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THE WHITE HOUSE
WASHINGTON

June 2, 1943

My dear Mr. Secretary:

I am attaching hereto for your information and guidance a copy of a Proposed Second Protocol between the Union of Soviet Socialist Republics and the United States and Great Britain for the period July 1, 1942 - June 30, 1943, which I have delivered to a representative of the Soviet Government. You will appreciate the necessity of treating this as a confidential matter.

Sincerely yours,

A handwritten signature in cursive script, reading "Franklin D. Roosevelt". The signature is written in dark ink and is positioned below the typed name "Franklin D. Roosevelt".

The Honorable,

The Secretary of the Treasury.

**PROPOSED SHIPMENT PROTOCOL
BETWEEN
THE UNION OF SOVIET SOCIALIST REPUBLICS
AND
THE UNITED STATES AND GREAT BRITAIN
COVERING THE PERIOD
JULY 1, 1942 TO JUNE 30, 1943**

1. The Governments of the United States and the United Kingdom have been giving the most serious consideration to the munitions of war which we can make available to the Soviet Government during the coming year. In addition to possible limitations due to the shortage of ships, the controlling factor by the northern route is the quantity of shipping that can be escorted to ports of discharge. The limiting factor by the southern route is inland transportation from Persian Gulf ports.

2. Our respective Governments will make available for despatch from the ports of the United States, United Kingdom and other countries during the period 1st July, 1942 to 30th June, 1943, approximately 3,300,000 short tons to the northern ports and 1,100,000 short tons to the Persian Gulf ports. In the circumstances mentioned in paragraph 1, it is our opinion that this is the highest practicable export programme from all sources at which we can now aim. Within the limits imposed from time to time by the factors mentioned, we will supply the shipping necessary to lift that part of this program for which U.S.S.R. ships cannot be made available.

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3. The schedule of stores which the United States can make available has been drawn up in the light of the programme of requirements as submitted to the United States Government by the U.S.S.R. The schedule of stores offered by the United Kingdom has been drawn up on the assumption that Russia desires to continue to receive supplies on the scale agreed at the Moscow Conference. The stores listed in these two schedules amount to approximately 8,000,000 short tons.

4. It will be necessary for the Soviet Government to select from these schedules a programme of particular supplies and munitions of war for procurement and despatch, which will come within the amounts mentioned in paragraph 2. This programme should include all cargoes to be transported after 1st July, 1942, including protocol and non-protocol items either already on order or to be ordered.

5. It is to be understood this programme is subject to variations to meet unforeseen developments in the progress of the war. But you may be sure that every effort will be made to deliver the particular supplies which you designate.

6. The United States will be pleased to extend financial arrangements to cover its part of the proposed new protocol and all adjustments thereof. The United Kingdom financial arrangements will continue as at present, i.e. cash-credit agreement of 16th August, 1941,

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COMBOMB OF UNITED STATES STORES

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The United States government undertakes to make available to the Union of Soviet Socialist Republics the following schedule of stores aggregating some 7,000,000 short tons valued at three billion dollars, of which there are 1,110,000 tons of military and naval equipment, armament and ammunition valued at two billion dollars, 1,800,000 tons of materials, machinery and industrial equipment worth four hundred million dollars and 4,300,000 tons of food products worth six hundred million dollars.

The following schedule has been prepared on the basis that any balances which may be due from the existing Protocol after June 30, 1942, are included, as well as all articles contained in the new Protocol for which requisitions have been previously approved with delivery scheduled after June 30, 1942. The schedules indicate availability at centers of production.

In the schedule, the item numbers and major classifications correspond to those in the U.S.S.R. Program of Requirements, submitted April 2, 1942. For certain items the amounts to be made available are indicated as combined offerings of the United States and the United Kingdom and appear as a combined figure in the schedules of both governments.

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GROUP I. ARMAMENT AND MILITARY EQUIPMENT

Item 1. - AIRPLANES

Amount requested: 4,300

Airplanes will be supplied through October 1943 at an average rate of 100 pursuits, 100 light bombers, and 12 medium bombers per month. Commitments will be made for the balance of the year on the basis of developments incident to the progress of the war.

Item 2. - TANKS WITH ARMAMENT

Amount requested: 5,250

7,500 tanks with armament: First six months, 1,572 light and 1,428 medium tanks; second six months, 2,250 light and 2,250 medium tanks; all as nearly as possible in equal monthly installments.

Item 3. - ANTIAIRCRAFT GUNS, 90MM.

Amount requested: 204

204 90mm. antiaircraft guns, complete with ammunition, made available at the following rate: 8 per month for first quarter; 16 per month for second quarter; 20 per month for third quarter; 24 per month for fourth quarter. Auxiliary equipment will be provided in the same proportion as is made available to United States troops.

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GROUP I. Continued

Items 4 and 6. - ANTI-AIRCRAFT GUNS, 37MM., 45MM.,
12.7-20MM.

Amount requested: 3,000 - 37mm. and 45mm.
360 - 12.7-20mm.

3,360 substitute units, 37mm., or twin 20mm. on self-propelled mount without director; to be furnished at following successive quarterly rates: 300, 720, 1020, 1320.

Item 5. - ANTI-TANK GUNS, 50-57MM. COMPLETE WITH
AMMUNITION

Amount requested: 2,100

1,900 57mm. at rate of 200 per month during period October through May, and 300 for June.

Items 7 and 8. - MACHINE GUNS, COMPLETE WITH AMMUNITION,
.38 CAL. AND THOMPSON SUB-MACHINE GUNS .45 CAL.

Amount requested: 120,000 - .38 cal.
127,878 - .45 cal.

240,000 at rate of 20,000 per month. No .38 cal. in production.

NOTE: Ammunition for all weapons will be supplied in the same proportion as for United States troops and, if practicable, in an amount equal to the accuracy life of weapons.

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GROUP I. Continued

An effort will be made to provide spare parts as follows:

Spare engines	20 per cent
Spare propellers	20 per cent
Airplane spare parts	20 per cent of cost of plane
Engine spare parts	15 per cent of cost of engine
Propellor spare parts	15 per cent of cost of propellor
Tank parts	1 year maintenance
Trucks	10 per cent of cost
Guns	6 months maintenance

Actual spare parts furnished will conform to a spare parts list which is based on experience.

Spare part production is lagging in the United States; and if actual deliveries are below the rates stated above, they will be made in the same proportion as for United States troops.

Item 9. - SCOUT CARS

Amount requested: 24,000

6,000 scout cars at rate of 500 per month and 18,000 jeeps at rate of 1,500 per month.

Item 10. - TRUCKS

Amount requested: 120,000

120,000 trucks at rate of 10,000 per month.

Item 11. - FIELD TELEPHONES

Amount requested: 144,000

144,000 field telephones at rate of 12,000 per month, of which one-half will be sound powered.

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GROUP I. Continued**Item 12. - FIELD TELEPHONE WIRE**

Amount requested: 1,200,000 Km.

480,000 Km. of field telephone wire at 40,000
Km. per month.

Item 13. - TOLUOL AND TNT

Amount requested: 36,000 short tons - Toluol
24,000 short tons - TNT

24,000 tons of toluol at rate of 2,000 tons per
month and 24,000 tons of TNT at rate of 2,000
tons per month.

Item 14. - NITROGLYCERIN OR OTHER POWDER

Amount requested: 36,000 tons

Type and amount to be made available are subject
to further negotiation.

**Item 15. - STEREOSCOPIC OBSERVATION INSTRUMENTS FOR
ARTILLERY**

Amount requested: 1,200 in 100 units

Not available.

GROUP I. Continued

Item 16. - MILITARY FIELD GLASSES

Amount requested: 3,000

Not available.

Item 17. - MOTORCYCLES

Amount requested: 36,000

10,500 motorcycles, at rate of 500 per month July through September, and 1,000 per month thereafter.

Item 18. - PRIME MOVERS FOR ARTILLERY

Amount requested: 7,200

2,400 prime movers for artillery at rate of 200 per month, of which a part will have slow speed transmissions.

Item 19. - TOBOGGANS (MOTOR SLEDS)

Amount requested: 2,400

2,000 toboggans at rate of 200 per month September through June.

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GROUP 1. Continued

Item 20. - RADIO SETS OF VARIOUS TYPES

Amount requested: 12,000 units

11,500 radio sets of various types. Specific types are to be negotiated and to be made available at the following rates:

100 in July
1,100 in August and September
2,350 in October
2,475 in November
1,225 in December
525 each month from January to June, 1943.

Item 21. - RADIO LOCATORS OF VARIOUS TYPES

Amount requested: 1,000

None available at this time. Type under development.

Item 22. - RADIO LOCATORS FOR INSTALLATION IN AIRCRAFT

Amount requested: 2,500

None available at this time. Type under development.

Item 23. - RADIO TUBES

Amount requested: 2,000,000

2,000,000 radio tubes to be furnished on schedules to be arranged.

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GROUP I. Continued

Item 24. - GENERATORS, GAS DRIVEN

Amount requested: 10,000

10,000 gas driven generators to be furnished on schedules to be arranged. To be supplied without tents.

Item 25. - ABSOLUTE RADIO ALTIMETERS

Amount requested: 2,500

No absolute radio altimeters available.

Item 26. - RADIO BEACON, BLIND LANDING EQUIPMENT, AND HOMING DEVICES

Amount requested: 250 sets

None available.

Item 27. - RADIO DIRECTION FINDERS (VARIOUS TYPES)

Amount requested: 250 sets

150 sets of radio direction finders at rate of 50 per month November through January.

Item 28. - MEASURING AND TEST EQUIPMENT

Amount requested: \$1,000,000 worth

\$1,000,000 worth of measuring and test equipment on schedules to be arranged.

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GROUP I. Continued

Item 29. - RADIO REPAIR TRUCKS FOR FIELD USE

Amount requested: 250 units

No radio repair trucks available.

Item 30. - DRY CELLS FOR FIELD TELEPHONES

Amount requested: 1,500,000

1,500,000 dry cells for field telephones on schedules to be arranged.

Item 31. - DRY CELL BATTERIES FOR USE WITH RADIO EQUIPMENT.

Amount requested: 400,000

400,000 dry cell batteries for use with radio equipment, on schedules to be arranged.

Item 32. - RADIO COMPONENTS, PARTS & ACCESSORIES

Amount requested: \$500,000 worth

\$500,000 worth of radio component parts and accessories for maintenance and repairs to be furnished on schedules to be arranged.

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GROUP I. Continued

Item 33. - FIELD REPAIR SHOP. LIGHT. FOR TANKS & TRUCKS

Amount requested: 100 units

No light field repair shop for tanks and trucks available.

Item 34. - FIELD REPAIR SHOP FOR BRIGADE TANK DIVISION

Amount requested: 120 units.

90 units of field repair shops, each consisting of approximately 12 trucks, at rate of 10 units per month, October through June.

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GROUP 11. VARIOUS MATERIAL, MACHINERY & INDUSTRIAL
EQUIPMENT

Item 1. - MARINE CABLE

Amount requested: 1,200 Km.

1,200 Km. in equal monthly installments.

Item 2. - SUBMARINE CABLE

Amount requested: 600 Km.

600 Km. in equal monthly installments.

Item 3. - ALUMINUM INGOTS

Amount requested: 48,000 short tons.

24,000 long tons in equal monthly installments.

DURALUMINUM

Amount requested: 18,000 short tons

6,000 long tons in equal monthly installments.

Item 4. - NICKEL

Amount requested: 9,600 short tons

Combined United Kingdom and United States at rate of 600 short tons per month for first six months; subject to review for second six months. This amount includes nickel in all forms to be made available, including alloys with steel, nickel wire, and other materials requiring nickel in the specifications, except finished munitions.

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GROUP II. Continued

Item 5. - MOLYBDENUM

Amount requested: 9,600 short tons

4,000 short tons in equal monthly installments.

Item 6. - COPPER ELECTROLYTIC. COPPER RESERVEAmount requested: 36,000 short tons
7,500 short tons

Combined United Kingdom and United States, 120,000 long tons in equal monthly installments. This includes copper in all forms, including refinery shapes, brass and wire mill products, copper base alloys and copper content of finished products other than ammunition.

Item 7. - ROLLED COPPER (CARTRIDGE BRASS, ETC.)

Amount requested: 102,000 short tons

102,000 short tons in equal monthly installments, subject to copper limitations indicated in Item 6.

Item 8. - MAGNESIUM ALLOYS

Amount requested: 3,600 short tons

None available.

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GROUP II. Continued

Item 9. - ZINC, HIGH GRADE

Amount requested: 12,000 short tons

18,000 short tons in equal monthly installments,
combined United Kingdom and United States.

Item 10. - BIMETAL

Amount requested: 36,000 short tons

12,000 short tons in equal monthly installments,
subject to copper limitation indicated in Item
6. Bimetal of types used for thermostats is
unavailable.

Item 11. - COPPER GOODS AND TUBES

Amount requested: 15,000 short tons

15,000 short tons in equal monthly installments,
subject to copper limitation indicated in Item
6 above.

Item 12. - FERROSILICON

Amount requested: 9,600 long tons

Combined United Kingdom and United States, 12,000
long tons in equal monthly installments.

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GROUP II. Continued**Item 13. - FERRUGINOUS**

Amount requested: 9,600 long tons

Combined United Kingdom and United States, 7,200 long tons in equal monthly installments.

Item 14. - ARMOR PLATE

Amount requested: 48,000 long tons

12,000 long tons in equal monthly installments, provided types desired are available. Subject to nickel limitation indicated in Item 4.

Item 15. - HARD ALLOYS & CUTTING TOOLS

Amount requested: \$9,000,000

\$9,000,000 worth to be furnished on schedules to be arranged. Subject to nickel limitation indicated in Item 4.

NOTE: Items 16 - 34 inclusive, as listed below, can be made available tentatively, but are all subject to specifications and sizes available in the United States and subject to nickel limitation indicated in Item 4.

Item 16. - COLD DRAWN STEEL DRILL RODS

Amount requested: 960 long tons

120 long tons in equal monthly installments.

GROUP II. Continued

Item 17. - HIGH SPEED STEEL

Amount requested: 6,000 long tons.

3,000 long tons in equal monthly installments.

Item 18. - TOOL STEEL

Amount requested: 24,000 long tons

10,200 long tons in equal monthly installments.

Item 19. - COLD DRAWN CARBON & ALLOY STEEL RODS
& BARS & AIRCRAFT STEEL

Amount requested: 168,000 long tons.

129,600 long tons in equal monthly installments.

Item 20. - HOT ROLLED STEEL (CARBON ALLOY & AIRCRAFT)

Amount requested: 150,000 long tons

96,000 long tons in equal monthly installments.

Item 21. - CHROME-MANGANESE SILICON STEEL BILLETS

Amount requested: 120,000 long tons

84,000 long tons in equal monthly installments.

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GROUP II. Continued

Item 22. - COLD ROLLED STEEL SHEET

Amount requested: 96,000 long tons
84,000 long tons in equal monthly installments.

Item 22-a. - COLD ROLLED STEEL STRIP

Amount requested: 96,000 long tons
84,000 long tons in equal monthly installments.

Item 23. - STAINLESS STEEL

Amount requested: 10,800 long tons
3,000 long tons in equal monthly installments.

Item 24. - TINPLATE

Amount requested: 60,000 long tons
60,000 long tons in equal monthly installments.

Item 25. - STEEL WIRE

Amount requested: 96,000 long tons
55,920 long tons in equal monthly installments.

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GROUP II. Continued

Item 26. - STEEL WIRE ROPE

Amount requested: 24,000 long tons

14,400 long tons in equal monthly installments.

Item 27. - STEEL ALLOY TUBES

Amount requested: 36,000 long tons

21,600 long tons in equal monthly installments.

Item 28. - STAINLESS STEEL WIRE

Amount requested: 1,200 long tons

360 long tons in equal monthly installments.

Item 29. - SPECIAL ALLOY WIRE

Amount requested: 240 long tons

240 long tons in equal monthly installments.

Item 30. - NICKEL CHROME WIRE

Amount requested: 480 long tons

480 long tons in equal monthly installments.

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GROUP II. Continued**Item 31. - BARBED WIRE AND STAPLES**

Amount requested: 60,000 long tons

50,400 long tons in equal monthly installments.

Item 32. - STEEL TUBES

Amount requested: 350,000 long tons

252,000 long tons in equal monthly installments.

**Item 33. - HOT ROLLED STEEL SHEETS & PLATES UNDER
5/8" THICK & UNDER 72" WIDE**

Amount requested: 120,000 long tons.

96,000 long tons in equal monthly installments.

Item 34. - BOLTS, NUTS, ETC.

Amount requested: 12,000 long tons

12,000 long tons in equal monthly installments.

Item 35. - OTHER METALS AND STEEL PRODUCTS

Amount requested: \$10,000,000

Fulfillment depends upon specifications.

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GROUP II. Continued

Item 36. - PHENOL

Amount requested: 18,000 short tons

12,000 short tons in equal monthly installments

Item 37. - PETROLEUM PRODUCTS

Amount requested 240,000 short tons

240,000 short tons in equal monthly installments.
Types and schedules to be arranged.

Item 38. - ETHYLENE GLYCOL

Amount requested: 2,400 short tons

2,400 short tons in equal monthly installments.

Item 39. - SODIUM BROMIDE

Amount requested 2,400 short tons

1,800 short tons in equal monthly installments.

Item 40. - PHOSPHORUS

Amount requested: 2,400 short tons

2,400 short tons in equal monthly installments.

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GROUP II. Continued

Item 41. - DIMETHYL PHTHALATE

Amount requested: 3,600 short tons

3,600 short tons in equal monthly installments.

Item 42. - DIMETHYLANILINE

Amount requested: 3,600 short tons

3,000 short tons in equal monthly installments.

Item 43. - DIPHENYLAMINE

Amount requested: 3,600 short tons

1,800 short tons in equal monthly installments.

Item 44. - COLLOXILIN

Amount requested: 4,800 short tons

4,800 short tons in equal monthly installments.

Item 45. - METHANOL

Amount requested: 12,000 short tons

12,000 short tons in equal monthly installments.

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GROUP II. Continued

Item 46. - UROTHOPHIL

Amount requested: 7,300 short tons

4,600 short tons; 300 in July and August, and
400 per month thereafter.

Item 47. - HEXAGEN

Amount requested: 6,000 short tons

None available.

Item 48. - AMMONIA CHLORIDE

Amount requested: 4,800 short tons

4,800 short tons in equal monthly installments.

Item 49. - MERCURY (METALLIC)

Amount requested: 300 short tons

300 short tons in equal monthly installments.

Item 50. - POTASSIUM NITRATE

Amount requested: 3,600 short tons

3,600 short tons in equal monthly installments.

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GROUP II. Continued

Item 51. - AMMONIUM CYANIDE

Amount requested: 3 short tons
3 short tons in equal monthly installments.

Item 52. - CENTRALITE

Amount requested: 600 short tons
600 short tons in equal monthly installments.

Item 53. - RESARIN (RESORCINOL)

Amount requested: 120 short tons
120 short tons in equal monthly installments.

Item 54. - BARIUM PEROXIDE

Amount requested: 300 short tons
300 short tons in equal monthly installments.

Item 55. - STRONTIUM (S. OXALATE)

Amount requested: 96 short tons
96 short tons in equal monthly installments.

SECRET

GROUP II. Continued

Item 56. - MODALITE (RHODAMINE B)

Amount requested: 6 short tons

6 short tons in equal monthly installments.

Item 57. - TORIUM (T. NITRATE)

Amount requested: 3 short tons

3 short tons in equal monthly installments.

Item 58. - CERIUM (C. FLUORIDE)

Amount requested: 18 short tons

18 short tons in equal monthly installments.

Item 59. - CRESOL

Amount requested: 1,200 short tons

1,200 short tons in equal monthly installments.

Item 60. - POTASSIUM SULPHATE

Amount requested: 1,800 short tons

1,800 short tons in equal monthly installments.

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GROUP II. Continued

Item 61. - ANTHRACITE

Amount requested: 3,600 short tons

None available.

Items 62, 63, 64, 65, and 68. -MACHINE TOOLS: Amount requested: 21,000 each.ELECTRIC FURNACES: Amount requested: 600 eachFORGING PRESSES & HAMMERS: Amount requested:
\$48,000,000 worth.VARIOUS INDUSTRIAL EQUIPMENT: Amount requested:
\$96,000,000 worth.GRAPHITE ELECTRODES: Amount requested: 6,000
long tons.

NOTE: Will be made available in quantities totaling an aggregate value of 150 million dollars, the amount and type of the specific items to be arranged at the earliest possible date and subject to limitations on copper and nickel.

Item 66. - INDUSTRIAL DIAMONDS

Amount requested: \$1,800,000 worth.

None available in the United States.

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GROUP II. Continued

Item 67. - ABRASIVES

Amount requested: \$6,000,000 worth

\$3,600,000 worth in equal monthly installments.

Item 69. - BEARINGS

Amount requested: 8,500,000

Supply depends upon specific sizes.

Item 70. - BALLS AND ROLLERS

Amount requested: 28,000,000

28,000,000 in equal monthly installments, provided sizes are spread generally through the range of American production.

Item 71. - SOLE LEATHER

Amount requested: 18,000 short tons

No sole leather available except as included in finished shoes.

Item 72. - ARMY BOOTS

Amount requested: 4,800,000 pairs.

4,800,000 pairs of army shoes at rate of 200,000 pairs per month.

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GROUP II. Continued

Item 73. - ARMY CLOTH

Amount requested: 18,000,000 yards

18,000,000 yards of army cloth at monthly rate of 1,500,000 yards, in ratio of 60 per cent for overcoating and 40 per cent for suiting.

Item 74. - ELECTRICAL POWER CABLES

Amount requested: 12,000 Km.

12,000 Km. in equal monthly installments, subject to copper limitation indicated in Item 6.

Item 75. - WEBBING

Amount requested: 36,000,000 yards

36,000,000 yards of tubular type webbing at 3,000,000 yards per month. No other type available.

Item 76. - TARPULIN

Amount requested: 24,000,000 yards

None available.

Item 77. - VISTANEX (MOLECULAR WT. 60)

Amount requested: 300 short tons

None available until the spring of 1943. The amount available will depend upon the development of the U. S. synthetic rubber program.

SECRET

SECRET

GROUP II. Continued

Item 78. - TIRES AND TUBES

Amount requested: 1,800,000 sets

Combined United Kingdom and United States, 36,000 long tons of rubber in all forms, including tires and tubes, in equal monthly installments; in addition, 2,000 long tons per month from Ceylon as long as that source is open.

Item 79. - HIGH PRESSURE HOSE: Amount requested:
1,000,000 meters

Item 80. - SHEET FIBER: Amount requested:
3,600 tons.

Item 81. - SHOCK ABSORBER CORD: Amount requested:
60,000 meters

No commitments can be made until further specifications are received.

Item 82. - METALLIC CLOTH AND SCREEN

Amount requested: 1,000,000 square meters

1,000,000 square meters in equal monthly installments, subject to copper limitations as stated in Item 6.

Item 83. - CONDENSOR PAPER (RADIO)

Amount requested: 240 short tons

240 short tons in equal monthly installments.

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GROUP II. Continued

Item 84. - MISCELLANEOUS DESIGN MATERIAL

Amount requested: \$60,000,000 worth.

Depends upon further specifications.

SECRET

GROUP III. EQUIPMENT AND MATERIALS FOR SPECIFIC INDUSTRIES

A. EQUIPMENT AND MATERIALS FOR RAILROADS

Under this category the U.S.S.R. have requested 21 general items and 55 specific items. With the exceptions of the items set forth below, the items requested include large amounts of critical materials and critically scarce tools, cranes and other heavy machinery. It may be possible to supply a few units of some of the items upon receipt of specifications as to sizes and types. No commitment or recommendation can be made at this time, except as follows:

	<u>Requested</u>	<u>Recommended</u>
Rails	240,000 long tons	216,000 long tons
Wheels	36,000 sets	12,000 sets
Axles	60,000 units	54,000 units

It is believed that the foregoing can be made available in equal monthly installments at one-twelfth of the annual rate. For a list of all items see Program of Requirements submitted by the U.S.S.R.

B. EQUIPMENT AND MATERIALS FOR IRON AND STEEL INDUSTRY

Under this category the U.S.S.R. have requested 191 items for blast and open hearth furnaces, Bessemer converters, coke oven batteries, rolling mills, turbo generator units, boiler installations, and turbo blowers. The value of the requests has been estimated by the U.S.S.R. at \$180,000,000 as opposed to a U.S. estimate of approximately \$1,000,000,000. The requested equipment approximately duplicates that required for the American steel expansion program now under way.

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GROUP III, Continued

Production of any substantial part of the request could not be effected without abandoning our own steel expansion program. Consequently, the requests cannot be filled. For a list of individual items see Program of Requirements submitted by the U.S.S.R.

G. EQUIPMENT FOR PETROLEUM INDUSTRY

Under this category the U.S.S.R. have requested 10,000 tons of steel pipe and 16 items of drilling equipment and fittings. Many of the items requested are critical factors in the expansion of 100 octane and synthetic rubber production in the United States. The Petroleum Coordinator recommends that the requests not be fulfilled. For a list of all items see Program of Requirements submitted by the U.S.S.R. Certain items which will not interfere with the 100 octane and synthetic rubber programs may be made available upon receipt of definite specifications. Some used refining equipment in good condition is available.

