated April 13, 1942:

" PRIMO: Priere telegraphier si envisageriez echanger 40 lingots or environ 500 kgs fin notre dossier chez vous contre meme -- poids or barres ou eagles americaines Buenos Aires.
SEGUNDO: Sinon pourriez vous mettre sur pied transport aerien or assure en francs suisses ou pesos tous risques sauf risques guerre, priere cabler proposition en indiquant frais."

The Bank of Brazil has replied to the Swiss bank that it regrets that it is unable to accept the proposal.

Respectfully yours
For the Ambassador:

John F. Simmons,
Counselor of Embassy.

CC: American Embassy, Buenos Aires.

File No.851.6

IBW'mc

eh:copy
5-6-42

81

SECRET

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

May 5, 1942

Dear Mr. Morgenthau:

In connection with our conversation the other evening, I am sending you the enclosed letter giving the location of the Japanese airplane industry based on a study which was made by our people.

With kindest regards,

Yours sincerely,

[signature]

Enclosure

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

SECRET

GENERAL CONDITIONS AND LOCATIONS OF THE JAPANESE AIRPLANE INDUSTRY
INVESTIGATED IN OCT. 1941

RE	NAME OF FACTORY	CAPITAL (JAPANESE YEN)	ITEM OF PRODUCTION	LOCATION	NOTE
RNMENT- D	KURE NAVY AIRPLANE FACTORY	UNKNOWN	AIRPLANES	HEROSHIMAKEN HEROSHI	
	SASEHO NAVY AIRPLANE FACTORY	UNKNOWN	AIRPLANES	NAGASAKIKEN SASEHOSHI	
	YUKOSUKA NAVY FACTORY	UNKNOWN	AIRPLANES	KANAKAWAKEN YUKOSUKA	
ATE	MITSUBISHI HEAVY INDUSTRIAL ASSOCIATION	120,000,000	AIRPLANE ENGINES	NAGOYASHI MINATOKU OLMACHI OKINONAKA	NAVY HEAVY BOMBERS OF 96, 97 TYPES ARE MANUFACTURED BY THIS ASSOCIATION
	NAGAJIMA AIRCRAFT ASOCIATION	20,000,000	AIRPLANE ENGINES	GUNMAKEN OTAMACHI; TOKYO SUGINAMIKU; TOKYO MUSASHINOMACHI; TOKYO TAMUCHO	ARMY SCOUTING PLANES OF 97 TYPE ARE MANUFACTURED BY THIS ASSOCIATION
	KAWASAKI AVIATION INDUSTRY ASSOCIATION	50,000,000	AIRPLANE ENGINES	KOBESHI HAYASHITAKU WATAYAMADORI; KIFUKEN INABAGUN SOHARAMURA; KOBESHI HAYASHITAKU MEIJIDORI	
	TACHIKAWA AIRCRAFT ASSOCIATION	25,000,000	AIRPLANES	TOKYO TACHIKAWACHO	
	AICHI GENERAL ELECTRIC ASSOCIATION	30,000,000	AIRPLANE ENGINES	NAGOYASHI MINAMIKU CHITOSHIFUNA; NAGOYASHI MINAMIKU HORITADORI	
	KAWANISHI AIRCRAFT ASSOCIATION	15,000,000	AIRPLANE ENGINES	HEIKOKEN NARUOMURA	
	SHOWA AIRCRAFT ASSOCIATION	30,000,000	AIRPLANE ENGINES	TOKYO NIBONBASHIKU KOFUNACHO	

SECRET

...URE	Name of Factory	Capital (Japanese Yen)	Item of Production	Location	Note
	Tokyo Ishikawajima Dockyard	16,000,000	Engines	Tokyo Kyobashiku; [redacted] Kanaghi; Yokohama-shi S[redacted]amachi	
	Tokyo Gas Electric Association	12,000,000	Airplane engines	Tokyoshi Omoriku	
	Dainisson Aviation Industry Association	100,000,000	Airplanes & spare parts	Tokyo Fukakawaku	
	Watanasa Iron Work	6,000,000	Airplane bodies & spare parts	Fukuokashisai Zatsukaikuma	
	Nisson Aircraft Association	5,000,000	Airplane engines	Yokohamashi Showamachi	
	Nisson Aviation Industry Association	3,000,000	Airplane spare parts & propellers	Heisoshi Umaire-amanuma	
	Tokyo Aviation Association	2,650,000	Airplane bodies & spare parts	Tokyo Kamataku Hatahekogyo	
	Narita Aircraft Manufactore	4,000,000	Light airplane engines	Tokyo Kitamagun	
	Ito Aircraft Association	5800,000	Airplane bodies & wooden propellers	Chibaken Tsuta-numagho	
	Tokyoingine Industrial Association	1,000,000	Balloons	Tokyoshi Setaga-yaku Ikejiricho	
	Fujikura Industrial Association	3,000,000	Airships, balloons	Tokyo Shinagawaku Gohanda	
	Associated Balloon Manufactory	500,000	Airships, balloons	Tokyo Kamasaku Kitahamayacho	

...RK: Judging from the various informations collected, Japan's annual producing capacity amounts to 3000 - 4000 planes in war time.

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STRICTLY CONFIDENTIAL

No. 397

Chungking, May 5, 1942

Subject: Recent Restrictions Imposed on Commercial Banks in China.

CONFIDENTIAL

Air Mail

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

/, 2/ I have the honor to transmit herewith two memoranda of conversation held by members of my staff with Mr. Solomon Adler of the Stabilization Board of China and Dr. Y. C. Koo, Vice Minister of Finance, concerning recent restrictions imposed by the Government upon the business of commercial banks in China. There is also / transmitted a translation of a lecture delivered by the Director of the Monetary Department of the Ministry of Finance in which the new regulations are outlined and discussed.

The Chinese banking system is composed of the four Government banks, the western-style commercial banks, the provincial and county banks and the old-style Chinese cash or "pichi" shops.

The four Government banks are the Bank of China, the Central Bank of China, the Bank of Communications and the Farmers Bank of China. All of these banks have the right of note issue. The oldest of these banks is the Bank of China which grew out of the Ta Ching bank, founded under the Manchu dynasty. Its stock is owned in equal parts by the Government and private interests and the Government appoints three members to its board of directors. The Governor of the Bank of China is at present T. V. Soong, Foreign Minister Designate. The Bank of China, as finally reorganized under the present National Government, was intended primarily to finance Chinese foreign trade. It has, however, indulged extensively in ordinary commercial business and has a reputation for endeavoring to edge itself into any business undertaking which has proven to be prosperous. The Central Bank of China is a bank of banks, and does not engage in any form of commercial banking. It was organized in 1924, is entirely Government owned, acts as the fiscal agent of the Government, and the intention of the Government has been to group the other Government banks and the commercial banks around it in such a way as to make it an actual central bank. This, however, has not been possible, owing to the outbreak of war with Japan in 1937, and the consequent repercussions upon the Chinese banking and fiscal system. The Bank of Communications was founded under the Manchu dynasty and as it now stands, after a series of reorganizations, is more that half owned by the Government. This bank was primarily designed to finance industrial undertakings, as well as the expansion of the communications system. Dr. H. H. Kung, the Minister of Finance, is very intimately associated with this bank which is regarded as being in a sense the private bank of the Kung family. The Farmers Bank of China was founded to finance the rehabilitation of the areas devastated during the campaigns against the Communists in the southeastern provinces and is closely associated with the Generalissimo who is at present its Governor. The Vice Minister of Finance, Dr. Y. C. Koo, is the manager of the Farmers Bank.

The operations of the four Government banks are guided in general by the Joint Head Office of the four banks of which the Generalissimo is the head and in which each of the four banks is represented. This office is supposed to allocate business to each of the banks and to regulate their activities and practices.

The Government apparently has some intention of endeavoring to rationalize the activities of the Government Banks and to limit them to their respective fields of action. At the present time there is a tendency for each of the banks to engage in every variety of business which may come its way, with the exception of the Central Bank of China. The Farmers Bank, for instance, undertakes, according to Dr. Y. C. Koo, about 55% of the financing of agricultural enterprises as against 45% for the other Government banks. This process of rationalization, however, does not seem to have resulted in any tangible reforms.

The Government banks have increasingly tended to engage in business which might more properly be conducted by the private commercial banks and it is alleged that they have even engaged in speculative activities and the financing of hoarding operations. In the opinion of some, the Government or the Government banks actually desire to eliminate the private commercial banking institutions and absorb their business entirely in the Government banks. There is, however, a natural explanation of this tendency in that the Government banks have been forced to undertake the greater part of the financing of productive enterprises and of the distribution of essential commodities, owing to the reluctance of the commercial banks to undertake this business. At the same time, the principal business of the Government banks lies in financing, through the creation of bank deposits, the enormous deficit of the Chinese Government.

Of the major Chinese commercial banks, only three, the National Commercial Bank, the Kincheng Banking Corporation and the Shanghai Commercial and Savings Bank are represented in unoccupied China. In addition to these nation-wide banks, there are three important Szechuanese banks, the Mei Feng Banking Corporation, the Szechuan Salt Bank and the

Young Brothers Banking Corporation, and two banks in the province of Yunnan, the New Futien Bank and the Sin Hwa Bank which are operated by the two most important lieutenants of the semi-independent governor of Yunnan, Lung Yun. All of the commercial banks have operated upon the black market for foreign exchange and have engaged in the financing of speculation and hoarding to the exclusion of more legitimate business. The major part of the business of many banks has apparently consisted of loans to cash shops which re-loan the money on a fifteen-day basis at exhorbitant rates, for what can only be speculative purposes, the interest rates being so high that no legitimate business could make profits sufficient to cover the interest payments. Some banks have apparently also set up dummy cash shops with their own money or have permitted their employees to use the bank's money to make loans with high interest rates to speculators. Many banks have also made disproportionately large loans to firms owned by their directors, on little or no security, or have made direct investments in such firms. This has given rise to considerable concern in the Ministry of Finance regarding the liquidity of the reserves of many commercial banks, especially in the event of a fall in the present highly inflated price level such as would follow the defeat of Japan and the opening up of China to normal foreign trade. The fact that commercial banks have largely engaged in the financing of speculation and hoarding may to some extent be accounted for by the exceedingly high rate of interest which they are compelled to pay on their deposits which are to a great extent time deposits, often limited to fifteen days. It is interesting, however, that the deposits of the four Government banks exceed by many times those of the commercial banks. This is, of course, accounted for in part by the large deposits created by the Government banks for the use of the Government and of various productive enterprises, but the deposits of the Government banks were somewhat higher than those of private banks even before the present inflation began.

The provincial banks are principally concerned with the financing of the provincial governments and dealings in exchange arbitration, while the county banks have been created to finance local requirements. Dr. H. H. Kung, the Minister of Finance, is particularly interested in the creation and maintenance of county banks.

The new regulations covering the operations of commercial banks consist largely of measures designed to limit the flow of capital into speculative activities and to divert it toward the financing of productive enterprise and the distribution of commodities. If this were accomplished, some of the burden now resting upon the Government banks would be removed and the creation of new money could be curtailed. Production would thus be increased further restricting inflationary tendencies. In as much as the Government is unable and perhaps to some extent unwilling to reduce its present level of expenditures, the increase of production and the diversion of money into productive rather than speculative purposes would appear to be the only method open for combatting inflation.

At present there appears to be in the Government a strong desire to strengthen the reserve position of the commercial banks which finds expression in certain of the new regulations. Though the aim in itself is praiseworthy, there may be a certain overemphasis on this aspect of the banking problem at a time when the entire monetary system is in danger. The new regulations which are discussed in detail in enclosure no. 3 of this despatch consist, briefly, of the enforcement of a previously existing rule that all commercial banks must place 20% of their deposits of whatever nature with one of the four Government banks; that commercial banks must henceforth loan only to productive enterprises or to other strictly legitimate business enterprises - this requirement to be enforced by periodic examination of the accounts of banks, of their godowns and of the books of firms to which bank loans are made, as well as by a requirement that, in general, loans be made only to bona fide members of merchant guilds which are responsible to the Government for the character of their membership. The regulations further provide that abuses such as the creation of dummy cash shops, the use of bank money by employees for ostensibly private loans, must cease, and that direct investment by banks in business enterprises must be limited in amount. Provision is also made for the limitation in time and amount of loans upon warehouse receipts as well as upon the extension of unsecured loans, both of which have frequently been used for speculative purposes. A prohibition has been placed on the creation of new banks, a unified bank accounting system to facilitate investigation of the banks is shortly to be introduced and a limitation on bank dividends and bonuses to employees of banks is being instituted.

There is no doubt that through the use of the economic police and of the local authorities the new regulations can be enforced in those parts of China where the Central Government is in full control. It is doubtful whether any effective control will be exercised over the two major commercial banks in Yunnan, in view of their close political connections with the semi-autonomous provincial government. There is some doubt whether the regulations will actually have the effect of diverting capital into the desired channels, especially as there is already some evidence that the commercial banks are limiting their loans to productive enterprise. There is the further danger that if the regulations are too strictly enforced, private money will be driven out of the commercial banks into private hoarding and speculation. Furthermore, there remains the possibility that the Government banks may merely absorb the business which the commercial banks are forced to give up. As will be noted from enclosure no. 1, Mr. Adler of the Stabilization Board is of the opinion that the new regulations are significant as one more step in the process of reducing the commercial banks to nullities. A recent proposal made by quarters close to the Generalissimo through the Joint Head Office that foreign exchange transactions be limited to the Bank of China and the Central Bank of China would appear to confirm the existence of this tendency.

Even the officials of the Ministry of Finance do not appear to be very hopeful of the results of the new regulations, considering them merely as a step in the right direction rather than any major cure for the existing situation.

The various measures against inflation which have been taken, such as the sale of U. S. dollar-backed savings certificates have had disappointing results - only CN$16,000,000 worth of savings certificates have been sold to date. The U. S. dollar-backed savings bonds which have just been issued will probably prove to be no more successful. The difficulty in the sale of the savings certificates lies in the suspicion on the part of the prospective purchasers that the bonds will not actually be redeemed in U. S. dollars, and in the fact that no incentive to buy at an early date was offered. The deficit of the Government in the last year amounted to $8,070,000,000 Chinese dollars. The estimated expenditures for the year 1942 are CN$16,500,000,000 but it is confidently expected that they will reach CN$20,000,000,000, as against an estimated revenue of CN$5,089,000,000 which is extremely optimistic and will undoubtedly not be fulfilled. Notes in circulation are at present increasing at the rate of 4 or 5% per month and the wholesale price index rose 18% in the month of February and 12% in the month of March, a total of 30% in two months. It is therefore obvious that drastic measures against inflation are needed. Dr. Y. C. Koo has, in fact, admitted privately that the situation is desperate. The continuance of inflation at the present level may well lead to the breakdown of fiscal unity in China and the reversion to a system of provincial currencies with disastrous effects upon the national unity of China. There is already some indication of a tendency to make use of a non-monetary system such as the increasing reliance by the Government upon the collection of taxes in kind and the institution of the sale of such necessities as charcoal, salt and cloth at drastically reduced prices to Government employees in order to compensate for the fact that their salaries have not risen and cannot be raised as quickly as the price level rises. A partial solution of the problem of inflation might lie in the drastic taxation of those most able to pay, namely speculators, hoarders and landlords, together with measures to compel these classes to buy Government bonds and savings certificates in large amounts. Such measures might have the effect of forcing these classes to disgorge hoarded goods. It is noted, however, that hoarding of foodstuffs is already legally punishable by death, but that the Government nonetheless prefers to adopt indirect means to discourage hoarding, such as the banking regulations, rather than to enforce this and similar laws. It is, on the whole, doubtful that the Government, which is itself closely allied to banking and land-holding interests, will undertake to place sufficiently severe pressure upon those elements to induce any marked release of commodities and diversion of capital to the uses of the Government.

Respectfully yours,

C. E. GAUSS

Enclosures:
1/, 2/, and 3/ as stated
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Enclosure no. 1 to despatch no. 397, dated May 5, 1942, from the Embassy at Chungking.

MEMORANDUM FOR THE AMBASSADOR

April 10, 1942

Subject: Recent Restrictions Imposed on Commercial Banks.

I called on Mr. Adler this afternoon to discuss with him the recent regulations imposed upon the operations of commercial banks. Mr. Adler feels that the regulations are chiefly significant in relation to the existing tendency to restrict the operations of all commercial banks in favor of the four Government banks. Mr. Adler further cited in this connection a proposal supposedly originating with the Generalissimo that trading in foreign exchange be limited to the Central Bank of China and the Bank of China. He said that the economic significance of the new control upon commercial banks would depend largely upon whether the Government banks would be subjected to similar restrictions in the making of loans. He said he believed that the machinery necessary to carry out the program of control existed but that its effectiveness would vary greatly with the localities affected. It is doubtful whether the restrictions can be made to apply fully to Yunnan where the two chief banks are closely associated, through their heads, with the local government. These banks have been deeply involved in speculation and hoarding. The question of the control of loans being applied to the Government banks is of particular importance since these banks, and especially the Bank of China, have been heavily involved in transactions similar to those of the commercial banks.

Mr. Adler, in commenting upon Dr. Y. C. Koo's interview with the press, said that the restriction upon the formation of new banks was designed to prevent the founding of banks designed solely to engage in speculative activities. The periodic examination of bank accounts and bank godowns is directed toward checking the extension of loans such as "pichi" loans for purely speculative purposes. The ruling that all commercial banks must keep twenty percent of their deposits with one of the Government banks will naturally restrict their freedom to loan and the restriction upon the purposes for which loans will be made will further limit the possibility of extending loans directly or indirectly to cash shops, etc., which use the money thus acquired only for speculative purposes. As far as the commercial banks are concerned, the new regulations, if enforced, would result in the complete elimination of loans to "pichi" shops.

Boies C. Hart, Jr.

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Enclosure no. 2 to despatch no. 397, dated May 5, 1942, from the Embassy at Chungking.

MEMORANDUM FOR THE AMBASSADOR

April 24, 1942

Subject: Recent Restrictions Imposed on Commercial Banks.

Present: Dr. Y. C. Koo, Vice Minister of Finance
Mr. Vincent
Mr. Hart

Mr. Vincent and I called yesterday upon Y. C. Koo, Vice Minister of Finance, to discuss regulations recently imposed upon commercial banks.

Dr. Koo explained that in general an effort was being made to rationalize the Chinese banking system and to allot a proper role to each component part. The system, as it now stands, is composed of the privately owned commercial banks, the provincial banks and the four Government banks. In addition to these there are the county banks, institutions organized by local interests to finance local operations. Outside the banking system proper are the cash or "pichi" shops. Dr. Koo explained that the provincial banks cater in part to the financial needs of the provincial governments and at the same time do a profitable business in exchange arbitrage between Chungking and the various provincial centers. Dr. Koo said that the endeavor now is to demarcate the fields of action of each of the four government banks and implied that one of the purposes of the recent regulations on commercial banks is to induce them to play their normal part in the financing of legitimate business enterprise.

Among other things, Dr. Koo stated that the deposits of the commercial banks were very small as compared with those of the government banks - he mentioned that the deposits of the Farmers Bank in Chungking alone amounted to five or six times those of all of the commercial banks in Chungking.

The purpose of the new regulations, according to Dr. Koo, is primarily to restrict hoarding and speculation in commodities through the restriction of credit to speculators and hoarders and secondarily to divert some portion of the existing liquid private capital into the financing of productive enterprises. Dr. Koo stated that there is no desire to have the government banks take over the business of the private banks; that the private banks have a distinct part to play which, however, they have not carried out. He stated that the greater part of the financing of productive enterprise is now done by government banks. Dr. Koo implied that the larger portion of the operations of the commercial banks was directed toward the financing of speculation and at the same time expressed concern over the probable results to such banks of an abrupt fall in the price level which would result from the defeat of Japan and the opening up of China to normal foreign commerce. It would appear that some effort is being made to encourage the commercial banks to diversity their portfolios through investment in productive enterprises in order partially to obviate this danger.

Dr. Koo emphasized that there was no desire to restrict loans to productive enterprises but said that it is not yet possible to "ration" the loans made by commercial banks. (Mr. Adler, on Tuesday, told me that he had been informed that a restriction on loans to productive enterprises is actually taking place; this probably may be attributed to the fact that the banks prefer to restrict such loans, as being less profitable, rather than the more profitable loans made for speculative purposes).

Dr. Koo pointed out that the regulations upon commercial banks cannot be made so stringent as to drive depositors away from the banks into private hoarding or the placing of their money in the "pichi" market.

Dr. Koo discussed at some length the means by which it was hoped to achieve restriction of credit for speculative purposes. The creation of new banks, with the exception of county banks, and banks founded with overseas capital has been stopped. Dr. Koo stated that some thirty-five new banks have been founded in unoccupied China in the past year, mostly with the purpose of financing speculative activities. Unsecured loans have been drastically limited. Loans against warehouse receipts have been limited to three months' maturity with only one renewal. The Ministry of Finance and the local authorities have been auditing the accounts of commercial banks and with the assistance of the economic police have been examining the godowns of persons and companies to which the banks have made loans in order to ascertain whether the loans have been made to finance genuine commercial enterprises. Loans in general are being restricted to bona fide members of merchant guilds, membership in which would tend to confirm that the company or individual concerned is engaged in actual commerce and has been so engaged over a period of time. The guilds are responsible to the government for the character of their membership. The Ministry of Finance is inspecting the books of commercial firms and apparently adopting the system of having each page "chopped" by government inspectors. The Government is endeavoring to halt the practice engaged in by some private banks of making loans to enterprises owned by their directors on little or no security.

The question of the "pichi" shops and the interest rates charged by them, now amounting to between thirty and forty percent per annum, was also discussed with Dr. Koo who did not appear very hopeful of exercising effective control over them. Though the effect of the recently imposed restrictions should be such as to restrict loans by commercial banks to the "pichi" shops, nonetheless, Dr. Koo seemed to imply that if the commercial banks were to keep their depositors, they would have to continue to loan money at the high rates paid by the "pichi" shops, as deposits made by private individuals are on a time basis and at an extremely high rate of interest. Dr. Koo mentioned that an attempt had been made to set up a clearing house for the "pichi" shops in the Central Bank, an attempt which, however, failed owing to the unwillingness of the shops to deposit a portion of their capital with the Central Bank, as would have been required under the clearing house scheme.