SECRET

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GROUP IV. FOOD PRODUCTS

Item 1. - WHEAT AND FLOUR

Amount requested: 2,400,000 tons

2,400,000 tons in equal monthly installments.

Item 2. - SUGAR

Amount requested: 600,000 tons

600,000 tons in equal monthly installments.

Item 3. - CANNED MEAT PRODUCTS

Amount requested: 120,000 tons

120,000 tons in equal monthly installments.

Item 4. - BEAT

Amount requested: 180,000 tons

180,000 tons in equal monthly installments.

Item 5. - LARD

Amount requested: 144,000 tons

144,000 tons in equal monthly installments.

SECRET

SECRET

GROUP IV. Continued

Item 6. - VEGETABLE OIL

Amount requested: 120,000 tons

120,000 tons in equal monthly installments.

Item 7. - SOAP STOCK

Amount requested: 60,000 tons

60,000 tons in equal monthly installments.

SECRET

SECRET

GROUP V. MEDICAL SUPPLIES

Amount requested \$13,813,966 worth

Approximately \$12,000,000 worth of medical supplies in approximately equal monthly installments and substantially in accordance with request but with the understanding that items and quantities thereof must be arranged with appropriate United States Agency.

SECRET

SECRET

NAVAL STORES

In addition to the above listed items requested by the Government of the U.S.S.R., the Government of the United States undertakes to make available certain diesel engines, gasoline engines, storage batteries for submarines, guns and ammunition to arm U.S.S.R. merchant vessels and mine sweepers or patrol craft.

These items can be made available at the following rates:

DIESEL ENGINES

506 diesel engines, varying from 170 to 1600 horsepower in the following quantities: 122 of 170 HP; 200 of 250 HP; 48 of 600 HP; 130 of 1200 HP; 6 of 1600 HP.

These diesel engines can be made available at the following rates:

June	4	January, 1943	46
July	16	February	46
August	20	March	51
September	24	April	51
October	44	May	56
November	46	June	56
December	46		

SECRET

SECRET

NAVAL STORES - Continued

GASOLINE ENGINES

2,170 gasoline engines from 50 to 1200 HP in the following quantities: 1500 of 50-120 HP; 120 of 900 HP; 550 of 1200 HP.

These gasoline engines can be made available at the following rate:

July	100	January 1943	215
August	150	February	215
September	150	March	215
October	150	April	220
November	150	May	220
December	165	June	220

STORAGE BATTERIES FOR SUBMARINES

12 storage batteries for submarines at the rate of one per month.

NAVAL ARMAMENT AND AMMUNITION

Sufficient guns and ammunition can be made available to arm U.S.S.R. merchant vessels with one 3-inch double purpose gun and two machine guns together with ammunition, as such ships become available for arming.

MINI SUBMARINE OR PATROL CRAFT

10 mini sweepers or patrol craft can be delivered during April, May and June, 1943.

SECRET

ELECTRIC POWER GENERATING EQUIPMENT

The Government of the United States further undertakes to make available stationary and mobile power generating equipment of types to be arranged. Some used power generating equipment in good condition is available at the present time.

SECRET**UNITED KINGDOM SCHEDULE OF STORES****SECRET**

SECRET

The United Kingdom Government undertakes to make available to the Union of Soviet Socialist Republics the following schedule of stores from the period starting July 1, 1942 to June 30, 1943. For certain items the amounts to be made available are indicated as combined offerings of the United States and the United Kingdom, and appear as a combined figure in the schedules of both Governments.

SECRET

A. MILITARY SUPPLIES

Item 1. - AIRCRAFT

200 fighters monthly for last six months of 1942. The U. K. Government cannot at present undertake to increase the present quota of 200 aircraft a month, but the existing quota rates will be continued to the end of the year. The U. K. Government cannot foresee the situation beyond the end of 1942, and its ability to continue or increase supplies of fighters will depend upon the results of the intensified air fighting in the West of Europe during the present year.

Item 2. - TANKS

250 monthly, until December 31, 1942. It is hoped that a combined offer of 1,000 monthly can be made by a joint commitment from the U. S. and U. K. for the first 6 months of 1943. Basis of allocation to be decided at a later date.

Item 3. - ANTI-TANK GUNS

50 2-pdr. monthly with ammunition. 50 6-pdr. monthly with ammunition.

Item 4. - ANTI-TANK RIFLES

300 monthly with ammunition.

Item 5. - BREM CARRIERS

200 monthly with weapons.

SECRET

SECRET

B. NAVAL SUPPLIES

Certain naval supplies have been promised since Protocol and these promises will be fulfilled. Quantities falling within period after June, 1942 until completed are:

Item 1. - OERLIKONS

50 monthly with ammunition.

Item 2. - 3" HA/LA OR 12-PDR. GUNS WITH AMMUNITION

10 monthly until requirements are met.

Item 3. - SUBMARINE STORAGE BATTERIES

20 to complete total of 32.

Item 4. - 107MM COMPLETE BARRELS

8, plus one spare barrel per gun per month starting in August.

SECRET

46
SECRET

2. RAW MATERIALS

(Figures in long tons monthly except where otherwise stated.)

Item 1. - ALUMINUM

2,000 tons monthly, July, August, September, subject to reconsideration end of September. U. S. offer of 24,000 long tons in equal monthly installments remains unchanged.

Item 2. - TIN

750 tons monthly (adjustments dependent upon decisions arrived at by the Combined Raw Materials Board, less any amounts over 9,000 received by U.S.S.R. from China.)

Item 3. - NICKEL

Combined United Kingdom and United States at rate of 600 short tons per month for first 6 months; subject to review for second 6 months. This amount includes nickel in all forms to be made available, including alloys with steel, nichrome wire, and other materials, requiring nickel in the specifications, except finished munitions.

Item 4. - LEAD

3,500 tons monthly dependent upon cancellation of unshipped amounts under the First Protocol and upon shipping conditions.

SECRET

47
SECRET

RAW MATERIALS. Continued

Item 5. - COPPER

Combined United Kingdom and United States, 120,000 long tons in equal monthly installments. This includes copper in all forms, including refinery shapes, brass and wire mill products, copper base alloys and copper content of finished products other than ammunition.

Item 6. - ZINC, HIGH GRADE

Combined United Kingdom and United States 18,000 short tons in equal monthly installments.

Item 7. - INDUSTRIAL DIAMONDS

\$150,000 monthly.

Item 8. - FERROSILICON

Combined United Kingdom and United States, 12,000 long tons in equal monthly installments.

Item 9. - FERROCHROME

Combined United Kingdom and United States, 7,200 long tons in equal monthly installments.

Item 10. - SILVER STEEL

50 tons per month.

SECRET

RAW MATERIALS. Continued

Item 11. - GRAPHITE

100 tons per month, dependant upon local conditions in Ceylon.

Item 12. - RUBBER

Combined United Kingdom and United States, 36,000 long tons of rubber in all forms including tires and tubes in equal monthly installments. In addition, 2,000 long tons per month from Ceylon as long as that source is open.

Item 13. - JUTE

4,000 tons per month, dependant upon Indian conditions.

Item 14. - SHELLAC

300 tons per month dependant upon Indian conditions.

Item 15. - WOOL

2,000 tons per month from New Zealand dependant upon shipping conditions.

SECRET

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D. FOOD

The only quantities of food which it will be possible for the United Kingdom to make available to the U.S.S.R. will be food which it would be possible to use for filling capacity for bottom cargo and broken stowage in ships carrying tanks and aircraft.

SECRET



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

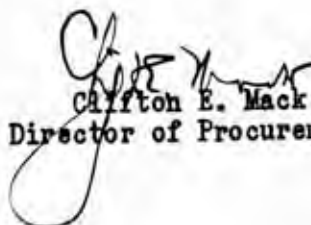
June 9, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended June 6, 1942.

Every effort is being made to cooperate to the utmost in making cargo available for the increased shipping schedule for the British and the Russians during the next few months.

It is expected that there will be an increased number of ships to be made available to the Russians for Lend-Lease shipments this month. It is indicated that fifty-four ships will be provided for July to handle Russian cargo which will almost triple May shipping of about twenty boats to that Country. Likewise, we are cooperating closely with the British to provide cargo for their proposed increased shipping schedules due to utilization of transports.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JUNE 6, 1942
 (In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Undistributed & Miscellaneous
Allocations	\$1700.5 (1700.3)	\$ 711.8 (711.6)	\$ 283.6 (280.4)	\$ 56.7 (58.2)	\$ 1.6 (1.6)	\$ 646.8 (648.5)
Purchase Authoriza- tions (Requisitions)	\$1023.4 (1012.8)	\$ 675.4 (678.9)	\$ 295.7 (282.0)	\$ 45.7 (45.8)	-	\$ 6.6 (6.1)
Requisitions Cleared for Purchase	\$ 974.0 (945.6)	\$ 658.4 (640.2)	\$ 263.5 (255.2)	\$ 45.6 (45.8)	-	\$ 6.5 (4.4)
Obligations (Purchases)	\$ 932.7 (912.5)	\$ 640.6 (626.5)	\$ 248.4 (243.0)	\$ 39.1 (39.1)	\$ 1.2 (1.1)	\$ 3.4 (2.8)
*Deliveries to For- eign Governments at U. S. Ports	\$ 402.8 (392.7)	\$ 321.5 (312.4)	\$ 60.4 (59.7)	\$ 19.2 (19.1)	-	\$ 1.7 (1.5)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of May 30, 1942.

EXPLANATION OF CHANGE

Purchase Authorizations (Requisitions)

The decline of \$3,500,000 under Purchase Authorizations (Requisitions) for the United Kingdom is due to adjustments between estimated values and actual contract values.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON

June 9, 1942

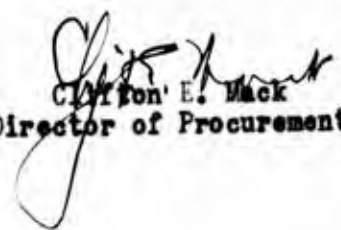
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VICTORY

BUY
UNITED
STATES
DEFENSE
BONDS
AND
STAMPS
Clayton E. Mack
Director of Procurement

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
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EXPLANATION OF CHANGE

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THE SECRETARY OF STATE
WASHINGTON

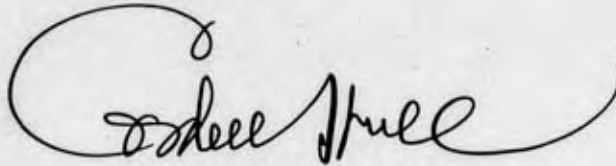
June 9, 1942

Dear Henry:

Thank you very much for your note of June fourth enclosing a copy of your report on "Wartime Tax Avoidance", which I look forward to examining with great interest.

I greatly appreciate your kind thought in making it available to me.

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



THE SECRETARY OF THE INTERIOR
WASHINGTON

June 9, 1942.

Dear Henry:

I appreciate your courtesy in sending me the report that came with your note of June 4.

Sincerely yours,

Harold I. Philips

Secretary of the Interior.

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



THE SECRETARY OF COMMERCE
WASHINGTON

June 9, 1942

Dear Henry:

Thanks for sending me a copy
of the report on Wartime Tax Avoidance.
I shall be interested in looking it
over.

Sincerely yours,

James Jones
Secretary of Commerce

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



Office of the Attorney General
Washington, D.C.

June 9, 1942

Dear Henry:

Thank you for your letter of
June 4, enclosing your report to the Joint
Committee on Internal Revenue Taxation,
with reference to Wartime Tax Avoidance.

I am glad to have it.

Sincerely yours,

Attorney General

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

June 9, 1942.

My dear Miss Tully:

I am enclosing some newspaper clippings on yesterday's reception in New York to the 15 United Nations war heroes, including 10 English heroes, who were brought to this country at the instance of Secretary Morgenthau to assist in promoting the sale of War Savings Bonds. I am also enclosing a copy of his letter on the same subject to Marvin McIntyre with a list of the visitors and Americans and their schedule in this country.

The Secretary asked me to send you these and also to tell you that he will call you on the telephone to try to arrange an appointment for the President to see these war heroes.

Sincerely yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston,
Assistant Secretary of the Treasury.

Miss Grace Tully,

The White House.

Enclosures.

HEG:pm

By Secret Service messenger
6-9-42 10:55 a.m.



DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT

WASHINGTON

June 9, 1942

61

Dear Secretary Morgenthau:

Mr. James L. Houghteling, chief of our division in the War Savings Staff, has been kind enough to show me a copy of the letter which you wrote the Board of Directors of the National Association for the Advancement of Colored People through its president, Mr. Arthur B. Spingarn.

Although you are burdened with more communications than you can ever notice, I am asking Mr. Houghteling to give you my sincere thanks for the compliment you paid to me, and to say that it makes me more than ever determined that neither you nor he shall ever regret the faith and trust which you have both reposed in me.

I shall do my best in whatever emergency I am placed or find myself.

Very truly yours,

William Pickens
Staff Assistant
WAR SAVINGS STAFF

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

FOR DEFENSE



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

June 9, 1942

TO Mrs. Klotz

FROM Mr. Gaer

Here is a copy of another memorandum I sent to Mr. Poland. I believe this idea has considerable merit.

A number of people in the education field, with whom I have talked recently, think such a stimulation, particularly among school children, would not only be desirable but is necessary.

Att.

June 9, 1942

TO Mr. Poland

FROM Mr. Gaer

TOPIC: Revised War Savings Stamp Books and the
issue of Savings Stamps in varied series

As I told you yesterday, I am convinced that the War Savings Stamps and Stamp Books we now have lack the appeal which would otherwise greatly enhance them to young and old and which would inevitably lead to an increase in sales.

Most children do not consider the present stamp books, in themselves, as objects to be cherished excepting for the idea they represent. If the stamp books were issued in a way that they would be objects of interest in themselves, they would stimulate the desire to have them filled with stamps. We can readily produce stamp books and stamps which would have that special appeal at no considerable cost.

If stamps were issued in series so that youngsters of all ages would consider them collectors' items, the books should then be designed in a way that when they are filled they would represent, to those interested in the collections, complete sequences of symbols. These might include: a series of heroes of the present war; various ranks in the armed forces; types of fighting ships; types of fighting airplanes; etc.

Since the number of stamps bought and the interest in topics will vary from person to person, it will be necessary to divide the books in such a way as to permit each stamp book holder to make his or her own collection. In fact, the possibility of making each collection different might become a feature of inducement. For instance, one stamp buyer might place an airplane hero next to the type of plane in which he distinguished himself; he may fill a page with just air heroes; or he may place on one page one hero of the same rank in the various services. This can be accomplished if the spaces for stamps per page correspond to the number of different stamps in each series. The number of combinations possible might be suggested when the stamps are released, and they would then have the additional appeal of the quiz -- each stamp holder attempting to find out the various combinations in which they might be pasted into the book.

- 2 -

The advantage of appealing stamp books and the issue of stamps in flexible series, as briefly suggested above, would be:

- (a) The issuance of books and the appearance of each successive stamp or group of stamps would be the kind of news that education journals and various other publications would relish. This would also appeal to stamp buyers from a new angle -- the angle of the collector;
- (b) Books and stamps would in themselves become of interest to children and most adults, and through them the meaning and the value of these stamps could be conveyed;
- (c) Undoubtedly many stamp collectors would follow each issue for their permanent collections which would enrich their collections and leave that much more money permanently in the Government treasury; and
- (d) The most important value would be the use of books and stamps as an educational tool provided, of course, they are very carefully prepared with education as a major objective.

I gathered from what you said that various recommendations for some such idea have been made and rejected. The few objections against such stamp series which you related do not seem to me quite convincing. I cannot see any technical difficulties in the way because the Post Office Department continuously releases stamps of various kinds and we have no shortage of artists and engravers. As for the dangers of counterfeiting, the more stamps issued, the more difficult the task of the counterfeiter becomes, rather than easier.

If this isn't a closed issue, I should like to prepare a dummy of what I would consider a desirable stamp book with ideas for series of stamps designed to appeal primarily to children and stamp collectors.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 9, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: U. S. Arms Production in May

1. In May, 1942, the United States produced 1,888 combat planes out of a total military plane output of 3,919 planes. While this represents an increase from earlier months, our combat plane production is still below estimated German production (U.S. Army estimate, 2,050 per month).

2. The total number of tanks produced in May passed the 1,500 mark, (903 medium and 635 light). According to the War Production Board forecast, the new objective of 14,000 medium tanks this year will be surpassed by 4,000 tanks. This would indicate that the new objectives have been set too low for this vitally-needed fighting vehicle.

3. So far as it is possible to judge, our production of small arms is progressing rather favorably, as should be expected in view of the comparatively simple production problem small arms represent. A similar situation appears to be true in the production of the basic types of our field artillery. In the first five months of 1942, 64 percent of the year's goal of our new light field artillery piece, the 105 mm. howitzer, has already been produced. 1,052 percent of the year's objective of self-propelled 75 mm. anti-tank guns has already been turned out -- but here the objective must have been ridiculously low.

- 2 -

Table I
Plane Production *

<u>Type</u>	<u>May, 1942</u>	<u>Cumulative Total, January 1 to May 31, 1942</u>
Pursuit	773	3,906
Light and medium bombers	475 937	3,138
Heavy bombers	178	725
Naval patrol bombers	62	289
Total combat	1,888	8,058
Trainers	1,617	6,875
Other military types	<u>414</u>	<u>2,009</u>
GRAND TOTAL	3,919	16,942

* Source: War Production Board, Statistics Division

- 3 -

Table II

Tank Production *

<u>Total</u>	<u>May, 1942</u>	<u>Cumulative Total January 1 to May 31, 1942</u>
Light Tanks	635	2,351
Medium tanks	<u>903</u>	<u>3,598</u>
Total	1,538	5,949

* Source: War Production Board, Statistics Division.

Table III

Production of Leading Ordnance
and Small Arms Items *

	<u>May, 1942</u>	<u>Cumulative Total January 1 to May 31, 1942</u>
90 mm. anti-aircraft guns	171	541
155 mm. guns	35	148
105 mm. howitzers	356	1,944
Self-propelled 105 mm. howitzers	33	391
Self-propelled 75 mm. AT guns	206	526
Army machine-guns - 50 caliber	3,150	11,901
30 caliber	13,141	48,818
Sub-machine guns	56,384	244,315
Garand rifles	56,481	239,531

* Source: War Production Board, Statistics Division.

Treasury Department
Division of Monetary Research **69**

Date.....19

To: Miss Chauncey

From: L. Shanahan

Returned for your files. Mr. White
has noted.

Treasury Department
Division of Monetary Research

Date..... June 15 19 42 70

To: Miss Chauncey

From: Mr. White

The Secretary should read
this telegram.

H.D.W.

White If there any
more cables of this
nature from Harrison
I want to see them. 

O

RECEIVED

FROM: AMLEGATION, BERN
TO: Secretary of State, Washington
DATED: June 9, 1942
NO.: 2588

STRICTLY CONFIDENTIAL

(SECTION ONE) There is summarized below the contents of a report which has been received from the American Consul at Geneva with respect to the situation in Germany as described to the Consul by a German anti-Nazi source known to the Legation to be reliable.

The most serious cause of anxiety and internal troubles is the food problem, Government leaders and peasants both fearing that a poor harvest will be forthcoming and that crops will be destroyed in the ground by enemy aerial action. They fear that American and British air raids will destroy their grain fields and barns. Bureaucratic control is resented by the peasants who complain that they lack seed for plantings. Protest meetings have been held by farm leaders and SS and officials fear to oppose these meetings because they were afraid of irritating the peasants to the point of actively resisting the regime. Because seed, fuel and suitable labor were lacking, no relief can be expected from Ukraine production even though enough machinery is available in that area.

Particularly noticeable among elders and children are the effects of malnutrition, children suffering an especially high mortality rate in various sections of the Reich, there being mentioned specifically the Wiesental region of Baden in this connection. (In the Legation's despatch of June 4, no. 2485, there was reported a published interview of Dr. Conti-Reichs, a public health officer, which was designed evidently to conceal the basic facts and to bring reassurance to the German public in the face of the bad situation which obtains. That report does not mention malnutrition but emphasizes the steps which have been taken for children's welfare and speaks in terms of comfort concerning the low mortality of mothers after childbirth.) Furlough privileges of soldiers have been greatly restricted because that while home on furlough they protested so vociferously against the food privations their families were experiencing that the Government was embarrassed thereby.

(SECTION TWO) The production of industry has been forced now to the limit and men working upon machines have become so over-taxed and exhausted that a state of diminishing returns has been reached. (This trend was definitely reported by a competent neutral observer whose report was transmitted to the Department in this Legation's telegram of May 23, no. 2251.) This means that plane production will be seriously affected, a serious development in view of plane losses in Malta and the USSR which have gone far beyond any losses which had been expected.

Hitler's refusal to place certain units on the Eastern Front because he insists upon holding them in reserve to bar a possible Russian advance against Germany is resented by Army leaders. The reinstatement of youths from 17 to 20 who were withdrawn several months ago has been made necessary by the abnormal demand for manpower at the front.

There is an alarming flight from the mark by investing in real values or commodities and the confidence in the money standard has vanished (with respect to this the Legation comments as follows: the recent public utterances of Funk, Reinhardt and other ministers with respect to the necessity for controlling prices, protecting money savings and purchasing power and discouraging speculative investment is evidence of official recognition of this trend. At the same time these speakers have fervently assured the public that ultimate financial stability will be realized and that there is absolutely no danger of inflation.)

It is also reported that the Reichsbank and industrial circles are studying a basic plan for relating German, British and American monetary standards following the war in the conviction that Germany has lost the war. There is also feared in these circles the results of the transition period following the war to peace time industry from war time production. Among thousands there is being fostered a growing move for peace at any price, a move which is noteworthy particularly in Austria and Bavaria; as the result of a feeling which is pervasive all party leaders and stupid folk that Germany has lost the war, a feeling which is not affected by party propaganda and unduly optimistic reports of victory upon the several fronts. The faction which shares this feeling hopes that the end of the war may be brought about speedily by intense American and British action.

HARRISON

Copy:bj:6-12-42

COPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 194

Information received up to 7 A.M., 9th June, 1942.

1. NAVAL

Submarine attacks. A 7,000 ton British ship torpedoed south of FREETOWN on the 7th. By raider. A Greek ship shelled and hit south of MOZAMBIQUE on the 8th.

2. MILITARY

LIBYA. The enemy remained in force in the KNIGHTSBRIDGE area but no attack had developed up to 1300/8th. Enemy attacks on BIR HAKEIM were renewed on the 7th and 8th and heavy fighting was still in progress in late afternoon 8th. The columns of First South African Division as well as the one which reached CHERIMA have now been recalled.

3. AIR OPERATIONS

WESTERN FRONT. 8th. 12 Bostons bombed BRUGES Docks in good visibility. The Fighter escort destroyed four Focke Wulfes 190, probably destroyed two and damaged nine. 6 Spitfires were lost but two pilots are safe. 8th/9th. 198 Bombers were sent out - ESSEN 172, DIEPPE 19, Dutch aerodromes 6. 18 are missing and one came down in the sea off SUFFOLK. At ESSEN visibility was bad and preliminary reports do not indicate a successful attack. Out of about 25 enemy aircraft operating off the South Coast, one Junkers 88 was destroyed by a Beaufighter.

LIBYA. 7th. Our fighter bombers destroyed or damaged over 100 vehicles in the KNIGHTSBRIDGE area. On 7th and 8th our fighters destroyed 3 Me 109's probably destroyed 1 and damaged 6. 4 of them are missing.

SARDINIA. 7th/8th. Wellingtons attacked CAGLIARI.



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

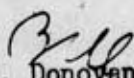
June 9, 1942

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

Dear Henry:

The attached is a digest of the
German Directive of the British Political
Warfare Executive for the week June 7 to
June 13.

Sincerely,


William J. Donovan

RAF offensive: Stick to hardest news. Make no attempt give effects of raids in Germany until most reliable reports received. Absolutely vital extract last ounce propaganda from raids but more laconic treatment of news, more studiously sachlich our surveys and comments, greater the effect. Make every German feel difference between allied attitude when we have upper hand and behavior two years ago of Germans when they had it. This will have vital effect on German attitude toward our war peace aims. Avoid linking war aims escape clause directly with raids. Give both themes as often as possible but separately in same programme. Avoid direct reference to suggestion that Germans evacuating bombed areas. Make Germans feel bombings brought on not by British policy but by Nazi policy. Churchill's divine retribution theme is excellent but his "people going out into the fields" might produce opposite effect.

Inside Germany: Use political framework last week's directive until further notice. Stress (a) industrialists counter offensive but underline only issue is which clique shall enjoy profits power. Himmler's clique is no more anticapitalist than the capitalists (b) remember old clothes collection (c) quote without comment German denials that there is inflation (d) use stories Nazi leaders corruption, if possible in same programme reporting RAF raids (e) further evidence of manpower crisis is recent order locomotive repairs given equal priority aircraft repairs (f) continue warnings of food shortage next winter and assumption of further ration cuts.

Russia: This remains main permanent interest of

-2-

German listener. Discuss reasons for delay of spring offensive, treat Libya as left flank of single eastern front.

War aims: Continue as previously.

Heydrich death -- die Geachteten: Regard him and his like as outlaws. Link with hostage shootings. We regard as outlaws anyone responsible for shooting innocent hostages but these views should be expressed as personal opinion not as government policy.

Sea war: Draw parallel between U-boat war 1917-18 which brought America into action and present U-boat activity off American coast. Nazi U-boat have brought war home to America stepping up American production while imposing great strain on U-boat crews. To keep one submarine operating off American coast five needed in passage or fitting up. Allude to Murmansk convoy making it clear that only seven ships were sunk whereas German propaganda claimed twice as many.



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

June 9, 1942.

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

Dear Henry:

In connection with German directive for the week beginning May 29, the attached is the British Political Warfare summary of the German Political framework within which news should be fitted.

Sincerely,

WJ
William J. Donovan.

There is a continued steady increase in the power of S. S. Herrschaft dominated by Himmler, with Borman his number two, providing an intimate link with Hitler. They derive their power from blackmailing information and by controlling all police secret service and Waffem S. S. (sic). They are busily occupied in putting reliable party or S. S. men in key positions,-- Although Sauckel is under Goering he is one of their agents. The Gauleiters are assumed to be their tools.

Defensive rearguard fighting is being undertaken by:

A. Big industrialists group in Rustungsrat who regard S. S. and party as amateurs who will bungle war production and who are trying to muzzle in on profits. Group A. enjoys the confidence of

B., the bureaucrats and professional classes who feel that their position is threatened by S. S. and party, especially by Hitler's new position as Oberster Gerichtsherr; to a lesser extent B is supported by

C., the Generals, although most of these have temporarily capitulated to Hitler. H. G. Goering is the link between (2) above and Hitler. He probably still enjoys considerable personal pull.

Ribbentrop is insignificant as are Ley and Goebbels.

Speer is a nonentity who as Hitler's bosom friend moves vaguely between Goering and Himmler.

No ideological difference should be started to exist between these cliques, except the big industrialists who may favor peace or conquest which gets rid of the Gestapo. Probably they realize that all hope of victory is gone. They may be said to be more realistic than the others.

It may be hinted that, apart from the above cliques, there is a large number of officials who are increasingly pessimistic about the war and are ready for Germany to cut her losses. These men, however, have no power.

There is good material in Darre's dismissal. However,

- 2 -

never stress the present food shortage, always speak of future possibilities. It may be assumed that there will be a reduction in rations next autumn. Contrast British increases with German prospects, hitting "old clothes collection" beginning June 1. This should be associated with the Army's need for discarded rags.

The general theme of Germany's deteriorated position can be closely coupled with the parallel with 1918-19. Note that June 3 is the anniversary of Colonel Hefter's memorandum in June 1918 on the desperate position of Germany.



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

June 9, 1942

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

Dear Henry:

The attached is a summary of the
British Political Warfare Propaganda research
on "German opinion on the war in Russia."

Sincerely,

Bill
William J. Donovan

Germans told Kerch Kharkov not yet "the offensive" but are great victories. Most newspapers admit and reflect public serious even anxious unjubilant reaction. Public aware of hard fighting and tremendous cost in German lives.

Most Germans know what Russian winter was like. This learned from propaganda also from soldiers on leave or invalided out. Public also knows growing number casualties. Proportion of Germans who lost friend or relative on eastern front rose from zero December 1941 to over sixty per cent April 1942 in one of series of sampled groups.

Obituaries again attacked by Das Schwarze Korps, April 30, and by Dresdner Neueste Nachrichten, May 6. Private mail also shows widespread complaining over absence of leaves, wives writing their husbands are away for seven, ten, twelve months at stretch.

Unhappy feeling of soldiers who do get home on leave reflected in BBC May 15. Many have same reaction British soldiers had on leave in England, 1914-18. See Siegfried Sassoon's books, poems.

Propagandist efforts prove Russian war was necessary, arises from widespread feeling it was unnecessary.

That war will last another winter in Russia, maybe many winters elsewhere, now openly admitted.

Lest picture should appear too black it must be added there still no evidence of any significant fear in Germany of Russian advance into Reich.



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

June 9, 1942

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

Dear Henry:

The attached is a digest of
the British Ministry of Information
current Far Eastern intelligence report.

Sincerely,


William J. Donovan

Domei May 29 announced General Koiso replaced General Minami as Governor of Korea. Long write-up of Koiso but no particulars on Minami or suggestion of reason for removal. Possibly Minami opposed introduction of conscription in Korea. In a speech he made during Tokyo visit May 1939 he warned Koreans that claims on "early equality of social and other status are not to be entertained". He may regard conscription as a premature step towards equality. Koiso has announced that "fair and just fraternal spirit" would be his guiding principle in administering Korea. It is recalled that Baron Saito, a previous governor, declared that "towards Koreans, their new brothers, Japanese must always show pure sincerity, infinite love, boundless sympathy", but Koreans continue to be thrashed and tortured. On May 30 Koiso emphasized Korea's importance as a supply base for continental war.

May 27 Nichi Nichi Rome correspondent Ono complained to his Tokyo editor that although all Japanese correspondents in Rome agreed not to cable interviews with returned Axis diplomats, "Asahi alone was mean enough to cable in defiance of this undertaking. Propaganda Bureau is to take proper measures but I apologize deeply that even in the matter of promise breaking I was got the better of by Asahi". May 31 another paper, Yomiuri, complained from Berlin of being swindled by Asahi. There was an arrangement between papers that an offer of a visit to the front must not be accepted unless all papers were included but Moriyama of Asahi slipped off to Kharkov leaving the rest behind.

-2-

Regarding the above, Ministry of Information expert writes "rest of Axis is learning that in small matters at any rate, and probably in large ones too, the trickiness of the Japanese makes them awkward to handle".

Although it was previously reported in German messages from Tokyo that the Japanese say English and not Japanese would be the main "Lingua Franca" in the prosperity sphere. New Delhi on June 1 heard Tokyo carrying on "propaganda about imposition of Japanese as Lingua Franca in Asia". It has also been announced that "at the desire of the inhabitants" radio-Batavia will give Japanese lessons thrice weekly.

May 24 Japanese controlled Pekin Chronicle published 40 Domei items and only two DNB items although 51 of the latter might well have been printed. This is considered no doubt symptomatic of a push to expel European influences from greater East Asia.



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

June 9, 1942

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

Dear Henry:

The attached is the British
daily Empire guidance.

Sincerely,

WJ
William J. Donovan

Significant Midway Island engagement relatively neglected by Japanese and Axis propaganda. Japan attack was referred to in somewhat vague terms in Axis broadcasts only on Sunday, no Japanese broadcasts on the subject have yet been picked up in London. Domei has not mentioned it. Transocean today merely quotes Reuters report. All this is marked contrast to previous occasions when Japanese have trumpeted successes or alleged successes with great promptness.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 9, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Summary of Military Reports

Finland

Four additional German divisions have landed in Finland on their way to the Murmansk front.

(C.O.I., "The War This Week", May 28 - June 4, 1942)

Indian Ocean

There are two Japanese armed merchant cruisers operating off the African Coast. These ships are fitted with at least six-inch guns, possibly torpedo tubes, and probably carry sea-planes for reconnaissance. A number of Japanese submarines are also operating in this area.

(U.K. Operations Report, June 8, 1942)

R.A.F. Raids on Germany

The British comment that German propaganda policy concerning the R.A.F. raids shows either great stupidity or short-term desperation. The pledges of retaliation reach a degree of unreality beyond anything comparable. A D.N.B. item of June 1 said: "In accordance with the Fuehrer's words, we are retaliating two and three-fold on Canterbury." A front report of June 2 spoke of "Ipswich, a town which in the morning will be a smoldering heap of debris." The Germans are being consoled that the R.A.F. rate of losses is prohibitive, yet the Propaganda Ministry must know that the scale of R.A.F. operations will not be reduced enough to impress the Germans.

(Political Warfare Executive, June 8, 1942)

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

June 10, 1942

Further thought in connection with the \$25,000 limitation has led us to one change in the memorandum previously submitted to and discussed with you which Roy and I think should be called to your attention.

The change which we recommend relates to the treatment of married couples. We formerly thought in terms of a 100 percent tax on all income above a \$25,000 exemption for both single persons and married couples. Further thought has convinced us that it would be better to provide an exemption of \$25,000 per person, so that a married couple would have a total exemption of \$50,000. There is attached hereto a copy of our revised paragraph on this part of the statement.

The principal reason for suggesting the change is that we feel the plan would be fairer. There would undoubtedly be legitimate criticism if we gave no recognition to the fact that a married couple consists of two persons, or the fact that when two persons married the limit on their combined income would be reduced by 50 percent. Criticism on this point might divert attention from the essence of the limitation proposal.

Will you advise us whether you agree with this amendment sometime when you are calling the office this week? We ought to be prepared to submit our recommendations with respect to this \$25,000 limitation on next Monday.

We have made the technical changes suggested by Dan Bell, and we need not trouble you on these points.

RSP

"The supertax would apply to single persons and married couples. The recent action of your Committee in approving mandatory joint returns will facilitate the application of the supertax to the combined income of the two spouses. It is recommended that for the purpose of the supertax joint returns for married couples be made mandatory and that a personal exemption of \$25,000 for each spouse be allowed, or in effect \$50,000 for the married couple."

DEPARTMENT OF AGRICULTURE
WASHINGTON



June 10, 1942.

The Honorable
The Secretary of the Treasury

Dear Henry:

It was very considerate of you to write Senator Russell in support of the Farm Security Administration. Your letter was very effectively used by Senator Russell in the debate and, I feel, contributed to the satisfactory vote in the Senate on this program.

Sincerely,

Claude R. Wickard

Secretary

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ZEB V. LONG, JR., CLERK
 MARION Y. MC CANLESS, ASST. CLERK

COMMITTEE ON WAYS AND MEANS
 HOUSE OF REPRESENTATIVES
 WASHINGTON, D. C.

June 10, 1942

Dear Henry:

Yours of June 8th enclosing copy of MINUTE MAN has just been received.

Please be assured of my appreciation of your thoughtfulness in sending it to me, and I shall be glad to read it carefully at the very first possible moment.

Of course, the boys are keeping you advised as to the progress we are making on the tax bill. It looks now as though the Committee might be able to complete its work in about two more weeks.

With my kind personal regards, I am

Yours sincerely,

(Signature)
 R. L. Doughton.

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

ALBEN W. BARKLEY
KENTUCKY

92

United States Senate

CONFERENCE OF THE MAJORITY

June 10, 1942

Dear Henry:

Allow me to acknowledge receipt of and thank you for your letter of June 8th, also for the attached copy of "THE MINUTE MAN". I have enjoyed reading this magazine very much.

With personal regards, I am,

Sincerely yours,

Alben

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



THE SECRETARY OF STATE
WASHINGTON

June 10, 1942

Dear Henry:

Thank you very much for your letter of June eighth enclosing a copy of the recent issue of "The Minute Man", which I look forward to examining with real interest.

I greatly appreciate your kind thoughtfulness in sending it to me.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



THE SECRETARY OF COMMERCE
WASHINGTON

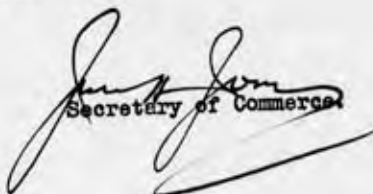
June 10, 1942.

Dear Henry:

Thanks for your letter of June 8 with which you enclosed a copy of the June issue of "THE MINUTE MAN". A glance at this publication indicates that it is a very interesting pamphlet and one which should be of assistance to all those who are engaged actively in promoting the sale of the Bonds.

We are putting on our Departmental campaign for the sale of Bonds through voluntary pay allotments during the period June 23-July 8, and hope to be able to make a good showing during that period.

Very sincerely,


Secretary of Commerce

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

WAR PRODUCTION BOARD
WASHINGTON, D. C.

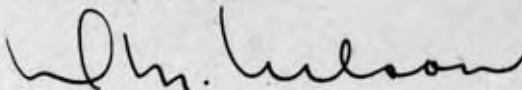
OFFICE OF
DONALD M. NELSON
CHAIRMAN

June 10, 1942

Dear Henry:

Thank you for sending me a copy
of "The Minute Man." I have not been able
to read this as carefully as I should like,
but I believe the circulation of this
news letter would effectively promote the
sale of war bonds.

Sincerely yours,



Donald M. Nelson

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

WAR HEROES PARADE
Sponsored by the
Treasury Department of the United States
Through the War Activities Committee
of the Motion Picture Industry

DATE	CITY	HOTEL	AUDITORIUM AND CAPACITY	THEATRE CONTACT	MAYOR	GOVERNOR	ARMY CONTACT	NAVY CONTACT	HEAD CHAIRMAN
June 8	New York	Astor	Madison Square Garden 20,000		F. H. LaGuardia	Herbert Lehman	FOR ALL ARMY,		Richard O. Patterson 1870-4th Ave.
June 9	REST						NAVY AND AIR CORPS		
June 10	Boston	Statler	Boston Garden 16,500 Standing Rm. 1500	Marty Mallin and Sam Finanski 60 Scollay Square	Maurice J. Tobin	Leverett Saltonstall	CONTACTS WE MUST		Daniel J. Doherty 79 Milk St.
June 11	Philadelphia	Ritz Carlton	Convention Hall 18,500	Ted Schlangar Warners 11th & Market Sts.	B. Samuel	Arthur H. James	CONTACT THE RESPECTIVE PUBLIC		Sam J. Ludlow 803 So. 18th St.
June 12	Baltimore	Emerson	5th Regiment Armory 12 to 15,000	Imy Haysport Hippodrome Theatre	H. W. Jackson	Herbert R. O'Connor	RELATIONS OFFICERS		Walter Ruth 501 Maryland Trust Bldg.
June 13	Washington	Mayflower	Riverside Stadium 7,000	Carter Barron Capitol Theatre John Fayette Earle Theatre		Board of Commissioners	OF EACH OF THESE FRANCHISES IN EACH		U. S. Treasury (Kuhn)
June 14	REST						OF THE CITIES		
June 15	Pittsburgh	Ma. Penn	The Gardens 4,500 7,000 inc. floor	John Harris Harris Theatre	G.D. Scully	Arthur H. James			Same as Philadelphia
June 16	REST								
June 17	Detroit	Statler	Olympia 40,000 5,000 standing room	Dave Ideal Fox Theatre	Edw. J. Jeffries	M. D. VanWagoner			Frank Isbey 7801 West Fort St.
June 18	Milwaukee	Schroeder	Arena 3,150 plus floor = 6,800	Harold Fitzgerald Varsity Bldg. or Wisconsin Theatre	C. F. Zeidler	Julius P. Heil			Frank Kuhl 302 Federal Bldg.
June 19	REST								
June 20	MAT. Minneapolis	St. Paul	Municipal Auditorium 11,500	John Friedl Minnesota Amuse. Co. 17 No. 6th St. Minneapolis	M. L. Kline	Harold Stassen			A. D. Reynolds 1519 New P.O. Bldg.-St. Paul
June 21	REST								
June 22	Denver	Cosmopolitan	City Auditorium 8,000	Rick Rickatson 1631 Glenora Bldg. or Bob Selig	B. F. Stapleton	Ralph L. Carr			Ralph Nicholas 308 Colorado Bldg.
June 23	Salt Lake City	Hotel Utah	Tabernacle 10,000	Tracy Barbas Capitol Thea. Bldg.	Abe Jenkins	Herbert B. Maw			Chas. Mabey 801 Continental Bldg.
June 24	REST								
June 25	Seattle	Olympic	Civic Auditorium 6,000	Frank Newman 271 Skinner Bldg.	E. D. Millikin	Arthur B. Langille			Saul Haas 209 Federal Bldg.
June 26	Portland Oregon	Multnomah	Public Auditorium 4,219	Al Finke 303 Commercial Bldg.	P. H. Wiley	Chas. A. Syregue			Palmer Hoyt, The Oregonian
June 27	San Francisco	St. Francis	Civic Auditorium 8,000 to 10,000	Archie Bowles 1000's Warfield Theatre Bldg.	Angelo Rossi	Gilbert I. Olson			Edw. Heller 500 Market St.
June 28	REST								
June 29	Los Angeles	Ambassador	Olympia Auditorium 10,400	Chas. Skouras Fox West Coast Th. Washington & Vermont Sts.	Walter Brown	Gilbert L. Olson			Howard Mills 221 South Spring St.
June 30	REST								
July 1	San Antonio	St. Anthony	San Antonio Coliseum 4,500	Bob O'Donnell Interstate Thea. Majestic Thea. Dallas Texas	J. F. Quin	Coke R. Stevenson			Frank Scofield Collector Int. Rev. (Austin)
July 2	Dallas Fort Worth COMBINED	Adolphus	Arlington Race Track	Bob O'Donnell Interstate Thea. Dallas	W. H. Miller	Coke R. Stevenson			Frank Scofield Collector Int. Rev. (Austin)
July 3	New Orleans	St. Charles	Municipal Auditorium 4,500	E. W. Richards Tulor Thea. 209 Canal St.	Walt S. Marshall	Sam Houston			Paul Mahoney 512 Pan American Bldg.
July 4	St. Louis	Grand	Forest Park (OUTDOOR)	Edw. Arthur Fox Theatre					Branch Bickel Cardinals Baseball Club



TREASURY DEPARTMENT
WAR

~~RECEIVED~~ SAVINGS STAFF

693 Union Commerce Building
Cleveland, Ohio

June 10, 1942

OFFICE OF STATE ADMINISTRATOR

Dear Henry:

I was sorry to learn from your letter of June 6th that the pressure of your work is so heavy that you do not, at this time, have the energy to leave Washington. I fully understand that can be so and sympathize and appreciate your reasons for not being able to visit Cincinnati.

Needless to say, I am personally much disappointed, and the War Savings Committee of Hamilton County is also - but they fully understand your difficulties.

Maybe one of these days - when the war is won - we will have some time to sit down and talk over old times.

With very kind regards, I am

Sincerely

Phil

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



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1942

TO Secretary Morgenthau
FROM Mr. Klaus

The Grand Jury in Connecticut this morning indicted Vonsiatsky, several leading Bund leaders and two German Lutheran ministers for espionage. Vonsiatsky has been arrested.

Samuel Klaus

TREASURY DEPARTMENT

99

INTER OFFICE COMMUNICATION

DATE June 10, 1942

TO Secretary Morgenthau

FROM Mr. Haas

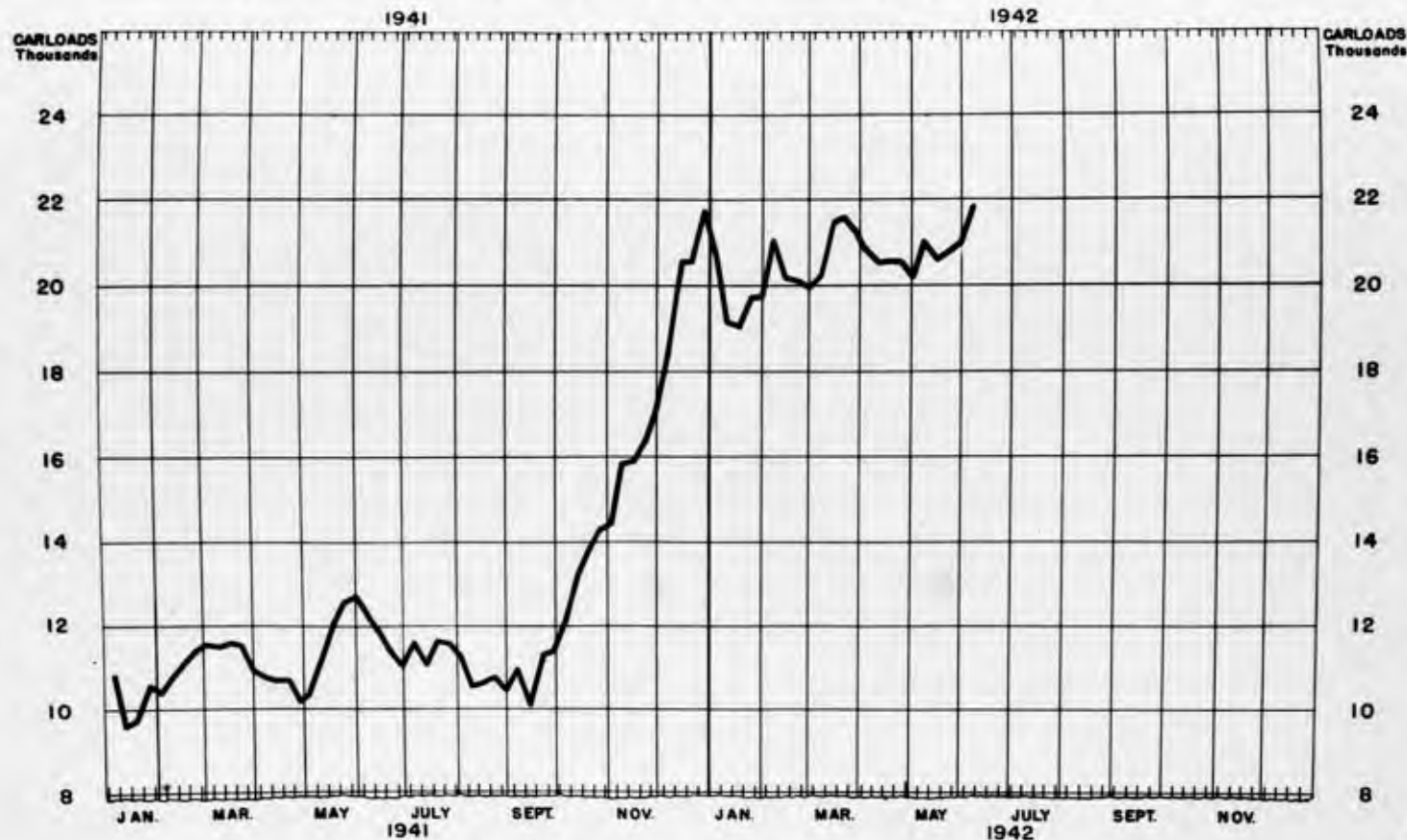
Subject: The Export Freight Situation.

Lighterage freight in storage and on hand for unloading in New York harbor at the end of last week increased by 861 cars to a total of 21,853 cars -- the highest level since at least January 1941. (See Chart 1.) At the end of the week there was additional storage space available in New York for 5,742 cars.

Exports from New York last week increased by 30 percent to 7,296 cars. (See Chart 2, upper section.)

Receipts for export at New York also increased substantially to a level of 8,071 cars from 5,764 cars in the previous week. This figure practically equals the peak reached in the week ended December 12, when receipts for export at New York reached 8,080 cars. Receipts for export at 9 other North Atlantic ports increased by 142 cars to 3,379 cars. However, receipts for export at 6 Pacific ports dropped by 239 cars to 3,126 cars. (See Chart 2, lower section.)

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.