Dr. Koo explained that in addition to their speculative activities, the "pichi" shops played a real role in the financing of salt and sugar merchants - a variety of financing which the government banks are unwilling to undertake.

Dr. Koo stated that the Government banks would adhere to the regulations imposed upon the commercial banks. (Dr. Koo, in addition to being Vice Minister of Finance, is manager of the Farmers Bank).

Boies C. Hart, Jr.

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Enclosure no. 3 to despatch no. 397 dated May 5, 1942
from American Embassy at Chungking.

THE PRESENT PROBLEM OF BANK CONTROL

A lecture delivered by Mr. Tai Ming-li, Director of Monetary Department of the Ministry of Finance, on April 22, 1942 at the New Life Center, Chungking, under the auspices of the Economic Research Division of the Central Bank of China

As banks are credit institutions, banking business whether sound or not is closely related to social, economic, industrial and commercial enterprises. It is for this reason that though the operation of banks by private individuals is permitted they are generally brought under the control and supervision of the government and no bank can be permitted to open without specific permission from the government.

Since the establishment of the National Government, attention has been given to the problem of bank control. As early as January 12, 1929, the Ministry of Finance promulgated the "Regulation governing Registration of Banks". On April 20th of the same year, "Rules pertaining to the Enforcement of the Regulation" was issued by the Ministry. It is provided that before the opening of any bank, a plan for organisation must be first drawn up and submitted to the Ministry for registration. Only when the plan and the capital of that proposed bank are in accordance with the government provisions is it allowed to open for business.

On March 28, 1931, the National Government promulgated the "Bank Law" containing 51 articles. It is very comprehensive in content for it has provisions regarding the opening of banks, scope of business, amount of capital, and prohibition of unhealthy investment. But in view of several special factors found in this country such as the vastness of the country, diversity of conditions with regard to currency in different places, the comparative complexity of financial organisations and the difficulty, as a consequence, of enforcement of unified regulations, there has not yet been fixed any date for enforcement of the above-mentioned law. As a matter of fact, however, the Ministry of Finance in guiding its policy of bank control has based its policy on the provisions of the law.

Since the outbreak of the war of resistance, social and economic structures have undergone radical changes. As currency is the motive power for economic behavior and banks are centers for capital circulation, it is appropriate during war time that the Government utilize the banking framework to concentrate capital and utilize it for the simultaneous needs of war and reconstruction. At the very beginning

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of the war, the Ministry of Finance, with such purpose in mind, ordered the Central Bank, the Bank of China, the Bank of Communications and the Farmers' Bank to organise a joint office for facilitating the concentration of the capital power of the government and the enforcement of the governmental policy regarding currency. The government at same time gave generous relief and assistance to legal business and currency enterprises should such be needed. Provincial and local banks, in addition, strengthened their organisation and business with the help of the Government, and were asked to be responsible for developing local productive enterprises and counteracting the enemy's measures of economic aggression. On two occasions the Ministry of Finance called conferences for the discussion of local currency problems, one in June 1938 and the other in March 1939. Many resolutions were passed by these conferences and every one of them was acted upon under the supervision of the Ministry of Finance.

For the same purpose of exercising stricter control over banking business, the Second Local Currency Conference drafted regulations governing officers in charge of provincial banks, which consisted of 12 articles and were made effective as of May 25, 1939. Accordingly, such officers were despatched to provinces of Fukien, Chekiang, Anhwei, Hunan, Shensi, Kiangsi, Kwangtung and Hupeh. At the same time the business policies of commercial banks were placed under the Ministry of Finance for constant supervision by means of government orders from time to time.

It was not until August of 1940, however, that all the pertinent laws and regulations on the subject hitherto enforced were amalgamated into one body called "Provisional Measures regarding Control of Banks during the Period of Emergency" which were promulgated and enforced. In order to make the law more comprehensive and more in accordance with the government policy, the said measures were in several places revised in December, 1941. There were five principal points which were brought for revision:

(1) <u>Concentration of deposit reserve</u>

All countries having a strongly organized banking system require the deposit reserves of all banks to be placed with the Central Bank. This increases the strength of the central bank so that it is able more effectively to control the financial market, undertake bank clearings, and in times of financial crisis act as a stabilizing force of last resort. In time of war concentration of reserves has the additional function of setting a limit to issuance of loans and reducing the capacity of credit manipulation by banks in general thereby indirectly helping to stabilise commodity prices. When the Fapi policy was adopted in China, the Government intended to reorganise the Central Bank immediately into a Federal Reserve Bank so as to take charge of all legal reserves of the country and fulfil the duty of serving as the "bank of banks". However, when the draft federal reserve law was about to be put into effect, the

July 7th

July 7th incident broke out. For the purpose of consolidating the national banks and increasing their efficiency to meet the greater demand in time of emergency, the Government dropped the original plan of reorganisation, but, instead it created separately a joint head office for the four national banks as the nucleus of national currency for the entire country. At same time different branch offices were established in all important cities as veins of circulation in the system and agencies of enforcement of the government policy.

But in the case of commercial banks and local banks where capital is scattered there is consequently the possibility of credit expansion without control. With the view to control such credit expansion, to protect the interest of depositors and to establish by degree a system of centralisation, there has been provided in the control law that banks in absorbing deposits must have 20% of the total deposits as reserve fund which should be turned over to one of the 4 national banks for deposit with adequate yield of interest. This sort of system has long been the practice in other countries, but it has not been tried in China. In order to make the system simple and workable at the initial stage of enforcement, there is no distinction, so far as required reserve is concerned, between fixed and current deposits, the rate of 20% being uniform. However, when the system has been put into operation, separate regulations regarding fixed and current deposits will be made.

(2) <u>Guidance given to banking business</u>

Since the outbreak of the Sino-Japanese War, owing to difficulty of transportation, a state of abnormalcy exists with regard to distribution and sale of products. Furthermore, because of difficulttransportation, freight is very expensive and commodity prices in free China are stimulated to rise. It is therefore necessary to increase the supply of products on one hand and to absorb idle capital on the other so as to offset the quantity of legal tender in circulation and help stabilise commodity prices. Banks are the principal institutions for circulation of capital. But if they use this capital to assist hoarding and manipulation they should naturally be restrained. If, on the contrary, banks use their capital to develop production, to facilitate the movement of goods into the interior from the coast or other scattered places by means of loans on security basis, they are filling their rightful present function. Thus, in the measures for controlling banks, there is provision regarding the principle that banks are required to make use of their capital for productive and constructive enterprises and for increasing commodity supply all in strict accordance with the wartime currency policy of the government. This principle is to serve as a guidance to all banking business in China and as a way to lead the capital at large into a right channel.

(3) <u>Suppression of unlawful business</u>

Fluctuation of commodity prices in wartime is unavoidable. But if banks are found to engage, by using their capital secured through high

interest,

interest, in hoarding or establish a unit under a camouflaged name for going into business themselves or transact business on behalf of customers, they are engaging in unlawful activities, for these activities directly represent a case of plundering on productive capital and accelerating price rises. If bank employees are found to use the bank money for entering into business, it is a same case of unlawful business and should likewise be strictly forbidden by the government. Even when banks issue loans on goods as security, it should be a question whether the loans cover a too long term or the amount in question to one customer is altogether too big, for long-term and large loans generally stimulate hoarding activities and should therefore be brought under control. With that object in mind the government provides in the bank control law, specifically in Articles 5, 7, 12 and 13 of the law, that banks are neither allowed to enter into business or to hoard goods nor allowed to set up an agency or trade department or trust department or any store for going into business for themselves or on customers' behalf. Employees of government or private or semi-independent banks are all to be regarded as public functionaries and as such they are not entitled to enter into business. If bank employees make profits in business by use of bank money, they commit an act of illegal acquisition punishable by law. In issuing loans to merchants on security basis banks must see to it that the said merchants are bona fide merchants and members of the guild of the trade concerned, and that the term of the loan must not be longer than three months and that the amount of each loan must not exceed 5% of the total sum of all the loans issued by the bank. All these provisions, in a word, are meant for suppression of illegal activities and promotion of proper and legitimate business functions of the banks.

(4) <u>Limitation on opening of new banks</u>

Banks as interpreted in the government regulation include all those companies, stores or native banks whose business deals with deposits, loans, drafts, remittance, morgages, etc. In time of peace these monetary institutions are allowed to open without much limitation. But in time of war, this should not be the case. When business profits are usually very high in wartime, more and more new banks are established, and thus credit expansion is the result accelerating business prosperity and stimulating commodity prices. Furthermore, in this country, although such institutions do not all assume the name of banks, they do banking business just the same. Accordingly the government set down specific provisions in the control law to limit the opening of new banks for the sake of checking credit inflation and of controlling the sources of commercial capital. With the exceptions of Hsien banks which as a part of the new Hsien government system are laying a sound financial foundation for local autonomy, and banks sponsored by returning overseas Chinese in accordance with the government policy of utilizing overseas Chinese capital for national development, the government has recently refused to permit the opening of any other banks, a policy definitely sound under the present circumstance.

(5) <u>Enforcement of inspection and examination</u>

After the revision and promulgation of the bank control regulation, the Ministry of Finance immediately despatched officers to all the banks in Chungking for inspection and examination, in accordance with the provision of the regulation. As a result of this investigation, those banks found flagrantly violating the government regulations have been ordered to suspend business and await punishment; those whose business is not satisfactory have been given specific instructions for improvement. It is to be regretted that a few firms and companies were found to have been given huge bank loans with which they are doing a prosperous business. These suspicious cases are now under close investigation by the Ministry in conjunction with officers from Ministry of Economic Affairs and the Bureau of Social Affairs of the Chungking Municipality. At the same time, the Ministry of Finance has installed a special office of examination which will have the routine duty to inspect and examine banks. In addition, the Ministry has held different branches of the Joint Head Office of the Four National Banks or the local offices of the 4 banks to be responsible for the enforcement of inspection and examination of all banking institutions located in cities like Chengtu, Kunming, Kweiyang, Kweilin, Lanchow, Hengyang, Wanhsien, Neikiang, Tsekung, Loshan, Iping, Luhsien and Kiangtsin. Various inspection reports have already been turned in to the Ministry for consideration. Hereafter the Government will continue to adhere to this policy of inspection and examination in order to carry out the intent of the regulations.

The above-mentioned five points can be well summarised in one statement, that is, the idea is to amass all the capital at large through the banking structures and to freely utilise it for the increase of supply of goods. The methods for increasing the supply of commodities are none other than (1) the promotion of production and manufacture at home; and (2) speedy transhipment of imported goods for distribution and sale in the rear. All investments, deposits and mortgage transactions with an intent in harmony with the above-mentioned principle should be given protection and assistance by the government. All other business propositions contrary to this principle should be considered as unlawful and therefore be strictly suppressed. This is the foremost criterion in guiding the government policy with regard to control of banks.

However, after considering the reports sent by various officers who have made inspection and examination of banks, it has been found indispensable to draw up supplementary regulations and rules besides the existing one so as to ensure a better working of the system of bank control. By separate orders the Ministry of Finance have issued several of such supplementary rules. There are five of these which are now already in force, i. e.:

(1) Measures regarding control of credit loans issued by banks:

In the "Provisional Measures regarding Control of Banks during the Period of Emergency", there is no specific provision regarding matters such as secured and unsecured loans. According to custom, when a new bank applies for registration it usually submits its organisation regulations in which there must be one article definitely declaring that "it is not allowed to handle unsecured loans with no security at all". Now in the aforesaid Measures, specifically in paragraph One of Article I, it provides that all banks must observe all their respective regulations and the related banking laws and ordinances in their business operation. Thus strictly speaking, all banks are basically not allowed to handle unsecured loans. But as a matter of fact, it has been a long tradition and custom for banks in this country to issue such loans. Historically Chinese business transactions usually depended on a workable credit system. There has not yet developed a system of negotiable instruments as found in most of the advanced countries of the world. Should business in China be entirely based on secured loans, there would be a loss of the movability of goods. Thus the adoption of the form of unsecured loans is only natural and can be easily accounted for. If unsecured loans should be entirely prohibited, there must be enforced in their place a modern system of commercial papers. While at present the new system is being gradually introduced and enforced, it is necessary to devise some ways as supplemental measures to effect a limitation on the practice of unsecured loans. But as unsecured loans entirely depend upon the credit of the debitor it is very difficult to discover the uses of such loans whether they are proper or not. Furthermore, when a bank issues too large a number of loans of that type, it becomes difficult for it to maintain the stability of its business. In view of these considerations, it has been found necessary to make additional provisions such as the following:

(a) Banks are allowed to make unsecured loans to individuals up to a limit of $2,000 only, as that amount is considered to be reasonable for an individual's living expenses.

(b) When an unsecured loan involving more than $5,000 is given to industrial and commercial interests, it is required that the latter must be able (1) to produce a member ship certificate of a guild to prove that it has joined the guild of the trade concerned, (2) to secure two or more registered and trustworthy factory owners or merchants to give a joint guarantee to the effect that the loan in question be returned at the time prescribed, and (3) to vouch for the fact that the loan in question is to be used only either for increasing production or for purchasing necessities for distribution and sale. The time prescribed for such loans must not be over three months and the amount allowed in each case must not exceed 5% of the total sum of the loans of the bank. The total amount allowed to such customers should not exceed 50% of the total sum of the loans of the bank.

(c) These loans may be extended but extension of three months only is allowed after the necessity of extension is investigated.

(d) If the party undertaking an unsecured loan happens to be a store selling government monopolies or an enterprise commissioned by national defense or economic office of the government or a producer of daily necessities, and the status of the said party can be vouched by its superior government organisation, and the loan is duly sanctioned by the Ministry of Finance, such case does not come under the limitation regarding amount and extension mentioned above.

(e) Loans may take the form of accepting on the part of the banks negotiable instruments for collection or that of accepting time drafts before maturity. Such cases do not come under the limitation that the total sum of credit loans should not exceed 50%, but under the limitation that each customer should not exceed 10% of the total loans.

(f) In issuing unsecured loans banks should ask the borrowing party to submit at time of application a statement of uses and a memorandum on the general condition of business for occasional reference and examination.

(g) Banks found violating these provisions should be fined to the amount of 50% of the total business.

These supplementary rules are all designed for meeting the practical situation as well as for checking possibilities of corruption, and the sole object is that the money so loaned out by banks be used only for the purpose of supplying the needs of the rear China in the way of daily necessities.

(2) Measures Governing Investment by Banks:

According to the provisions contained in the "Provisional Measures regarding Control of Banks during the Period of Emergency", utilisation of capital by banks should be governed by the principle of investment in productive enterprises, and such investment should take the form of loans. But the investigation shows that not a few banks directly engage in productive enterprises. In point of principle, it is of paramount importance that the funds of commercial banks be kept fluid. If a bank participates in any factory by holding shares, then the capital in this case becomes stagnant, and the bank becomes shaky in case of panic. To put the banking business on a safe and sound basis, the Government naturally must stop banks investing in business. But again, in view of the fact that all productive interests of the country at present are still in dire need of financial assistance from banks and the capital market is not yet fully developed, it seems also necessary to allow a part of the banking capital to directly participate in productive enterprises. It is now ordered by the Ministry of Finance that when any bank invests in a productive or constructive enterprise, thereby becoming a shareholder in the stores or factories of such business, it must, as prescribed by Article 11 of the Company Law, not be a shareholder of unlimited liability, and its total limited liability as a shareholder must not exceed one-fourth of its total paid-up capital. Besides, the bank in question must petition the Ministry of Finance for approval before the purchase of such shares is allowed. As to banks which have already in the past taken part in productive enterprises before the promulgation of these measures, these banks are now required to submit their cases together with relevant facts to the Ministry for sanction in order to complete the prescribed procedure.

(3) Limitation on distribution of banking profits:

The regulation of the distribution of banking profits and the creation of a special reserve for banks operate directly to solidify the foundation of the banking business and indirectly to relieve the unevenness of distribution of wealth. During the present war of resistance, these operate to limit private purchasing power. The Ministry of Finance has therefore made the following five regulations:

(a) Interest and dividend payable to shareholders of banks should not exceed 2% of the actual paid up capital.

(b) Bonus payable to directors and trustees should not exceed one-third of their annual salaries.

(c) Bonus payable to officers and employees should not exceed the total sum of their 4 months' salaries.

(d) The balance of the profit should be allotted as surplus reserve.

(e) The surplus reserve referred to above should be entirely turned over to the Board of Directors at the end of each fiscal year as a separate allotment for custody and can not be expended arbitrarily.

(4) Creation of Supervising Officers

Control of banks should be applied throughout the country. In view of the vastness of the country, the great number of banking institutions and the complexity of their classes as well as the diversity of economic conditions at different places, a system of supervision and control by districts becomes necessary for auditing and examination. The Ministry of Finance has therefore decided to install offices of supervising officers. The general plan provides that supervising officers be stationed in important cities outside Chungking who will be responsible for local auditing and examination. Detailed provisions have all been formulated regarding their functions, duties, transfers and efficiency ratings.

(5) Unification of Banking Accounting System

In the past banks in China adopted different accounting systems. It was comparatively difficult to examine their books. These banks generally had all kinds of means to evade the restrictions of the government regulations. It is now indispensable to devise a unified system for all accounting subjects and for uniform application by all banks. This is now being drafted by the Joint Head Office of the Four National Banks and will be soon ready for enforcement.

In summarizing the above survey, the government policy for the control of banks may be stated in two phases. First, control is directed toward a proper development of the banking business and toward suppression of unlawful activities undertaken by banks. Secondly, the government gives protection and assistance to banks doing legitimate business with a view to increasing the supply of commodities by utilizing the banking capital and to meeting the economic demands of wartime; and, for the future, it is for laying a good foundation for commercial banks in order that they may share the responsibility of economic reconstruction in the postwar period.

Besides, the government is now attempting to strengthen the Central Bank of China so as to enable it to fulfill its function as "a bank of banks" and to enable it to control other banks, including the national banks, as the Bank of China, Bank of Communications and the Farmers Bank of China. These three national banks should be guided by their organic regulations in making parallel progress in the performance of their duties: assisting the Central Bank of China in the role of leadership among the banks and assisting in the development of agriculture, mining, industry and commerce, thereby perfecting the entire financial system of the country. This is particularly a foremost task of the moment.

Copy:imc:bj:lc:6/10/42

Treasury Department 102
Division of Monetary Research

Date May 7 19 42

To: Miss Chauncey

From: Mr. White

For the Secretary's File.

Does not need to be called to his attention now.

MR. WHITE
Branch 2058 - Room 214½

May 5, 1942

To: Mr. Livesey

From: Mr. White

Will you please send the following cable to Ecuador:

To the Minister of Finance from the Secretary of the Treasury:

Will you please inform me whether press reports are true that a substantial change was made in the United States dollar-Ecuadoran sucre rate of exchange on April 29. In view of the provision in Paragraph 10 of the Stabilization Agreement of March 1, 1942, we are naturally interested in this matter.

FAS:esh:dm - 5/5/42 - 2

TELEGRAM SENT

LM [redacted]

May 5, 1942

10 p.m.

AMEMBASSY

QUITO (ECUADOR)

298

For the Minister of Finance from the Secretary of the Treasury.

QUOTE. Will you please inform me whether press reports are true that a substantial change was made in the United States dollar-Ecuadoran sucre rate of exchange on April 29. In view of the provision in Paragraph 10 of the Stabilization Agreement of March 1, 1942, we are naturally interested in this matter. END QUOTE.

HULL
(FL)

FD:FL:BMcB EO RA A-B

Cable sent to Casady 5/5/42 thanking him for his cable on War Savings Bonds. 105
(See attached cable)
Descriptive literature sent on 5/11/42
(see attached letter)

Mr. White reported at Group Meeting on 5/8 that he will send Mr. Hoflich to Canada.

All requests have been taken care of in this memo.

May 5, 1942.

Harry White

Secretary Morgenthau

Please send a telegram to Matthews in London telling him how pleased I am with his cable on the War Savings Bonds. Also, get him a collection of posters, and what not, that we have. I would send him half a dozen sets of each. I'd get them off right away. This thing with Matthews seems to be working out so well, I wish you would recommend somebody to go to Canada and make a similar study. I'd like this to be done at once.

May 5, 1942

Mr. Livesey

Mr. Hawkey

Will you please send the attached cable to the American Embassy, London, "for Casaday from the Secretary of the Treasury".

RH:bj:5-5-42

TO: L. W. Casaday
American Embassy
London, England

FROM: The Secretary of the Treasury

The Secretary wants you to know that he is greatly pleased with your first cable report on the British voluntary savings campaign. This is the type of information in which he is interested. We are sending you descriptive material on the United States savings campaign for your information and for submission to the appropriate persons.

TELEGRAM SENT

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

May 5, 1942

4 p.m.

AMEMBASSY

LONDON (ENGLAND).

1952

For Cassaday from the Secretary of the Treasury.

QUOTE. The Secretary wants you to know that he is greatly pleased with your first cable report on the British voluntary savings campaign. This is the type of information in which he is interested. We are sending you descriptive material on the United States savings campaign for your information and for submission to the appropriate persons. END QUOTE.

HULL
(FL)

FD:FL:McB

MAY 1 1942

Dear Casaday:

This is in answer to your cable No. 2297 of April 30, 1942.

Savings stamps are issued by the Postal Savings System and are redeemable in cash or accepted in payment for War Savings Bonds at any time at United States Post Offices. They are also accepted by the Treasury Department in exchange for War Savings Bonds. All of the publicity on the sale of the stamps revolves around the idea of their accumulation and exchange for bonds.

All War Savings Bonds are registered and non-transferable. This is a definite Treasury policy on these securities. It is inevitable, as suggested by the question in your cable, that this will result in a very large register. It is already quite sizable. About 2,100 people in the Bureau of the Public Debt (approximately one-half of the Bureau's Washington employees) in Washington alone are working on Savings Bond activities. There is in addition a large force in the field, composed of the Federal Reserve Banks, post offices, commercial banks and other qualified issuing agencies. Of these 2,100 employees, approximately 1,000 are occupied with Savings Bond registration. This force is expected to increase rapidly, as the volume of registration work increases in direct ratio to sales. The volume of sales by months is found in the Bulletin of the Treasury Department which is sent to you each month.