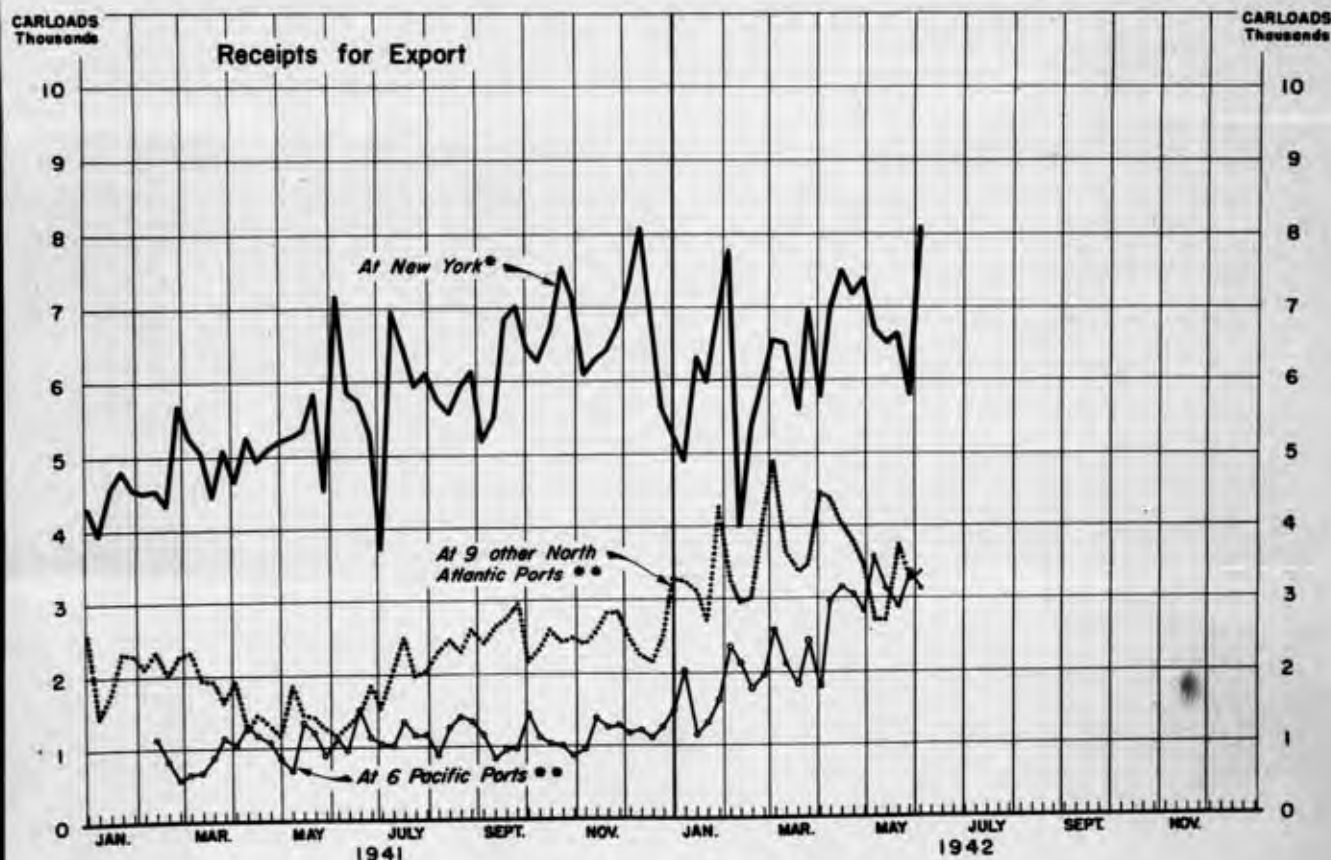
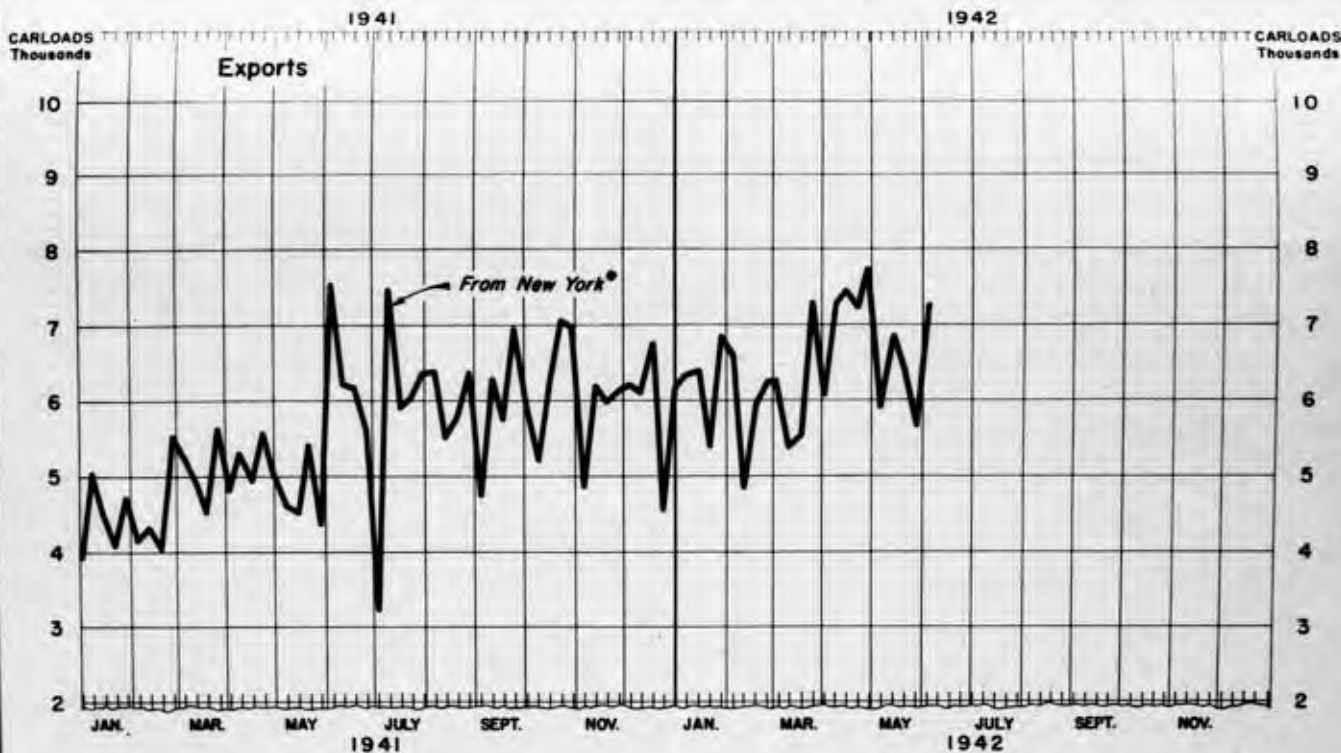
Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-303-D

Chart 1
100

Regraded Unclassified

EXPORT FREIGHT MOVEMENT



* As estimated from data of general managers' association of New York.
 ** Association of American Railroads.

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 196

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

1. NAVAL

Northern IRELAND(8). United States troops arrived safely yesterday from NEW YORK. A Free French corvette was torpedoed and sunk yesterday while on convoy escort duty in Mid Atlantic. There are four survivors. 32 Spitfires arrived at MALTA yesterday.

2. MILITARY

LIBYA. Since P.M. 8th, the fighting around KNIGHTSBRIDGE has subsided, and the enemy has been consolidating his positions south west of our defended locality in this area. At BIR HAKEIM the garrison suffered considerable casualties to gun crews in a severe attack on the 8th evening from the north supported by 37 tanks. A further attack which developed the same night compelled our forces to make a slight withdrawal after very heavy fighting. Reinforcements have been sent to help the Free French, and one of our armoured brigades successfully engaged an enemy tank concentration south east of BIR HAKEIM position, forcing them to withdraw. Our attacks against enemy supply lines continue and one of our columns captured 500 Italian prisoners.

3. AIR OPERATIONS

8th/9th. ESSEN. 253 tons of bombs were released over ESSEN and the area. Heavy opposition and haze made accurate identification difficult. Many fires, some of them large, were seen distributed over the RUHR. 9th. About 80 Spitfires carried out offensive operations over Northern FRANCE. One enemy minesweeper was attacked and sunk. A Messerschmidt 109 was probably destroyed off the South Coast. 9/10. 54 aircraft carried out seacoming and five others offensive patrols. All returned safely.

LIBYA. 8th. Sustained fighter bomber activity was maintained against enemy forces north east of BIR HAKEIM. About 100 vehicles, including five tanks, were destroyed or damaged, and several direct hits were made on gun emplacements. These operations were continued on the 9th and Hurricanes dropped supplies. Our bombers attacked BARCE aerodrome and other aerodromes in CRETE. 5 enemy aircraft were shot down and 2 others probably destroyed. Our losses were 5 fighters and 1 bomber.

- 2 -

4. GRAF ZEPPELIN

Recent reconnaissance shows GRAF ZEPPELIN to be nearing completion at GDYNIA. As she is GERMANY's first aircraft carrier, a long period of trials may be expected before she operates.

5. GULF OF FINLAND

Preparations for the German attack on the Islands of LAVANSAARD and SEISKARI, GULF OF FINLAND, continue. KOTKA, 50 miles west of VIPURI, is receiving troops and stores. Mine laying in Finnish Gulf and off Latvian Coast is taking place.

BR

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

Rio de Janeiro

Dated June 10, 1942

Rec'd 2:02 a.m., 11th

Secretary of State,

Washington.

1975, June 10, 9 p.m. (SECTION ONE)

Department's 1417, June 2, 6 p.m.

Bank of Brazil has asked French and Spanish Embassies to indicate bank in United States to which their dollar deposits should be transferred.

Director of Exchange reports that there is no legal provision permitting perforation or stamping of bank notes.

Following plan has been agreed to by bank:

(A) Deposits of less than \$1000. (In Rio 786 of 917 depositors were in this category. Their deposits represented only \$128,538 of \$1,097,661 total.) Conversion will be made into milreis except in cases concerning which Embassy has adverse information. Objectionable depositors will be given choice of (1) transfer to special account in New York or (2) deposit in controlled dollar account in Bank of Brazil, withdrawals to be permitted only in dollar currency and only with special permit.

(B) Deposits of more than \$1000. Each case will be carefully reviewed and placed in one of following categories:

(1) Unobjectionable as to person or source. Conversion into milreis or transfer to account in United States, at depositor's option.

(2) Objectionable. Transfer to account in United States or deposit in special dollar account in Bank of Brazil under decree law 3911. Withdrawals only in dollars and only under special permit.

WSB

CAFFERY

eh:copy 6-12-42

C O P Y

105

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

Rio de Janeiro

Dated June 10, 1942

Rec'd 4:15 a.m., 11th

Secretary of State

Washington.

1975, June 10, 9 p.m. (SECTION TWO)

Three. European refugees. Friendly but subject to Axis pressure because of home ties. Transfer to account in the United States or place in the controlled account in Bank of Brazil, withdrawals to be made in dollar currency for living expenses at monthly rate previously agreed to by Embassy. (most of the deposits are in this category.)

Inasmuch as Bank of Brazil in acting as our agent in this matter, within legal limitations, Embassy assumes Treasury will license all imports currency made by bank and accompanied by Embassy certificate.

Rio deposits by Axis nationals totaled less than \$2,000. Dollar currency is being quoted in black market at 10-12 milreis.

Director of exchange is sympathetic to plan control other currencies but prefers to discuss details with our Treasury officials during his forthcoming visit to Washington. Director says that he must proceed cautiously with respect to Argentine and Uruguayan currencies.

Please request American shipping companies to arrange to pay off crew members arriving at Brazilian ports in milreis rather than dollars.

(END OF MESSAGE).

CAFFERY

WSB

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF

June 10, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information copies of telegrams sent to certain American missions in the other American republics, transmitting suggested controls over the movement of United States currency for the possible adoption by the respective countries.

Enclosures:

1. To Managua, telegram no. 245,
June 8, 1942, 10 p.m.
2. To Panama, telegram no. 516,
June 8, 1942, 10 p.m.
3. To San Jose, telegram no. 230,
June 8, 1942, 10 p.m.
4. To Guatemala, telegram no. 216,
June 8, 1942, 10 p.m.
5. To Port-au-Prince, telegram no. 179,
June 8, 1942, 10 p.m.
6. To San Salvador, telegram no. 126,
June 8, 1942, 10 p.m.
7. To Habana, telegram no. 331,
June 8, 1942, 10 p.m.
8. To Ciudad Trujillo, telegram no. 169,
June 8, 1942, 10 p.m.

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TELEGRAM SENT

HRL

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

June 8, 1942

10 p.m.

AMLEGATION,

MANAGUA.

245

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m.

It is suggested that you discuss the adoption of the following controls by the Nicaraguan Government over the movement of United States currency:

Nicaragua should prohibit the import or export of United States currency except direct (repeat direct) currency movements through authorized banking channels between the United States and Nicaragua and with the further exception that persons going to or leaving Nicaragua be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government also appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Nicaragua and other points in the Caribbean area which will require large currency movements. Please advise the Department whether the Nicaraguan Government feels that the establishment of such a licensing system is necessary and if so the character and probably extent of the exceptions contemplated.

The adoption of the measures suggested above and their effective enforcement will facilitate prompt acceptance in the United States of currency imported directly through authorized Nicaraguan banking channels.

HULL
(DH)

FF:TTJr:AKW FD EO

Copy:imc:6/10/42

TELEGRAM SUMMARY

JG

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

June 8, 1942

10 p.m.

AMEMBASSY

PANAMA

516

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m. and your 515 May 21, 3 p.m.

The following telegram has been sent to our Embassy in Cuba:

QUOTE In view of the Finance Minister's recent preoccupation over possible repercussions of United States currency controls on the dollar exchange rate in Cuba, you are requested to discuss with him the following.

This Government is desirous of preventing any dislocation in the United States dollar-Cuban peso exchange rate contrary to the best interests of the Cuba economy. At the same time, it desires to prevent the misuse of dollar currency in other parts of the world. To carry out these objectives we suggest that:

Cuba should prohibit the import or export of United States currency except direct (repeat direct) currency movements through authorized banking channels between the United States and Cuba and with the further exception that persons going to or leaving Cuba may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Cuba and other points in the

Caribbean

- 2 -

Caribbean area which will require larger currency movements. Please advise the Department whether the Cuban Government feels that the establishment of such a licensing system is necessary and if so the character and probable extent of the exceptions contemplated.

The adoption of the measures suggested above and their effective enforcement will assure prompt acceptance in the United States of currency imported directly through authorized Cuban banking channels. UNQUOTE.

Please discuss with the appropriate officials in Panama whatever suggestions they may have on the best means of obtaining similar objectives in Panama.

You are correct in your understanding that exports of currency from Panama to the United States will be investigated by customs officials here under the guidance of the Treasury Department. For the time being each person entering the United States is being allowed by the customs officials to bring in \$250 free of restriction.

HULL
(DH)

FF:TFJr; AKW

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TELEGRAM SENT

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

June 8, 1942

10 p.m.

AMLEGATION,

SAN JOSE.

230

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m. and your despatch 262 of May 22.

It is suggested that you discuss the recent decree issued by the Costa Rican Government with a view to extending its prohibitions to the import or export of United States currency between Costa Rica and all (repeat all) other countries except direct (repeat direct) currency movements through authorized banking channels between the United States and Costa Rica.

You might also suggest that the Costa Rican Government may wish to establish an exception so as to permit persons going to or leaving Costa Rica to carry a maximum of \$250. It is recommended that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government also appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Costa Rica and other points in the Caribbean area which will require larger currency movements. Please advise the Department whether the Costa Rican Government feels that the establishment of such a licensing system is necessary and if so the character and probable extent of the exceptions contemplated.

The adoption of the measures suggested above and their effective enforcement will facilitate prompt acceptance in the United States of currency imported directly through authorized Costa Rican banking channels.

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BAS

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

June 8, 1942

10 p.m.

AMEMBASSY

GUATEMALA

216

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m. and your
despatch 2912, of May 29.

It is suggested that you discuss the recent decrees issued by
the Guatemalan Government with a view to extending its prohibitions
to the import or export of United States currency between Guatemala
and all (repeat all) other countries except direct (repeat direct)
currency movements through authorized banking channels between the
United States and Guatemala.

You might also suggest that in administering the exceptions
for reasonable amounts of currency carried by travelers as set forth
in articles 2 and 3 of the Decree, the Guatemalan Government might
limit such amounts to a maximum of \$250. It is recommended that the
amount of \$250 be established administratively since it may be
advisable to reduce this amount in the future.

This Government also appreciates the fact that there may be special
economic relationships which would be disturbed by the inflexible
application of the above controls and therefore recognizes that it may
be necessary to establish a licensing system to take care of a few
exceptional relationships between Guatemala and other points in the
Caribbean area which will require larger currency movements. Please
advise the Department whether the Guatemalan Government feels that the
establishment of such a licensing system is necessary and if so the
character and probable extent of the exceptions contemplated.

The adoption of the additional measures suggested above and their
effective enforcement will facilitate prompt acceptance in the United
States of currency imported directly through authorized Guatemalan
banking channels.

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(DH)

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TELEGRAM SENT

MJF

June 8, 1942

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

10 p.m.

AMLEGATION,

PORT-AU-PRINCE.

179

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Reference Department's circular telegram of May 18, 4 p.m. and your despatch 1106, May 29.

In order to assure the free movement of United States currency between the United States, the Republic of Haiti and the Dominican Republic you are requested to discuss with the Minister of Finance the adoption of the following controls by the Haitian Government over the movement of United States currency.

Haiti should prohibit the import or export of United States currency except direct (repeat direct) currency movements through authorized banking channels between the United States, the Dominican Republic and Haiti and with the further exception that persons going to or leaving Haiti may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above control and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Haiti and other points in the Caribbean area other than the Dominican Republic which will require larger currency movements. Please advise the Department whether the Haitian Government feels that the establishment of such a licensing system is necessary and if so the character and probable extent of the exceptions contemplated.

-2-

The adoption of the measures suggested above and their effective enforcement will assure prompt acceptance in the United States of currency imported directly through authorized Haitian banking channels.

A similar telegram is being sent to the American Legation at Ciudad Trujillo.

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TELEGRAM SENT

ELP

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

June 8, 1942.

10 p.m.

AMLEGATION

SAN SALVADOR

126

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m.

It is suggested that you discuss the adoption of the following controls by the Salvadoran Government over the movement of United States currency:

El Salvador should prohibit the import or export of United States currency except direct (repeat direct) currency movements through authorized banking channels between the United States and El Salvador and with the further exception that persons going to or leaving El Salvador be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government also appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes it may be necessary to establish a licensing system to take care of a few exceptional relationships between El Salvador and other points in the Caribbean area which will require large currency movements. Please advise the Department whether the Salvadoran Government feels that the establishment of such a licensing system is necessary and if so the character and proper extent of the exceptions contemplated.

The adoption of the measures suggested above and their effective enforcement will facilitate prompt acceptance in the United States of currency imported directly through authorized Salvadoran banking channels.

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(DH)

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TELEGRAM SENT

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

June 8, 1942

10 p.m.

AMEMBASSY,

HABANA (CUBA).

331

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Department's circular telegram of May 18, 4 p.m. and instruction
no. 38 of June 4.

In view of the Finance Minister's recent preoccupation over
possible repercussions of United States currency controls on the dollar
exchange rate in Cuba, you are requested to discuss with him the
following.

This Government is desirous of preventing any dislocation in the
United States dollar-Cuban peso exchange rate contrary to the best
interests of the Cuba economy. At the same time, it desires to prevent
the misuse of dollar currency in other parts of the world. To carry
out these objectives we suggest that:

Cuba should prohibit the import or export of United States currency
except direct (repeat direct) currency movements through authorized
banking channels between the United States and Cuba and with the fur-
ther exception that persons going to or leaving Cuba may be permitted
to carry a maximum of \$250. It is suggested that the amount of \$250
be established administratively since it may be advisable to reduce
this amount in the future.

This Government appreciates the fact that there may be special
economic relationships which would be disturbed by the inflexible
application of the above controls and therefore recognizes that it may
be necessary to establish a licensing system to take care of a few
exceptional relationships between Cuba and other points in the
Caribbean area which will require larger currency movements. Please
advise the Department whether the Cuban Government feels that the
establishment of such a licensing system is necessary and if so the
character and probable extent of the exceptions contemplated.

The adoption of the measure suggested above and their effective
enforcement will assure prompt acceptance in the United States of
currency imported directly through authorized Cuban banking channels.

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

June 8, 1942

10 p.m.

AMLEGATION,

CIUDAD TRUJILLO (DOMINICAN REPUBLIC)

169

FROM TREASURY FOR DISCUSSION WITH MINISTER OF FINANCE.

Reference Department's circular telegram of May 18, 4 p.m.

In order to assure the free movement of the United States currency between the United States, Haiti and the Dominican Republic you are requested to discuss with the Minister of Finance the adoption of the following controls by the Government of the Dominican Republic over the movement of United States currency.

The Dominican Republic should prohibit the import or export of United States currency except direct (repeat direct) currency movements through authorized banking channels between the United States, Haiti and the Dominican Republic and with further exception that persons going to or leaving the Dominican Republic may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between the Dominican Republic and other points in the Caribbean area other than Haiti which will require larger currency movements. Please advise the Department whether the Government of the Dominican Republic feels that the establishment of such a licensing system is necessary and if so the character and probable extent of the exceptions contemplated.

The adoption of the measures suggested above and their effective enforcement will assure prompt acceptance in the United States of currency imported directly through authorized Dominican Republic banking channels.

A similar telegram is being sent to the American Legation at Port-au-Prince.

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

Mexico City

Dated June 10, 1942

Rec'd 3:13 p.m.

Secretary of State,

Washington.

666, June 10, 10 a.m.

Reference Department's telegram 803, June 6, 7 p.m., and
Embassy's telegram 368, March 24, 6 p.m.

Bank of Mexico approved stabilization agreement in April
and so notified the Mexican Treasury. Mexican Treasury failed
to advise Foreign Relations. Treasury has been requested to
forward notification of approval at once, which should be
received by our government without delay.

MESSERSMITH

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118

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 862.5151/2379

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits paraphrased copies of telegram no. 2623, June 10, from American Legation at Bern, concerning German purchase of Spanish silver currency and German dollar purchases in France and dollar sales in Switzerland.

Enclosure:

Paraphrased copies of
telegram no. 2623, June 10,
from Bern.

PARAPHRASE OF TELEGRAM RECEIVED

TO: Secretary of State, Washington
FROM: AMERICAN LEGATION, Bern
DATED: June 10, 1942, 4 p.m.
NUMBER: 2623

Reference is made to telegram no. 2231, May 22, from Legation.

Actual purchase of any Spanish silver currency by Germans as yet is unconfirmed. 900 tons is considered highly improbable by thoroughly competent banking source which doubts that much minted silver in Spain but believes 90 (not 900) tons a commercial transaction possible theoretically.

German dollar sales here not officially confirmed other than already reported. Dollar notes purchased in France by individual Germans are reaching here as nest eggs in Switzerland after being converted into Swiss francs. The dollar-Swiss franc exchange even has not been forced down by these sales officially now above the May 15 level by nearly 10 percent.

HARRISON

Copy:bj:6-18-42

Treasury Department
Division of Monetary Research 120

Date.....June 10.....19 42

To: Miss Chauncey

From: Mr. Southard

Need not be shown to the
Secretary.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Ankara, Turkey

DATE: June 1, 1942, 3 p.m.

NO.: 519

The Embassy has been advised by a reliable source that part of the German purchases in Turkey are being financed by the Germans purchasing Swiss francs at the controlled rate of exchange and exporting the Swiss francs thus purchased to Switzerland. In Switzerland the Swiss francs are used to purchase gold sovereigns which are in turn exported to Turkey and sold at a profit of approximately 100 per cent.

STEINHARDT

Report on conference of Mr. Bewley with Mr. White and Mr. Hicks
June 11, 1942, 3:00 P.M.

Mr. Bewley referred to the British request that they be permitted to obtain some silver as a substitute for tin in industrial uses in Britain. He said the British would like to have an agreement under which they could call upon the delivery of 150 tons beginning next fall.

Mr. White explained the difficulties that would be encountered in view of the legal obstacles and the fact that a shortage of silver already existed in the American market. The Treasury has already made arrangements to utilize its free silver in bus bars, and it was doubtful that such arrangements could be made for the use of the Treasury's reserve silver. Mr. Hicks asked what Britain's coinage requirements were and how they were met. Mr. Bewley replied that Britain used 2-2½ million ounces per month in coinage, and that this came from accumulated stocks. He said that they had enough stocks to last until next fall.

Mr. White said that he would ask the Legal Division to investigate the matter and see whether some arrangement could be made, but he thought that it might be easier to obtain Congressional permission to lend the silver for monetary uses.

Mr. Bewley then referred to the negotiations between the British and American governments with Switzerland and asked what the American Treasury's views were. Mr. White said that the American Government provided dollars for Swiss francs at the official rate of exchange for Swiss uses within this country, and that we therefore felt we could expect that Switzerland would treat us in a similar manner. For this reason we doubted the wisdom of including this point in the commercial negotiations about to be signed.

Mr. White called Mr. E. M. Bernstein who joined the conference and explained to Mr. Bewley the status of the negotiations.

Mr. Bewley said that he did not think the British Government could take so strong a position in its negotiations since the Swiss did not want to accumulate additional sterling. He read from a telegram from London stating that the British Government might have to agree to provide gold in Ottawa for British representative costs in Switzerland.

Mr. Bernstein then left and Mr. Schaefer and Mr. Patterson of R.M.C. Radio Pictures came in. A stenographic record was made of this part of the meeting.

J. E. Hicks

Conference in Mr. White's Office
June 11, 1942
3:15 P.M.

Present: Mr. White
Mr. Hicks
Mr. Schaeffer, R.K.O.
Mr. Patterson, R.K.O.
Mr. Bewley

Mr. Schaeffer:

(To Mr. White.) I want to apologize for taking up so much of your time.

Mr. White:

Not at all. Sorry to have kept you waiting. (To Mr. Bewley.) Let me set before you briefly the situation as I understand it. Then these gentlemen may add to it if they wish. Mr. Schaeffer of R.K.O. came to us several weeks ago and requested that we use our good offices to help release their frozen balances in London, approximately \$3 million. I explained to him that was not a matter for the Treasury, R.K.O. was one of hundreds who had blocked balances and that the Treasury could not and would not take any action in the matter unless there was something to distinguish this case from other cases. Mr. Schaeffer made clear at once there was something very special — that they were confronted with a serious financial situation and they might find themselves in bankruptcy unless there were some funds forthcoming. Their revenues had not been as great as they had expected, expenses had been higher, and they were in serious financial straits. In view of the fact that R.K.O. is an important corporation, we felt justified in examining the matter further. R.K.O. presented some material and we asked the S.E.C. to examine the situation to see whether, in their opinion, it was as serious as R.K.O. claimed it to be. The S.E.C. made an investigation and R.K.O. cooperated in every way and the S.E.C.'s conclusion bore out R.K.O.'s statements. The facts of the situation are as they appear and the S.E.C. and the Treasury feel justified in asking the British Treasury to give the R.K.O. situation careful consideration. They had a time limit up against them — a Board of Directors' meeting — and so we pushed the thing along as rapidly as we could. We now would like to turn the matter completely over to you. It is now a matter between the British Treasury and R.K.O. The Treasury takes this position: I think

- 2 -

you know we have never asked for anything of this character, nor would we, were it not for the fact that you have an important quasi-public corporation which might suffer serious consequences if balances were not released. So, we feel justified in making an exception in this case. We would do the same for any other corporation in the same position that came to us. This, however, is the first company. The Secretary asked me to speak to you, have you meet them, and if there is anything we can do to help in your analysis of the situation, we would be glad to do so. The ball is yours.