I am enclosing six sets of descriptive material and other literature on our savings campaign, for your information and for others who may be interested.

Your first cable on the British savings campaign pleased the Secretary greatly, and I am sure that this and your subsequent reports will prove most helpful in planning an intensification of the savings campaign in this country.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Assistant to the Secretary.

Mr. L. W. Casaday,
Attache for the Treasury,
United States Embassy,
London, England.

Enclosures

HJH:gp 5/8/42

Circulars

"An opportunity to save for your future and serve your country too" (428410)	6
"It is later than you think" (DSS-149)	6
"Enlist your current savings to help win this war" (DSS-253)	6
"For defense buy U. S. Savings Bonds" (16-21579)	6
"Questions and answers about Defense Savings Bonds and Stamps" (16-24385-1)	6
10-cent defense stamp album	6
"For us in Government service" (DSS-114)	6
"This company will gladly purchase Defense Savings Stamps for all our employees --- "	6
"Defense savings for American farmers"	6
"For National Defense"	6
"How you can buy a share in America"	6
"Tax Savings Notes"	6
"How you can help"	6
"The Fight Against Inflation"	6
"How Your Money is Being spent for the Defense of America"	6
"Our America"	6
"Mrs. Brown Buys a Bond"	6
"Handbook for Canvassers"	6
"Payroll Allotment Plan"	6

Posters

Hotel posters	6
R. R. posters	6
Airplane posters	6
Worker posters	6

Retail store display material — 6

Envelope containing:

2 Posters "Save for security" (1 large, 1 small)

1 Poster "Buy Defense Savings Stamps Here"

1 letter to store management.

Form DSS-323 "Keep it Up" — 1

Department Circulars

Newspaper Advertisements

Campaign No. 4 Ad. No. 3 (size 5 col. x 195 lines) (This Anti-Aircraft Gun Costs $50,000)	6
Campaign No. 4 Ad. No. 2 (full page) "One Extra Plane"	6
DSS-185 "Grodowski is my name"	6
DSS-186 "The guys who don't say much"	6
Campaign No. 1 Ad. No. 2 "War Message Series"	6

115

Treasury Department
Division of Monetary Research

Date May 5, 1942

To: Secretary Morgenthau

From: Mr. Kamarck

The attached report gives the best inside story on what happened in the Far Eastern campaigns that I have seen yet. If you have the time, I believe you will find it of considerable interest.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Report on the Malayan, Java and Burmese Campaigns by Colonel Brink, U.S. Army General Staff.

(This is the summary of a verbal report made by Colonel Brink to the Combined Chiefs of Staff Secretariat, April 30, 1942.

Colonel Brink was attached to the Singapore command for a number of months before the outbreak of the Japanese War. He participated actively in the Malayan campaign until the fall of Singapore, and then went to Java as a member of General Wavell's staff. When Java was lost, he went to Burma and visited the Allied Armies in the field. He has just returned to Washington.)

Conclusions

The Allied defeats in the Far East were due to the following factors:

1. "Slaves do not fight well." The Indians in Malaya, the Indonesians in Java did a poor job. The Burmese division raised by the British, refused to fight the Japanese and a large number went over to fight on the side of the Japanese as a Free Burmese Army. The Chinese and Filipinos fight well because they are fighting for their own independence.

2. Military preparations were inadequate.

3. The usual difficulties of waging a war of allies were experienced: lack of unified control, lack of confidence in one another, action through long inconclusive conferences, and continual delays.

4. The British civil government in Malaya and Burma, rather than helping, hindered the army.

Malaya

Plans for the defense of Malaya had been worked out months ahead of time. It was planned to take the offensive immediately on the outbreak of war and to seize the airfield at Singora, just across the border in Thailand. This would eliminate the only airfield available to support Japanese landings. Then the army, air force and submarines, in cooperation, would fend off any attempts at Japanese landings on the Malayan coast. In this way, the back door of Singapore would be safeguarded, while the naval guns at Singapore would keep off Japanese naval forces. There is no doubt that the plan was well worked-out and the only one possible in view of the forces available.

The garrison provided was totally inadequate. Brooke-Popham, the British commander-in-chief, asked for at least six divisions and five hundred planes. He was given three weak divisions (two Indian and one Australian) and two hundred second-line or third-line planes. The fighters provided were practically all American Brewster Buffalo fighters which are little better than "Sears-Roebuck planes." Except for a few Blenheim bombers, the other planes were all obsolete. They were so old that some of the R.A.F. personnel who came from England to fly them, had never before seen similar planes.

The naval base itself was not as well defended as people were made to believe. There were no 18-inch guns at Singapore. There were only five 15-inch guns.

The civil government did not give Brooke-Popham any substantial cooperation. The government did not want to spend any money on defense. The air-raid warning system they provided on request was very poor. Two months before the Japanese attack, the army tried out the warning system by sending some Blenheim bombers down the peninsula. All their fighters were caught on the ground. After that, the army had to divert some of its own badly needed personnel for this purpose. At the same time, some detectors were sent out from England. As a result, the Japanese were not able to catch the British planes on the ground in the campaign, until the very last.

There was no surprise in the attack. On December 1, the headquarters at Singapore received a message from the British mission in Washington that negotiations had broken down. They were told to be on the alert for an outbreak of hostilities, but to commit no overt act.

On December 6, a patrol saw a large Japanese convoy moving westward from the tip of Indo-China. As contact was lost, it was not known whether this convoy was heading for Bangkok or Malaya.

On December 7, the Japanese came over and bombed Singapore. The city was all lit up. The master switch which was supposed to cut off all the lights, could not be operated because the man who had the only key to it could not be found. After that first night, the black-out was fairly good.

The Japanese landed in Malaya and across the border in Thailand, seizing two airfields. Almost the entire strength of the R.A.F. was thrown into action against these landings. Practically all of the Brewster Buffalo fighters were shot down in this first battle. The Japanese planes outclassed them so greatly that it is doubtful if they brought down a Japanese fighter, except perhaps by collision. As a result, the Japanese were able to make their landings good and the British plans failed. After this, the Japanese had practically complete air dominance over Malaya.

About a week before the attack, Admiral Tom Phillips arrived from England. He disregarded the well worked-out plans for air, naval and ground cooperation and sailed out with his two battleships, the "Prince of Wales" and the "Repulse", without making any attempt to get air cooperation. The Japanese torpedo bombers, therefore, were able to find and sink the ships without interference.

After the Japanese had made their landings good in northern Malaya, the British decided to fight delaying actions all the way down the peninsula. It was hoped that they would be able to hold a line eventually 30 or 40 miles north of Singapore.

The Japanese had complete air dominance throughout the campaign. It was impossible to travel up or down the main road in day-light, without being machine-gunned several times. The Japanese soldiers had been thoroughly trained for this campaign and were highly skilled in jungle fighting. They almost never made any frontal attacks. The Japanese patrols would come bicycling down the road in apparent carelessness of possible British fire. These "careless" patrols would draw the British fire and so indicate the British position. While a holding attack was going on against the advance British forces, several encircling columns would be striking out through the jungle to the rear of the British. Since the British did not want to commit themselves too heavily in battle, as they were fighting a delaying action, they were forced constantly to retreat. The British never were able to develop an adequate defense against the Japanese tactics.

The Japanese air force drove the British naval patrols off the water on the western side of the peninsula. The Japanese then were able to press into service all the boats they could find and from that time on were constantly infiltrating from the sea, back of the British troops. The British left flank, rather than resting on an obstacle, was therefore resting on a highway which could be freely travelled by Japanese troops.

One example of the effectiveness of this infiltration, was the destruction of one British brigade headquarters. Four Japanese landed at night in the rear of the British lines, clothed in sneakers and shorts, and carrying tommy guns and hand grenades. These four men went 15 miles inland through the jungle and found a British brigade headquarters, which they completely destroyed. They tommy-gunned twenty or thirty officers and completely wiped out the headquarters.

The Japanese had very good cooperation between their air and ground troops. The infantry fought its way forward from one airdrome to the other, receiving complete cooperation from their airplanes and, at times, were even instructed by air where and how to proceed. As the airdromes were captured, the Japanese planes moved forward to give support to the next operation.

The Japanese system of communications is better than the British or even the American. Every officer carries a small radio, through which he talks with his planes and with his subordinates and superiors. The Japanese had better maps of the area than the British had.

The Japanese Fifth Column operated very efficiently in Malaya. Fifth columnists kept the British airdromes under constant watch. Throughout the whole campaign, the British could hear a Japanese radio station in Singapore, in communication twenty-four hours a day with the Japanese army. In spite of an intensive search, it was never found.

The Dutch had been completely convinced of the importance of holding Singapore. Therefore, they used all their available air force and submarine force in the fighting. While the fighting was going on, an Australian division was en route from the Middle East to Australia. The Australian government refused to allow it to be used in Malaya, but brought it on home. Both Churchill and Roosevelt appealed for the use of this division and were turned down. Churchill threatened to arraign the Australian Prime Minister at the Bar for his refusal and the Australian reply was that they would always be glad to step up to the bar and have a drink with the British.

The British finally brought one British division all the way out from England, which landed in Singapore a few days before the surrender.

The Commander of the Australian division in Malaya refused to allow it to be used up-country and kept it intact until the other troops had fallen back to the vicinity of Singapore.

Toward the latter part of the campaign, the British troops had acquired a defeatist psychology. They retreated even before the Japanese made contact with them.

No final defense line was ever prepared. The civil government refused to allow the rubber trees to be cut down and it was therefore impossible to prepare fields of fire for a defense position. During the final Japanese landing, thirty or forty miles on the coast above Singapore, the last available British planes were sent out. These were 14 torpedo bombers which were so obsolete that they could barely reach ninety miles an hour. The Japanese shot down every one before they could drop a torpedo.

A few troops from the United Kingdom fought in the campaign and fought well. Out of one brigade of 900 men who started fighting, only 85 were left to retreat into Singapore. At the time of the surrender, these had been reduced to 45.

The soldiers who retreated across the causeway into Singapore could no longer be considered an army, but rather an armed mob. Losses of officers had been so great that the command organization had practically broken down. A very large proportion of the troops left were not combat units, but quarter-master corps, anti-aircraft and various headquarter troops.

The British commander, General Percival, was no better than an average British general. Several members of his staff were fairly weak too.

The Indian troops did a poor job. Except for a few Ghurkas, they did not fight well. The Sikhs and Punjabi, it had been hoped, would fight well, since they are generally regarded as among the best of the Indian troops.

After the Japanese had landed on Singapore Island, taken the water reservoir and captured the ammunition depot, there was nothing left for the British to do but surrender.

Java

The principal difficulty in defending Java was the problem of supply. To give one example, a large number of planes were destroyed by the Japanese on the ground in Java. Yet an anti-aircraft regiment had been sent to Java. The men came from England around Africa. The guns came from the Middle East and the ammunition from India. It was necessary that all three components of the organization should arrive in one port at the same time. Actually, the men and the ammunition arrived in Batavia and the guns at Surabaya. The guns, ammunition and the men were never brought together and the regiment was never used.

There were only three ports on the island to be considered: Batavia, on the northwest, Surabaya in the northeast, and a small port, Tjilatjap, on the southern side of the island.

After the Japanese took the islands of Sumatra on the west and Bali on the east, neither Batavia, nor Surabaya could be used. There remained only the small port in the south.

Supplies and reinforcements in important quantity were sent to Java. It was figured that around the first of March, 100 ships would arrive in Tjilatjap, the only port available. The facilities were so inadequate that it would take at least two momths to unload these ships. It was concluded, therefore, that the situation was impossible and that Java could not be saved. The supplies and reinforcements coming from the United States were therefore routed to Australia and the men and supplies coming from England were routed to India and Burma.

The staff that Wavell had organized in Java by American standards, was very inefficient. In addition to the usual problems of waging a war of allies: interminable conferences, a great deal of talk, and no results, the organization was inadequate. Instead of the staff being organized on the customary American General Staff divisions of personnel, intelligence, operations, and supplies, it was organized geographically. That is, he had one man who acted as G-1, 2, 3, 4, for Burma; another for the Philippines, another for the Dutch East Indies, and another one for Australia. The result was that there was no coordination of supply by any one single individual and the already great supply difficulties were made worse.

The British, in general, were very difficult people to work with, primarily because they could and would argue one day for one plan of action and the next day they would argue just as glibly for something that was completely contradictory to the day before.

The Dutch officers were very good, efficient, courageous and aggressive. Unquestionably, they were superior to any other officers in the Far East, except, of course, the Americans.

The native troops in Java who comprised the bulk of the army, did a very poor job of fighting. At the beginning, the Japanese took a few of them prisoner and gave each man 100 guilders. The news spread through the entire Dutch native army like wild-fire, and after that, the Dutch had a difficult problem in preventing their native troops from going over in large numbers.

Burma

The British civil government in Burma gave no cooperation to the military at all. The army had no power over the Burmese civil government.

The Burmese population is very hostile to the British and to any one who associates with the British. All of the natives quit work whenever the Japanese came within striking distance. This meant that all services of communication and supply were completely paralyzed. It is not safe for a British or Chinese soldier or officer to travel alone in Burma.

The British had organized a division of Burmese soldiers. This division refused to advance against the Japanese. Large numbers of them deserted and formed a Free Burmese Army which the Japanese have recognized.

The Chinese troops fight hard and work hard. They do not have the means, however, with which to fight.

Burma is a sack with the hole at Rangoon. After the Japanese took Rangoon, there was no way of getting reinforcements or supplies to the allied armies, except through the air.

Guerrillas

Guerrilla detachments were organized before the fall of Java, composed mostly of Dutchmen. These guerrilla detachments are still fighting on the islands of the Dutch East Indies. Some were also put ashore in Malaya and are now fighting in Malaya.

MEMORANDUM TO THE FILES May 5, 1942.

Subject: Honduran Mission.

The Honduran Minister called on Mr. White on May 5, 1942, to discuss his Government's request for aid in the establishment of a national bank. Others present were Mr. Luthringer (State) and Mr. Southard.

The Minister explained that his Government had for some years planned to establish a central bank of issue with powers and facilities to stimulate industry and agriculture. He particularly mentioned the law of 1937. There are at present in Honduras two banks, the smaller of which is owned by the Standard Fruit Company and the other by Hondurans. Both of these banks are chartered by the Government and have the privilege of issuing their own bank notes. The Minister said that the previous efforts to establish a central bank had been opposed and blocked by these two banks. When Mr. White asked what reason there was to suppose that such opposition would not again be effective the Minister replied that this time the Government had made up its mind.

The Minister explained further that his Government had informed the Export-Import Bank that it had decided not to spend $1,700,000 to build a highway from the Pan American Highway up to Tegucigalpa, the capital. Instead, his Government hopes that the Export-Import Bank will be willing to loan $1,000,000 to develop the proposed central bank since it is felt that this will be a socially and economically more beneficial expenditure of funds. Mr. White told the Minister that, in view of his Government's feeling that the matter is urgent, a small mission will be sent to Honduras as soon as the staff can be spared from other work. In the meantime Mr. White asked the Minister to send copies of all the banking and monetary laws of Honduras and any other information concerning banking and monetary matters in order that the work might begin at once. The Minister assured Mr. White that he would get this information as soon as possible.

F.A.Southard, Jr.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 5, 1942.

Press Service
No. 31-42

As a further link in the closer relations which have developed between the Governments of the United States and of Iceland during the last year, Secretary of the Treasury Henry Morgenthau, Jr., and Icelandic Minister Thor Thors signed an Exchange Stabilization Agreement today.

This agreement between the Government of the United States, the Government of Iceland and the National Bank of Iceland, provides that up to $2,000,000 of the United States Stabilization Fund will be used for the purpose of stabilizing the United States dollar-Icelandic krona rate of exchange.

The agreement also provides for periodic conferences among representatives of the parties to the agreement to discuss monetary, financial and economic problems of mutual interest.

-oOo-

TELEGRAM SENT

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

May 5, 1942

1 p.m.

AMERICAN CONSUL

CALCUTTA, (INDIA).

217

FROM TREASURY

Your No. 301, April 24, 4 p.m.

In view of matters now under consideration the Treasury does not consider it advisable to extend check procedure. For your information National City Bank of New York, Bombay, has procedure for both checks and U. S. currency and Reserve Bank of India, Bombay, has procedure for U. S. currency.

HULL
(FL)

FD:FL:ME

Presented to Sec 127
by Mr Beteta 5/5/42.

SECRETARIO DE HACIENDA Y CREDITO PUBLICO
MEXICO

Dear Mr. Morgenthau:

It is for me a pleasure to introduce to you and recommend to your kindness Mr. Ramón Beteta, Undersecretary of Finance of the Mexican Government, a very esteemed friend and collaborator of mine.

Undersecretary Beteta is going to Washington on account of his designation by President Avila Camacho to attend the arrangements related with the economical affairs in which both countries are interested.

I shall be deeply indebted to you for the kind help that you may be willing to grant Mr. Beteta in the fulfilment of the important mission that the President of Mexico has entrusted to him.

Let me take this opportunity to send you my best wishes and to reiterate my highest consideration.

Eduardo Suárez

Eduardo Suárez.
Secretary of Finance.

His Excellency Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

128

ECONOMIC DEFENSE BOARD

MEMORANDUM

May 5, 1942

For the Secretary to note.

Office of Milo Perkins

OEM-351

C O P Y

BOARD OF ECONOMIC WARFARE

WASHINGTON, D. C.

May 5, 1942

The New Zealand Minister
Washington, D. C.

Dear Mr. Minister:

Thank you for your letter of April 17, 1942, which set forth the difficulties New Zealand is facing in arranging for exports of wool.

I am glad to be able to advise you that the Board of Economic Warfare has heard from the War Shipping Administration of two Dutch vessels on charter to them which will be loading from New Zealand some time this month. The operators of these vessels have been instructed to lift the strategic and critical cargoes now offering, and as wool falls in this category and as the two vessels in question are large carriers, we trust that they will afford substantial relief to the wool shippers in New Zealand.

Sincerely yours,

Milo Perkins

Executive Director

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BRITISH EMBASSY,

By Safe Hand

WASHINGTON, D.C.

Letter No. T.F. 11

May 5th 1942.

Dear Dietrich,

I am attaching copy of a letter written to Pehle today.

Yours sincerely,

(Sgd.) H. W. Auburn

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D.C.

Copy:imc
5/6/42

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By Safe Hand

Letter No. T.F. 10   May 5th 1942.

Dear Pehle,

We have just learned from a reliable source that the Dresdner Bank requested the Swiss Bank Corporation, Zurich on April 22nd to make them a telegraphic offer of around Dutch Florins 300,000 (Rotterdam) against "cabled dollars which will be remitted to you."

You may be interested in pursuing the matter from the point of view of settlement for occupied territory currency being made in what are presumably U. S. dollars.

Yours sincerely,

(Signed) H. W. AUBURN

Mr. J. W. Pehle,
c/o Mrs. Taylor,
U.S. Treasury Department,
Foreign Funds Control,
1610 Park Road, N.W.,
Washington, D.C.

HWA:RS

Copy:imc
5/6/42

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DEPARTMENT OF STATE

WASHINGTON

May 5, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a memorandum left with this Department by the British Embassy at Washington under date of April 25, 1942 concerning the alleged purchase of dollar bills in Switzerland by the Turkish Government.

Enclosure:

Memorandum, dated
April 25, 1942.

Copy:lc:5/5/42

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SECRET

(Reference:
W.T.1001/AA/191/42)

MEMORANDUM

Enemy Currency Regulations: Turkey

The British Government recently received information that the Turkish Government had been buying dollar bills in Switzerland and shipping them to Ankara by Diplomatic Bag, thus providing a channel for evasion, by a blocked country, of General Ruling 6A of the United States Freezing Order and of the British Government's controls under the Enemy Currency Regulations, by which currency (money or securities as defined in the Regulations) in transit through British territory is liable to seizure and forfeiture unless the owner can prove freedom from enemy taint. A copy of these Regulations is attached.

This channel would, of course, be open to any country, including enemy territories, where the Turks might be willing to buy, and it could seriously prejudice the measures taken by the United States Government and the British Government to prevent disposal of currency in which there is likely to be enemy interest, and to destroy the market for such currency in Europe.

The Ministry of Economic Warfare has therefore decided that the power of seizure under the Enemy Currency Regulations will be applied to currency and securities consigned from Turkey as it is already applied to consignments from European countries. The British Ambassador at Ankara has communicated this decision to the Turkish Government and the matter has been discussed also with the Central Bank who have been requested for their part to discourage Turkish nationals from engaging in this traffic.

It is believed that if the United States Ambassador in Ankara were to make representations to the Turkish Government and if necessary to the Central Bank requesting them to take such steps as they can to suppress this traffic in currency through Turkey, such representations would have considerable effect. Since the decision of the Ministry of Economic Warfare and the representations already made by the British Ambassador are directed towards objectives which are common to both the United States Government and the British Government, the Ministry hopes that the United States Ambassador may be instructed accordingly.

BRITISH EMBASSY,
WASHINGTON, D.C.
25th April, 1942.
QB:MLC
Copy:lc:5/5/42

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 145

Information received up to 7 A.M., 5th May, 1942.

1. MADAGASCAR

A British force, covered by the Eastern Fleet, commenced operations at dawn this morning with the information received up to 7 a.m. 5th May, 1942. Object of capturing the Naval Base at DIEGO SUAREZ in Northern MADAGASCAR. First report (up to 4.45 a.m.) indicates little opposition encountered. No ships larger than sloops seen in the harbour.

2. NAVAL

One of H.M. submarines torpedoed a 5,000 ton ship on 18th April and torpedoed and sank a 4,500 ton ship on 19th both off Eastern TUNISIA. 2nd. One small petrol ship sunk by air action off ALEXANDRIA. 4th. Two Dutch steamships were badly damaged by mine off CAPE GOOD HOPE but have arrived at CAPETOWN.

3. MILITARY

BURMA. The Japanese are reported to have advanced some fifty miles north of LASHIO. Fighting was still going on in MONYWA on 3rd. First Indian Infantry Brigade has arrived at PALEL, south of IMPHAL.

SOUTH WEST PACIFIC. Australian and Dutch troops are still maintaining guerilla operations against Japanese in TIMOR.

4. AIR OPERATIONS

WESTERN FRONT. 3rd/4th. 120 tons of high explosive and incendiaries were dropped at HAMBURG in cloudy weather, fires resulted. Hampdens of Coastal Command successfully attacked barracks at KRISTIANSAND. Hudsons claim to have damaged two ships of 3,500 and 5,000 tons off VAAGSO, NORWAY, and set on fire a 4,000 ton vessel off AMELAND. 33 R.C.A.F., 10 R.A.A.F. and 9 New Zealand aircraft operated without loss. 4th. Six Bostons attacked HAVRE. About 350 Spitfires provided escort and carried out offensive operations. Seven enemy aircraft were destroyed, two probably destroyed and seven damaged. We lost 8 Spitfires (one pilot safe). 8 enemy aircraft bombed EASTBOURNE, damaging railway station where traffic was dislocated and hitting a gasometer causing gas supplies to be cut off. 4th/5th Aircraft despatched to STUTTGART and electrical factory at FEUERBACK 120, Skoda Works Pilsen 5, NANTES 9, Aerodromes Northern FRANCE 12, shipping off IYMUIDEN 8, sea-mining 8, leaflets (FRANCE) 6. 2 aircraft are missing and one overdue. Five R.C.A.F. aircraft took part without loss. Two waves of 40 and 20 aircraft crossed the South Coast, principally over ISLE OF WIGHT. One enemy aircraft destroyed over the target area and 3 shot down over enemy aerodromes in FRANCE. Two also claimed by anti-aircraft.

MALTA. Between 3.42 p.m. 3rd and 8.13 a.m. 4th 37 enemy bombers attacked escorted by fighters. Our fighters destroyed one and anti-aircraft another. A third was damaged by fighters.

NEW GUINEA. 2nd. 15 enemy fighters attacked aerodrome at PORT MORESBY. Two destroyed, one probably destroyed and two damaged by P40's one of which was lost.

5. HOME SECURITY

4th/5th. Widespread damage was done in two attacks on COWES, including two shipyards, gasworks, railway station and G.P.O. Casualties at EXETER 3rd/4th are reported to be 76 killed and 64 seriously injured.

May 6, 1942
8:58 a.m.

HMJr: Hello.

Operator: Speaker Rayburn.

HMJr: Hello. Hello.

Speaker Rayburn: Yes, Henry.

HMJr: I hope you didn't mind my calling you at your home.

R: No, indeed. I called you yesterday, but you had just left.

HMJr: I know you did. That's right. Sam, has there been any change in the - that you know of - on the tax bill? I read Barkley gave out a statement. Hello.

R: Yes. I don't know - what did he do?

HMJr: Well, he just talked about Social Security and that sort of thing. I mean, I didn't know whether there'd been any new orders from the White House that I didn't know about.

R: Hello, Henry.

HMJr: Hello.

R: No.

HMJr: There has not?

R: No, not at all. It was discussed - talked about - the President - the only thing that was said about the tax bill yesterday morning was, the President's getting very anxious for the House Committee to go on and do something.

HMJr: Yeah.

R: And the Senate, too.

HMJr: Yeah.

R: And it was just - no, there wasn't anything said about Social Security. It was discussed up and down about a sales tax, an excess profits tax, and nothing was agreed on one way or the other.

HMJr: Did they talk about lowering the exemptions?

R: No.

HMJr: They didn't.

R: There wasn't anything talked about it much, Henry, except - well, I told you exactly what happened.

HMJr: Yeah.

R: The President is getting a little anxious about getting the bill, and then somebody raised the question about how much money and so forth, and then it was talked about whether there'd be a sales tax. The President didn't say anything about being in favor of a sales tax.....

HMJr: No. Well.....

R: .....or excise tax. He said if he was going to have either one he'd rather have an excise tax on some luxuries; but he didn't commit himself on anything, and there's no change in the situation that I know anything about.

HMJr: I see. Well, how do you think the boys feel about lowering the exemptions?

R: I don't know. I haven't discussed it with anybody, Henry. You mean lower it what, this seven hundred and fifty thing?

HMJr: Yeah.

R: Oh, hell, I don't know. I - usually, they think you don't get much money.

HMJr: Yeah. Well.....

R: I think the same thing.

HMJr: Uh huh.

R: I haven't discussed it, however, with any fellows on the committee, Henry, not a one.

HMJr: Well, but nothing - there was nothing crystallized yesterday?

R: Oh, no. Not a thing. A most general discussion.

HMJr: Right. I may be coming up to see you today or tomorrow.

R: All right, Henry. I'll be glad to see you any time.

HMJr: Thank you.

R: All right.

May 6, 1942
10:58 a.m.

Roy Blough: Yes, sir.

HMJr: Now, listen, Roy.

B: Yes.

HMJr: I want to draw up a memorandum about the things we were talking about this morning.

B: Yes.

HMJr: Now, can't you get away from that place long enough to draw me up a memorandum and come down here? Do you have to be up there every minute?

B: No, I think I can get away.

HMJr: Well, you've got to get away.

B: Sure, I can be there.

HMJr: And help - what place are you up there? What are you doing?

B: We're in the - I'm talking from a telephone booth in the Ways and Means - near the Ways and Means Committee room.

HMJr: Yeah. Well, you tell - I mean - but what are the Ways and Means Committee doing?

B: Oh, they're working on the post-war credit.

HMJr: All right. Well, then, ask Paul whether he'll please excuse you. Come down and see me, and I'll tell you what I want.

B: All right. I'll be right down.

HMJr: How long will it take you?

B: Well, it takes a little time to get up there. You know as much about that as I do.

HMJr: Well, I mean - well, when you come down, come down and see me.

B: If I can come, I'll come just right away; I won't be delayed, but it'll take a little while before I.....

HMJr: Well, I mean five minutes either way isn't going to - don't run or get out of breath.

B: Okay.

HMJr: All right.

B: Thank you.

May 6, 1942
11:02 a.m.

HMJr: Hello.

Operator: Mr. Acheson is in with Mr. Welles.

HMJr: Well, you tell him I want to talk to him anyway.

Operator: All right.

May 6, 1942
11:04 a.m.

HMJr: Hello.

Dean Acheson: Hello. Henry?

HMJr: Dean.

A: Yes, sir.

HMJr: I wanted to tell you that I discussed with the President this morning the status of American Bosch. Hello.

A: Yes, sir.

HMJr: And he's quite worried about it, and I'm asking you officially please to bring it to the attention of Mr. Hull. Let Mr. Hull decide what he wants to do about it.

A: Fine. I thought that you were getting ready to take it over.

HMJr: We can't take it over, because you fellows say no.

A: I wasn't aware we'd said no.

HMJr: Well, I understood that you didn't want us to take it over.

A: No, I think not. I had a talk with Foley a long time ago, and asked him to get me up a memorandum on just why. I haven't gotten that yet. I then had a talk with a man from the Alien Property Custodian's office and a further talk with Sumner Welles on it, and we thought that on the basis of what we knew, we were not going to object at all.

HMJr: Well, now, wait a minute. Ed's sitting right here. Do you mind?

A: Yeah.

HMJr: Do you mind talking to Ed here?

A: Not at all, Mr. Secretary. Go ahead.

Edward H. Foley: Hello, Dean.

A: Hello, Ed.

F: Of course, we wouldn't do the vesting. The vesting would be done by Leo. But I understood that the State Department hadn't given a clearance on vesting American Bosch.

A: We haven't been asked to, Ed.

F: Well, I thought that the situation was that they couldn't vest stock until you said it was all right.

A: No, I think I'm stating the correct situation. Some time ago I asked you to look into the matter and see just what you wanted - what the trouble was, what you wanted to do.

F: Yeah.

A: And whether there was anything short of vesting which would accomplish what you wanted to do.

F: Right.

A: Now, I haven't heard from you on that.

F: Well, in the meantime the APC has been appointed and the APC has been given a copy of the investigation report.

A: Yeah.

F: And I understood from talking to Markham a couple of weeks ago that they hadn't gotten a clearance with you people.

A: They haven't asked for it. The only one they've asked any clearance for was on Schering, which they have gotten. I wrote a letter to him about Schering. He said that he was going to look further into American Bosch and would take that up with me, and he's called me this morning. I haven't talked with him. I suppose it's about that.

F: I see. I see.

A: On the basis of what I know, I haven't any reason for opposing it. What I was hoping that someone would do is to see whether they really wanted to. If they really want to, why all right, if that's necessary. We're not going to - we haven't as yet opposed it at all, and I'm sure we won't.

F: I see. And if the Alien Property Custodian vest the stock, there'd be no objection from the State Department.

A: No. I think that is right. I would like to get something from him saying why he wants to vest it and give me a ground on which I can talk to the Swedish Minister. I have told the Swedish Minister that I will communicate with him and give him a chance to say anything he wants to to me before anything is done.

F: Yeah.

A: And pass that along. I don't think he can say anything that makes any difference.

F: Well - yeah. Well, going back, Dean, to the days when the committee was operating and we were working closely on this thing.

A: Yeah.

F: I always understood that there was a personal understanding between us, and I thought that that now was the situation in so far as the APC is concerned.....

A: Yeah.

F: .....that nothing would be done in so far as vesting so-called Swedish interests, even though we thought they were actually German, without consulting the State Department.....

A: That's right.

F: .....and getting a clearance from the State Department first.

A: Yes. And up to this moment, so far as I know, nobody has asked us anything about vesting American Bosch.

F: But we sent the copy of our investigation report to you.

A: You sent a copy of it to me, and I've read it and worked on it. Now, is the proposal on the basis of that to vest it? Nobody has told me that you have now concluded to vest it.

F: Well, it wouldn't be ourselves. It would be the APC, and we turned the report over to the APC; and when I talked with Markham last about American Bosch, he told me that he wasn't clear with you fellows. And going back to the personal understanding that we had, in so far as Swedish - so-called Swedish interests are concerned, I understood that nothing would be done on that until it was satisfactory to you and you'd had your talk with the Swedish Minister.

A: That is right. The - well, we're saying exactly the same thing to one another. He has not asked me whether there is any objection to clear - to taking it over.

F: I see.

A: And he told me that he was looking into the thing and had not made up his own mind whether he wanted to take it over.

F: I see.

A: Now, as I say, he has been telephoning me through Tucker this morning, and I think Tucker is coming over here to talk about it.

F: I see.

A: And I shall be delighted to talk with him about it, and if the situation is as it appears in the report and as I think it is, I think that there's no objection to it. The Swedes, of course, insist that there is no strings on the stock. I've told them that we just can't go into that. That's a matter for further consideration after action is taken.

F: Well, the Secretary wants to talk to you again, Dean. Just a minute.

HMJr: Dean.

A: Yeah.

HMJr: I've seen the stuff that you sent across there, and the - your - our Minister of Sweden interviewed the Foreign Minister and all the rest of the stuff.

A: Yes.

HMJr: And you've had the report for six months - six weeks or thereabouts, and I don't see why we always have to be in the position we lay the facts before you - that we have to be in the position of always pushing you. I thought that you went in there to push the Germans around, and.....

A: Well, Henry, nobody has to be in a position of pushing us. I was just saying to Ed that what I received so far is what appears on its face to be a preliminary report, and nobody has told me - no one at all has said that either you or the Alien Property Custodian are now ready to take it over. The moment that anyone asks me that, we'll clear it in twenty-four hours; but I haven't - it hasn't been brought up to me.

HMJr: Yeah, but here you've got this report. This is out of my hands now, too; but here's American Bosch making magnetos and - for airplanes - and stuff for submarines - vital stuff. I saw the report, and you saw the report. I mean, why couldn't the State Department take the initiative and say, "This is a bad situation? We want you to take it over."

A: (Laughs) Well, now.....

HMJr: I mean, why do we always have to go and say, after having given you this report and the situation with these people, as far as I'm concerned, I think it's terrible. I mean, I don't see why the Treasury always has to be put in the position of taking affirmative action.

A: Well, Henry, I supposed that it was the job of the Alien Property Custodian to take things over.

HMJr: Yeah.

A: Now, maybe it's my job. If it is, I'll do it; but I hadn't thought it was.

HMJr: Well, I just - I just - and you say you're waiting, but here's the thing in your lap.

A: But it isn't in my lap. That's what I'm trying to find out.

HMJr: Well, the report is. It's been there for over a month to six weeks.

A: Well, it's been given to me, it's been given to you, and I suppose it's been given to the Alien Property Custodian.

HMJr: Yeah.

A: Now, if they are ready to act, why we are ready to act, surely; and as I told Foley, the fellow has called me this morning, and I presume that's what it's about.

HMJr: Yeah. Well, anyway, the purpose of my call is - I talked to the President and I wanted Mr. Hull to know it and I wanted Mr. Hull to take a look at it himself.

A: Fine.

HMJr: And the whole thing was a matter of courtesy to Mr. Hull.

A: Fine.

HMJr: And to you.

A: Well, first rate, Henry; and we will act on it. Now, if we've been remiss, I'm terribly sorry.

HMJr: Well, I don't know. It's just my personal feeling. I got lots of things here, but when it seems to me that the Germans may be getting away - I don't - with something, I don't care whether it's my responsibility or not; I just go to it, and I know you're the same kind of a fellow.

A: Well, I'll go to it.

HMJr: Okay.

A: All right.

HMJr: Thank you.

May 6, 1942
11:18 a.m.

HMJr: Hello.

Operator: Mr. Crowley.

HMJr: Hello.

Leo Crowley: Hello.

HMJr: Leo.

C: Yes.

HMJr: I - this is Henry Morgenthau.

C: Yes.

HMJr: I just wanted to tell you that I was over with the President today on general business, and I brought up the question of the report on American Bosch.

C: Yeah.

HMJr: And he seemed to be quite worried about it, and I called up Dean Acheson and told him please to bring it to the personal attention of the President - of Hull.

C: Yeah.

HMJr: Which he said he would. He also said that if he had a request for vesting, that he'd act in twenty-four hours.

C: Well, we've got the request all ready for him, and it'll be over there today or tomorrow.

HMJr: I see.

C: He - Dean wasn't quite sold on the thing, and we had to go into a lot of stuff with your boys in order to build our case, because he was a little bit reluctant, I think, to go ahead with us on the thing.

HMJr: Well.....

C: But our fellows now have the thing so that it'll be over there today or tomorrow.

HMJr: Good.

C: How are you?

HMJr: I'm all right.

C: Are you working as hard as ever?

HMJr: Harder.

C: Harder. Now, what about this French proposition. Will we both have to move in on that thing pretty soon, do you think?

HMJr: I don't know what you mean.

C: On this - that they break with the Vichy government?

HMJr: Well, I don't know as we.....

C: You've got all of the funds tied up all right, haven't you?

HMJr: Oh, yes.

C: So that unless there - I don't suppose there's very much of any industry in this country belonging to France.

HMJr: I doubt it.

C: Yeah.

HMJr: The sooner you take a look at the suggestion which I made on clearing up this Executive Order, why the better it would be for both of us.

C: Well, I'll do it just as quick as I can. I've been trying to learn something about this damn thing.

HMJr: Well, I think we sent it over.....

C: I can - it came over here yesterday.

HMJr: Oh, I think you must have had it at least a week.

C: Well. I didn't see it until yesterday. Of course, Mr. Markham was away. His mother died, and he had to go home for a few days, and he just got back yesterday.

HMJr: I think, you'll find out that it came over last week.

C: Yeah. Well, I'll check into it.

HMJr: But I think the quicker that - well, it isn't just for me. It's - your - it's to get the whole thing straightened out.

C: I'll look into it. All right.

HMJr: Okay.

May 6, 1942
11:23 a.m.

HMJr: Hello.

Operator: Mr. Nelson.

HMJr: Hello.

Donald Nelson: Hello, sir. How are you?

HMJr: Fine, how are you?

N: Fine, thank you.

HMJr: Well, I think I can mention the man's name, but I'll - on this question - something about Batt - hello.

N: Yes. Yes.

HMJr: I would like to have fifteen minutes with you alone. I wondered if you could allow time to say - to stay after lunch tomorrow?

N: Yes, certainly.

HMJr: I mean, so that you'd know that we had that.

N: All right, fine.

HMJr: And I'll have a memorandum at that time.

N: All right, sir. I'll be delighted to do it.

HMJr: Would that be as good a time as any?

N: I think that'll be as good as any.

HMJr: I thank you.

N: All right, sir.

HMJr: Good-bye.

N: Good-bye.

MAY 6, 1942

I called up Clif Mack this morning, and asked him to go over to see Donald Nelson to find out whether Nelson knew the amount of steel we were getting and storing because we can't get the ships.

Last night at the Russian Embassy, Litvinov told me that they are only going to get five ships for May, and twelve for the Persian Gulf. He is terribly blue, and says the trouble is the English will not furnish the convoys. He blames this on the Australians, whom he thinks have been working on us. The English have been sending more to Australia, which means less for Russia. He says the President tried to get the English to furnish more convoys, but he has not been successful.

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

May 6, 1942

MEMORANDUM TO THE SECRETARY:

I have an appointment to see Mr. Nelson at 10:15 AM tomorrow. Today we have been cooperating with WPB to determine selectivity of items purchased for the Russians which can be transported with the limited shipping available, and the matter is being expedited all possible. The Russians have been requested to provide a priority list so that cargo may be forwarded according to the most urgent need.

I will advise you as to the talk with Mr. Nelson upon my return tomorrow morning.

Clifton E. Mack
Director of Procurement

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

May 6, 1942

PERSONAL AND CONFIDENTIAL

MEMORANDUM TO THE SECRETARY:

As you know, there is practically no technical liaison by Americans in Russia, which might prove to be a very serious handicap for the most effective military collaboration. It would be of immeasurable value to immediately lay the ground work to accomplish this purpose, possibly through successive stages. Comments from the Russian group dealing with us indicate that they have the utmost confidence in you and accordingly would be more receptive to a suggestion from you concerning technical liaison than from others whom they do not know as well.

I am sure this is something that you have given thought to, but it has been constantly on my mind because of the extreme importance of close collaboration with Russia whereby our technical people would be permitted to inform themselves of the situation in that Country with the objective of providing the most help.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

May 6, 1942

12:30 p.m.

I called Grace Tully and told her that this morning I had recommended to the President that we lower the exemption and thereby gain $100,000,000 in revenue, and that I had also told the President I proposed to add this amount on the top of his $7,000,000,000 recommendation, making a total of $8,000,000,000 plus. I told Miss Tully that I wanted to be a thousand per cent sure he understood that. She said she would try to get to the President by one o'clock and would call me back. She said that she would have to do it before one o'clock because she was going to leave then to have her hair fixed. I said, "For the Peruvians?" and she said, "No, for Grace Tully."

****

May 6, 1942

12:50 p.m.

Grace Tully just called me back and told me the President said it was okay to make the total $8,000,000,000 plus, but to add to that the $2,000,000,000 for social security. I said that I had already included social security in my recommendation.

When Roy Blough was in to see me about ten minutes ago, he did not have the plug for social security in, but I told him to put it in.

****

Treasury Department
Division of Tax Research 157

Date May 19 1942

To: Miss Chauncey

From: Miss Doyle

This is the first draft of this statement. Mr. Blough took up and showed it to the Secretary at 12:30, May 6.

The carbon copy which is enclosed is the final draft and was taken to the Secretary at 2:30 p.m. May 6.

FIRST DRAFT

5/6/42

May 6, 1942

Statement of Secretary Morgenthau before the Ways and Means Committee of the House of Representatives, May , 1942.

When I appeared before your Committee on March 3, the program for the fiscal year 1943 totalled $59 billion. In the budget estimate released a few days ago the estimated expenditures for fiscal 1943 had risen to $73 billion. Since I appeared before you, additional appropriations have been presented to the Congress totalling $ billion.

for f

These increases in expenditures and appropriations mean two things. On the one hand they mean that the fiscal problem of Government is greater since large additional amounts of money must be supplied. In the second place they mean that the money in the hands of taxpayers, available for expenditure, will be greater and that accordingly the tendency to higher costs of living will be greater.

In the light of this situation, I suggest to the Congress that the personal exemptions under the individual income tax be reduced to $600 for single persons, $1,200 for married couples, and $300 for each dependent.

The affect of this in terms of revenue will be to increase the revenue under the proposed Treasury schedule presented on March 3 by $1,100 million. Of this amount approximately only $100 million would be paid by new taxpayers brought in through the reduction in the exemptions while the remainder would be paid by taxpayers already subject to tax. The bulk of the increase would be paid by taxpayers now in the brackets just above the personal exemption. 88

This distribution of the additional burden will be in harmony with anti-inflationary needs. Persons now below the personal exemption level contribute to the demand for goods, of course. However, it is desirable to protect them against too 38

126

great a reduction in their standard of living. Furthermore, the goods they buy tend in general to be less in the very scarce categories than in the case of persons with higher incomes.

The comparison of tax burdens under this proposal and under the proposals made on March 3 is shown in the attached table. I would point out a few specific situations. A single person with $750 of net income would pay no tax under the March 3 proposal but would pay $ with the lowered exemption. A single person with $1,000 income pays $21 under the present law, would pay $40 under the March 3 proposal, and would pay $ with the personal exemption lowered. A person with $2,000 net income would pay $117 under the present law, $230 under the March 3 proposal, and $ with the reduction in the personal exemption.

One point I wish to emphasize emphatically. The recommended increase in personal incomes should all go to increase the total revenue raised under the revenue measure. That revenue as recommended in my statement of March 3 is approximately $7.5 billion. The total with the lowered personal exemption should certainly in no event be less than $8.5 billion. These are absolutely minimum figures and the Congress would do well to consider raising even more than this amount.

I would like to underline also the point made in the President's Message to Congress of April 27 in which he urged prompt passage of the tax bill. Every day we lose in getting the new tax program into operation is a day's delay in strengthening our fight against the rising cost of living.