Mr. Bewley: In the first place, this would have to be considered in London. Have you a representative in London who is in a position to discuss it there? One who has all the facts and figures?

Mr. Schaeffer: Yes, we have a representative, but he does not have all the facts and figures.

Mr. Bewley: You would be willing to put the discussion in his hands?

Mr. Schaeffer: Yes, we would be willing. There is a matter of time involved. We will reach our critical stage next week.

Mr. Bewley: Next week?

Mr. Schaeffer: Yes. — And we have postponed our stockholders' meeting now twice — from June 3 to June 10 to June 17.

Mr. White: I might say that has been due to the time it has taken us for an examination. It took the S.E.C. a little bit longer than had been expected.

Mr. Schaeffer: We reach a very critical — I might say desperate — situation by Wednesday of next week.

Mr. Bewley: Not much time. The release of these funds or some part of them would be all that is required? Would it put you on your feet again?

Mr. Schaeffer: Yes, it would put us on our feet.

- 3 -

Mr. Bewley: You couldn't borrow against them?

Mr. Schaeffer: No, we can't borrow against them. There are restrictions. We try to live up to our obligations and not undertake in any manner to borrow.

Mr. Bewley: Frankly, I think all I can do is to telegraph. I will telegraph tonight. I think your best plan would be to give your representative full details. They will want to discuss it over there. It involves that old question of exchange control and policy. I am sure they will want to take it up over in London.

Mr. Schaeffer: That would, of course, involve considerable time.

Mr. Bewley: I suppose we could telegraph.

Mr. Schaeffer: Yes, we could send a long cable. But the figures are rather complicated and it will be rather difficult to give our London Company a picture of the over-all situation of the Company.

Mr. Bewley: I assure you, it would be more difficult to give it to me. I can send it across with an air bag with the greatest of pleasure. It might take three days or over a week. Air bags are uncertain. I will be glad to put it in an air bag.

Mr. White: Might it be possible to cable the most essential figures and follow them by a report? The decision which the British Treasury would make might at least tentatively be made on the basis of such significant figures, assuming the following data would support the cabled figures. In that way you would not lose any time provided at the same time you (Mr. Bewley) would cable a report of this discussion.

Mr. Bewley: Yes, certainly. I will send the cable at once.

Mr. White: In that way they would have significant data followed by an airmail report. You might also mention the urgency of a stockholders' meeting. I think the first time you brought this to our attention was when?

Mr. Schaeffer: About a month ago.

Mr. White: The delay in bringing it before you (Mr. Bewley) was the desire of Secretary Morgenthau to assure himself of the facts in the case.

- 4 -

Mr. Bewley: I hesitate to make any statement of the decision London would make.

Mr. Schaeffer: Of course, we have been a little bit fearful of that. On the other hand, as Mr. White brought up, I mentioned I couldn't speak for the rest of the companies, but if they found themselves in a similar position they probably would be entitled to similar consideration.

Mr. White: Are you getting all your current earnings unblocked?

Mr. Schaeffer: Only about 40 per cent.

Mr. White: The fact that they are only getting a portion of their current earnings may constitute a special class of cases.

Mr. Bewley: I suppose this wouldn't come as an unexpected shock in London? I suppose they have an idea of this already?

Mr. Schaeffer: I suppose so. The industry over here has. In our discussions the other day, owing to the desperate situation in which we find ourselves, which would possibly mean we would have to sell some very valuable assets which would put the Company in great jeopardy — I speak now not officially, but quite unofficially — there was a feeling that in view of our desperate situation that the Company may find itself in a position where they would have no choice but to take desperate means to secure these funds. As expressed by some, they felt that it was contrary to the whole spur of relationship between two countries. Some expressed they felt the possibility of placing this company in jeopardy was certainly contrary to the broad general principles of the Lend-Lease, Atlantic Charter, War Production and Resources Board and the whole general trend of things since Pearl Harbor. People are desperate in expressing themselves and felt they had no alternative but to really take some serious steps to bring this situation to the light in view of the fact that our current funds are being blocked. We are probably the only industry whose funds at the present time are being blocked on merchandise that is being delivered.

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Mr. White:

I think the British Treasury, as ourselves, will appreciate that there are characteristics of this particular situation which set it aside from others. First, the motion picture exports which are sort of a quasi-public utility if you like, in which the considerations are not wholly the same as they would be in the export of any other commodity. Certain political and social ramifications adhere to the continued output and use of motion pictures. It wouldn't hold true of other industries. The moving picture industry isn't a Government institution, nor is it wholly a private institution. As I understand it, they haven't in their attitude toward the matter acted quite as a private institution. In the Treasury's view, that would not be sufficient justification in itself for the United States Treasury to bring this case to the attention of the British Treasury. Second is the serious financial situation which that company finds itself in. The latter, when imposed on the former, justifies some consideration. Thirdly, current earnings being partly blocked might make it possible to come to a decision on this case without opening the door to thousands of individuals and corporations who have pre-war accumulations of sterling blocked.

Mr. Bewley:

If current earnings were released would that be sufficient?

Mr. Schaeffer:

In the light of the fact that this is a working -- which has brought about a condition in this country -- more or less formed after the British idea -- producing a picture first and trade showing it before it can be sold. That constitutes an inventory to be built up which requires additional working capital.

Mr. Bewley:

There is nothing more I can say except that I will cable this to London. I don't believe they will make much progress unless you cable your representative and instruct him to get in touch with the British Treasury or the Bank of England.

Mr. White:

I wouldn't like to feel that in our careful examination we had delayed your consideration unduly. The fact that Sir Frederick Phillips has gone back, does that alter the case?

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Mr. Bewley: Oh no, he would cable it to London. He wouldn't have dealt with it here. They always insist on negotiations being in London.

Mr. Schaeffer: Negotiations have always taken place in London?

Mr. Patterson: With the Treasury Department over there?

Mr. Bewley: The Treasury Department and Board of Trade. The Treasury Department takes an immediate part. What is the name of your representative?

Mr. Schaeffer: Mr. Holmes. I probably would not want to take it up with our usual agent.

Mr. Bewley: I will send the cable tonight to warn the Treasury he will call.

Mr. Schaeffer: That will be very helpful.

Mr. Bewley: You will have to write him or contact him as best you can.

Mr. Schaeffer: May I take the liberty of sending you some additional reports?

Mr. Bewley: Anything you think useful I will send by diplomatic pouch.

Mr. Schaeffer: We will get our cable off. In anticipation we will also get up anything else that may be useful.

Mr. Patterson: Since we do not have priorities on mail maybe you would be good enough to send data in a priority bag to Holmes, our own man, through the Embassy. It might take us 2 or 3 weeks.

Mr. Bewley: I can send it to the British Treasury and get Holmes to call for it.

Mr. Patterson: You will help us?

Mr. Bewley: Yes, I will be glad to.

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Mr. White: I think it would be preferable to do it through the British Treasury. We would rather, from this stage on, that the negotiations be wholly between the British Treasury and the R.K.O.

Mr. Bewley: I will do all I can but I don't know what position they will take.

Mr. Patterson: To close that, I suggest you (Mr. Schaeffer) leave your card.

Mr. Schaeffer: I haven't had a card for 30 years.

Mr. Patterson: I am not important, but I have a card. (To Mr. Bewley.) That is Mr. Schaeffer's name, he is the President. I am carrying his bags for him today.

Mr. Schaeffer: (To Patterson) Will you take Mr. Bewley's name? (Bewley and Patterson exchanged names.)

Mr. Schaeffer: We are in the midst of a program, incidentally, which as a public responsibility, is very helpful in the war effort. I am Chairman of the War Activities of the Motion Picture Industry. In my capacity as Chairman of the Committee, I am quite familiar with what the industry as a whole is doing. Pictures like "Mrs. Miniver", "Battle Station" and "Forever and A Day" (which pictures the English artist's side) — the proceeds are going to English charity. We expect to make U. S. Army training films which call for considerable investment. We are the one industry in the world doing everything at cost. So, in that respect, our contribution as a company is very helpful and it is important to the industry that not only our company, but any other company, be able to carry on. May I add also, a very minute and thorough examination will show that we have no so-called high priced executives in our organization, so that the funds are not being paid out in salaries to executives in the manner and style which one is accustomed to hearing about Hollywood. The top salary is \$100,000 and there is only one at that. Our money is not being squandered.

Mr. Patterson: Relatively, the salaries are very low.

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Mr. White: And the Government gets a good slice of that \$100,000.
Mr. Patterson: Possibly 50 per cent, I imagine. ~~now~~
Mr. Schaeffer: I shall get a cable off tonight or by tomorrow.
Mr. Bewley: I will cable the situation.

* * * *

H. D. White

Table I

Price and Yield Changes of United States Securities
June 4, 1942 to June 11, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	June 4, 1942	June 11, 1942	Change	June 4, 1942	June 11, 1942	Change
	(Decimals are thirty-seconds)			(Percent)		
U.S. Savings Bonds	-	-	-	.36	.37	+.01
Average rate last issue	-	-	-	.46	.46	.00
U.S. Government Securities	-	-	-	.46	.46	.00
11/1/42	-	-	-	.46	.46	.00
U.S. Treasury Notes	100.05	100.06	+.01	.55	.50	-.05
3/4 3/15/43	99.20	99.21	+.01	.92	.90	-.02
1/4 9/15/44	99.10	99.10	.00	.95	.95	.00
3/4 12/15/45	99.17	99.15	-.02	1.13	1.15	+.02
1 3/15/46	100.13w1	100.13	.00	1.41w1	1.41	.00
1-1/2 12/15/46						
U.S. Treasury Bonds	101.14	101.15	+.01	1.74	1.73	-.01
2 3/15/48-50	100.22	100.23	+.01	1.90	1.89	-.01
2 6/15/49-51	100.19	100.21	+.02	1.91	1.90	-.01
2 9/15/49-51	100.12	100.12	.00	1.96	1.96	.00
2 12/15/51-55	104.04	104.05	+.01	2.03	2.03	.00
2-1/2 3/15/52-54	101.14	101.11	-.03	2.09	2.10	+.01
2-1/4 6/15/52-55	103.10	103.09	-.01	2.22	2.22	.00
2-1/2 3/15/56-58	-	-	-	-	-	-
2-1/2 6/15/58-67	101.08	101.09	+.01	2.43	2.43	.00
2-1/2 9/15/67-72						
U.S. Treasury Tax-exempt Notes	100.19	100.18	-.01	1/32*	1/32*	0/32*
2 9/15/42	100.27	100.26	-.01	.15	.15	.00
1-3/4 12/15/42	100.26	100.26	.00	.33	.32	-.01
1-1/8 6/15/43	100.25	100.25	.00	.39	.36	-.03
1 9/15/43	101.04	101.04	.00	.39	.38	-.01
1-1/8 12/15/43	100.31	100.30	-.01	.45	.46	+.01
1 3/15/44	100.16	100.15	-.01	.50	.52	+.02
3/4 6/15/44	101.04	101.01	-.03	.50	.54	+.04
1 9/15/44	100.17	100.16	-.01	.56	.57	+.01
3/4 3/15/45						
Partially Tax-exempt Bonds	102.28	102.25	-.03	.56	.60	+.04
3-3/8 6/15/43-47	103.14	103.12	-.02	.71	.72	+.01
3-1/4 10/15/43-45	104.14	104.11	-.03	.84	.87	+.03
3-1/4 4/15/44-46	107.22	107.19	-.03	.92	.93	+.01
4 12/15/44-54	105.15	105.14	-.01	1.05	1.05	.00
2-3/4 9/15/45-47	105.06	105.04	-.02	1.00	1.01	+.01
2-1/2 12/15/45						
3-3/4 3/15/46-56	109.16	109.16	.00	1.17	1.16	-.01
3 6/15/46-48	107.06	107.05	-.01	1.17	1.17	.00
3-1/8 6/15/46-49	107.20	107.19	-.01	1.18	1.18	.00
4-1/4 10/15/47-52	115.08	115.07	-.01	1.30	1.29	-.01
2 12/15/47	104.21	104.20	-.01	1.13	1.13	.00
2-3/4 3/15/48-51	107.22	107.22	.00	1.36	1.36	.00
2-1/2 9/15/48	107.00	106.31	-.01	1.33	1.34	+.01
2 12/15/48-50	104.20	104.21	+.01	1.26	1.25	-.01
3-1/8 12/15/49-52	110.28	110.27	-.01	1.59	1.59	.00
2-1/2 12/15/49-53	106.24	106.22	-.02	1.55	1.55	.00
2-1/2 9/15/50-52	107.01	107.00	-.01	1.59	1.59	.00
2-3/4 6/15/51-54	108.29	108.26	-.03	1.68	1.69	+.01
3 9/15/51-55	110.30	110.26	-.04	1.72	1.73	+.01
2-1/4 12/15/51-53	105.15	105.12	-.03	1.63	1.64	+.01
2 6/15/53-55	104.00	103.26	-.06	1.60	1.62	+.02
2-1/4 6/15/54-56	105.19	105.17	-.02	1.73	1.74	+.01
2-7/8 3/15/55-60	110.18	110.16	-.02	1.94	1.94	.00
2-3/4 9/15/56-59	109.30	109.28	-.02	1.95	1.95	.00
2-3/4 6/15/58-63	110.04	110.00	-.04	2.01	2.02	+.01
2-3/4 12/15/60-65	110.17	110.16	-.01	2.06	2.06	.00

Treasury Department, Division of Research and Statistics.

June 11, 1942.

*Excess of price over zero yield.

Table II

Price and Yield Changes of United States Securities
March 19, 1942 to June 11, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	June 11, 1942	Change	March 19, 1942	June 11, 1942	Change
	(Decimals are thirty-seconds)			(Percent)		
<u>Bills</u>						
Average rate last issue	-	-	-	.20	.37	+.17
<u>Certificates</u>						
1/2% 11/1/42	-	-	-	-	.46	-
<u>Taxable Notes</u>						
3/4% 3/15/43	100.12	100.06	-.06	.37	.50	+.13
3/4 3/15/44	99.31	99.21	-.10	.76	.90	+.14
3/4 12/15/45	99.21	99.10	-.11	.84	.95	+.11
1 3/15/46	99.29	99.15	-.14	1.02	1.15	+.13
1-1/2 12/15/46	-	100.13	-	-	1.41	-
<u>Taxable Bonds</u>						
2% 3/15/48-50	101.28	101.15	-.13	1.67	1.73	+.06
2 6/15/49-51	101.04	100.23	-.81	1.83	1.89	+.06
2 9/15/49-51	-	100.21	-	-	1.90	-
2 12/15/51-55	100.12	100.12	.00	1.96	1.96	.00
2-1/2 3/15/52-54	103.23	104.05	+.82	2.09	2.03	-.06
2-1/4 6/15/52-55	101.06	101.11	+.05	2.12	2.10	-.02
2-1/2 3/15/56-58	103.05	103.09	+.04	2.24	2.22	-.02
2-1/2 6/15/62-67	-	-	-	-	-	-
2-1/2 9/15/67-72	100.27	101.09	+.82	2.46	2.43	-.03
<u>Wholly Tax-exempt Notes</u>						
2% 9/15/42	101.04	100.18	-.86	5/32*	1/32*	-4/32*
1-3/4 12/15/42	101.11	100.26	-.85	2/32*	.15	-4/32*
1-1/8 6/15/43	101.04	100.26	-.78	.22	.32	+.10
1 9/15/43	101.03	100.25	-.78	.26	.38	+.12
1-1/8 12/15/43	101.16	101.04	-.12	.26	.38	+.12
1 3/15/44	101.10	100.30	-.80	.34	.46	+.12
3/4 6/15/44	100.27	100.15	-.12	.37	.52	+.15
1 9/15/44	101.16	101.01	-.15	.39	.54	+.15
3/4 3/15/45	101.00	100.16	-.84	.41	.57	+.16
<u>Partially Tax-exempt Bonds</u>						
3-3/8% 6/15/43-47	103.21	102.25	-.96	.41	.60	+.19
3-1/4 10/15/43-45	104.06	103.12	-.94	.57	.72	+.15
3-1/4 4/15/44-46	105.06	104.11	-.95	.72	.87	+.15
4 12/15/44-54	108.11	107.19	-.92	.91	.93	+.02
2-3/4 9/15/45-47	106.06	105.14	-.92	.94	1.05	+.11
2-1/2 12/15/45	105.28	105.04	-.24	.90	1.01	+.11
3-3/4 3/15/46-56	110.08	109.16	-.92	1.11	1.16	+.05
3 6/15/46-48	107.28	107.05	-.23	1.09	1.17	+.08
1-1/8 6/15/46-49	108.08	107.19	-.89	1.13	1.18	+.05
4-1/4 10/15/47-52	115.20	115.07	-.13	1.33	1.29	-.04
2 12/15/47	104.23	104.20	-.03	1.15	1.13	-.02
2-3/4 3/15/48-51	107.28	107.22	-.06	1.38	1.36	-.02
2-1/2 9/15/48	107.07	106.31	-.76	1.33	1.34	+.01
2 12/15/48-50	104.21	104.21	.00	1.28	1.25	-.03
3-1/8 12/15/49-52	110.22	110.27	+.05	1.65	1.59	-.06
2-1/2 12/15/49-53	106.16	106.22	+.06	1.60	1.55	-.05
2-1/2 9/15/50-52	106.20	107.00	+.80	1.66	1.59	-.07
2-3/4 6/15/51-54	108.18	108.26	+.08	1.74	1.69	-.05
3 9/15/51-55	110.20	110.26	+.06	1.78	1.73	-.05
2-1/4 12/15/51-53	104.29	105.12	+.83	1.70	1.64	-.06
2 6/15/53-55	103.10	103.26	+.16	1.68	1.62	-.06
2-1/4 6/15/54-56	104.28	105.17	+.89	1.80	1.74	-.06
2-7/8 3/15/55-60	110.00	110.16	+.16	2.00	1.94	-.06
2-3/4 9/15/56-59	109.10	109.28	+.18	2.01	1.95	-.06
2-3/4 6/15/58-63	109.12	110.00	+.88	2.07	2.02	-.05
2-3/4 12/15/60-65	110.00	110.16	+.16	2.10	2.06	-.04

Treasury Department, Division of Research and Statistics.

June 11, 1942.

* Excess of price over zero yield.

Regraded Unclassified



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TREASURY DEPARTMENT

WASHINGTON

Dear Mr. Morgenthau,

Since I dictated the attached report I have found that I should stay in Princeton until Tuesday afternoon, June 16th. Two of my colleagues, on whom I was including my work there, appear to be unable to make decisions and carry on over commencement.

I shall continue to work from Princeton on the projects in hand here.

I hope you have had a rest.

Sincerely,

Tracy M. Ladd

June 11, 1942



June 10, 1942

TO: SECRETARY MORGENTHAU
FROM: R. D. WELCH

Let me report on the work of the two and a half days I have been able to spend on the Treasury program since I was last in Washington. Extricating myself from Princeton during examinations and preparation for commencement has taken most of my time. I shall have to return to Princeton on Friday, June 12th, until Monday, June 15th. After that I shall be free to be in Washington.

- - - - -

Ernest Hutcheson, head of the Juilliard School of Music in New York, is willing to send out over his own name a request to all conservatories, music schools, summer music camps, et cetera, in the country asking that one or more of the programs given by these institutions each week be dedicated to the Treasury. At each of these concerts a brief speech for Bond and Stamp sales is to be made. (Does someone here write these speeches or at least suggest their contents?) The Juilliard has a booth in its foyer for the sale of Bonds and Stamps. Other schools will be asked to do the same.

The National Federation of Music Clubs, through its secretary, Mrs. Grace Towne, put itself at our disposal with great enthusiasm. "We have been waiting eagerly for someone to tell us what we can do" is the way Mrs. Towne put it. The Federation claims to have about 450,000 members, largely residents of small cities and towns. They are filled with patriotism and energy. Among the informal suggestions made were rallies, song contests, concerts over local broadcasting stations, to be arranged by state and regional committees. I believe this is worth exploring, and I should like to go to Portland, Maine, next week for a day to discuss plans with the National President of the Organization.

Some of the summer concerts given in many parts of the country by various orchestras could, I believe, be directed to the Treasury purpose. Everyone to whom I have spoken about this has been enthusiastic. Doubtless some central office here can set the wheels in

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motion. I should like to visit a few of these concerts, especially in the West, to see how they are managed and received. The National Symphony in Washington is willing to give us its program on June 21st, but would like to have a notable soloist on that occasion. I made a canvass for such a soloist in New York, and I find that, with no exception so far, every one of the outstanding artists is cooperating wholeheartedly. Many of these artists are at present on the West coast.

Radio shows and concerts can, I believe, be made to serve our purposes better than they seem to have done recently. I have talked with Crosley who put all of his information and organization at our disposal any time we want it. Mr. Crosley confirms my feeling that, until we have something that can satisfactorily compete with the best of the commercial shows, we can do no better than to ask those successful shows to give us, as they are generally now doing, a brief mention.

I have, however, in mind plans for precisely the kind of show that might successfully compete. This, I think, should be one such as you suggested at your house recently, glorifying the American family under the impact of war and including parents and little brother and sweetheart and other characters whose reaction to rationing, to letters from soldier boys in camps, to the daily news, to the Treasury's appeal, et cetera, and should be presented with courage and humor. I can't believe that this is impossible, and I have asked two men to prepare for me some scripts, naturally without making any commitments whatever. One of these men is Richard Uhl, now at Fort Jackson. Do you think he could be released to us for a minimum of two weeks at the outset so that he could give us a sample of what he can do?

Similarly with the concerts, I believe we should presently explore the kind or kinds of program we would like to see produced, then ask the artists and organizations to cooperate. I shall be more specific about this at a later time.

I am aware of how extremely severe competition for favorable radio hours is. I would like, however, to suggest that if we have a series of radio shows or other programs it might be possible to induce sponsors to give us their hours from time to time. They could have their usual "commercial" statements and so would lose nothing in the way of advertising. In fact, their willingness to dedicate the time would, I should suppose, be an advantage to them. Likewise, I am inclined to think that in many cases the performers on their regular programs could produce our scripts. If this could be brought about, there should then be little or no expense to us.

- 3 -

I am pushing these ideas as fast as I can. I shall welcome the chance to discuss them with you next week. The interracial rally at Lewisohn Stadium on Wednesday, June 3rd, seemed, I am bound to say, pretty much of a failure. Perhaps you have had a happier report. Certainly I need more experience in these things before I can be quite certain what can be accomplished by such meetings. The New York meeting seemed to me badly advertised and stage managed. No gleam of humor crept into anything save Bill Robinson's patter. Most of the speeches seemed to be much too long and pretty dreary, and we didn't arrive at the point where the cards were to be signed and turned in until it was much too dark even to see what was on the cards. You will probably remember that in one of the statements made in the report you asked me to read from North York, Canada, the writer said, "Keep away from politicians and stuffed shirts. Nobody wants to hear them speak." I am inclined to think that this is excellent advice.

I saw Lucy Monroe and her manager (?) at her apartment in New York. The plan about which she had telegraphed to Mrs. Morgenthau is a project for affording training centers for community sing leaders. Miss Monroe had no details thought out, nor did she see how it was to be financed unless R.C.A. is willing to do it. I am not enthusiastic about the idea. Her performances certainly draw large crowds and get a favorable press. I have been unable to hear her in action, but plan to do so next Sunday. Her manager, speaking for R.C.A., insists that that company is financing Miss Monroe solely for patriotic reasons.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 11, 1942

TO The Secretary of the Treasury
FROM Mr. Houghteling

A number of weeks ago you spoke to Mr. Gamble and myself about a joint mass meeting of the Amalgamated Clothing Workers, C. I. O., and the International Ladies' Garment Workers, A. F. of L., for which you proposed that we should secure Madison Square Garden in New York and have a first-rate entertainment program followed by War Savings speeches by Sidney Hillman, David Dubinsky and yourself.

I have followed this matter up and lined up both of these labor unions in favor of such a meeting. Mr. Kuhn tells me that you personally wish to avoid public speaking at War Bond rallies for a while.

Shall we go ahead with this program? We have used the fact that you will be the principal speaker as an inducement to interest these labor unions.

James L. Houghteling

put on file

June 11, 1942.

Dear Henry:

I appreciated your sending me your report on Wartime Tax Avoidance which you presented to the Joint Committee on Internal Revenue Taxation.