When I appeared Est exp 59 + corp 3 = 62
39
comparing ~~total def~~ with deficit
Present 7
140 billion (142)
1st 163 "
compared
2nd
When appeared
said that half Def Prog 142
163
Today
So changes

Statement of Secretary Morgenthau
before the
Ways and Means Committee
of the
House of Representatives,
May , 1942

When I appeared before your Committee on March 3, the estimated budget expenditures for the fiscal year 1943 totalled $59 billion. This figure was based on a war program of $142 billion. Since that time the war program has increased $19 billion to $161 billion. In the revised budget estimates made public on April 24, the estimated expenditures for the fiscal year 1943 had risen $14 billion to $73 billion, or more than 20 percent.

These increases will enlarge substantially the problem of financing the Government and will increase the amounts available for expenditure in the hands of individuals and corporations.

In the light of our vastly increased commitments, I suggest to the Congress that the tax program be enlarged. In my statement of March 3 I suggested a tax program to raise more than $7 billion, as "the very least that the American people can afford to provide at this critical time." Today the "very least" of March 3 has become too little. I now suggest an increase of at least $1 billion to a new total of more than $8 billion. These are absolutely minimum figures and in my opinion the Congress would do well to consider raising even more than this amount.

I recommend that this additional revenue be raised by reducing the personal exemptions under the individual income tax to $600 for single persons, $1,200 for married couples, and $300 for each dependent.

This decrease in personal exemptions will create 6,900,000 new taxpayers and increase the revenue yield of the individual income tax under the Treasury schedule presented on March 3 by approximately $1,100 million. Of this amount only about $100 million would be paid by new taxpayers themselves while the remainder would be paid by persons already subject to tax. The bulk of the increase would be paid by taxpayers now in the brackets shortly above the personal exemption, on whom, because of the exemptions, the tax now constitutes a very small proportion of income.

In the President's Message to Congress of April 27 he urged prompt passage of a tax bill. I should like to repeat the President's plea with all the emphasis at my command. Every day of delay in getting the new tax program into operation is a day lost in our fight to check the rising cost of living and to finance the winning of the war.

I should like to repeat the view expressed in my Mafch 3 statement that in accordance with the President's Budget Message the Social Security program should be expanded both as to coverage and as to protection and that taxes for this purpose should be increased by approximately $2 billion a year. While Social Security is not part of the tax program before you, changes of the magnitude indicated should be kept in mind in planning the tax program. I hope the Committee will proceed as soon as possible after completing a tax bill to a consideration of changes in the Social Security law.

RB:ded
5/6/42

There was no final statement. HMJr's views were incorporated in letter to Doughton on May 6 and presented to Doughton and George at conference on May 6.

165

~~1st~~ 2d Draft

May 6, 1942.

Statement of Secretary Morgenthau
before the
Ways and Means Committee
of the
House of Representatives,
May , 1942

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May 6, 1942

My dear Senator George:

I am sending you herewith a copy of a letter which I have discussed with you and Chairman Doughton.

Sincerely,

Hon. Walter F. George,
United States Senate,
Washington, D. C.

Enclosure

FK/ogk

C O P Y

The Secretary of the Treasury
Washington

May 6, 1942

My dear Mr. Chairman:

I have been reconsidering certain aspects of the tax program in the light of our constantly increasing war expenditures. In my opinion, the time has now come to revise the program presented to the Committee on March 3rd by lowering the proposed personal exemptions under the individual income tax to $600 for single persons, $1,200 for married couples, and $300 for each dependent.

This would produce additional revenue of approximately $1,100,000,000, of which $100,000,000 would come from 6,900,000 new taxpayers. Such an increase in revenue would, of course, be in addition to the $7,600,000,000 in new revenue proposed on March 3rd, which I then described as "the very least that the American people can afford to provide at this critical time." It would bring the total additional revenue of the tax program to $8,700,000,000.

I should like also to emphasize the need of expanding the social security program and of increasing taxes for this purpose by approximately $2,000,000,000 a year. I hope the Committee will proceed as soon as possible after completing a tax bill to a consideration of changes in the social security law.

Sincerely,

Hon. Robert L. Doughton,
House of Representatives
Washington, D. C.

May 6, 1942
12:44 p.m.

Ted Gamble: Yes, sir.

HMJr: Two things I wish you'd get after Houghteling on.

G: Yes, sir.

HMJr: One, I as yet haven't heard what use we're going to make of this offer of A. F. of L. and C. I. O., to use their organizers to help us with their own people.....

G: Yes.

HMJr: .....on the payroll allotment plan.

G: Yes.

HMJr: Now that thing has been dragging its feet. That's number one.

Number two, we've got to do more with the Negroes. Now, I read in the weekly report that they had a big parade down at Richmond, see.

G: Yes.

HMJr: We ought to have a hundred of those.

G: We had a meeting - this morning's paper told of a meeting yesterday in Georgia, where every county launched its colored program.

HMJr: Well, we've got to do more. The Negro situation in this country, I've learned from various sources, is very touchy.

G: Yes.

HMJr: And it's like a stick of dynamite. Now, if we can give the Negroes a chance to demonstrate and blow off for War Bonds, they won't be demonstrating against this country, and there's a suspicion that this - all this Negro trouble, that maybe the Japanese are behind it.

G: They're stirring it up, yes.

HMJr: Now, you, from the West Coast, are particularly interested in this thing.

G: Yes, sir.

HMJr: And I'd like to have - and give these people an outlet to have public meetings and parades everywhere; and if he hasn't got enough help, let's get him help.

G: Fine. Well, I'll check into it.

HMJr: I want to take the lid off, and let's have Negro parades and sings and demonstrations, and let the Negroes go to town.

G: Fine.

HMJr: But he's got to do it very quickly, because it's scheduled - this is - on June 16 at Madison Square Garden is scheduled a big meeting, all - and then there'll be similar ones all over the country, and then my informant tells me a march of a hundred thousand on Washington - Negroes.

G: Yes.

HMJr: Now, this isn't something we can fool around with. We've got to move.

G: I'll give you a report on it in full tomorrow, sir.

HMJr: And I want to do my part. If they - I think that given a chance, the Negroes are just as patriotic as anybody.

G: I think that's true.

HMJr: And if they have a chance for parades, and a chance to blow off - and particularly in centers like New York and Chicago. Now you know, I suggested a sing which Negroes could come to fully two months ago.

G: Yes.

HMJr: And we don't get anywhere, and I spoke to Graves and everybody, and they keep promising me. Now, where I - the South is important, but it's the big industrial centers where the Negroes are.

G: Yes. I think we have it well under control in the areas where there are great numbers of them; but where they're isolated and.....

HMJr: No, I'm - the trouble's going to come, I think, from New York and Chicago.

G: Well, that's what I mean, sir. I meant in the South, where they understand the Negro problem, I think it's well under control.

HMJr: That's all right; but I begged, implored, cajoled, and I'm not going to do it any more, and tell Houghteling he's got to go to town on this, and if he hasn't got the people, we've just got to get them.

G: Fine. Well, I'll give you a report in writing on it tomorrow.

HMJr: This Negro thing is serious.

G: Yes.

HMJr: And - as I say, for over two months I've been asking for it, and I get nowhere.

G: Well, this is the Action Department.

HMJr: Pardon.

G: I say this is the Action Department.

HMJr: That's why I'm calling you, and I don't - I hesitated to call you, because I hate to pile so much on you.

G: That's all right, perfectly all right.

HMJr: But somebody's got to put some turpentine under Houghteling's tail.

G: Well, I'm the fellow to do it. I'll give you a report on it in writing tomorrow.

HMJr: On both.

G: Fine. While I have you on the phone, I'd like to give you a little good news.

HMJr: I can stand it.

G: Mr. Ross called in yesterday from Delaware.

HMJr: Ross?

G: Don Ross, our Administrator in Delaware.

HMJr: Yeah.

G: And he's one of the DuPont people. He has entree to all the banks there. He had a report from all of his banks in Wilmington, with one exception - just one bank that he didn't have in this report. The first three days of May.....

HMJr: Yeah.

G: .....they had doubled the first three days of April sales in their banks.

HMJr: Wonderful.

G: And I thought you would like to know that.

HMJr: You mean the first three days.....

G: The first three business days of may were double the first three business days of April.

HMJr: That's wonderful.

G: Now, you see, we won't get that kind of reporting on our - on your statistics for several days yet.

HMJr: No.

G: And I thought you'd like to know that.

HMJr: Good. Now, let me ask you now, is Tickton sending out some more telegrams?

G: There's two hundred and eighty-three of them in that list, and three to five thousand that go out tomorrow.

HMJr: Two eighty three.

G: Two hundred and eighty-three. That may be not the exact figure.

HMJr: No, no.

G: There's two hundred and eighty-odd.

HMJr: But that took care of.....

G: Everything down to three thousand.

HMJr: Well, that'll be Thursday, what?

G: That will be tomorrow evening those will go out. They could go out today, excepting that we must clear these records on these four hundred and eighty-odd that are in here now.

HMJr: That's two hundred and eighty-three?

G: Yes, sir.

HMJr: And then let him go to work - I would then let him go to work on the next lot between two and three thousand.

G: All right, sir.

HMJr: And we could do that early next week.

G: Yes, sir.

HMJr: See?

G: Yes, sir.

HMJr: When he's got that clear, let him go on from two to three thousand.

G: Yes.

HMJr: So that could go out early next week.

G: Mr. Graves wired in from New York yesterday. Apparently his reaction to these telegrams has been so good - we told him about them - and apparently the boys in New York knew something about them, and he suggested that we ask you about your reaction to sending them to every firm over five hundred, not knowing that you in the meantime had decided to do it.

HMJr: Well, I don't think we can do it any faster than we have.

G: No, we can not, intelligently, sir.

HMJr: So if you do these this week, then I would drop - now, when you go to two thousand, you most likely will get five hundred more.

G: That's correct.

HMJr: And then when you get those done - in other words, I tell you this. I would send them out now as rapidly as you can down to a thousand.

G: As we can intelligently service them.

HMJr: As you could intelligently service them, but there's no use sending them out faster than you can service them.

G: Yes.

HMJr: Down to a thousand.

G: Fine. Now, can I read you a telegram?

HMJr: Pardon?

G: Can I read you another telegram?

HMJr: Wait a minute. The White House is calling.

G: All right, sir.

HMJr: Just hold the wire.

G: Fine.

HMJr: Hello.

Operator: Operator.

HMJr: Did he hang up?

Operator: No, I don't think so.

G: No. Hello.

Operator: Here he is.

HMJr: Hello. Yes.

G: There was a particularly good wire that I wanted you to hear.....

HMJr: Yes.

G: .....that has just come in from one of these five thousand firms. It says, "The Drive for the payroll savings plan for the purchase of War Savings Bonds was started at eleven A.M. April the fourteenth. Every employee on the payroll signed for a regular weekly deduction before eleven A.M. April the fifteenth."

HMJr: Well.

G: That's twenty-four hours.

HMJr: "We believe this to be a national record for a plan of this size."

HMJr: Yeah.

G: And here's the important part of it. "The per capita subscription is now $16.40 per month, and represents 9.46 per cent of the gross pay-roll."

HMJr: How much?

G: Nine forty-six.

HMJr: Wonderful!

G: It says, "We will continue the efforts to increase the percentage per individual, but feel that present results are relatively satisfactory. We will await your instructions. The Twin Cities Ordnance Plant, Federal Cartridge Corporation."

HMJr: Oh, grand.

G: Isn't that an excellent wire?

HMJr: That's a pip.

G: Well, the ones that have come in since you have read them are equally as encouraging if not more so than the early ones.

HMJr: And I want to know within a reasonable time who doesn't answer me.

G: Well, you'll have that. We have set up a system, Mr. Secretary, so we can not only tell you that, but we can keep a running correspondence with every head of every one of these corporations in America.

HMJr: Okay.

G: And we're starting that so that we can do a good job of servicing.

HMJr: And who doesn't answer me.

G:	Right.
HMJr:	Right.
G:	All right, sir.
HMJr:	Good-bye.
G:	Good-bye.

May 6, 1942
12:55 p.m.

HMJr: Hello.

Robert Doughton: All right.

HMJr: How are you, Bob?

D: Well, just all up in the air, Henry. How are you?

HMJr: Well, I'm all.....

D: We're getting along so slowly down here on this tax bill.

HMJr: Yeah. Now, Bob, when are you going to take up the question of personal exemptions?

D: Personal exemptions?

HMJr: Yeah. I mean - you know, where the tax.....

D: Well, that'll come in itself all under the same heading of personal income, I suppose.

HMJr: Yeah. Well, will you reach that today?

D: We're going to have to take that up right after recess.

HMJr: When?

D: At two o'clock.

HMJr: Well, gosh, I've got something for you on that. I want to talk to you and George about it. We'd - I think we'd kind of like to change our position a little bit.

D: Well, all right.

HMJr: You don't - I mean the question of either keeping them with the exemptions where they are, or lowering them or anything. You don't suppose you could not touch that until I've had a chance to talk to you?

D: Oh, I think we could leave that off, yes.

HMJr: Well, do you think that - could you.....

D: I think we could go on and discuss rates and discuss it in a general way and have a general discussion. We can certainly leave off any decision about it. Of course, before we discuss that much, we ought to have your viewpoint.

HMJr: Well, could I - could.....

D: Can't you get that to us through Paul?

HMJr: No, I want to do it myself, because I've been with the President on it, and I want to sit with you and George for a few minutes.

D: You don't want to sit in before the full committee?

HMJr: Well, after you've seen it, you most likely will want me.

D: How's that?

HMJr: I'll be glad to come before the committee if you wish me to.

D: Well.....

HMJr: But I'd like to see you and Senator George, say, sometime between four and five this afternoon.

D: Uh huh. Well, suppose you make it five.

HMJr: Five o'clock.

D: Would that do?

HMJr: That's all right.

D: At your office.

HMJr: At my office.

D: You call him, and I'll get off in time to get there at five o'clock.

HMJr: All right. Now.....

D: You call - he'll make the - I'll not call him, no, you call him.

HMJr: I'll call him.

D: All right.

HMJr: And at five o'clock at my office.

D: You won't want Paul there will you? If you do, why we'd better recess the committee or let Stam go on, you know. Paul's sitting in with us, you know, and if you want Paul in this conference, why we'd have to adjourn a little before.

HMJr: I'll have to have Paul.

D: Well, we'd better adjourn at - better - suppose you'd let Paul say that he needed to get away. We'd better adjourn at four forty-five, then.

HMJr: Well, I may need him a little earlier than that.

D: Well....

HMJr: I'm working on a statement, and I'll certainly want his advice before I.....

D: Well, we'll - let's see, five o'clock - well, we'll adjourn at four-thirty, anyhow.

HMJr: And you'll be here at five.

D: We'll be there at five, and Paul can - he can get there in ten minutes, you know.

HMJr: Okay.

D: We'll adjourn at four-thirty.

HMJr: All right.

D: And we'll be there at five o'clock, and you call Senator George.

HMJr: I'll do it right away.

D: Thank you.

May 6, 1942
12:59 p.m.

HMJr: Hello.

Miss Kennedy: Yes, sir, Mr. Morgenthau.

HMJr: Miss Kennedy, how are you?

K: I'm fine.

HMJr: Look, I just talked with Congressman Doughton.

K: Yes, sir.

HMJr: And I have a fairly important recommendation to make to his committee, which I cleared with the President.

K: Yes, sir.

HMJr: Now, he's coming down - he - I said I wanted to see him, but he's in committee, and he said he could get down here at five o'clock. He said he'd rather come here than have me come up on the Hill.

K: Uh huh. Five o'clock this afternoon.

HMJr: Do you suppose you could deliver your boss?

K: I'll go over and wrap him in cellophane and see that he's there.

HMJr: At five o'clock.

K: Where do you want him?

HMJr: Well, Congressman Doughton suggested my office.

K: All right, sir, I'll tell him; and I'm sure he'll be there, Mr. Morgenthau.

HMJr: But if that's not convenient, I'll make it convenient to suit him.

K: Well, now, he has an appointment at seven-thirty for dinner.

HMJr: Oh, well.....

K: But you won't keep him long, will you?

HMJr: I hope his dinner appointment is six-thirty.

K: (Laughs) Oh, I see.

HMJr: Yeah.

K: Well, all right. Thank you.

HMJr: Thank you.

K: Good-bye.

May 6, 1942.

Luncheon Meeting in Secretary Morgenthau's Office
May 6, 1942
1:00 P.M.

Present: Secretary Morgenthau
Mr. Clark of Canada
Mr. Howe of Canada
Mr. Ilsley of Canada
Mr. D. W. Bell
Secretary Morgenthau's Son
Mr. White

Mr. Ilsley stated that his Government was concerned over the effect on their dollar position that would result from the consummation of a pooling arrangement being discussed here with the Army authorities. The contemplated arrangement was for Canada to send all its production to the American "pool" where it would be distributed to places where it was most needed by a committee which included a representative of the Canadian Government. Mr. Clark and Mr. Ilsley both voiced their fears that the arrangement would result in fewer orders being given to Canada by the Army here. The Secretary asked Messrs. Clark and Ilsley a number of questions on the expected financial arrangements which were to be made in connection with the pooling arrangement and the Canadians indicated that no such arrangements had been discussed and that they had been of the opinion that Secretary Morgenthau was conversant with the arrangement and had favored it.

Secretary Morgenthau replied that he had known nothing of it. He stated that he was in no position to comment on the financial aspects without knowing more about the plan.

It was decided that Mr. Clark should continue his discussions on the matter with Mr. White and that Mr. White would get the details of the contemplated plan from the Army and Lend-Lease here.

After the luncheon Mr. Clark conferred with Mr. White in his office on the matter and Mr. Clark decided to stay over another day, at which time the matter would be gone into more carefully.

HDW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1942

TO Secretary Morgenthau

FROM H. D. White

The appended report on Canada's foreign exchange and fiscal position brings out three points:

1. Canada's foreign exchange position is good. She now has $228 million of gold and U. S. dollars, which is $40 million more than she had at the beginning of the year.

2. Canada's foreign exchange position will not become much worse during the next eight months. By the end of this year she will have more than $175 million, provided Canadian gold production does not fall substantially.

3. The United States is spending more <u>per capita</u> on the war effort than is Canada, and her outstanding <u>per capita</u> public debt is about one-fifth higher and is increasing at a more rapid rate than is Canada's. From the point of view of national income, however, Canada is still devoting a higher proportion to the war effort but the gap between the two countries is rapidly being closed. By next year the proportion spent on the war will be higher for the United States than for Canada.

<u>Conclusion</u>: If the Treasury is asked to pay Canada for armaments shipped to other British Empire countries, which may be the purpose of coming conferences, the Treasury would, I believe, have a difficult time defending a recommendation favorable to the proposal. It might be desirable, however, to leave the door open to our paying for a small proportion of them, in the event that gold production in Canada is greatly curtailed.

CANADA'S FOREIGN EXCHANGE AND FISCAL POSITION

1. Canada's Holdings of Gold and U. S. dollars.

   (a) As of April 1, 1942, the Canadian Government held $228 million of gold and U. S. dollars, or $40 million more than on January 1, 1942.

   (b) The prospects are that the Canadian Government will incur a net loss of U. S. dollars of $35 to $40 million during the remainder of 1942 and will end the year with a U. S. dollar reserve of about $185 million, or approximately the same amount as at the opening of 1942, and $145 million less than at the beginning of 1941.

   (c) Since the beginning of the war, Canada has sold about $150 million of U. S. securities and other investments in the United States.

2. Canada's Balance of Accounts with the Sterling Area.

From September 1939 through March 1942, Canada financed the equivalent of about $1,460 million (U.S.) of British purchases in Canada, through the following means:

	(Millions $ U.S.)
(a) Private repatriation of U.K.-held Canadian securities and other private capital transfers	115
(b) Repatriation of U.K.-held Dominion Government securities	360
(c) Accumulation of sterling balances...	985
Total - U. K. deficit of Canadian dollars	1,460

In order to wipe out the accumulated sterling balances, the Canadian Government has undertaken -- presumably with British Government agreement:

(Prepared by Miss Kistler.)

	(Millions U.S. $)
(a) To repatriate the remaining Dominion Government securities held in U. K., valued at	265
(b) To convert sterling balances into a dollar (Canadian dollar) obligation of the British Government, to an amount of .... (This obligation is to be non-interest bearing for the duration of the war and interest bearing thereafter.)	630
(c) To utilize the remainder of the accumulated sterling balances as the first installment of the proposed $900 million Canadian gift to Britain	90
Total estimated sterling balances held by Canada as of March 31, 1942	985

So far as concerns the future settlement of accounts, the Canadian Government is to finance, without obligation to Britain, up to $900 million (U.S.) (inclusive of the $90 million of past accumulations shown above) of British purchases in Canada. In the absence of any change in policy whereby a substantial part of Canadian exports to United Kingdom are paid for by the United States, this Canadian gift is expected to meet Britain's need for Canadian dollars until sometime early in 1943.

3. War Expenditures and Public Debt Position of Canada and of the United States.

The United States is not only spending a larger amount per capita on the war effort than is Canada, but it is rapidly increasing its war effort, whereas Canada's war expxnditures are not increasing.

Moreover, the per capita gross public debt of the U. S. Government is roughly $80 higher than the per capita gross public debt of the Canadian Government, and is expected to rise to $810 by the close of March 1943.. We have not yet received any official Canadian estimates on the probable increase in the Dominion Government debt, but in view of the lack of any anticipated substantial increase in Canadian war expenditures, it seems reasonable to assume that the per capita increase in Canada's public debt will be little if any larger during the current fiscal year than occurred during the previous year when it totalled the equivalent of $48 (U.S.) -- i.e. that Canada's per capita public debt will rise by March 31, 1943 to something in the neighborhood of $485 (U.S.).

Furthermore, although Canada is still devoting a somewhat larger proportion of her national income to war purposes than is the United States, the gap is rapidly being closed.

A more detailed comparison of the growth and volume of war expenditures and of the public debt of the two countries is set forth in the appended table.