Sincerely yours,

Claude

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

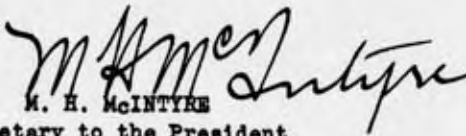
THE WHITE HOUSE
WASHINGTON

June 11, 1942

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY.

For your information.


M. H. McINTIRE
Secretary to the President

SECRET

TELEGRAM

BU New York NY 240pm June 2 1942

The President

This morning we conferred with Lieutenant Governor Foletti, Dr. Catherwood, state commissioner of commerce, George Sloan, city commissioner of commerce, and representatives of the United States Employment Service and Social Security Board on the problem of using the existing manufacturing facilities and abundance of labor supply in New York City.

We agreed that the situation is serious and disturbing. We have in the city 400,000 unemployed, with the threat of increased unemployment. Many of these are skilled workers, particularly those of the construction industry. We are convinced that, though unintentional, the unfolding of the Federal program of war production and essential civilian production has not used to the full the advantages of New York City.

Nationally we are faced with a shortage of labor and of production facilities, and yet the surplus of both existing in New York City is ignored. We would appreciate very much your directing some of the key officials in Washington to sit down with us in Washington at a conference in order to permit us to submit directly to them the plight in which New York City finds itself and to discuss with them steps that may be taken to alleviate the distress and to speed up essential production.

We respectfully suggest that it would be helpful if you could direct the following people to attend such a conference:

Donald Nelson; Secretary Morgenthau; Secretary of Commerce Jones; Under-Secretary Patterson; Under-Secretary Forrester; Governor McWitt; Leon Henderson; Admiral Land.

Will you be good enough to let us know if this procedure is agreeable to you so that the day and hour for the conference can be fixed.

Herbert H. Lehman, Fiorello H. LaGuardia.

8:00 pm/4

6221

TELEGRAM

June 10, 1942

Hon. Herbert H. Lehman
Governor
State of New York
New York, New York

Hon. Fiorello H. LaGuardia
Mayor
City of New York
New York, New York

I have today directed the following people to confer with you concerning the use of plant and manpower facilities in New York City: Donald Nelson, Secretary Morgenthau, Secretary Jones, Under-Secretary Patterson, Under-Secretary Forrester, Admiral Land, Leon Henderson, and Paul McNutt. I have directed Paul McNutt to call and arrange for the conference in Washington at the earliest practical moment.

FRANKLIN D. ROOSEVELT

1075 - 11 611 4 E

JUN 11 1942

Dear Mr. Long:

I am informed that the State Department is considering the repatriation of one Dr. Maximilian Karl Reichel, a German alien now employed by General Aniline and Film Corporation and residing in Albany or Rensselaer, New York.

As you know, the affairs and personnel of General Aniline and Film Corporation were under investigation by the Treasury Department for several months and, therefore, it seemed appropriate to make available to you such facts as are in our possession relating to Dr. Reichel to assist you in reaching a decision in his case.

Dr. Reichel is a research chemist, experienced in biochemistry, especially enzyme chemistry. He has been in this country since April 4, 1935, and spent the first five years here doing research in enzyme chemistry at Tufts Medical School, Boston, Massachusetts. From May, 1940 to December 31, 1940, he was employed as a chemist by General Aniline and Film Corporation at Johnson City, New York, and since that time has been engaged in research under Dr. von Glahn at the General Aniline plant in Rensselaer, New York. His work for the company has been in advanced research in dye chemistry with special reference to sensitized dyes for photographic reproduction work done in the Ozalid Division of the company. For your information, that division has developed a method for the swift, economical and efficient reproduction of blue prints, drawings, etc., an operation of obvious importance in time of war.

Mr. Long,

2.

It is assumed that in deciding whether to permit the repatriation of Dr. Reichel it is considered of importance to evaluate his value to Germany's war effort, both on the basis of what he might know of developments in this country and on the basis of his inherent worth in his field. It is, of course, impossible for one to know with certainty what a technically trained research man may carry in his head with respect to new developments in this country not known abroad. It would seem, however, that a scientist of Dr. Reichel's calibre would be sufficiently well posted on recent and not generally known technical developments in this country to render his return to Germany of substantial value to the enemy. This is particularly true in view of the fact that Dr. Reichel had effected an arrangement with the German Government to be repatriated long before either the company or this Department had any intimation of it. In fact, it was not until he had resigned his position in anticipation of leaving for Germany early in May, had failed to obtain passage on a boat-load of repatriates, and had been re-employed by his superiors in the company that the situation was called to our attention.

We have recommended to the Alien Property Custodian, who now holds the company's stock, and to the management now operating the affairs of the company that Dr. Reichel be discharged forthwith. Under the circumstances the alternatives would seem to be either to intern Dr. Reichel or to permit his repatriation. On the basis of the facts known to this Department the former course would seem to be required in the national interest.

Sincerely yours,

(Signed) E.H. Foley, Jr.
Acting Secretary of the Treasury.

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

JJO'C.Jr/lsw
6-10-42

CC: Mr. Crowley
Mr. Kotlar
Mr. Klaus

JUN 11 1942

Dear Mr. Arnold:

I am in receipt of your letter of June 8, 1942, requesting information as to the position taken by the Treasury Department with regard to the employment of members of the law firm of Hutz & Joslin by General Aniline and Film Corporation. Such a proposal was advanced by the management while that firm was under the supervision of the Department.

As you know, Hutz & Joslin had represented I. G. Farbenindustrie for several years prior to the outbreak of the war, not only as its patent attorneys but in a number of other connections. The same firm had acted as patent counsel for General Aniline. Under the circumstances, we did not feel that the employment of members of that firm by General Aniline and Film Corporation would be consistent with our purpose to eliminate from its operations all ties to I. G. Farbenindustrie, and the management of the company was so advised.

Sincerely yours,

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury.

Hon. Thurman Arnold
Assistant Attorney General
Department of Justice
Washington, D. C.

JJC'C. Jr/lsw
6-10-42

COPYDEPARTMENT OF JUSTICE
Washington D CJCW
60 - 122 - 0

June 8, 1942.

Honorable Edward H. Foley, Jr.
Office of General Counsel
Treasury Department
Washington, D. C.

Dear Mr. Foley:

It is my understanding that the Treasury Department in February, 1942, opposed the employment by General Aniline & Film Corporation of Werner Hutz and H. M. Joslin. The Department of Justice is attempting to appraise the significance of the recent employment of Mr. Joslin by another domestic corporation which had close ties with I. G. Farben. I should therefore appreciate your advising me as to the bases upon which the Treasury action in the aforementioned case was predicated.

Very truly yours,

(Signed) Thurman Arnold
Assistant Attorney General.

JUN 11 1942

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

Attention: Mr. Ruck.

Sirs:

Reference is made to the letter to you dated February 7, 1934, authorizing you as fiscal agent of the United States, to purchase, for the account of the United States, gold held by a Federal Reserve Bank under contract for any foreign government, foreign central bank or for the Bank for International Settlements.

You, as fiscal agent of the United States, are further authorized to purchase for the account of the United States, the following gold coin now held by you in the contracted gold account in the name of De Nederlandsche Bank:

3,000 ten-guilder Netherlands gold coins
at the price of \$20.27.00, being \$75.00
per troy ounce of the fine gold content of
such coin calculated at the statutory weight
and fineness for such coin,

and to debit the cost thereof in the account of the Treasurer of the United States as a transfer of funds.

The agreements contained in the letter of January 31, 1934, with respect to purchases of imported fine gold bars are amended so as to include the purchase made by you in accordance with the authorization contained in this letter.

- 2 -

The purchase here authorized is at the rate and upon the terms and conditions deemed by me most advantageous to the public interest.

If the Ambassador of the Netherlands to the United States, in behalf of De Javasche Bank should, on or before July 31, 1942 desire payment in gold for such coins, upon transfer to the credit of the Treasurer of the United States of the amount of \$20,417.01 previously credited to the account of De Javasche Bank, the Treasury will deliver to you for deposit in the earmarked gold account of De Javasche Bank with you, to be held in custody under the terms of your license No. NY 18-1, United States Army Office gold bars containing as nearly as may be 503.343 troy ounces of fine gold and pay to you, by debit to the account of the Treasurer of the United States on your books as a transfer of funds for credit to the account of De Javasche Bank on your books, an amount in dollars equivalent, at the rate of \$75 per troy ounce, to the difference between the number of troy ounces of fine gold contained in the bars so delivered and 503.343 troy ounces. Any tracking expense incurred by you in transferring the gold from the Army Office in New York to the Federal Reserve Bank of New York should be debited to the account of the Treasurer of the United States as a transfer of funds.

You are also authorized and directed to deliver said gold coin to Mr. George K. Hudson, a representative of the United States

- 3 -

Government, a specimen of whose signature is attached hereto, against a receipt signed by Mr. Boston and upon your being satisfied that the signature on such receipt compares favorably with such specimen signature.

The transactions authorized in this letter have been approved by the President.

Very truly yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

TELEGRAM SENT

ELP

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

June 11, 1942.

10 p.m.

AMEMBASSY

HABANA, (CUBA.)

346

With reference to despatch No. 39, May 27, 1942,
Mr. White, as Chief of the American Technical Mission to
Cuba, requests that you be advised as follows. When the
Finance Minister was in Washington in March and April,
Mr. White assured him that members of the Mission could
be sent to Habana in connection with the Central Bank
project should the Finance Minister feel that this would
be helpful. Mr. White is therefore prepared to receive
such a request from the Finance Minister. However, he
hopes that the Finance Minister in making the request will
not specify any particular member of the Mission but will
merely ask the Chief of Mission to make one or more mem-
bers of the Mission available for further discussion on
the Central Bank.

HULL
(FL)

FD:FL:BM

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June 11, 1942

Mr. Livesey

Mr. White

Will you please send the following cable to the Embassy at Rio de Janeiro:

"The Treasury suggests that the Finance Minister's attention might be called to the fact that the Stabilization Agreement of 1937 expires July 15, 1942. If it should develop in the course of the conversation that the Finance Minister has any suggestion to make in the matter the Treasury would be glad to be advised."

FAS:dm:6/11/42

Copy:lc:6/11/42

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 197

Information received up to 7 A.M., 11 June, 1942.

1. NAVAL

A Naval Trawler was sunk by mine off MALTA yesterday - all crew rescued.

Submarine attacks - An outward bound convoy to U.S.A. was attacked in mid-Atlantic A.M. 10th. One British ship was sunk and another torpedoed but is still afloat.

In MOZAMBIQUE area one U.S. ship was torpedoed on 5th and a Yugoslav vessel sunk on 6th.

Two small ships, one British, one Norwegian, were torpedoed in Eastern Mediterranean yesterday.

2. MILITARY

LIBYA. 9th. KNIGHTSBRIDGE Sector quiet. BIR HAKEIM. The attack begun at 7.0 P.M. 8th continued until 6.0 P.M. when a successful Free French counter attack compelled the enemy's withdrawal northwards. Pressure from the South continues. Our columns continued to harass the enemy's supply lines West of MTEIFEL.

10th. BIR HAKEIM. Yet another attack developed from the North. Details are so far lacking but our air co-operation was maintained and our Fighters intercepted an early attack by German dive bombers.

3. AIR OPERATIONS

WESTERN FRONT. 10th. 11 Bostons bombed LANNION Aerodrome. One was shot down. The Fighter escort destroyed two F.W.190's, probably destroyed two more and damaged three. Another F.W.190 was shot down off the ISLE OF WIGHT.

10th/11th. 17 aircraft were sent out on offensive patrols. About 27 enemy aircraft were engaged in anti-shipping operations and sea mining off the South Coast. Our night fighters destroyed two and probably a third.

LIBYA. During 8th and 9th our fighters, in addition to those recorded yesterday, destroyed 7 enemy fighters, probably destroyed two and damaged 17. A further 4 of our fighters are reported lost but 4 pilots previously reported missing are safe. Near BIR HAKEIM on 9th about 50 enemy vehicles were destroyed or damaged.

8th/9th. A Heinkel bomber crashed in the sea, four of the crew being captured.

ITALY. 9th/10th. Wellingtons dropped about 14 tons of bombs and many incendiaries among shipping in TARANTO Harbour. Several large fires were seen in the dockyard.

MALTA. Between 3.30 P.M. 9th and 10.00 A.M. 10th about 70 enemy aircraft flew over the Island. Our fighters destroyed one, probably destroyed another and damaged two. A Naval minesweeper shot down one ME 109 and damaged another.

Regraded Unclassified

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 199

LIBYA. 11th. At five P.M. an enemy armoured force of about 100 tanks with lorried infantry made a strong thrust eastwards from starting point about 8 miles North East of BIR HAKEIM. Most Northerly group of enemy force was engaged by one of our Armoured Brigades at 6:30 P.M. and part turned Northwards. Subsequently two of our Armoured Brigades were engaged with the enemy force. No further details of action yet available. Many parties of Free French from BIR HAKEIM are still coming in.

COPY No. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 204

Following is supplementary resume of operational events covering the period 4th to 11th June, 1942.

1. NAVAL

During the period, 25 ships, including 3 tankers, were attacked by enemy submarines, 10 of them including 2 tankers were sunk. Most casualties occurred in the Atlantic and West Indies areas, where 84,020 tons of shipping were lost. Tonnage lost by enemy action during May so far recorded amounted to 668,000 gross tons, the second highest monthly total of the war. Submarines accounted for about 88%, and about 5/6ths of the casualties occurred in the Atlantic. During the week ending the 7th, 620,000 tons of imports arrived in convoy in the UNITED KINGDOM, including 192,000 tons of oil. Non-tanker imports for April totalled 2,136,400 tons. During the week ending 10th, 1,110 ships were convoyed, none being lost.

ITALY. Most of the Italian Naval forces were seen concentrated at TARANTO on the 9th and included 2 LITTORIO and 3 CAVOUR Class Battleships, 2 8-inch Cruisers and 2 6-inch Cruisers, 2 other 6-inch Cruisers were seen at CAGLIARI, SARDINIA. No ships arrived at BENGAZI during the week and only 3 at TRIPOLI(L), but movements of small coastal shipping continued between TRIPOLI(L) and BENGAZI.

2. MILITARY

LIBYA. Hard and evenly matched fighting continued. The withdrawal from BIR HAKEIM was decided upon to avoid risk of complete loss of a valuable Free French contingent who had fought well but were being outnumbered, and to concentrate our forces to avoid convoy commitment. Captured documents show that the enemy had intended that the 15th and 21st Panzer Divisions and the 90th Light Division should on the first day, after the capture of BIR HAKEIM by the Italian Ariete and Trieste Divisions, swing North and defeat our armoured forces. On the 2nd day, turn Westwards and capture our GAZALA position from the rear and on the 3rd and 4th days turn East again and attack TOBRUK. The enemy's intention is probably still to carry out the main features of his original plan slightly modified to fit in with the present situation.

FAR EAST. In BURMA, the Japanese are consolidating their position. In CHINA, the KINHWAA operations are slowing down, but limited activity may continue there and in the NANCHANG area, as well as in NORTH CHINA and North of CANTON. Evidence of Japanese intentions continues to be scanty, though consistent with preparations for operations in the North.

3. AIR OPERATIONS

WESTERN FRONT. Although enemy night activity over the United Kingdom was only slight and scattered, 6 aircraft were destroyed by our night fighters. Our night bombing was restricted by weather to two medium-scale attacks on ESSEN and one on EMDEN. The total sorties were only about one quarter of the previous week. Considerable mining was possible, however, and 289 sea mines were laid.

LIBYA. Our aircraft played a full part in the battle throughout the week. Light bombers, fighter-bombers and fighters all combining in frequent heavy low-altitude attacks on Axis tanks and motor transport. Special efforts were directed in support of the garrison of BIR HAKEIM, where the main German dive-bomber offensive was concentrated. Generally, the initiative in the air operations rested with the Royal Air Force. The scale of enemy air activity fell to about half of that of the previous week.

RUSSIA. It is estimated that there are now about 2400 G.A.F. aircraft deployed on the Russian Front, of which about 1400 are operating in the South. The total number is a slight increase on recent figures due to reinforcements which may have come from the Mediterranean area.

Regraded Unclassified

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

COLOGNE. From very satisfactory photographs taken on 5th, it is estimated that the total area completely devastated amounts to about 600 acres. The casualties must have been heavy and at least 50,000 persons were probably rendered homeless, the remainder were doubtless put to great inconvenience by the inevitable dislocation of public utility services. It is particularly significant that the photographs show an almost total absence of all methods of public transport. Industrial and railway damage was certainly extensive.

EMDEN. Photographs 7th show results of raid previous night - heavy damage by fire in shipyards and warehouses, damage to station buildings, goods yard and track, harbour offices and Customs House burnt, widespread damage by fire and high explosive to business and domestic property.

OBERHAUSEN. Extensive fire damage at Railway Station, Zinc Rolling Mills also show signs of fire, another Bulti-bay factory has been almost entirely destroyed, Babcock and Wilcox Works damaged by fire and blast.

RUHR. As result of raid 1st/2nd, damage to factory building is seen at MULHEIM and at 3 points in the railway shed at DUISBERG.

SEA MINING. Between 9th April and 1st June, 13 ships are reported as having been sunk or damaged by mines in enemy coastal waters, the largest being a German vessel of 3,300 tons.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British</u>	<u>In the Air</u>		
Bombers		48	
Fighters		22	
Coastal		<u>5</u>	
Total		75	
<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	7	3	10
Fighters	14	14	30
Miscellaneous	<u>1</u>	<u>Nil</u>	<u>1</u>
Total	22	17	41

MIDDLE EAST (including MALTA)

<u>British</u>	<u>In the Air</u>	<u>On the Ground</u>
Bombers	4	Nil
Fighters	<u>27</u>	<u>1</u>
Total	31	1

11 Pilots are reported safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	18	1	6
Fighters	<u>27</u>	<u>12</u>	<u>39</u>
Total	45	13	45

Of the above three were destroyed and 1 damaged by anti-aircraft.

FAR EAST

<u>British and Allied</u>	<u>In the Air</u>
Bombers	5
<u>Enemy</u>	<u>Probably Destroyed</u>
Fighters	<u>1</u>

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

6. HOME SECURITY

Estimate civilian casualties week ending 6 A.M. 10th. Killed 35, seriously wounded 68.

NUMBER 35

155

SECRET

COORDINATOR OF INFORMATION

THE WAR THIS WEEK

June 4-11, 1942



Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

JUNE 4-11, 1942

SECRET

Coordinator of Information

THE WAR THIS WEEK

Even in the absence of a full report on Japanese losses at Midway, it is clear that American air and naval forces have dealt the enemy a very heavy blow and one which may oblige him to reorientate his offensive effort in the whole Pacific area. In this engagement and in the Battle of the Coral Sea, the Japanese have lost a very significant part of their carrier strength. With the possibilities for a powerful offensive therefore dwindling in both Australia and India, China and eastern Siberia are coming to the fore as potential Japanese objectives. The enemy has a considerable choice of routes for offensives against the Chungking regime, but he is at present striking with vigor only in Chekiang. Meanwhile Japanese commitments in China are not such as to handicap an early attack on eastern Siberia.

On the Eastern Front, the Germans have yet to unleash the much heralded "spring offensive." Instead, they are still in a stage of preliminaries. On the one hand, they are seeking to remove the Russian threat on their flank at Sevastopol. On the other, they are apparently attempting to force the Finns into more intimate collaboration with current Nazi military plans, and the spectacular visit of Hitler to Helsinki is presumably to be interpreted as a phase of this campaign. Meanwhile, both reconnaissance and report reveal heavy damage and dislocation in the Cologne area as a result of last week's blitz.

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On the Libyan front, the war of rapid movement has now settled into a more stabilized pattern characterized by mutual attempts at destruction of armored equipment. At Vichy, Laval's relations with the Germans remain somewhat enigmatic, but reports indicate a heightening of Nazi interest in North Africa, where German penetration is increasingly in evidence.

The Battle off Midway

It is too early to draw any definite conclusions on the naval and air battles off Midway and Dutch Harbor. Necessary naval secrecy and the continued threat to our Pacific islands have left many details of the two engagements in doubt. Although the purpose of the Japanese attacks is not entirely clear, information already published permits us to draw the following tentative conclusions.

First, the original air attack on Dutch Harbor was probably a feint to distract attention from the main movement toward Midway. The American navy was apparently fully aware of this maneuver, and took its precautions accordingly.

Second, the presence of several transports in the task force sent against Midway suggests that the Japanese intended to make a landing on that island, and perhaps—if their first venture met with success—to push on toward Hawaii.

Third, the task forces probably did not include the bulk of the Japanese battle fleet—published reports suggesting that the newer Japanese battleships did not participate in the engagement off Midway.

Fourth, this battle—coupled with the Coral Sea engagement—has apparently reduced by about half Japan's effective carrier strength—the one combat type in which at the start of the war the Japanese had numerical superiority over any other navy. Out of a total Japanese strength of about 10 carriers (excluding converted ships), six may now be sunk or

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severely damaged—two in the Coral Sea, including one of the new *Ryukaku* class, and perhaps four off Midway, including the *Akagi* and *Kaga*, Japan's largest carriers.

Japanese Alternatives after Midway

A victory of the proportions of that at Midway will certainly reduce Japan's striking potential. With time, in this case, working on the side of the United Nations, Japan would have difficulty in regaining the same relative naval strength she previously possessed. She may, therefore, be faced with the necessity of achieving the most stable long-run position of security available to her. Neither Australia nor India, where the chances for a successful offensive have been steadily dwindling, seem at this juncture to be probable objectives. In Siberia or in China, however, offensive operations would place no great strain on Japan's naval resources, and if successful, they would greatly increase her long-run security against counter-attack. It is to these alternatives, some observers believe, that Japan may now turn. In this connection, it should again be noted that Japan's current commitments in China would offer no serious obstacle to an early attack on eastern Siberia.

Slow Progress in China

The Japanese have not only lost the battle in the mid-Pacific—an event, incidentally, greeted in Chungking with the "greatest outburst of enthusiasm since the bombing of Tokyo"—but they have made somewhat slower progress this week in China. In Chekiang province, where operations have been most active, the walled city of Chuhsien is still claimed by the Chinese, and now appears to have been bypassed. Tokyo reported the capture of this strategic air base and railway center on June 6, after having fought near

SECRET

the approaches to the city since June 2. Entering its second week, the fighting in and around Chuhsien apparently has been unusually bitter and, according to Chungking, has cost the enemy dearly.

Failing to subdue the defenders of Chuhsien, the Japanese have begun an attack westward along the railway which connects this base with Nanchang in Kiangsi Province. The drive along this road is now proceeding both from east and west, with the invaders reported to be some 150 miles from a juncture. In Yunnan Japanese troops have not yet been able to cross the Salween river barrier, although Chungking reports that enemy troops there are being reinforced and fighting is still in progress west of the river. The advance northward along the Canton-Hankow railway has proceeded at least as far as Yuan-t'an, some 44 air miles north of Canton.

Further operations were claimed by the Japanese far to the north in Suiyuan (Inner Mongolia) and against Chinese Communists in Hopei. Fighting elsewhere appeared to be limited to minor actions, and the Japanese still refrained from launching important offensives in "critical" areas. The possible lines which such offensives might take are described (with an accompanying map) in Appendix II.

More Aid for the Chinese

Chungking had other causes for jubilation this week than the victory at Midway. A new lend-lease agreement was signed in Washington which in effect notified the world that there will be no narrow Anglo-American settlement of the peace (see Appendix III). And President Roosevelt has warned Japan in strong terms to stop the use of poison gas in China or suffer retaliation in kind.

SECRET

Verdict on Indian War Production

As the Indian government announced the safe arrival last month of the largest convoy despatched to India, Allied attention focussed on the war potentialities of Indian industrial production. The Grady-Johnson mission, sent from the United States to investigate the possibilities of increasing India's war production, has already submitted its preliminary report. There is good reason to believe, however, that the government of India will reject most of the recommendations of the mission.

After thorough study of the Indian industrial situation, the mission recommended the immediate despatch to India of cranes to speed unloading at Indian ports of certain types of machine tool equipment, and of supplies of ferro-alloys such as molybdenum. Although proceeding on the assumption that it is in general easier to produce war materials close to the major battlefront of Asia than to solve the transport problem of sending materials there, the mission opposed any suggestion that Indian should attempt the manufacture of tanks, planes, and ships. India's present facilities for building planes, for example, the mission thought should be used only for maintenance. The mission further recommended the transfer of a rifle manufacturing plant *in toto* from the United States to India. In general, it concluded that India should concentrate on the mass production of certain items which she was best fitted to produce.

Objections of the Indian Government

In addition, the mission made certain more comprehensive recommendations for a long term program of Indian economic participation in the war. On these points especially, the Indian government, according to despatches from New Delhi, while perfectly willing to accept American equipment

SECRET

and supplies, has taken a conservative stand. The following are the main points in a statement issued by the Viceroy's council to the Indian press (but not for publication outside the country).

In the first place, the Government finds that the army is growing as fast as the available equipment allows—quality being stressed before quantity—although the production of war equipment needs to be stepped up. Second, a war cabinet—recommended by the Grady-Johnson mission—while effective in a country like the United States, might not work equally well in India. Similarly, the suggested creation of a separate production department in the government, according to the press statement, might simply hamper the work of industry, the supervision of which is now entirely under the supply department. Finally, the Government suggests that mass production, while attempting to increase output, might actually throw India's industrial economy out of balance. Pointing out that government contracts are now working private industry nearly to its maximum, so far as raw material shortages allow, the statement concludes that India should approach with caution the further regimentation and rationalization of its manufacturing establishments.

The Loss of Burma and India's Rice Supply

The loss of Burma as a source of rice for India will probably not seriously affect India's war potential this year, according to the Economics Division of the Coordinator's office. In recent years, however, Burma has become increasingly important as the country from which India made up her rice deficit. Indeed, during the last decade, India depended upon Burma for between five and seven percent of her total rice consumption.

Rice provides about 85 percent of the total calories consumed by all Indians. Both production and consumption

SECRET

of rice are concentrated primarily in the eastern and southern provinces of India—Assam, Bengal, Bihar, Orissa, and Madras. Madras, as an important deficit area, will probably feel the loss of Burma most acutely.

There is, however, considerable year to year fluctuation in the availability of rice supplies in India. When there are poor rice crops in southern Asia, prices tend to be high and Indian imports low. Hence consumption also fluctuates, and starvation is not uncommon. Should the current prospects of a good crop materialize, India may therefore experience—without Burmese imports—a “normal” bad year. A continuation of this situation over a period of years, however, will aggravate the Indian food situation appreciably. Nonetheless, it can probably be said that for the next year the absence of Burmese rice imports need not affect India's military capabilities.

Attack on Sevastopol

As the press reported a new German offensive in the vicinity of Kharkov, the Nazis continued their attacks on Sevastopol, the one remaining Soviet outpost behind the newly straightened German lines. Reports thus far suggest that the attackers are making substantial progress toward the capture of the city.

Observers point out that since the loss of Nikolaev, Sevastopol has been the only Black Sea naval base remaining in Russian hands which is adequate for large combat vessels. Although submarines and smaller shipping have been operating from such eastern ports as Novorossisk, Poti, and Batumi, apparently none of these have drydock facilities for large vessels. In other words, the loss of Sevastopol would render Soviet naval operations in the Black Sea exceedingly difficult.

SECRET

Conversely, German capture of Sevastopol would protect the Nazis from hostile operations against their water-borne transport in the western part of the Black Sea—a factor of some importance, in view of the heavy demands on the railroads of the southern Ukraine, which the Nazis have apparently re-tracked only as far as Odessa. The capture of Sevastopol would further reinsure the Germans against surprise troop landings with fleet support such as the Russian recapture of the Kerch peninsula last winter.

Meantime, unconfirmed reports suggest that four additional Italian divisions and seven Rumanian divisions will soon go to the Russian front. Other reports point out that the food shortage in Leningrad is making the position of that city increasingly perilous. Here the Nazis are evidently bringing up and emplacing additional heavy siege guns.

Fuehrer and Field Marshal

On June 4, with a typically Nazi flair for the dramatic, Hitler staged a surprise visit to Finland to decorate Marshal Mannerheim on the latter's 75th birthday. The Fuehrer, accompanied by Field Marshal Keitel, arrived by plane between noon and one o'clock. He called on President Ryti in his capacity as Fuehrer, and then on Mannerheim as commander-in-chief. After a state banquet, and a further conversation with Ryti, Hitler departed, again by air, about 6:30 in the evening.

Apparently the Finnish government did not learn of the projected visit until the day before the Fuehrer's arrival. Finland's foreign minister has been careful to point out that no significance attaches to the visit beyond the state of co-belligerency between Germany and Finland. According to a Swedish diplomatic representative, however, the whole thing was a characteristic Nazi trick to embroil Finland

SECRET

further in the war; it gives the impression that the Finns are now definitely under Axis control. A member of the Swedish general staff adds that the visit represented a desperate effort to induce the Finns to play an active part in the war, and to check Mannerheim's gradual evolution toward Ryti's position of opposition to Finnish participation in any Nazi offensive. Incidentally, the Swedes are apparently greatly relieved that they refused Finland's request to postpone their own presentation of a decoration to Marshal Mannerheim from March of this year to June 4, the date of the Fuehrer's visit.

Cologne: A Week After

Six days after the British raid on Cologne, reconnaissance planes were able to photograph the area, revealing extensive destruction to specific industrial and transport installations. Although the significance of the raid in terms of industrial output and railway damage cannot yet be evaluated, certain measurements of the consequences of area bombing are possible.

Aerial photographs indicate that a total of eight square miles—or one-twelfth of the whole Cologne area—was pretty completely burned out. The effectiveness of the destruction was probably greater than the extent of the burned-out area would indicate, since the RAF concentrated its attack on sections where industrial and commercial establishments were most densely located. Casualties, in a population of 750,000, are reported from Vichy to have been 7,000 killed and 11,000 injured; and the Swiss consul in Cologne reports that 200,000 are being evacuated from the city.

Reaction to Cologne and Essen Raids

Among both warring nations and neutrals, the mass air raids have made a deep impression. Axis propaganda

machines were unable to conceal or dissimulate the shock of the first heavy raid on Cologne. Tokyo radio, obviously unnerved, broadcast at first the British version, wondering only—to use Tokyo's words—whether the raid was a “flash in the pan,” but at the same time admitting “undeniable” destruction. The Berlin radio finally abandoned altogether the attempt to conform to the official figures on the number of attacking bombers—70—and said there were 150 “at most.” Cologne newspapers received at Bern after the raid, in describing still-smoking ruins and “a night of horror,” quoted a local *Gauleiter's* public appeal to residents of the bombed city: “We still shall need much patience and a long time to overcome the worst effects of this raid.”

Diplomatic sources report that Spaniards were “deeply impressed.” The new Argentine Ambassador at Vichy, Oliveira (whose reputation is pro-Axis), remarked to a reliable source there that Germany would crack if such raids were continued. The retiring Vichy envoy at Bern, Count de la Baume, declared that mass air raids might knock the Germans out of the war before 1943, and quoted a Nazi officer attached to the Vichy Mission in Switzerland in support of his statement.

British commentators were enthusiastic, but not over-optimistic. In time, according to one British radio comment, Germany might be defeated by air raids alone, but not in 1943. Russian comment was even more subdued. Its first news of the raids, appearing June 3 in the *Krasnaya Zvezda*, gave a factual review which concluded with a note of “deep satisfaction.”

British Prestige Rises in France

Public reaction to the big raids, as reported from Vichy, appeared to be almost jubilant, despite the attempt of the press to divert attention to raids on Paris industrial areas.

Stories of “40 French dead” in the latter raids, failed to bring the desired results, and there was some comment instead that the British must have exercised considerable care to avoid killing a larger number. British prestige, which had touched bottom after Singapore and the *Scharnhorst-Gneissau* affair, is now noticeably higher, according to a reliable diplomatic source—a change due not only to the raids but to successes in Libya as well. Frenchmen hope only that the raids will be repeated each week, adding that this would be an admirable deterrent to French volunteering for work in Germany—a program Vichy is now pressing.

Increased Communist Activities

Coincident with the raids, and presumably synchronized with them, Communist activity appears to have increased both in France and Germany. The official French radio has admitted as much, and from Stockholm come further reports of organized disorders, sabotage, and attacks on German fire and police services, conducted during air raids. After the raid at Mannheim, according to these sources, a score of Communists were executed for these activities, which are nevertheless continuing to expand.

Protest of the German Bishops

The new tempo of air attack against Germany's industrial areas—many of which have large Catholic populations—may well reinforce the effect of the recent pastoral letter of the German Catholic bishops protesting Nazi persecutions of the Church. The text of this letter, issued March 22, has now reached this country (it was published June 7 in the *New York Times*). While it can hardly be described as anything like a clarion call to revolution, the letter is the

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most vigorous statement of protest by the Germany clergy since the beginning of the war.

A close observer emphasizes the outstanding importance of one particular passage, that which charges the Nazis with the "wish to destroy Christianity in Germany during the war, before the soldiers, whose Christian faith gives them the strength for heroic battles and sacrifices, return home." Since Nazi propaganda has consistently aimed to maintain the solidarity of home and fighting fronts, this charge may reveal the beginnings of a significant fissure.

The insistence upon personal freedom as a "natural right" reasserts once again the historic conflict between Church and State. But more remarkable and specific is the extension of the demand for juridical proof in the case of priests and laymen sentenced to concentration camps to include now the release of "all fellow citizens" deprived of their liberty "without proof of an act punishable with imprisonment." Hitler's speech of April 26, a month after the signature of the pastoral letter, made very plain the futility of this particular plea—were it not already evident. The reaction of German Catholics, torn between their aversion for Communism and their increasing distaste for Nazism, and subjected now to the rigors of the British bombing campaign, will bear the closest scrutiny in the coming months.

The Battle of the Desert

The Libyan campaign has settled down from the rapid movement of the first week into a struggle apparently aimed at the destruction of opposing armored equipment and the seizure of certain strategic positions. Rommel has firmly established himself in the nine-mile gap which he blasted in the British defenses running from El Gazala to Bir Hacheim. This position gives him access to his supplies and to possible reinforcements from the west; and it is from this position

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that he has launched his repeated tank drives into the Knightsbridge area to the east, where the principal fighting has taken place. The British have successfully counter-attacked these Axis thrusts, with infantry and artillery playing an important role. The second center of combat has been at Bir Hacheim, where Free French forces, supported by British Indian troops, withstood almost incessant Axis attacks. Yesterday the German High Command claimed to have captured the garrison at this outpost, which, if true, would remove a threat to Rommel's communications and give him a southern anchor for any future advance.

If in the end Rommel feels that he cannot capture Tobruk, he may dig in where he is, thus securing his hold on western Cyrenaica and leaving the British in their present strained position in the Mediterranean area. The British position in supplies is probably better than that of the Axis. Tank losses have been extremely heavy on both sides. High praise has been given American 28-ton M-3 tanks, mounting a 77-mm. gun, along with lighter armament.

In the all-important task of harassing enemy supply lines, the RAF appears to be outdoing its foe, carrying its attacks not only to Derna and Martuba in Cyrenaica, but on to Sicily, Taranto, Naples and Sardinia. The British Navy also entered the picture, announcing that it has destroyed three submarines sent to attack shipping off Tobruk, and that a British submarine has sunk a destroyer and three merchantmen on their way from Italy to North Africa.

French Optimism Creates a Dilemma for Laval

From France come reports of a new optimism, a new belief in the United Nations' chances of winning. The attitude of millions of Frenchmen toward collaboration has hinged on their estimate of Axis victory. Now these estimates are apparently being revised in the light of the recent aerial

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attacks on Germany, the British stand in Libya, and the failure of the Germans to launch an offensive in Russia. It is reported that high French intelligence officers think Germany is on the down grade. There is also an increasing belief in France that the Continent will be invaded before the end of this year, an opinion that will scarcely be diminished by the recent British broadcast asking Frenchmen to evacuate coastal areas.

Faced by this new trend of opinion, Laval is at the same time being subjected to increasing Axis pressure as well as to that of French collaborationists such as Paul Marion, the Propaganda chief, who is running an anti-British press campaign. Laval himself, however, is now reported to be less sure of German victory. Having a constitutional aversion to being on the losing side, he appears to be playing for time, trying to limit his collaboration to economic matters. Even here he is meeting great difficulty in trying to recruit the French labor reinforcements promised to Germany. Perhaps fearful of a sudden attempt to oust him, Laval has placed the *Gendarmerie Nationale* under his own command.

Franco-Italian Tension

Although hostile feeling between Italy and France is still very great, there are reports which indicate that Germany may no longer be supporting Italian claims. The French official press carried an article, intended to reassure the population of Nice, which said that the Italian Foreign Minister had underlined the perfect harmony of Franco-Italian relations. Although this source must be viewed with distrust, there seems to have been some relaxation of Italian pressure.

The Italian-language press in America has thrown an interesting sidelight on the strain that Laval's return may have caused in the internal relations of the Axis. For

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example, one paper comments editorially that "the last thread of confidence in Berlin was cut when Hitler promised Laval Nice, Corsica, and Tunis if Vichy would play a Quisling game."

The Nazis Extend Their Influence in North Africa

There are disturbing reports that the French have been sending substantial amounts of war equipment and aviation gasoline to bolster their North African forces, all done with complete German approval and even under Nazi direction, according to diplomatic sources. Germany is also stated to be favoring Morocco economically. Since December, 1941 the latter has bought 20 million francs worth of German manufactured products.

Another reliable and well placed observer reports in some detail on increasing Axis penetration of the Moroccan area, and says that groups organized to resist this have disintegrated since the advent of Laval. The Axis, he reports, is investigating Moroccan air fields and seeking the eventual use of this area for bases from which to close the Straits and interfere with South Atlantic shipping. On the other hand, French officials continue to urge us to renew shipments to North Africa in order to forestall possible German economic control. It is also reported that the attitude of French officials there has never been so outspokenly favorable toward the United States, and that belief in Allied victory is growing rapidly.

The Nazis Recruit a White Russian Legion

In the Balkans, where many Russian refugees have settled since the last war, the Nazis are now recruiting a White Russian Legion, according to reliable reports. While enlistment has been slow, it is said that the Germans have enrolled about 1,500 officers, thanks to the high pay. They are train-

ing these officers at Metrovica for eventual use against Serbian guerrillas or in supervisory capacities in camps in Poland and Germany where Soviet prisoners are being held. Although the Germans have induced an ex-Czarist general, Boris Steifon, to take the military command, efforts to get the Russian heir apparent in Paris to head a comprehensive White Russian movement against the Soviets have been unsuccessful, it is reported.

Meanwhile the Hungarian government has conceded the Nazis the right to incorporate Hungarian troops in German military units, it is reported from Bern. Such troops are either Germans domiciled in Hungary or Hungarians of German extraction.

Reactions to the Turko-German Military Agreement

The Turkish announcement that Germany would provide her with 100 million marks worth of military equipment has caused some diplomatic rumbling. The Russian ambassador in Ankara was reported to be "disturbed", fearing a German *quid pro quo* would be involved. The British Foreign Office feels that the Turkish action was perfectly reasonable, since the United Nations were unable to supply all the war material Turkey wanted; but the British think the Turks were a little too eager about it all, and they fear that Ankara was not sufficiently alarmed about the danger of German "experts". While wishing that Turkey would be less stiff in her neutrality, the British recognize that the key to Turkish policy lies on the battlefields of Russia and Libya. The Axis, in turn, has aired the agreement as proof that Turkey is a "natural trade partner" of the New Order, despite Allied lease-lend machinations. The Turks themselves said little; one prominent official doubted that deliveries would actually be made.

Increasing Discontent in Ecuador

In Ecuador the long-standing public dissatisfaction with the administration of unpopular President Arroyo del Rio has been intensified during the last year by the fiasco of Ecuador's defense against the Peruvian invasion, and by what many consider the President's maladroit foreign policy leading up to the disastrous boundary settlement with Peru. This cumulative unrest flared up on May 28 in a brief but bloody riot in the streets of Quito.

The occasion was a minor one—a seditious manifesto and speech by a young army hothead, Captain Leonidas Plaza. The riot, in which public and students brushed fatally with the military police in seeking to enter the presidential palace, was quickly put down. That it was important in the eyes of the government, however, is shown by the immediate arrest of more than a score of prominent opposition leaders, many of whom were not present at the scene. Among these, significantly, were Antonio Quevedo and Galo Plaza (brother of Leonidas). They are respectively the head and one of the most influential leaders of UNE (*Unión Nacional Ecuatoriana*), an independent coalition of the ablest elements of all Ecuador's opposition parties, which has done much to crystallize sentiment against the government among more thoughtful citizens. While there is little public sympathy for the actual ringleaders of the riot, the public has apparently grown tired of the government's repressive measures, and continued imprisonment of such influential leaders as Quevedo and Galo Plaza may increase the general unrest.

Recent United States loans have helped to keep Arroyo in power, according to reliable reports from Quito. The president seems, however, to have retained only the support of the army and carabinieri and to have lost the confidence of most civilian elements. When congress convenes in August, he may be unable to withstand a concerted attack by opposi-

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tion leaders. While Arroyo's avowed policy of cooperation with United States has not been as effective as might be desired, it is feared that in the event of his removal from office, his successor might be even less effective, and that the change might involve serious political upheaval.

Unrest in Jamaica

The steady discharge of workers employed on the United States base in Jamaica during the past few weeks has produced a rather critical situation, according to reports. With the progress of the work, the services of these men are no longer needed. The base is now about to release 2,000 to 3,000 further workers, bringing the total of those dismissed in recent weeks to about 7,000. Most of these men were originally recruited in the rural districts of the interior, but on leaving the base, they tend to drift into Kingston where they become a source of unrest, and, according to one observer, they tend to aggravate a situation which threatens to become dangerously unstable.

Castillo Versus Congress

The order of May 29 muzzling press discussion of Congressional debate on foreign affairs was a "lamentable error", according to Argentine Minister of the Interior Culaciati (*The War This Week* May 28-June 4, p. 16). The Minister explained that the order was intended merely to reaffirm that the state of siege does not permit press discussion of foreign affairs. The best qualified observers, however, believe that no mistake was made in interpreting the original order: the government intended to muzzle public opinion, as expressed in the Congress, but was forced to modify its stand by the storm of public and Congressional protest that met the order.

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Vice President Castillo's policies will undergo a searching examination in Congress. The Chamber of Deputies, which is narrowly controlled by the opposition Radical-Socialist bloc, voted 98 to 13 to interpolate Culaciati on June 18 on (1) the motions for establishing and maintaining the state of siege; (2) the reasons for the decree of April 11 arresting 57 so-called Communists; (3) the order of May 29. The vote is significant in as much as the Radical-Socialist bloc in the chamber has 82 deputies and the government "Concordancia" 76. The Senate, overwhelmingly pro-government, also asked for an explanation of the state of siege, although in a much milder form.

Subsequently, on June 9, the opposition deputies opened an attack on the government's foreign policies. Radical deputy Raúl Damonte Taborda, chairman of the Commission to Investigate Anti-Argentine Activities, offered a resolution to break diplomatic relations with the Axis countries. Another Radical deputy proposed the diplomatic recognition of the Soviet Union. A third move, presented by the Socialist leader, Nicolás Repetto, asked for a full report on foreign policy from Foreign Minister Ruiz Guinazú.

In view of this evident tension between the government and the lower chamber of Congress, more than passing interest is being paid to recent items in *El Pampero*, an openly pro-Nazi propaganda sheet as well as a staunch supporter of native Argentine fascist groups—the so-called "Nationalists." On the last three days of May, this paper published strong attacks on the Radical and Socialist sectors of the Chamber of Deputies and called for a dissolution of Congress.

APPENDIX I

ENGLISH ATTITUDES TOWARD THE UNITED STATES
SINCE PEARL HARBOR

English attitudes toward the United States since Pearl Harbor have been predominantly friendly and cooperative, with only a very moderate sprinkling of comments expressing criticism or fear of American domination. Such is the conclusion of a current study by the British Empire Section of the Coordinator's Office, based on diplomatic sources, parliamentary debates, and the English press.

Prior to our entry into the war, Britain's first warm feelings toward America had yielded to some resentment over our slowness to act. At the same time, the Red Army presented England with unexpected and very tangible assistance on an enormous scale. As a result Russia for a time displaced America in British esteem.

America Enters the War

When at last America entered the struggle wholeheartedly, she was greeted in England with general satisfaction. There were some bitter comments over the fact that we, like the United Kingdom, had been caught unprepared, and there were disappointments for those who expected miracles from America. But in general there has been consistent praise for what we are doing, sympathy over our reverses, and a deep reliance on America in the matter of plans for the organization of post-war stability.

Critical comment has focussed about certain recurrent issues. On the diplomatic front our disposition to remain on speaking terms with Vichy has irritated the British, who favor the methods used at Madagascar to those of Martinique. Fear of American domination has cropped up, especially in conservative circles. Economically, the inroads of American firms on British monopolies—for example, Pan-American Airways' invasion of Africa—are seen as foreshadowing post-war competition that may prove disastrous.

Some objections have also been raised to the growing importance of Washington in the direction of the war, which one speaker in the House of Commons feared would reduce England to "the position of America's Heligoland off the coast of Europe." Although there have been scattered expressions of concern over what was happening to the Empire and to imperial preference, one well-placed observer reports that most people regard with detachment, if not with thorough approval, the closer ties of Australia and America, a development which this observer feels would have caused anger a year ago.

Our War Effort

About our war effort itself there has been little hostile comment. Some skepticism has arisen about America's promises of aid, and voices from the Left have

contrasted these with what Russia was actually doing. However, there does not appear to be any basis for the assertion that the British public has been led to believe that all American production is throttled by strikes. The general feeling is one of respect and gratitude for our productive capacity.

On the military front our successes have brought elation, and MacArthur's prestige is said to stand "higher than that of any general outside Russia." The English have compared the heroic defense of Bataan with the brief resistance of Singapore, and have not failed to note the loyalty shown by the Filipinos in contrast to the attitude of the Burmese and Indians. The arrival of American troops, from Ireland to Australia, has been hailed with enthusiasm.

The English Press

A brief survey of a number of British newspapers shows a uniform friendliness, and even a definite desire to cultivate American goodwill. The *Times* and the *Manchester Guardian* have laid great stress on America's rôle. Admiration of our war leaders and optimism about our contribution have run high. More significant, perhaps, is the fact that the popular sheets with enormous circulations, like the *Daily Express* and *Daily Mirror*, are uniform in their praise. Since they tend to cater to the public taste, they might be expected to reflect criticism of America if it were indeed prevalent. *The Economist*, which handles American news adequately and frankly, gives an impression of real conviction in its favorable comments on America at war. Least flattering is the *New Statesman*, which tends to ignore America, and strengthens the feeling that English Leftists are inclined to link their fate with Russia rather than the United States.

In summary, the British are obviously receiving increasing encouragement from America. By comparison with the violent anti-British attitude of many influential American newspapers and politicians, the attitude of press and officials in England toward us has been a model of friendly cooperation, the report concludes.

APPENDIX II

POSSIBLE ROUTES FOR JAPANESE OFFENSIVES IN CHINA

The Japanese have some thirteen available avenues of attack in China, as the accompanying map indicates. If they should undertake an all-out offensive, aimed to crush Chungking resistance, the Japanese would probably use some combination of the critical routes indicated, according to a memorandum prepared in the Far Eastern Section of the Coordinator's office. Such a campaign might well include: a push across the Yellow river past Sian, possibly supported by a drive along the Han river valley, and probably accompanied by a closing of the gap in the Peiping-Hankow railroad; a drive on Kunming along the Burma Road, possibly supported by thrusts from French Indochina or the Shan states of Burma; and finally a linking of Hankow with Canton by a northward drive from Canton through Shao-kuan and a southward advance through Changsha and Heng-Yang.

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There is no evidence as yet that the Japanese have committed themselves to so ambitious a program. They are at present relatively inactive in the Yellow river sector and have undertaken little more than preliminary consolidation of their positions in the Yunnan area. Nor do Japanese operations at Canton as yet presage a decisive drive for the railroad.

The Hankow-Canton Railroad

Capture of the whole of the Canton-Hankow railway would by itself be a major blow to Free China. It would not only give the Japanese strong interior lines of communication from Hongkong to the Siberian border, but would open up the province of Hunan to Japanese exploitation—a province rich in tungsten, antimony, sulphur, zinc, lead, manganese, coal and iron, and an important rice granary. Eastern Hunan, much of Kwangtung, and all of Chekiang, Kiangsi and Fukien provinces would be isolated from Chungking.

The Japanese might even limit their drive to various points along the railway and still win important objectives. From Canton northward, occupation of Shao-kuan alone would add seriously to the difficulties of Chinese internal communication. Further north, Heng-yang is perhaps the most important railroad communications center in Free China. Changsha can be approached either from the Japanese base at Yo-yang or Nanchang, although the latter route would mean traversing rough and hilly country.

Drives Toward Kunming

A resumption of the Japanese advance along the Burma road toward Kunming would meet its greatest terrain obstacles in the rugged country west of Tai-l. The rolling upland further east should present no very great difficulty. Kunming, the second most important industrial center in unoccupied China (next to Chungking), would be an important prize. It has machine shops, an electrical equipment factory, motor repair shops, power plants, and a variety of small factories, and in addition, is the chief depot for Yunnan tin, copper, antimony, zinc, gold and silver. An alternative route to Kunming is that from Laokai in Indo-China (*The War This Week*, May 14-21, pp. 5-6).

Positions in West China

To drive on Sian from their base at P'u-chou, the Japanese must cross the wide course of the Yellow River and move immediately into rugged country, and as yet they have made no serious attempt to do this. The results of a successful campaign in this sector, however, would not be inconsiderable. The occupation of Sian, a communications center on the Lunghai railroad, would secure for Japan additional supplies of wheat, raw cotton and hides. Pao-chi, the newly important industrial center at the western terminal of the Lunghai railroad would be immediately imperiled, and perhaps Chengtu and Chungking as well.