War Expenditures and Public Debt Position of Canada and of the United States

A. War Expenditures

	Canada[1]	United States
	(U. S. dollars)	
1. War expenditures		
(a) Total, Sept. 1939 - March 1942 (prel.)	3,500 mil.	23,000 mil.
(b) Current annual rate of war expenditures	2,800 "	40,000 "
(c) Estimated war expenditures for period April 1942 - March 1943	2,900 "	60,000 "
2. Per capita war expenditures		
(a) September 1939 - March 1942 ...	296	174
(b) Current annual rate	237	303
(c) Estimate, April 1942 - March 1943	246	455
3. Proportion that Government war expenditures is of national income[2]		
(a) Current annual rate	45%	35-40%
(b) Estimate, April 1942 - March 1943	45%	50-55%

B. Public Debt

	Canada[1]	United States
1. Total gross public debt of Central Governments		
(a) As of March 31, 1942	5,120 mil.	68,100 mil.
(b) Estimated increase, April 1942 - March 1943	580 3/ "	38,900 "
(c) Estimate as of March 31, 1943	5,700 3/ "	107,000 "
2. Per capita public debt		
(a) As of March 31, 1942	434	516
(b) Estimated increase, April 1942-March 1943	49	295
(c) Estimate, as of March 31, 1943..	483	811

Treasury Department, Division of Monetary Research

May 5, 1942

Footnotes on page 2.

1/ Figures of war expenditures for Canada include financial assistance to the United Kingdom.

2/ The figures for proportion of national income devoted to war purposes are very rough. The ratio for United States is based on estimated national income figures of $106 billion and $110-115 billion for current rate and for the period April 1942 - March 1943, respectively. The national income figures for Canada are estimated income produced based on estimates of Bank of Nova Scotia and comments of Dominion statistician as set forth in consular despatch of April 14, 1942. They are taken at $6.5 - $7.2 billion (Can.) for the two periods. Some adjustment should be made in expenditure figures for capital imports from United States and lend-lease imports from United States.

3/ Assumes an increase in the gross amount of direct and guaranteed obligations of the Dominion Government, during the current fiscal year, equal to that of April 1941 through March 1942.

May 6, 1942
2:23 p.m.

HMJr: Hello.

General Smith: Yes, Mr. Secretary.

HMJr: How are you?

S: Fine, thank you.

HMJr: Good. If you're not otherwise engaged, would you like to come over and have lunch with Henry and me Friday?

S: Yes, I'd love to have lunch with you Friday, sir.

HMJr: About quarter to one, on the theory that we have Cabinet.

S: Yes. Twelve forty-five.

HMJr: Right.

S: At your office.

HMJr: In my - right in my office.

S: All right, sir. Thank you very much.

HMJr: Now, Henry says he'll be ready to leave Washington to go wherever he's supposed to go on the fifteenth.

S: On the fifteenth, all right, sir.

HMJr: Yes. Ready to leave Washington.

S: Then he'd better enlist on the fourteenth.

HMJr: On the fourteenth.

S: Yes, sir.

HMJr: Is that what you think?

S: I think so. It will take him about a day, and he shouldn't delay too long on the thing.

HMJr: Well.....

S: Otherwise the Draft Board will come along and pick him up.

HMJr: I see. And then what he has to do with his Draft Board and all that, could you let him know Friday?

S: Yes, I can let him know.

HMJr: What?

S: I can let him know.

HMJr: You could let him know.

S: Yes, sir.

HMJr: And so - because we'll be going up for the week-end, and whatever he has to do with his Draft Board, he can clear it up there.

S: Well, I'll find out for him. I'll have Hammond over here find out and let him know; I'll let him know, rather.

HMJr: Fine.

S: I'll see you Friday, then.

HMJr: Cavalry is what he wants. Hello.

S: Yes.

HMJr: I say Cavalry is what he wants.

S: Yes. Well, that's all right, then. That's as good as anything.

HMJr: What?

S: That's as good as anything.

HMJr: Yeah.

S: And the thing is for him to be satisfied.

HMJr: Well, he's satisfied.

S: Well, that'll be fine, then.

HMJr: Well, he says - now, this is what he wants. I say this is what he wants.

S: Yes.

HMJr: Okay.

S: All right, Mr. Secretary.

HMJr: Thank you.

S: That's fine.

May 6, 1942
3:03 p.m.

Randolph Paul: Hello, this is Randolph.

HMJr: Look, when I talked with Doughton at five minutes of one, I asked him when this question of exemptions was coming up, and he said at two o'clock; so I asked him to postpone it for this afternoon, and he said he would. Hello.

P: Yeah.

HMJr: I don't know whether he did or not.

P: Well, he can't control it entirely, but it hasn't come up in any - as yet in any definite way. There are certain questions that have verged on it.

HMJr: Well, he would adjourn the committee at four-thirty - he's going to adjourn it.

P: Yeah.

HMJr: He'd adjourn it at four if we wanted him to.

P: Yeah.

HMJr: Now, the point is this, I think you ought to tell him, because I need your advice on this statement and what - they're coming down here at five - Doughton and George.

P: I see.

HMJr: I think you ought to be here at four so we can have an hour's discussion, if necessary, or time to write it, because we're in the middle - some of the people around here aren't happy as to how to present this.

P: Well, all right. Then I'll speak to the Chairman, and Tarleau can carry on up here.

HMJr: Well, or just say that you've got to come down at four. I told him I'd need your help.

P: Yeah.

HMJr: And maybe he'd like to adjourn at four.

P: Well, I'll ask him what he wants to do. When I come down there, if he wants to go on, I'll leave Tarleau. He can handle it perfectly well.

HMJr: And he - his first impression was that he'd let you handle it up there just the way you said. I certainly don't want to go up there, and I hear you think it would be a mistake.

P: Well, I - they'll try to get after you.

HMJr: Yeah. Well, I don't want to be gotten after.

P: But I'll arrange it so I'll get back there.

HMJr: You arrange it so you'll be back here at four.

P: Yeah. All right.

HMJr: Thank you.

May 6, 1942
3:50 p.m.

HMJr: How about the 2-½'s?

Allan Sproul: Well, they've slacked off from yesterday, of course.

HMJr: Sure.

S: And I - frankly, I haven't the latest figures with me. I'm away from my desk.

HMJr: Could you get them and call me back?

S: I'll do that right away.

HMJr: How long would it take?

S: It would take me five minutes.

HMJr: Wonderful.

S: All right.

HMJr: Thank you.

May 6, 1942
3:55 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Go ahead.

Operator: Go ahead.

Allan Sproul: Hello.

HMJr: Yeah.

S: This is Allan Sproul.

HMJr: This is Henry Morgenthau.

S: Our up-to-the-minute figure is four hundred and sixty-eight million, five hundred thousand.

HMJr: Wait a minute. Four sixty-eight. That's for New York?

S: That's for New York District, yes.

HMJr: Four six eight. You don't know what you were yesterday?

S: At four o'clock yesterday we were four forty-three million, which is, I think, the figure we reported in to you.

HMJr: Four forty-three. Well, you got very little in today, then.

S: This has been coming in in half millions and millions, and one or two of two or three million from savings banks and smaller insurance companies, and some funds.

HMJr: From four forty-three to four sixty-eight.

S: That's right.

HMJr: I see. Have you wired that in to Washington?

S: That hasn't gone in yet. It will go in after four o'clock.

HMJr: I see. Okay.

S: All right, sir.

HMJr: Thank you.

S: You're welcome.

May 7, 1942

MEMORANDUM FOR THE SECRETARY

Subject: Conference on taxes, Wednesday, May 6, 1942, 5 to 6 p.m.

Present at the conference were Secretary Morgenthau, Senator George, Chairman Doughton, Mr. Randolph Paul, and Mr. Blough.

The Secretary said he had asked Senator George and Mr. Doughton to meet with him so that he might consult them about a letter which he had written but not signed. He handed copies of the letter to Chairman Doughton and Senator George, who read them. The Secretary then said that he had been thinking about the matter for some time, that he had come to the conclusion that this step should be taken, that he had talked it over with the President, and that the President had approved. The Secretary said he felt the letter would help the President's seven-point program to hold down the cost of living and, while it would not satisfy the newspapers, it would take away whatever legitimate complaint they have had about the tax program not extending to more people.

In answer to a question he said he had not definitely decided to send the letter and was asking their advice.

Chairman Doughton asked whether suggesting the limits of $600, $1,200 and $300 was intended as a sort of bargain with the Committee to keep it from going to $500 and $1,000. The Secretary said that he was not trying to make any kind of bargain, that anything the Committee did would be appreciated of course.

Mr. Doughton then asked if the lowering of the personal exemptions was intended to forestall the imposition of the sales tax and if the Committee decided on a sales tax whether the Secretary would want to have the personal exemptions lowered. The Secretary said that he felt his position to lower the personal exemptions was a correct one and that it should stand on its own feet, whatever effect it might have on the sales tax.

The Chairman said he thought so far as the Committee was concerned that the proposal to lower the exemptions would not stop the movement for a sales tax and said he thought the Committee was about evenly divided in their attitude toward a sales tax. Senator George said he had not consulted with his Committee but that it was his feeling that this proposal to lower the personal exemptions would probably strengthen the efforts to pass a sales tax since most of the revenue would be derived from people already subject to tax, and since the members of the Committee would make comparisons of rates under the proposal and under present law and would see that lowering the exemptions increased the income taxes on people above the exemption level.

Mr. Blough made some comparisons of taxes on various sizes of incomes under the present law, the proposed rates at the present exemptions, and the proposed rates at the reduced exemptions.

Mr. Doughton said that since the bulk of the increase would fall on people already subject to the income tax, he thought it would be logical to increase the rates there instead of lowering the exemptions. Mr. Blough pointed out that the existence of the personal exemptions would necessitate extremely high rates in the lower brackets to give substantial taxes on incomes under $3,000. It was pointed out several times that approximately 60 percent of the additional revenue produced by lowering the personal exemptions would fall on incomes under $3,000.

Senator George noted the fact that the revenue would be in addition to the request already made. There was, however, no comment on the desirability of thus increasing the program. Mr. Doughton said that of course all the revenue possible was needed and it was simply a question of how much could be taken without interfering with the war effort and the willingness of the people to support the war effort.

Mr. Doughton said that he had received very little mail in favor of reducing the personal exemptions and a great deal of mail in favor of a sales tax. He said that either the people of the United States had changed their minds about a sales tax or that the proponents of the sales tax are very much more vigorous in their support than heretofore.

No one mentioned the paragraph on Social Security.

Both Senator George and Mr. Doughton agreed that if the recommendation to lower the exemptions were to be made, it would be much better to make it now than later since the Committee was just starting. He mentioned the unfortunate effects of the recommendation last year after the Ways and Means Committee had completed its work on the tax bill.

When asked by the Secretary whether they thought the letter should be sent, neither Senator George nor Mr. Doughton would give a definite answer. The Chairman parried the question and said that he did not think he should give any advice on a matter of that kind, that he would not advise him either to do it or not to do it, that if he felt that it was his duty to do it, why of course that was the thing for him to do. The Senator indicated a similar sentiment. The Secretary said he believed that it was his duty to do it and that unless they thought he should not, he wanted to send the letter.

Mr. Doughton expressed the feeling that it would probably be better for the Secretary to appear in person before the Committee. The Secretary indicated that unless Mr. Doughton thought it would be very much better, he would prefer to send the letter and let Mr. Paul appear; that he would have to spend some time in studying the details if he were going to go before the Committee. The Chairman expressed no definite acceptance of this view but the matter was allowed to drop with the understanding that the Secretary would send the letter.

Mr. Doughton asked if he might have a confidential copy of the letter this evening, whereupon the Secretary signed the letter and gave him the original. He signed a transmittal letter to Senator George and gave it to him together with a carbon of the letter to Chairman Doughton.

RB

cc - Mr. Graves, Mr. Gamble
Mr. Tickton
Mr. D. Bell

May 6, 1942
6:05 p.m.

HMJr: Hello.

Operator: Mr. Mills.

HMJr: Hello.

Abbot Mills: Mr. Secretary, this is Abbott Mills speaking from Frank Iseby's office in Detroit.

HMJr: Right.

M: I wanted - hello.

HMJr: Go ahead.

M: We wanted you to know that the War Department got through their different messages, and as a result both the treasurer of the Chrysler Corporation and the Packard Motor Car Company will recommend issuing agency programs to their directors.....

HMJr: Good.

M: .....very shortly.

HMJr: Good.

M: And we hope for as good results from the other important companies.

HMJr: Who are you going to take on next?

M: An appointment has been made with the Ford Motor Company at twelve-thirty tomorrow, and Frank is arranging an earlier meeting with the General Motors people.

HMJr: Oh, I thought - the General Motors haven't got it all together, huh?

M: No, they may not - they may wish to, instead of issuing it themselves, do it through a group of banks.

HMJr: That's all right.

M: Which would be agreeable, we believe.

HMJr: Well, I'm awfully glad that you've stuck with this thing.

M: Well, we're glad you're pleased. And here's - have you just a second to hear an idea?

HMJr: I've got lots of time.

M: Fine.

Well, if my memory was right, you were going to have a meeting with the presidents of the twelve Federal Reserve Banks in your office tomorrow or Friday.

HMJr: That's off.

M: That is off.

HMJr: Yeah.

M: Well, then the idea is off, too.

HMJr: Well, Mr. Bell is going to handle that, because they're not coming in, I don't think, until Friday or Saturday or something.

M: Oh, I see.

HMJr: But if you want to give them a suggestion, I can switch you over to Bell.

M: No, the only thought was that we - through your loudspeaker there - we might get a little drama in and report to you on Detroit and how important it was to get the Federal Reserve Banks to speed up this recruiting of the larger corporations.

HMJr: Well.....

M: There was a good chance, maybe, when they were all together.

HMJr: No, they're not going to be here.

M: I see.

HMJr: But I want you to stay in Detroit there and help now, put this across. You're planning to stay the rest of the week, aren't you?

M: Yes, that's right, sir.

HMJr: Because.....

M: I think Mr. Iseby has something very important to mention to you if you have just another minute.

HMJr: Surely.

M: Fine. Here he is. Thanks.

Mr. Iseby: Oh - hello, Mr. Secretary.

HMJr: Hello. How are you?

I: Fine. One thing I wish you would do if you get a chance tomorrow some time, when I was out to Keller yesterday at Chrysler - you know, he feels very close to you.

HMJr: Yeah.

I: And about the time that this other thing came up, that wire came in that was sent out to all the presidents of the different corporations.

HMJr: Yeah.

I: And he thought that - at first - that that evidently was directed at him, personally, and they hadn't been doing a good job out there.

HMJr: Yeah.

I: And I told him that wasn't so.

HMJr: No.

I: That you knew how well they'd cooperated.

HMJr: Yeah.

I: And I thought maybe that you might some way express to him your appreciation of this.

HMJr: Well, all those telegrams are being answered.

I: Are they?

HMJr: Where I hear from them, yes.

I: Yes. That's fine.

HMJr: Yeah.

I: That's fine.

HMJr: Yeah.

I: All right. Well, we're going to get along all right.

HMJr: Well, this has been a long, hard fight to get these - this thing straightened out, but do you think it's straightened out now?

I: Yes. Oh, it's fine. You bet. We didn't want to tackle them until it was, you know, because they'd think we were kind of putting a fast one over or something.

HMJr: Well.....

I: But we'll have it - we'll have the job finished here now.

HMJr: Well, I want Mills to stay there until it is finished.

I: Fine.

HMJr: On the important companies. But I'll not come out myself on this.

I: Yes.

HMJr: I say I don't expect to come now that Mills has got it straightened out with you and them.

I: All right. Okay. We broke the two of them down, and that always - and I'm sure that - I think after we get through with Ford tomorrow, we'll have Ford, and generally in the automotive industry, they watch Chrysler.

HMJr: Yeah.

I: They're a little bit jealous of Chrysler, and if Chrysler does something in the way of co-operation, why the other fellows will step in the picture.

HMJr: Well, I'd love to know what results you have with Ford.

I: Fine. We're going to meet with Mr. Rousch, who is - who has taken the place of Mr. Sorensen, the general manager, you know. Sorensen moved up some, and Rousch is the fellow that's doing Sorensen's job; and Harry Bennett, of course, will be there, and Harry Bennett, whatever he says is law at the Ford plant.

HMJr: Well, let me know, will you?

I: You bet.

HMJr: Good luck.

I: Thanks very much.

HMJr: Good-bye.

I: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1942.

TO Miss Chauncey

FROM Secretary Morgenthau

I don't want "Printer's Ink" anymore. I'm disappointed in it. Please discontinue showing it to me.

5/6 will be discont

TO: 208

MRS. McHUGH

May 7, 1942.

Yesterday the Secretary asked for the display the drug stores are putting out, so he could place it on his desk.

About an hour after he requested this display, it was on his desk.

Ted R. Gamble

May 6, 1942

Ted Gamble

Secretary Morgenthau

Would you see that I get a copy of the display the drug stores are putting out on "This Quarter Will Buy 12 Bullets"? I'd like to have a copy of that display in my office.

May 6, 1942

Dear Herbert:

All of us here were just delighted with your fine radio talk for War Bonds last Friday evening. Our War Savings people feel that your words will have a great effect on thousands of people who are not yet buying War Bonds to the limit of their ability, and will have real influence throughout the United States.

You did us a great service by going on the air as you did, and I appreciate it very much.

Sincerely,

(Signed) Henry

The Honorable Herbert H. Lehman,
Governor of New York,
Albany, New York.

FK/cgk

cc-n.m.c.

Copies to Thompson

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

May 6, 1942

MEMORANDUM FOR THE SECRETARY:

The preliminary reports received up to last night indicated that the total subscriptions for the 2% bond approximated $3,200,000,000.

Similar reports received for the 2-1/2% registered security indicated subscriptions aggregating $530,000,000.

DWB

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

May 6, 1942.

Dear Henry:

Thank you for your note of April 22 enclosing the interesting letter from Sir Frederick Phillips.

Considering the scope and weight of the British income tax coupled with compulsory savings, it is remarkable that so fine a response has been obtained from this supplemental appeal to the public.

Sincerely yours,

Marriner

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1942

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

Dear Mr. Secretary:

Thank you very much for sending me a copy of the very interesting letter from Sir Frederick Phillips on financing the war in England. I have read this letter carefully with great interest.

Very sincerely yours,

Alvin H. Hansen

Alvin H. Hansen

May 6, 1942 214

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

"Less comment in stores today. This natural since most shoppers Monday and Tuesday have made previous visits since ceilings announced. Discussion generally favorable. Business generally fair and does not reflect same degree of buying restraint evidenced by weekend shoppers. Customers still asking re effective date price ceilings, reflecting poor grasp of details of plan.

"Wholesalers and retailers continue to buy cautiously, and manufacturers meeting situation with increasing number of immediate adjustments to ceiling levels. We are continuing to make retail adjustments in advance of effective date of order."

215

WAR PRODUCTION BOARD

WASHINGTON, D. C.

OFFICE OF
DONALD M. NELSON
CHAIRMAN

May 6, 1942

Dear Henry:

I have your note of May 5 and would like to thank you for sending me the telegram from the President of the Great Atlantic and Pacific Tea Company.

Sincerely yours,

Donald M. Nelson

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

WAR PRODUCTION BOARD
WASHINGTON, D. C.

OFFICE OF
DONALD M. NELSON
CHAIRMAN

May 6, 1942

Dear Henry:

Thank you for sending me the report on the movement of bottom cargo.

I am glad to know I was of assistance to Mr. Mack in making the delivery of so many tons of bottom cargo possible.

Sincerely yours,

Don

Donald M. Nelson

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

United Service Organizations

FOR NATIONAL DEFENSE INC.

EMPIRE STATE BLDG., NEW YORK, N. Y.

Pennsylvania 6-5400

May 6th, 1942

Honorable Henry Morganthau
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

I have received from you at my home two or three days ago a very kind letter felicitating me on my election as President of the U.S.O. I appreciate very much your kindness in writing to me about it. I need not tell you that the job is not without difficulties but that I regard it as a very fine opportunity to be of service to the country at this time.

With very best regards.

Sincerely yours,

Chester I. Barnard

IDLE GOSSIP SINKS SHIPS

April 29, 1942.

Dear Mr. Barnard:

I have just learned of your appointment as President of the USO Board of Directors, and want to congratulate you upon this honor.

I know that there is a great deal of hard work ahead of you, but I believe that there will also be much satisfaction in seeing this important work go forward under your direction. I wish you all kinds of success as you take up this new responsibility.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Chester I. Barnard,
333 Forest Road,
South Orange, New Jersey.

n.m.c.

GEF/dbs

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

CHARLES B. HENDERSON
CHAIRMAN OF THE BOARD

May 6, 1942

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

My dear Mr. Secretary:

Reference is made to a certain contract dated May 6, 1942, relating to silver, entered into between you as the Secretary of the Treasury of the United States, on behalf of the United States, and Defense Plant Corporation, a corporate instrumentality of the United States created by the Reconstruction Finance Corporation pursuant to section 5d of the Reconstruction Finance Act, as amended, in order to aid the Government of the United States in its national defense program.

In consideration of the performance of the provisions of this contract by the Secretary of the Treasury, on behalf of the United States, the performance by Defense Plant Corporation of all of the provisions of such contract to be by it performed is hereby unconditionally guaranteed and assured.

RECONSTRUCTION FINANCE CORPORATION

By Charles B Henderson
Chairman of the Board of Directors.

ATTEST:

A T Hobson
Acting Secretary

By this AGREEMENT made and dated May 6, 1942, by and between the Secretary of the Treasury of the United States, hereinafter called the "Secretary", on behalf of the United States, and Defense Plant Corporation, hereinafter called the "Corporation", a corporate instrumentality of the United States created by the Reconstruction Finance Corporation pursuant to section 5d of the Reconstruction Finance Act, as amended, to aid the Government of the United States in its national defense program, it is agreed that:

WHEREAS it has been represented to the parties by the War Production Board that the scarcity of copper and other strategic materials for use in the National Defense Program and for war purposes makes it imperative that silver and other metals be substituted therefor wherever possible, and

WHEREAS there is now under the jurisdiction of the Secretary in the Treasury of the United States a quantity of silver estimated to be upwards of 1,000,000,000 fine ounces not in the form of coin nor presently held for the redemption of silver certificates and which is deemed by the Secretary to be unoccupied and unproductive, and

WHEREAS such silver is a part of the resources of this Government available for use in the war effort, and

WHEREAS the Secretary has determined that the object to be attained by this Agreement is in the public interest, and

WHEREAS the parties are advised by the War Production Board that some part, or all, of such silver can effectively be used as a substitute for copper and other strategic materials in plants engaged in or essential to the war effort (hereinafter referred to as "the plants"), and

WHEREAS the Corporation has entered into, or contemplates entering into arrangements for the installation or use of such silver in the plants so as to release copper and other strategic materials which would otherwise be required therein:

NOW, THEREFORE, the parties hereto do mutually contract as follows:

1. The Secretary will at any time up to June 30, 1944, deliver to or cause to be delivered to, or on behalf of, the Corporation, upon the latter's request, for uses in accordance with the purposes of this Agreement, silver containing in all not less than 1,000,000,000 fine troy ounces and not in excess of the amount of silver deemed by the Secretary to be unoccupied and unproductive and unnecessary for reasons connected with the monetary requirements of the United States (such silver to the extent available to be in the form of bars .999 fine), at such places where the same is now held, at such times, and in such quantities, as the Corporation may from time to time request by five (5) days' written notice signed by its President, or Executive Vice President, and by its Treasurer, such delivery to be made against receipts therefor duly executed under the seal of the Corporation by its Treasurer attested by its Secretary.

2. At all times, including the duration of this contract, and regardless of the person in whose possession such silver shall be, title thereto shall not be affected by any of the terms of this contract, or of any action taken hereunder, but shall be and remain at all times, as it now is, in the United States.

3. Notwithstanding any other provision of this contract, it shall be the obligation of the Corporation to return any silver received by it, or on its behalf (sometimes hereinafter referred to as a whole or in any part as "the silver"), in the quantity, form and fineness in which and to the place from which it was received pursuant to paragraph 1 hereof. The silver shall be so returned upon the expiration of five (5) years from the date of the receipt of such silver by, or on behalf of, the Corporation, or upon written notice by the Secretary to the effect that the redelivery of any part, or all, of such silver is necessary for reasons connected with the monetary requirements of the United States or upon the termination of this Agreement for any other cause whether or not specifically stated herein, whichever of the foregoing events shall first happen.

4. In connection with the preceding paragraph 3, it is agreed that the obligation of the Corporation shall be to return the identical silver received by it pursuant to the provisions of paragraph 1 hereunder to the place from which it received the silver; and that if such silver is not redelivered pursuant to the provisions of paragraph 3, the obligation of the Corporation shall be to deliver silver of an equivalent quantity, form and fineness to the place from which the Corporation received the silver pursuant to paragraph 1 hereof. No cause or reason whatever shall be effective as an excuse for the nonperformance of the provisions of this paragraph 4 which shall continue to be operative notwithstanding the exercise of due diligence or lack of negligence, or both, on the part of the Corporation, or of others in dealing with such silver, or of the intervention of an act of God, or of the public enemy, or of any other similar or dissimilar obstacles to performance, whether or not within or outside the control of the Corporation.

5. The Corporation agrees that the silver will be installed or used as a substitute for copper or other strategic materials only in plants which a duly authorized representative of the War Production Board has certified to the Corporation are engaged in or essential to the war effort and are appropriate plants in which the silver may be installed or used pursuant to this Agreement.

6. The Corporation agrees to take all reasonable precautions for the protection of such silver and to assure the performance by the Corporation of its obligation as hereinabove provided, and, in addition, to take the following specific action including requiring agreements to the same effect with respect to subdivisions b, c, d, e, f, h, and m, from any person (hereinafter sometimes referred to as the "occupant") whose possession or use of such silver, or of any plant in which such silver may be located, is permitted by the Corporation:

a. Require the execution of an agreement by the occupant that such silver shall remain personal property notwithstanding that it may be affixed or attached to realty.

b. Make provision for such filing or recording of this or any other agreement as is necessary for the effective retention on the behalf of the United States of all right, title and interest herein reserved by or conferred upon it, or in its behalf.

c. Place upon and maintain at all times by stamping, or otherwise, a clear mark showing that such silver is the property of the United States.

d. Maintain such mechanical or custodial safeguards, or both, as in the opinion of the Corporation will be adequate to protect such silver.

e. Upon installation or use of such silver in a plant, promptly notify the Secretary, directly or through the Corporation, of the location, quantity and form in which, and the purpose for which, such silver is being held and upon reasonable request of the Secretary cause periodic inventories thereof to be made and the results communicated to the Secretary.

f. Make provision that upon the installation in a plant of any such silver, the form and location thereof shall not be changed without prior notice to and written approval by the Corporation.

g. Require the execution of an agreement by the occupant that he will eliminate from the price for any material, product or facility produced or furnished by the plant any charge for the use of such silver (including all charges for amortization and depreciation), exclusive of any rental, maintenance, taxes or insurance he may be required by agreement with the Corporation to pay.

h. Assure that in the event that provision is made for the acquisition of title to the plant, or any part thereof, by any private person, the title of the United States to such silver shall be protected.

i. Require the execution of an agreement by the occupant that the occupant will not, without prior written consent of the Corporation, sell, assign, or pledge any lease of, or other agreement relating to, such silver or to any plant in which such silver may be located, or any of its rights or obligations thereunder, or permit the use by others of any such property.

j. Require the execution of an agreement by the occupant that the occupant of any plant in which the silver is located will not, without the prior written consent of the Corporation, use the silver or the plant, or any part thereof for any purpose except for the purposes originally agreed upon between the occupant and the Corporation.

k. Require the execution of an agreement by the occupant that the Corporation may retake possession of the silver, or in appropriate cases of the plant in which it is located, in the event (a) that a receiver or trustee is appointed for the plant, or the occupant, or the latter's property, or the occupant makes an assignment for the benefit of creditors, or becomes insolvent, or a petition is filed by or against such occupant pursuant to the provisions of the United States Bankruptcy Act, as amended, and any such petition is not dismissed within sixty (60) days, or (b) of any violation by the occupant of any terms, conditions or covenants of any agreement by the Corporation with the occupant and the failure to cure such violation within thirty (30) days from the giving of written notice thereof by the Corporation.

l. Require the execution of an agreement by the occupant that there shall be paid to the proper authority, when and as the same become due and payable, all taxes, assessments and similar charges which at any time may be taxed, assessed or imposed upon the Corporation, or the occupant of any plant in which the silver may be located, with respect to or upon the plant, or any part thereof, or upon the use thereof.

m. If insurance on the silver in said leased plant is procured and maintained against fire, windstorm and other hazards, and if, in the event of loss under any of such insurance policies, the proceeds are used for the restoration of the silver damaged or destroyed, any silver acquired in replacement shall continue to be the property of the United States and so identified and shall be subject to all of the terms and provisions of this Agreement.

n. Require the execution of an agreement by the occupant that his possession or use of such silver, or of any plant in which such silver may be located, is subject to all the terms and provisions of this Agreement.

7. The Corporation shall hold the United States, the Secretary, and any agency or officer of the Treasury Department, harmless against, and shall reimburse them and any of them for, any loss, expense (including expense of litigation) or damages (including liability to third persons because of death, bodily injury or property injury, or destruction, or otherwise) of any kind whatsoever, arising out of, or in connection with, the delivery, redelivery, transportation, fabrication, installation or maintenance of such silver.

8. No member of or delegate to the Congress of the United States of America shall be admitted to any share or part of this Agreement or to any benefit arising therefrom.

9. Failure of either party hereto to insist in any one or more instances upon performance of any of the terms, covenants or conditions of this Agreement shall not be construed as a waiver or the relinquishment of the future performance of any such term, covenant or condition and any obligation with respect to such future performance shall continue in full force and effect.

10. Defense Plant Corporation hereby constitutes and appoints Sam H. Husbands to be its attorney-in-fact, for it, and in its name, and as and for its corporate act and deed, to acknowledge this Agreement before any person having authority by law to take such acknowledgment.

This Agreement has been executed the day and year first above written.

Henry Morgenthau Jr.
Secretary of the Treasury.

Attest:

A. T. Hobson
Secretary

DEFENSE PLANT CORPORATION

By Sam H Husbands
President and Attorney-in-fact

H. L. Merriam
Treasurer

DISTRICT OF COLUMBIA: SS

I, Samuel H. Marks, a Notary Public in and for the District of Columbia, do hereby certify that Henry Morgenthau, Jr., a party to a certain agreement bearing date of the sixth day of May, 1942, and hereto annexed, personally appeared before me in said District, the said Henry Morgenthau, Jr. being personally well known to me as the person who executed the said agreement, and acknowledged the same to be his act and deed.

Given under my hand and seal this 6th day of May, 1942.

Samuel H. Marks
Notary Public in and for the District of Columbia.
My commission expires Nov 14 1942.

DISTRICT OF COLUMBIA: SS

I, Thomas S. Kelly, 3rd, a Notary Public in and for the District of Columbia, do hereby certify that Sam H. Husbands whose name as attorney-in-fact for Defense Plant Corporation, one of the corporate parties to the foregoing and attached agreement, bearing date of the 6th day of May, 1942, personally appeared before me in said District of Columbia, the said Sam H. Husbands being personally well known to me as the person named as attorney-in-fact in said agreement for said Defense Plant Corporation, and acknowledged said deed to be a deed of Defense Plant Corporation, and that he delivered the same as such.

Given under my hand and seal this 6th day of May, 1942.

Thomas S. Kelly 3rd
Notary Public in and for the District of Columbia.
My commission expires September 1, 1946.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1942

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

Last week Mr. Houghteling told you about the trouble the C.I.O. was having with Jesse Jones about office space for their organization. Jones has now offered them only the ground floor of the Commonwealth Building on K Street, in which they had an uncompleted contract for space, but this ground floor is inadequate for C.I.O. needs. I can tell you more about this if you are interested.

F.K.

May 6, 1942.

Dear Mr. Perkins:

Thank you for your letter of May 5, which informs me that Mr. Frank Coe has been designated as the representative of your Board in connection with discussion of Lend-Lease arrangements. I am glad to have this information and will pass it on to others in the Treasury Department.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

dbs

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

MAY 5 1942

Dear Mr. Secretary:

As you know, the President, in a recent Executive Order (No. 9128), directed the Board of Economic Warfare to assume certain additional responsibilities with reference to Lend-Lease arrangements, particularly those related to reciprocal aid and benefits.

The Treasury Department is one of those interested in this matter, and I am anxious that we should cooperate closely with you and the other interested agencies. To facilitate this cooperation on the part of the Board of Economic Warfare, I am designating Mr. Frank Coe, Chief of the British Empire Division, as our representative, and he will be available for consultation with representatives of your Department.

Sincerely yours,

Milo Perkins
Executive Director

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

Confidential

U. S. DEPARTMENT OF LABOR

Preliminary Figures

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

1941

Money income class in 1941	Total	Food	Housing, fuel, light, and refrigeration	Other household operation	Furnishings and equipment	Clothing	Automobile	Other transportation	Personal care	Medical care	Recreation	Tobacco	Reading	Formal education	Other items
	Average amount in dollars														
Under $500	381	154	116	18	14	17	28	3	6	14	4	3	3	0	1
$500 and under $1,000	784	302	190	26	24	79	45	20	17	28	16	22	8	2	5
$1,000 and under $1,500	1,211	440	266	41	49	135	76	33	28	50	31	36	13	4	9
$1,500 and under $2,000	1,623	559	341	61	90	178	109	43	37	81	47	45	18	2	12
$2,000 and under $3,000	2,283	700	453	97	172	265	162	54	49	123	84	54	24	19	27
$3,000 and under $5,000	3,247	960	526	168	225	387	429	59	70	142	110	75	30	21	45
$5,000 and under $10,000	4,507	1,315	581	270	269	547	862	61	98	147	135	106	36	10	70
	Percentage of total money expenditures (for current consumption)														
Under $500	100.0	40.4	30.4	4.7	3.7	4.5	7.3	.8	1.6	3.7	1.0	.8	.8	.0	.3
$500 and under $1,000	100.0	38.5	24.2	3.3	3.1	10.1	5.7	2.6	2.2	3.6	2.0	2.8	1.0	.3	.6
$1,000 and under $1,500	100.0	36.3	22.0	3.4	4.0	11.2	6.3	2.7	2.3	4.1	2.6	3.0	1.1	.3	.7
$1,500 and under $2,000	100.0	34.4	21.0	3.8	5.5	11.0	6.7	2.6	2.3	5.0	2.9	2.8	1.1	.1	.8
$2,000 and under $3,000	100.0	30.7	19.8	4.2	7.5	11.6	7.1	2.4	2.2	5.4	3.7	2.4	1.0	.8	1.2
$3,000 and under $5,000	100.0	29.6	16.2	5.2	6.9	11.9	13.2	1.8	2.2	4.4	3.4	2.3	.9	.6	1.4
$5,000 and under $10,000	100.0	29.2	12.9	6.0	6.0	12.1	19.1	1.4	2.2	3.3	3.0	2.3	.8	.2	1.6

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Income and Outlay

Estimates for City Families and Single Persons

First Quarter of 1942

Money Income Class in 1941	Total Money Income	Money Expenditures for Current Consumption	Money Expenditures for Gifts and Contributions	Direct Tax Payments	Net Saving
	Average amount in dollars				
Under $500	$ 112	$ 103	$ 5	$ 1/	$ 4
$500 and under $1,000	241	225	4	1/	12
$1,000 and under $1,500	365	337	6	2	20
$1,500 and under $2,000	469	431	9	4	25
$2,000 and under $3,000	667	571	27	22	47
$3,000 and under $5,000	922	715	33	42	132
$5,000 and under $10,000	1,252	879	37	68	268
	Percent of total money income				
Under $500	100.0	91.9	4.5	2/	3.6
$500 and under $1,000	100.0	93.3	1.7	2/	5.0
$1,000 and under $1,500	100.0	92.3	1.7	.5	5.5
$1,500 and under $2,000	100.0	91.9	1.9	.9	5.3
$2,000 and under $3,000	100.0	85.6	4.0	3.3	7.1
$3,000 and under $5,000	100.0	77.5	3.6	4.6	14.3
$5,000 and under $10,000	100.0	70.2	3.0	5.4	21.4

1/ Less than $0.50.
2/ Less than 0.1 percent.

...t of Living Division
... 6, 1942

Confidential

232-A
7

U. S. BUREAU OF LABOR STATISTICS

<u>Preliminary Figures</u>

Money Expenditures for Current Consumption

Estimates for City Families and Single Persons

First Quarter of 1942

Money income class in 1941	Total	Food	Housing, fuel, light, and refrigeration	Other House-hold operation	Furnishings and equipment	Clothing	Auto-mobile	Other transportation	Personal care	Medical care	Recreation	Tobacco	Reading	Formal education	Other items
	Average amount in dollars														
Under $500	103	44	30	5	3	5	2	2	3	5	1	2	1	1/	1/
$500 and under $1,000	225	84	52	7	5	28	10	7	5	9	5	7	2	2	2
$1,000 and under $1,500	337	119	72	11	9	44	18	11	7	16	10	10	4	3	3
$1,500 and under $2,000	431	147	89	16	15	52	26	13	9	28	13	13	5	3	2
$2,000 and under $3,000	571	185	112	23	25	73	39	13	12	40	24	12	6	4	3
$3,000 and under $5,000	715	227	130	35	40	86	56	16	16	37	34	16	7	6	9
$5,000 and under $10,000	879	275	148	53	59	98	79	21	21	22	45	22	7	8	21
	Percentage of total money expenditures for current consumption														
Under $500	100.0	42.7	29.1	4.9	2.9	4.9	1.9	1.9	2.9	4.9	1.0	1.9	1.0	2/	2/
$500 and under $1,000	100.0	37.4	23.1	3.1	2.2	12.5	4.4	3.1	2.2	4.0	2.2	3.1	.9	.9	.3
$1,000 and under $1,500	100.0	35.3	21.3	3.3	2.7	13.0	5.3	3.3	2.1	4.7	3.0	3.0	1.2	.9	.9
$1,500 and under $2,000	100.0	34.1	20.6	3.7	3.5	12.1	6.0	3.0	2.1	6.5	3.0	3.0	1.2	.7	.5
$2,000 and under $3,000	100.0	32.4	19.6	4.0	4.4	12.8	6.8	2.3	2.1	7.0	4.2	2.1	1.1	.7	.5
$3,000 and under $5,000	100.0	31.8	18.2	4.9	5.6	12.0	7.8	2.2	2.2	5.2	4.8	2.2	1.0	.8	1.3
$5,000 and under $10,000	100.0	31.3	16.9	6.0	6.7	11.1	9.0	2.4	2.4	2.5	5.1	2.5	.8	.9	2.4

1/ Less than $0.50

2/ Less than 0.1 percent

Cost of Living Division
May 6, 1942

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons

1 9 4 1

Money income class in 1941	U.S. Government Bonds and Defense Stamps: Amount spent for purchase	U.S. Government Bonds and Defense Stamps: Amount received from sale	Tax savings notes Purchased	Net change in money in savings accounts	Net change in money in checking accounts	Net Change in Assets	Net 1/ Change in Liabilities	Net Saving or Deficit
Under $500	$ 6	$ 0	$ 0	$ -119	$ -3	$ -84	$ +15	$ -99
$500 and under $1,000	6	0	0	-33	-5	-31	+36	-67
$1,000 and under $1,500	13	0	0	+11	-3	+38	+46	-8
$1,500 and under $2,000	26	0	0	-13	+10	+118	+55	+63
$2,000 and under $3,000	41	0	0	-10	-54	+116	+22	+115
$[illegible]00 and under $5,000	73	0	5	+11	+143	+453	+25	+428
$5,000 and under $10,000	119	0	0	+52	+508	+1010	+90	+920

1/ Plus (+) means an increase in liabilities, minus (-) means a decrease in liabilities.

233

Cost of Living Division
May 6, 1942

233-A

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Average Change in Specified Types of Assets Compared with Net Change in Assets and in Liabilities

Estimates for City Families and Single Persons
First Quarter of 1942

Money income class in 1941	U.S. Government Bonds and Defense Stamps: Amount spent for purchase	U.S. Government Bonds and Defense Stamps: Amount received from sale	Tax Savings Notes: Amount spent for purchase	Tax Savings Notes: Amount used for tax payments	Net change in money in savings accounts	Net change in money in checking accounts	Net change in Assets	Net Change in Liabilities 1/	Net Saving or Deficit
Under $500	$ 39	$ --	$ --	$ --	$ - 2	$ 2/	$ 1	$ - 3	$ 4
$500 and under $1,000	33	--	--	--	- 21	- 1	14	+ 2	12
$1,000 and under $1,500	28	--	--	--	- 26	+ 2	25	+ 5	20
$1,500 and under $2,000	23	--	--	--	- 19	+ 12	32	+ 7	25
$2,000 and under $3,000	19	--	--	--	+ 13	- 6	50	+ 3	47
$3,000 and under $5,000	22	--	--	--	- 8	+ 28	109	- 23	132
$5,000 and under $10,000	31	--	--	--	- 64	+ 91	202	- 66	268

1/ Plus (+) means an increase in liabilities; minus (-) means a decrease in liabilities
2/ Less than $0.50

Cost of Living Division
May 6, 1942

228-A

Confidential

10

U. S. BUREAU OF LABOR STATISTICS

Preliminary Figures

Estimated Average Number of Persons Per Family

City Families 1/

1 9 4 1

Money income class in 1941	Average total family size	Average No. of persons per family 18 years and over	Average No. of persons per family under 18 years
Under $500	1.3	1.2	.1
$500 and under $1,000	2.6	1.8	.8
$1,000 and under $1,500	2.5	1.8	.7
$1,500 and under $2,000	3.1	2.3	.8
$2,000 and under $3,000	3.1	2.3	.8
$3,000 and under $5,000	3.5	2.8	.7
$5,000 and under $10,000	3.8	2.8	1.0
$10,000 and over	3.8	3.1	.7

1/ Including one-person families

Cost of Living Division
May 6, 1942

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1942

TO Secretary Morgenthau

FROM Mr. Foley and Mr. White

Subject: Extension of Freezing Control to Argentina

It is recommended that the freezing control order be extended to cover the assets and transactions of Argentina and her nationals, for the following reasons:

A. Argentina is being actively used by the Axis to undermine our program of economic warfare.

Argentina is now being widely used by the Axis to cloak important economic and financial activities. Argentina and Switzerland are the two most important centers used by the Axis to evade the economic warfare carried on by the United Nations.

In the weeks preceding the extension of our freezing order to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. In this way, a large part of the funds which we had hoped to prevent from being used for Axis activities escaped our control. This accumulation of Axis funds in Argentina has resulted in the Axis' using Buenos Aires as the center point from which to transmit funds to Axis agents in all the other American republics.

We have proof that Argentine holding companies and financial institutions are widely used by the Axis and its satellites to hold substantial amounts of dollar assets in the United States in evasion of our freezing control. With these funds, they carry on transactions contrary to the purposes of our freezing order and inimical to our war effort.

The following are a few examples of the use of Argentine institutions and financial facilities for Axis purposes:

1. After closely watching the account of an Argentine holding company believed to be holding funds for a blocked national, we discovered that the funds in the account, amounting to over $1,000,000, did in fact belong to a Swiss national on the Proclaimed List acting for the Axis.

2. We were recently informed that an Argentine holding company had given orders to liquidate $400,000 worth of securities held for its account, and to transfer them to Argentina. Subsequently, we learned from a censorship despatch that these funds are to be used in developing a steel industry in Argentina, and that the person carrying on the negotiations, for the owner of these funds, is believed to be an agent of the Nazi government, who came from Austria in 1939.

3. Typical of the numerous Argentine holding companies cloaking funds in this country is one which holds $3,000,000 in New York by way of a Panamanian holding company which in turn owns a Canadian company in whose name the funds are held. It is known that this chain of holding companies is in fact entirely owned by a French banking concern, and that prior to our freezing order the Canadian company holding the funds was admittedly owned by French nationals in France.

While it is possible for us to ferret out a few of these companies and to freeze them on an individual basis, it is impossible to keep pace with the rapid maneuvers presently possible through free Argentine companies. By freezing funds held in this country in the name of Argentine holding companies and institutions, we will destroy the elaborate machinery built up by the Axis to cloak funds held in this country on the assumption that Argentina would remain neutral and would not be subject to the freezing order.

B. Argentina is the fence for looted currency and securities.

Despite the efforts that have been made to prevent Germany from realizing on the looted currency and securities seized in the invaded countries, the Axis has succeeded in realizing some benefit from the stolen property by disposing of it through Argentina. In the first quarter of this year imports of currency from Europewere completely stopped. In the same period, Argentina sent to this country $1,250,000 in dollar currency. Within the last two weeks $250,000 in American currency has been shipped to the United States from Argentina. Although steps will be taken to narrow this particular avenue of evasion, this is one example of the many ways in which our freezing control program is evaded and defeated by collaboration of persons in Argentina.

Dollar securities looted by the Axis are now being disposed of in Argentina by German agents. Although the present freezing order prevents such securities being shipped to this country, their disposal in Argentina provides the Axis with free funds in South America. The ability of the Axis to sell these securities in Argentina, coupled with their ability to hold free dollars in the United States in the name of Argentine institutions, completely undermines the purposes of our freezing control.

C. Argentina has not taken effective steps to carry out resolutions adopted at the Rio Conference.

Argentina has not adopted measures effectively carrying out the resolutions adopted at the Rio Conference recommending the severance of diplomatic, commercial and financial relations with the Axis and the implementing of a program of economic warfare against the Axis. Such financial controls as Argentina has imposed apply to all belligerents outside the Western Hemisphere-- to the United Nations as well as to the Axis powers.

Officials of the Argentine Government agree that existing measures of control do not meet the expectations of the Rio resolutions. A measure of control is applied only in those cases in which the transaction involves a foreign exchange operation. Moreover, licenses under the exchange control are freely granted for operations alleged by the applicants to be related to commercial transactions. This provides a wide open loophole for the transfer and use of Axis funds.

The Under Minister of Finance recently said that arrangements are being made to present a legislative program to the Argentine Congress when it convenes. In view of the attitude of the Argentine President and the conservative coalition, however, it is very unlikely that any effective control will be adopted in Argentina.

Conclusion

We cannot depend upon the Argentine government to cooperate with us and close these serious gaps in our program of economic warfare. The lack of cooperation that Argentina has exhibited in all stages in which it could have cooperated with the United Nations' program of economic warfare leaves no satisfactory alternative other than to proceed with the extension of the freezing order to Argentina and its nationals. We would of course take such steps under the freezing order as would permit the carrying out of legitimate Argentine transactions. This could take the form of the issuance of a general license covering Argentine transactions, modeled along the lines of the general licenses relating to Portugal, Spain, Sweden, and Switzerland.

The extension of freezing control to Argentina will have a wholesome effect not only in its particular relation to Argentina, but also in its relation to our whole program of economic warfare in Latin America. As indicated in the attached memorandum relating to the experience of Treasury representatives who have recently visited Latin America, most of the Latin American republics are not giving us their wholehearted cooperation in the field of economic warfare. The application of freezing control to Argentina will demonstrate to all Latin America as well as to Argentina that the United States Government "means business" and takes a serious view of the failure of any country to render whatever assistance it is in a position to render to the United Nations in this war of survival.

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FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

May 6, 1942.

S i r : Attention: Mr. Frank Dietrich

Reference is made to the Treasury Department's telegram dated April 17, 1942, authorizing and instructing the Federal Reserve Bank of New York, as fiscal agent of the United States, in accordance with instructions received by the Treasury from the Soviet Ambassador, to make arrangements with the Bank of Canada to tranship about ten tons of gold, arriving in Halifax about the middle of April, from Halifax to New York and deposit the gold in the United States Assay Office at New York.

In accordance with the abovementioned telegram, arrangements were made with the Bank of Canada whereby the gold was transshipped from Canada via Railway Express Agency, Incorporated and delivered to the United States Assay Office at New York on April 20, 1942. At that time the gold was deposited by us, as fiscal agent of the United States, in the Assay Office for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics.

We are now pleased to inform you that, on May 5, 1942 we received a United States Assay Office check in the amount of $11,250,236.53 drawn to the order of the Federal Reserve Bank of New York for credit of the Secretary of the Treasury-Special Account in payment for the above-mentioned gold. Pursuant to our telephone conversation yesterday, we, as fiscal agent of the United States, credited the Secretary of the Treasury-Special Account on our books $11,250,236.53 and made the appropriate entries in the transcript of the Secretary of the Treasury-Special Account to reflect the 1/4 of one per cent charge of $28,126.40 as a handling charge on gold.

On April 27, 1942 this bank paid to the Railway Express Agency, Incorporated in New York, $26,445.14 representing shipping expenses incurred in connection with the movement of the gold from Halifax to New York. Reimbursement was received by us from the State Bank of the U.S.S.R. by debit to its account on our books on May 2, 1942. A copy of the Railway Express Agency bill together with copies of the cables exchanged with the State Bank of the U.S.S.R. relative to this item are enclosed.

Also enclosed for your files, are copies of the letters sent by us to the Bank of Canada, Ottawa, and to the United States Assay Office at New York regarding the above-mentioned shipment.

Respectfully,

(Sgd.) H. L. Sanford
H. L. Sanford,
Manager, Foreign Department.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.
Enc. Copy:ime:5/7/42

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STATEMENT

April 21st, 1942.

M Federal Reserve Bank of New York, Attention: Mr. Lang

33 Liberty Street, New York.

Payment of bills required within seven (7) days after date rendered. If any charges are subject to adjustment, return the items deducting them from total bill and remit the balance.

To RAILWAY EXPRESS AGENCY
Incorporated

65 Broadway,
(Street and Number)

New York N.Y.
(City)

Delivery Sheet or Receipt No.	Date	Article	Charges
C 1	4/16/42	167 boxes Gold Bullion U.S. Value $11,253,203.78 From the Bank of Canada, Halifax N.S. at $2.35 per $1000.00	$26,445.03
		Manifest Fee	.11
			$26,445.14

AHJ

RECEIVED PAYMENT
26,445.14
RAILWAY EXPRESS AGENCY
By M. G. Votee
4/27/42 K.

Copy:imc
5/7/42

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OUTGOING CABLEGRAM

APRIL 24, 1942

State Bank of the U. S. S. R.

Moscow

No. 20

In accordance with request made by your Embassy in Washington through United States Treasury Department please cable how reimbursement to this bank is to be made for express charges amounting to $26,445.14 incurred by us on shipment of goods consigned to us and delivered to United States Treasury April 20, 1942.

FEDERAL RESERVE BANK OF NEW YORK

Copy:ime
5/7/42

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INCOMING CABLEGRAM

May 1, 1942

Moscow, May 1, 1942

Federal Reserve Bank of New York

New York

No. 22

With reference to your cable of April 24 charge our account pay to yourselves $26,445.14.

State Bank of the U.S.S.R.

Copy:ime
5/7/42

C O P Y

April 17, 1942.

The Secretary,
Bank of Canada,
Ottawa, Canada.

Dear Sir:

Reference is made to our telephone conversation today with Mr. Turk regarding a shipment of approximately 10 tons of gold which you advise is now enroute from a Canadian east coast port to Montreal via Canadian National Railways, consigned to the Federal Reserve Bank of New York.

Pursuant to instructions received by us from the U.S. Treasury Department we, as fiscal agent of the United States, would greatly appreciate it if you would arrange for the transshipment of this gold, in bond, to New York by all rail route consigned to the Federal Reserve Bank of New York, care of the United States Assay Office at New York.

As agreed with Mr. Turk, the gold is not to be insured by you and the railway express charges will be paid by us upon arrival of the gold in New York. With respect to the valuation to be placed on the gold, and in the absence of any definite information, we agreed with Mr. Turk upon a tentative figure of $10,311,000 U.S. currency subject to adjustment upon determination of the actual value of the gold received. However, in view of Mr. Turk's information that the shipment consists of 167 cases, we have revised the estimated value upward to $11,100,000 U.S. currency and would suggest that you declare the shipment to the express company at the higher figure subject, of course, to adjustment. We understand further that although the gold is expected to arrive in Montreal in the morning of April 18, you will arrange to have the gold transshipped so that it will reach New York on Monday, April 20, 1942.

We should appreciate your sending to us any documents which you may receive in connection with this shipment and advising us as soon as possible of any further details that may come to your attention.

Please accept our thanks for your cooperation in this matter.

Very truly yours,

H. L. Sanford,
Manager, Foreign Department.

Copy:imc
5/7/42

C
O
P
Y

April 20, 1942.

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

Dear Sirs:

Pursuant to instructions received from the United States Treasury Department, we, as fiscal agent of the United States, are today delivering to you the following gold for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics:

No. of Cases	No. of Bars	Said to Contain Fine Ounces	Value at $35.00 per Fine Ounce
167	833	321,520.108	$11,253,203.78

We understand that the Treasury Department will furnish you with instructions regarding the disposition of the above-mentioned gold.

Very truly yours,

H. L. Sanford,
Manager, Foreign Department.

Copy:imc
5/7/42

May 6, 1942

Mr. Livesey

Mr. D. W. Bell

Will you please send the following cable to the American Embassy in London:

"From Treasury.

Reference your 2363, May 4, 5:14 p.m.

All checks drawn on Treasurer of U.S. and excess of U.S. paper currency may be handled in accordance with paragraphs 2 to 5 inclusive of telegram No. 1462, April 6, midnight."

FD:lo:5/6/42

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 150

Information received up to 7 A.M., 6th May, 1942.

1. MADAGASCAR

No information further to OPTEL No. 149. Up to capture of DIEGO SUAREZ, French losses were 1 submarine, 1 sloop, 3 fighters and a number of aircraft probably destroyed in hangars. 7 of our aircraft lost and one of H.M. Corvettes damaged by mine.

2. NAVAL

5th. Five of H.M. destroyers engaged four enemy E-type boats North East of ST.VALERY. One enemy boat was set on fire and probably sunk, remainder damaged and retired behind smoke screen. Three ships of an outward bound convoy to RUSSIA have been sunk by torpedo aircraft.

3. MILITARY

BURMA. British troops reported in action to the North and West of MANDALAY. Chinese troops fighting north of LASHIO.

SOUTH WEST PACIFIC. Unconfirmed reports indicate that TULAGI (SOLOMON ISLANDS) may have been occupied by the Japanese.

4. AIR OPERATIONS

WESTERN FRONT. 4th/5th. Owing to heavy cloud, few aircraft were able to locate STUTTGART. 52 tons of high explosive and incendiaries were dropped on the target area. Off Norwegian Coast a 3,000 ton vessel was damaged, and, off TERSCHELLING, a 5,000 ton vessel was set on fire and another small vessel damaged.

5th. 12 Bostons were despatched to attack targets at ZEEBRUGGE and LILLE. About 480 Spitfires provided escort and carried out offensive operations. 4 enemy fighters destroyed, 6 probably destroyed and 3 damaged. We lost 8 Spitfires, 2 pilots safe.

5th/6th. Aircraft despatched to - STUTTGART 41, Electrical works FEUERBACH 36, NANTES 19, SCHIPOL aerodrome 4, Leaflets (FRANCE) 10. 4 aircraft are missing.

MALTA. Between 2.01 p.m. 4th and 2.40 p.m. 5th, 15 bombers and 50 fighters attacked. Our fighters destroyed 1 and anti-aircraft damaged 1. One Spitfire lost.

May 6, 1942

Col Clear's Report.

Dear Colonel Martin:

On behalf of Secretary Morgenthau, I am acknowledging receipt of your memorandum of May 1 requesting the return of the report "Observations and Recommendations on Far Eastern Operations", which is enclosed herewith.

Mr. Morgenthau will be interested in receiving the revised report when it has been completed.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary

Lieut. Colonel T.M.Martin, G.S.C.,
Acting Chief, Far Eastern Branch,
Military Intelligence Division,
War Department.

File M.M.C.

By Messenger Dixon 10:15

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

MID 270.2 Far
East

May 1, 1942.

MEMORANDUM FOR SECRETARY OF WAR:
ASSISTANT CHIEF OF STAFF, G-2:
WAR PLANS DIVISION:
OFFICE OF NAVAL INTELLIGENCE:
GROUND FORCES:
INTELLIGENCE GROUP:
CHIEF OF STAFF:
CHIEF OF ARMY AIR FORCES:
SECRETARY OF TREASURY:
BRITISH EMPIRE BRANCH:

Subject: Observations and Recommendations on Far Eastern Operations.

The author of the memorandum for John J. McCloy, Assistant Secretary of War, dated April 20, 1942, has requested that all copies of the above in your possession be returned to the Far Eastern Branch, M.I.S. A more complete document on the same subject is being published.

T. M. Martin

T. M. MARTIN,
Lieut. Colonel, G. S. C.,
Acting Chief, Far Eastern Branch.

April 20, 1942

MEMORANDUM FOR John J. McCloy
The Assistant Secretary of War
Washington, D. C.

SUBJECT: Observations and Recommendations on Far Eastern Operations.

In compliance with your request for my observations made as a result of duty in Malaya, Java and Burma, from February 1941 to April 1942, as U. S. Military Observer and as staff officer on the Allied Command in Java. The following notes are submitted:

(1) United States troops operating in tropical country should be trained to employ special methods which will be both effective in an attack on the Japanese and for defense against them. Included among these tactics for infantry is the adoption of Japanese tree fighting tactics and infiltration methods. A training manual used by the British and Dutch is attached.

(2) In tropical countries the white man's margin of endurance, before he becomes exhausted both physically and mentally, is small and it is necessary to employ all measures which will reduce fatigue. In addition to the use of simple direct orders, the soldiers clothing and equipment must be reduced in amount for tropical service. To at least equal Japanese mobility, our troops must reduce to a minimum the amount of clothing and equipment which a soldier carries on him. Stockages of extra clothing and equipment should be carried on unit trains and issued only when replacement becomes necessary instead of requiring the soldier to carry "spares" on his person. The mosquito bar is unnecessary weight and it is believed that atebrin and possibly mosquito paste should be issued to prevent malaria.

(3) The U. S. rationing system must be similarly modified to simplify our present methods of rationing. Battle rations should consist of not more than three components which can

be quickly prepared by the soldier himself when necessary.

(4) When troops are to operate in jungle country it is necessary that they be equipped with many light mobile automatic guns particularly tommy guns and grenades. These are of great value particularly in the attack, since they permit the quick production of a large volume of fire. Tommy guns are needed by artillery, head-quarters and L of C troops as protection against Japanese infiltrations.

(5) The American soldier who is to operate in an active theater from the time he joins the service should be hardened both physically and mentally to meet the conditions of actual combat. This training must be conducted to a large extent in an atmosphere which duplicates combat conditions, including at times the great hardships and disorder which invariably obtains on a battle field.

(6) An extremely high state of discipline must be developed, based not only on fear of punishment but also resulting from an appreciation of the necessity for mutual, cooperative action to achieve a desired result.

(7) Units being embarked for overseas expeditions to active theaters should be "unit-loaded" wherever there is even a remote possibility that they will become involved in hostilities.

In Java, particularly, reinforcements arrived with men, ammunition or equipment frequently loaded on different ships, requiring considerable time for the assembly of a unit with its combat equipment. This was true of British, Australians, and even one U. S. unit. There was some justification, however, for the arrival of this American unit without sufficient ammunition since it left the continental limits of the United States before war was declared and its ultimate destination was a locality where the necessary ammunition was obtainable. While "bulk-loading" occasionally appears desirable from the staff angle, the rerouting of ships to other ports is sometimes necessary, or the destruction of some by air or submarine action enroute is liable to cripple some combat units unless they have their ammunition and equipment immediately available on the same ship. For example when a regiment of artillery is moved with each battalion accompanied by its own guns and ammunition on the same ship if ships are sunk the remainder contain units fully equipped for combat, whereas if the regiment is bulk-loaded and the ships containing the weapons had been sunk the entire unit would have been rendered temporarily impotent. There is also considerable delay in reassembling the complete regiment at the end of the trip.

(8) United States troop movements, operation of transports and preparation of the United States airdromes and depots should be under the direct supervision of United States personnel in order to assure promptness and certainity of action by American forces brought into any theater. In tropical countries, the relatively few British personnel, the indolence of many native officials, and inertia, even in the face of immediate necessity, have been responsible for failure to carry out such actions many times. The lack of proper air warning systems for airdromes and satellites and dispersion of aircraft on them has resulted in the loss of many British, Dutch, and United States planes. It is believed that United States air units should be always equipped with their own air observers systems including radio direction finder units and should supervise the operations of all airdromes and satellites in the Far East where United States planes are located. Should this not be possible, a thorough check should be made by an American to assure that the proper air warning system is in operation, and the airdrome and satellite facilities are sufficient for protection and dispersion.

(9) Commanders of United States forces in the southwest Pacific, Burma, India, and Middle East have mentioned the great need for close liaison with the War Department and it is believed that a system of liaison officers especially qualified for both operation and intelligence should operate between the United States theaters and Washington, using the Ferry Command facilities when available.

(10) The British, during my experience, have been cooperative with Americans but it is thought that they do not always have the proper appreciation of the need for speed the methods for securing it, and the ability or means to carry out important tasks.

(11) The superior signal equipment which the Japanese have stresses the need for all kinds of signal equipment, particularly adaptable to tropical conditions. In Malaya many British units were unable to maintain contact with each other and the British commanders were unable to maintain signal communication with their units. There was little air-ground equipment. In Burma even the British and Chinese armies were unable to maintain lateral signal communications of 45 miles and the Chinese army under Gen. Stilwell could not communicate with Chungking or Washington without considerable delay.

(12) In conclusion it is desired to re-state that the Japanese is a hard aggressive type of fighter who is not afraid to die. He rarely goes on the defensive and is not particularly good in defense and the obvious method, when numbers are any where near equal, is to attack him with hard, well conditioned troops, simply clad and equipped and armed with our most effective automatic weapons supported by artillery and air.

The effect of air has been so pronounced in Malaya, Java and Burma that I feel justified in concluding that in order to initiate offensive action in any theater that a favorable air situation must be first developed and that, with air superiority, one division can whip an army corps. There remains however the great necessity for effective coordination of air effort with ground forces.

Attached herewith is a copy of "Tactical Methods" prepared by the Allied Command Headquarters in Java which covers Japanese characteristics and tactical methods for employment against them.

FRANCIS G. BRINK
Colonel, General Staff Corps

Distribution:

Secretary of War - 1
A C of S, G-2 - 1
W.P.D. - 2
O. N. I. - 2
Ground Forces - 3
Record Section - 1
Intelligence Group - 2
Chief of Staff - 1
Chief of the Army Air Forces - 3
Secretary of Treasury - 1
British Empire Branch - 1
Far Eastern Branch - 3

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6,1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Monthly Report: Royal Air Force Bombing Activity in April, 1942

1. Bombing activity of the R.A.F. in April was several times more intense than during the winter months. The loss of 132 bombers in April in the night raids was likewise several times greater than the winter monthly losses.

2. April was the first month since last summer that the R.A.F. daylight activity has been noteworthy. Daylight bombing is still done by a relatively few light bombers: on an average day, 24 Douglas Boston and 8 Hurricane bombers are sent out, accompanied by ten times their number in fighters. The largest number of R.A.F. fighters engaged in offensive action in the war to date was on April 30, when 750 fighters flew over France.

3. A total of 3,000 tons of high explosives and incendiaries were dropped in April on German-Europe.

256

	Losses during March	Total losses in the war to May 1, 1942
I. Losses		
R.A.F. bomber losses in night raids over Western Europe	132	1,633

II. Analysis of Targets	Attacks during April		Total number of attacks in war to May 1,1942	
Ports, docks, shipping	33		1,566	
Industrial plants	20		937	
Airdromes and seaplane bases	19		899	
Oil refineries, synthetic plants and tank farms	1		360	
Total of above		73		3,762

III. Leading Cities Attacked	Attacks during April		Total number of attacks in war to May 1,1942	
A. Germany				
Cologne (industrial center)	4		101	
Bremen (port)	0		87	
Hamburg (port)	2		87	
Emden (port)	0		72	
Wilhelmshaven (port)	0		61	
Kiel (port)	1		59	
Mannheim (industrial center)	0		57	
Berlin (industrial center)	0		50	
Essen (industrial center)	3		49	
Gelsenkirchen (synthetic oil)	0		43	
Hanover (synthetic oil)	0		42	
Total of above (11 cities)		10		708
B. Occupied Areas				
Boulogne (port)	0		120	
Brest (port)	0		107	
Ostend (port)	1		103	
Calais (port)	0		79	
Flushing (port)	0		63	
Lorient (port)	1		53	
Paris (industrial center)	3		4	
Trondheim (naval base)	2		2	
Total of above (8 cities)		7		531
C. Italy				
Naples (port)	0		24	
Turin (industrial center)	1		14	
Total		1		38

257

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Intelligence Reports

Political Situation in Axis Countries

The British Political Warfare Executive analyzes the present situation in the Axis countries as follows:

A. Germany

The acute internal conflict in Germany is now producing serious divergencies. The Nazi Party is being given increased prominence. Hitler has definitely cast his lot with the Party extremists and is now doing everything to strengthen the Nazi Party organization.

B. Italy

The internal situation in Italy has continued to deteriorate. The fact that the Fascists are anxious is confirmed by the greatly increased jamming of foreign broadcasts.

The recent meeting of Mussolini with the regional Prefects was probably concerned with food problems. The conference resulted in a decentralization of power to the Prefects which evidently is intended to secure local solution of the food problem. This development must be taken as an indication of the breakdown of the Fascist national system.

The rumors of a political crisis involving the king are not as yet substantiated.

(Political Warfare Executive, German and Italian Directives; C.O.I. Cable, May 1, 1942)

Home Opinion in England

According to the British Home Intelligence Report, British home morale has improved considerably. The Commando and R.A.F. raids are credited with lifting England out of the depression resulting from the Far Eastern defeats. A dominant note is expectancy, ranging from "more active warfare in Europe" to "firm conviction that this year, we will invade the West."

"Russian talks and films are still the major incentive to increased production."

(U.K. Home Intelligence Report, C.O.I., May 1, 1942)

R. A. F. Activity

On Saturday night, May 2/3, 96 R.A.F. bombers were sent out to mine waters in the Bay of Biscay and the Baltic. These planes laid 238 mines. (This operation is a notable one on two counts: usually only a few bombers are sent out sea-mining instead of a major force, as in this case. The number of mines dropped in this one night is almost double the usual weekly average of 150.)

(U.K. Operations Reports, May 3, 4, 1942)