Such a drive on Sian might be accompanied by a thrust westward from Hsiang-yang, although between this railhead and the Han river valley there is an area of rugged country, not easily crossed. This drive, by itself, probably would not repay the effort, but in conjunction with that on Sian it would threaten the whole Chinese position in western China.

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An effort to take the now demolished portion of the Peiping-Hankow railroad between Hsin-yang and Cheng-chou would be probable if Sian were also an objective, since rail communications could then be opened from Shanghai to Sian. This railroad also would be a valuable extension of the Canton-Hankow route, if the latter were fully controlled.

Route from Russia

If aid to China via Russia should threaten to become a matter of major importance, Japanese forces might attempt to sever the route from Turkestan by pushing westward from their base at Pao-t'ou, terminal of the Peiping-Suiyuan railroad. From Pao-t'ou, a desert road (not shown on the map) leads around the great bend of the Yellow river and southward to Ning-hsia and Lanchow. This approach over the desert is long and formidable, but on June 7 Japan was reported to be conducting operations south from Pao-t'ou.

Other Thrusts

Other possible drives shown on the accompanying map are those in Chekiang province and at Foochow, currently in the news. From Canton, a thrust westward into Kwangsi Province might be undertaken, toward Nanning. The Yangtze river appears also to offer an avenue for direct attack on Wan-hsien and Chungking from the Japanese-held city of Ichang. But mountainous topography and the Yangtze gorges are difficult obstacles and, short of reaching Chungking, little advantage would be gained.

The Climatic Factor

There are relatively few meteorological stations in China, and the exceedingly diverse climates have never been described in detail. In the six broad climatic divisions of China proper, weather would appear to be an important factor for military operations, particularly in the areas affected by the monsoon and in the semi-arid continental area of northern China (see inset in accompanying map).

In the upland monsoon area, which embraces the Yunnan front, there are frequent and often torrential rains from June into September. These rains, reported in press despatches some time ago as having begun, may possibly deter the Japanese from any immediate large-scale operations in this area. Along the southern coast, and extending into a part of Chekiang Province, the rains normally begin in mid-April and continue until mid-October. This coast is particularly exposed to typhoons, which strike most frequently during the period from July to September.

In the semi-arid north, the winter is cold and dry, with frequent dust storms, but the coming two months—July and August—are the wettest of the year, and perhaps not unfavorable for operations. The route from the Japanese base at Pao-T'ou, where Japanese activity has just been reported, would cross this region.

The humid subtropical area, in which the Japanese are at present most active, has a hot, wet summer, with June usually the rainiest month, but this would appear to be no very significant obstacle to operations.

APPENDIX III

THE LEND-LEASE AGREEMENT WITH CHINA

The newly signed lend-lease agreement with China continues United States assistance to that country, and calls for such reciprocal aid as China can furnish. The notable new provisions in the agreement, however, are found in Article 7, which provides that the ultimate settlement between the United States and China shall not burden commerce, but shall promote mutually advantageous economic relations. This article goes on to promise that the settlement shall include provisions directed to the expansion of production, employment, and the exchange of consumption goods; to the elimination of all discrimination in international commerce; to the reduction of trade barriers; and in general to the attainment of economic objectives identical with those set forth between Great Britain and the United States on August 14, 1941, in the Atlantic Charter.

The inclusion of the words "defense information" along with "defense articles" and "defense services" in five out of the seven articles of agreement is considered to be a notable recognition of the special aid which China is equipped to render the American government and armed forces along these lines.

Lend-Lease to China Reviewed

With the signing of the new agreement, a review of lend-lease aid for China is in order. From the first \$7,000,000,000 of lend-lease funds appropriated, \$218,038,500 was allocated to China. From the second appropriation of \$5,985,000,000, China was allocated \$400,656,931. The importance of this projected aid is thrown into relief when it is remembered that China's prewar (1936) imports from the entire world totalled about \$280,000,000 yearly. China began to receive lend-lease aid only in May, 1941.

Formidable obstacles faced those seeking to supply China, notably the competition of the needs of other countries, and the problem of furnishing ocean tonnage for shipment to the Orient. By December 31, 1941, actual lend-lease aid to China had reached a total of \$36,912,000; by January 31, 1942, \$58,862,000; \$77,371,000 by February 28; \$88,051,000 by March 31; and \$132,033,000 by May 15. These sums represented 2.4, 2.9, 3.0, 2.8 and 3.2 percent, respectively, of the cumulative totals for those dates of lend-lease aid to all beneficiaries.

The Transport Problem

Of the two sums allocated for lend-lease aid for China, 40 percent of the first allocation and 20 percent of the second were earmarked for transportation. Actual transportation costs have so far amounted to approximately 7.5 percent of total lend-lease aid to China, or approximately 11 percent of the cost of articles already transferred.

With the loss of Burma, shipments to China must necessarily be limited to (1) aircraft which can be flown in; (2) such materials as can be carried by air freight; and (3) truck transportation or camel caravans between Sergiopol or Alma Atta on the Turk-Sib railway, and Lanchow (or between Irkutsk on the Trans-Siberian railway and Lanchow, via Urga and Ning-hsia). The success of air freight will depend largely on cooperation between China, Russia and the United States with a view to obtaining terminal facilities and fuel supplies for air transport. The success of truck transportation also will depend on Russian cooperation in the matter of tonnage space on the Turk-Sib railway to Alma Atta and on the supply of gasoline.

Treasury Department 156
Office of the Secretary

Date June 11, 1942₁₉

To: Secretary Morgenthau

From: Mr. Kamarok

Should a copy of this be
made and sent to Mr. White?

OK. f.p.m. jr. / taken care of / Amk

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 11, 1942

TO Secretary Morgenthau
FROM Mr. Kassarck
Subject: Political Situation in Germany

(The following analysis is based on several memoranda of the British Political Warfare Executive entitled, "German Political Framework", "German Opinion on the War in Russia", and "German Directive for the Week June 7 - June 13.")

There are four main groups in the government of Germany:

1. The S.S. and Gestapo led by Himmler and Borman (the man who took Hess' place as Hitler's heir after Goering). Borman provides an intimate link between the S.S. and Hitler. The S.S. derives its power from using its blackmailing information and by its control over all the police, secret service, and the armed S.S. guards. Himmler and Borman are busily occupied in putting reliable Nazi Party or S.S. men in key positions.
2. The big industrialists organized in the Rustungsrat (Armament Council).
3. Bureaucrats and professional classes. These support the industrialists, as they feel threatened by the S.S. and by Hitler's new powers as the supreme dispenser of justice.
4. The Generals. The Generals, to some extent, are allies of the bureaucrats and the industrialists but most have temporarily capitulated to Hitler. Goering is the link between these groups and Hitler and probably has considerable personal influence with Hitler.

The S.S. continues to increase its power. The big industrialists regard the S.S. as amateurs who will bungle war production and who are trying to "muzzle in" on the profits. The industrialists are attempting a counter-offensive. The big industrialists may be more realistic than the others and probably realize that all hope of victory is gone.

Ribbentrop, Foreign Minister; Ley, Labor Minister; and Goebbels, Propaganda Minister are insignificant.

Speer, successor of Todt, in charge of construction, is a nonentity who, as Hitler's bosom friend, moves vaguely between Goering and Himmler.

Apart from these cliques, there are a large number of officials who are increasingly pessimistic about the war and are ready for Germany to cut her losses. These men, however, have no power.

(Some time ago, the British Political Warfare Executive reported that Hitler appeared to have thrown in his lot with Himmler and the Party).

The German people appear to have had a serious and even anxious reaction to the Kerch-Kharkov Battles. The public is aware of hard fighting and of the tremendous cost in German lives. Most Germans know what the Russian winter was like and also are conscious of the growing number of casualties. Private mail shows widespread complaining over lack of leaves. Wives write that their husbands are away for seven, ten and twelve months at a stretch. There is a widespread feeling that the Russian war was unnecessary and intensive propaganda is being devoted to proving that it was necessary.

It is now openly admitted that the war will last another winter in Russia and perhaps many winters elsewhere.

It is important to note that while the picture appears black to the Germans, it does not appear too black, since there is still no evidence of any significant fear of a Russian advance into Germany.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 11, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Review of Military Situation (American and British
Military Intelligence Information).

Pacific

(While the complete reports are not yet in, there is no doubt that the battle off Midway was an important American victory. It will undoubtedly have important repercussions on the future course of the war in the Pacific.

The Japanese have now been stopped in their last three offensive attempts. Their incursion into the Indian Ocean around April 5, although resulting in the sinking of a British aircraft carrier and two cruisers, was confronted by such a large British naval concentration, that the Japanese decided to turn elsewhere. A month later, May 4 - 6, their attempt to cut our supply lines to Australia was beaten back in the Battle of the Coral Sea. A month later again, June 4 - 7, the United States smashed the large Japanese force which was designed to take Midway and possibly Hawaii.)

A Japanese landing in the western Aleutians is believed to have occurred. Several American weather stations manned by a dozen or so men in the western Aleutians, which report every six hours, have not reported for several days. These landings are not likely to have much significance beyond giving the Japanese a cheap "prestige victory".

Russia

British Military Intelligence definitely states that the main German offensive will be in the Ukraine. A secondary attack, at the same time, may be launched at Leningrad with Finnish cooperation.

Libya

Fighting still continues at an indecisive stage. The British remain confident but by no means consider the battle won. The German claim to have captured Bir Hakeim is probably true. The Free French in this position have been cut off from the main British forces for some days. The British were able to run one convoy of supplies to them through the Italian lines, however.

The British have brought up tank reserves and believe that this should have secured them tank superiority. Both sides have lost about half of their original tank forces. Nearly all of the remaining tanks in action have been knocked out at least once. Around 200 out of the 300 British tanks left were recovered from the battlefield, repaired and put back into service.

Western Europe

An Intelligence report states that the R.A.F. attack on Cologne rendered the administration offices of the German Railways completely useless. The destruction of records caused a serious dislocation of traffic.

According to another report, three blockade runners arrived at Bordeaux with vital war material cargoes during April.

American Expeditionary Force

On Tuesday, June 9, American troops arrived safely in Northern Ireland from New York.

Prepared by: Mr. Robbins
Mr. Sandelin
Mr. Lindow
Mr. Murphy
Mr. Haas

DEPARTMENT

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COMMUNICATION

DATE June 12, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: June Financing

It appears that it will be necessary to borrow \$1.5 billions of new money this month, in addition to the funds borrowed through the larger issues of Treasury bills. It is suggested that this be done through a single issue of 5/8 percent certificates of indebtedness due February 1, 1943. Such an issue would probably sell on a yield basis of about 0.57 percent, equivalent to a premium of about 1/32, which appears adequate under present circumstances.

I. Alternative Possibilities to the
Issuance of a Single Certificate

The desirability of a certificate issue of this kind is suggested by the elimination of other possibilities. These other possibilities, which may be considered one by one, are as follows:

- (1) A long-term restricted bond
- (2) A long-term unrestricted bond
- (3) A medium-term bond
- (4) A short-term bond
- (5) A note
- (6) More than one certificate issue

(1) A long-term restricted bond. This would be an issue similar to the 2-1/2 percent bond of 1962-67 offered last month. Sixty-eight percent of the total

Secretary Morgenthau - 2

subscriptions to this issue were received from insurance companies. ^{1/} This well has not yet had time to fill up again, and it is too soon to expect an important alternative market to have developed for this type of issue. It would seem premature, therefore, to offer another issue of this type at the present time.

(2) A long-term unrestricted bond. An unrestricted long-term bond, following immediately upon the restricted long-term issue offered last month, would be taken principally by commercial banks. As the funds of these banks can be secured at a lower rate of interest and with less hazard to the stability of the banking structure by a shorter-term issue, there would seem to be little point in offering a long-term unrestricted bond at this time.

1/ Total subscriptions to the 2-1/2's of 1962-67 were divided as follows:

	Amount	Percent
	(In millions of dollars)	
Insurance companies	602	68
Mutual savings banks	65	7
Other corporations	29	3
Individuals and trust accounts	51	6
Government trust accounts	52	6
All others*	83	10
Total	882	100

* Principally eleemosynary institutions and pension funds.

Secretary Morgenthau - 3

(3) A medium-term bond. A 2 percent bond would fall in this category. This sector of the market was hit last month, and it would seem well to rest it for awhile.

(4) A short-term bond. A short-term bond, say a 1-3/4 percent bond with a 5-7 year maturity, offers another possibility. This is perhaps the next-best choice to one or more certificate issues and might be combined with a certificate. Such an issue is rather close to both the 1-1/2 percent note and the 2 percent bond offered last month, but would probably go satisfactorily. A single certificate issue seems better, however, for reasons stated below, and a short-term bond might well be saved for the refunding operation due in July or August.

(5) A note. A new note issue was put out in the latter part of May. While it is true that this was an exchange offering (and, therefore, somewhat different in its impact upon the market from a new-money offering) it would, nevertheless, seem premature to sell a new issue in this sector after a rest of only about three weeks.

(6) More than one certificate issue. A final alternative possibility is putting out more than a single certificate issue. For example, there might be two certificates, a 5/8 percent due February 1, 1943, and a 3/4 percent due May 1, 1943. (In such a case, the 3/4 percent certificate would probably sell at a premium of about 2/32 or on a 0.68 yield basis.)

The principal advantage of such a course is that it would break up the financing into two smaller pieces which might be more easily "rolled over" at maturity. A single certificate due February 1 (together with that already outstanding due November 1) would tend, however, to establish a pattern of certificate issues due quarterly, February 1, May 1, August 1, and November 1. This pattern appears satisfactory to the market, which will doubtless become accustomed to "rolling over" very large issues.

The outstanding objection to offering more than one certificate is that paying a rate higher than 5/8 percent at the present time -- i.e., jumping the rate more than

Secretary Morgenthau - 4

1/8 percent from the last certificate -- might impart a weak tone to the market. This seems to outweigh any of the other advantages of offering more than one certificate.

II. Probable Purchasers of a New Certificate Issue

The distribution of subscriptions and allotments to the last issue of certificates of indebtedness was as follows:

	Subscriptions		Allotments	
	Amount	Percent	Amount	Percent
(Amounts in millions of dollars)				
Commercial banks inside New York City	642	21%	308	20%
Commercial banks outside New York City	1,040	34	521	35
Mutual savings banks	119	4	58	4
Insurance companies.	485	16	234	16
Non-financial corporations.....	478	16	237	16
Individuals and trust accounts.....	60	2	33	2
All other investors..	<u>222</u>	<u>7</u>	<u>108</u>	<u>7</u>
Total.....	3,046	100	1,499	100

The proportion of commercial bank subscriptions to a certificate offered at the present time would probably be considerably larger and the proportion of insurance company

Secretary Morgenthau - 5

subscriptions considerably smaller than was the case with the last issue. This is due principally to the large absorption of insurance company funds by the 2-1/2's of 1962-67.

III. The Problem of Pricing

It seems to be generally agreed by the market that a 5/8 percent certificate due February 1, 1943 can be successfully offered. As previously noted, we concur in this view and are suggesting such an offering.

I believe that it should be called to your attention, however, that this pricing is based principally on the "feel" of the market. It is a little difficult to justify on the basis of the charts, and Mr. Piser is inclined to be disturbed about a February 1 maturity -- pricing it at about par.^{1/} It is very difficult to solve this problem by shortening the issue, as a January 15 maturity would have to be refunded at the time of the Budget Message and a January 1 maturity around Christmas.

We are inclined, therefore, to suggest the February 1 maturity. In the unlikely event that it should run into difficulties, it could be made good by the Federal Reserve System, possibly through subscriptions entered by member banks on the assurance that the banks would be relieved if necessary. Subsequent purchases by the Federal Reserve Banks of this and other issues could then raise the price of this issue to an appropriate level. Such purchases would also improve the excess reserves situation generally, and could be viewed as analogous to Federal Reserve purchases of the weekly bill issues.

^{1/} Mr. Piser is ill today (Friday) and his assistant, Mr. Kennedy, is more optimistic.

Classification by Type of Purchaser of the Sales of Treasury Notes
Tax Series A and Tax Series B

January - May 1942

(Par amounts in millions of dollars - As reported
by the Federal Reserve Banks)

Type of purchaser and month	Tax Series : A	Tax Series : B	Total
<u>Individuals</u> ^{1/}			
January.....	5.4	60.7	66.1
February.....	2.9	23.8	26.7
March.....	4.9	23.9	28.8
April.....	4.2	33.0	37.2
May.....	<u>4.7</u>	<u>24.6</u>	<u>29.3</u>
Total.....	<u>22.1</u>	<u>166.0</u>	<u>188.1</u>
<u>Corporations</u>			
January.....	.7	160.9	161.6
February.....	.4	100.9	101.3
March.....	.5	208.0	208.5
April.....	.4	223.4	223.8
May.....	<u>.4</u>	<u>365.5</u>	<u>365.9</u>
Total.....	<u>2.4</u>	<u>1,058.7</u>	<u>1,061.1</u>
<u>Total sales</u>			
January.....	6.1	221.6	227.7
February.....	3.3	124.7	128.0
March.....	5.4	231.9	237.3
April.....	4.6	256.4	261.0
May.....	<u>5.1</u>	<u>390.1</u>	<u>395.2</u>
Total.....	<u>24.5</u>	<u>1,224.7</u>	<u>1,249.2</u>

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

June 12, 1942.

^{1/} Includes partnerships and fiduciaries.

Classification by Type of Purchaser of the Sales of Treasury Notes
Tax Series A and Tax Series B

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

June 12, 1942.

^{1/} Includes partnerships and fiduciaries.

Sales of Treasury Notes - Tax Series A and Tax Series B

January - May 1942

Classified by denomination
 (Par amounts in millions of dollars - As reported
 by the Federal Reserve Banks)

Series and denomination	Jan.	Feb.	Mar.	Apr.	May	Total
Tax Series A						
\$25.....	.2	.2	.2	.2	.2	1.0
50.....	.4	.2	.3	.3	.3	1.5
100.....	4.1	2.0	3.3	2.7	2.9	15.0
500.....	.5	.3	.6	.5	.6	2.5
1,000.....	.9	.6	1.0	.9	1.1	4.5
Total-Tax Series A..	6.1	3.3	5.4	4.6	5.1	24.5
Tax Series B						
\$100.....	.6	.3	.5	.5	.6	2.5
500.....	1.3	.6	1.1	.9	1.1	5.0
1,000.....	12.1	6.4	10.9	10.6	12.0	52.0
10,000.....	39.8	23.2	33.4	39.7	53.0	189.1
100,000.....	71.8	48.7	74.5	108.2	122.4	425.6
500,000.....	19.0	11.5	31.5	34.5	43.0	139.5
1,000,000.....	77.0	34.0	80.0	62.0	158.0	411.0
Total-Tax Series B..	221.6	124.7	231.9	256.4	390.1	1,224.7
Total-Both Series...	<u>227.7</u>	<u>128.0</u>	<u>237.3</u>	<u>261.0</u>	<u>395.2</u>	<u>1,249.2</u>

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

June 12, 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 12, 1942

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

During the week ended last night, the market for Government securities showed little change although the general tone was weak.

The movement of taxable notes and bonds was mixed. The new 1-1/2 percent notes remained unchanged at 100-13/32. The new 2's of 1949-51 reached a new high of 100-23/32 during the week, and closed last night at 100-21/32 as compared with a price of 100-19/32 a week ago. The 2-1/2's of 1967-72 closed at 101-9/32, up 1/32 from a week ago.

With few exceptions, the prices of tax-exempt securities, both notes and bonds, declined slightly during the week.

As compared with March 19, prices of long-term securities are above their levels of that date, while prices of medium- and short-term securities are below. (See attached chart and tables.)

The increase to \$300 millions in this week's offering of bills had no appreciable effect on the average rate, which increased to 0.366 percent from 0.365 percent a week ago. Certificates of indebtedness remained unchanged at 0.46 percent.

Federal Open Market Account purchases during the week ended last night totaled \$55 millions and consisted principally of \$45 millions of bills and \$9 millions of the new 1-1/2 percent notes. Sales aggregated \$16 millions, including \$5 millions each of bills, the 2-1/2's of 1967-72 and the 1-1/8 percent notes due December 15, 1943. Bill maturities totaled another \$1 million, so that the net increase in the portfolio was \$38 millions.

Attachments



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

June 12, 1942.

Dear Henry:

Thank you for sending me your note of June 8 enclosing a copy of "The Minute Man", giving highlights of the drive for War Savings Bonds.

This reminds me that Ronald Ransom was mentioning the other day, and probably spoke to you, about using the word "investment" rather than "sale" wherever possible in discussing War Savings Bonds. The idea appeals to me.

Sincerely yours,

Marriner

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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

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DATE June 12, 1942.

TO Secretary Morgenthau
FROM Mr. Hase

Attached is a copy of the Office of Facts and Figures' final report on the poll concerning war savings stamps and their redeemability. You will recall that on June 3, 1942, I sent you a memorandum giving preliminary results we received from them by telephone.

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WAR BOND AND STAMP PURCHASERS

A Telegraphic Survey of Public Attitude
Toward a Policy of Making Stamps Non-
Cashable for the Duration

The Answers to Five Questions Asked of a
Nation-Wide Cross-Section of 480 Adult Persons

Interviewing Date: June 1, 1942
Date of Report: June 6, 1942

Study Planned and Summarized by the Polling Division,
Bureau of Intelligence, OFFICE OF FACTS AND FIGURES,
in Collaboration with the National Opinion Research
Center of the University of Denver

WAR BOND AND STAMP PURCHASERS

A Telegraphic Survey of Public Attitude
Toward a Policy of Making Stamps Non-
Cashable for the Duration

On June 1, 1942, in a nation-wide telegraphic survey, 480 adults were asked whether they had purchased government war bonds or stamps, whether they had ever surrendered their stamps for cash value, and, further, whether they would be willing to waive their right to cash in war stamps any time they wanted—provided that they would still be permitted to buy bonds with the stamps and cash in the bonds any time they wished.

Almost half of the respondents said they had bought bonds. Sixteen per cent had bought them outright. Eleven per cent had bought stamps first and later converted them into bonds, and 21 per cent had made use of both procedures. Twenty-three per cent of the respondents had limited themselves to purchasing war stamps and the remaining 29 per cent had purchased neither bonds nor stamps.* This figure, although it indicates a marked gain from the 40 per cent reported as non-purchasers of bonds and stamps in a nation-wide survey conducted early in February**, is still large. (Table 1)

As might be expected, the most important determinant of bond and stamp purchasing is economic status. Bond purchasers constitute 79 per cent of the most prosperous class, in contrast to 13 per cent of the poor. The poor are understandably more likely to limit their war savings to the purchase of stamps. Three poor persons out of every five had not bought bonds or stamps as against only one out of every ten prosperous persons. Perhaps the most startling fact here, however, is that 11 per cent of the prosperous admitted having bought neither bonds nor stamps. (Table 2)

* The questions asked were:

Have you (or your husband or wife) bought any government war bonds?
Have you (or your husband or wife) bought any government war stamps?
(If respondent or spouse has purchased bonds) Did you buy the bonds outright, or did you buy war stamps first and then turn them in for bonds?

** This was a nation-wide survey conducted among 4,736 adult persons by the Extensive Surveys Division during the period from January 29, 1942 to February 11, 1942.

Neither sex nor age seemed to affect bond-buying. It is interesting to observe, however, that persons over forty years of age, although they are no less active than younger persons in buying bonds, are more inclined to refrain entirely from participation in the program if they cannot buy bonds—that is, they buy savings stamps less frequently than the younger group. Failing to buy bonds, persons under 40 are more inclined to buy stamps at least. Older persons remain non-purchasers in greater numbers. (Tables 3 and 4)

Farmers fall rather badly behind other respondents in terms of participation in the bond-buying program. One-half of the farmers admitted they had never bought war bonds or stamps, whereas similar admissions were made by only 29 per cent of the total respondents. This low purchasing activity may be due to economic level and, even more pertinently, to the low cash income of farmers. But the sample is too small to make any categorical statement to this effect. Other factors, such as inadequate communications and lack of publicity in less populous areas, may also be operative here. (Table 5)

Southerners and Westerners appear to be most backward in war savings activities. Only 35 and 36 per cent respectively had bought bonds in contrast to 48 per cent of the national total. In the South, particularly, there was an unusually high occurrence of non-purchasers (45 per cent whereas in no other region was there higher than 31 per cent frequency). It may be suggested that the low economic level prevalent in the South would account for this inactivity but this would not explain the equally low purchasing activity in the West. In this region, perhaps lack of interest is to blame. Again, however, it must be stressed that the samples were not always large enough to warrant any definitive conclusions in this respect, but they may indicate valuable findings to be derived from more extensive sampling on the question. (Table 6)

Only one per cent of the respondents had ever returned war stamps for cash, although 55 per cent had purchased war stamps.* Fifty-three per cent said they had never cashed in the stamps and one per cent did not know whether they had. The number who had cashed in stamps was so very small that no cross-tabulations were made of the group. (Table 7)

* The questions asked was:
(If respondent or spouse has bought stamps) Have you turned in any of your war stamps for cash?

Sixty-three per cent of the respondents were in favor of changing existing regulations so that it would be impossible to cash in war savings stamps until after the conclusion of the war—if it were still possible to buy bonds with stamps and cash in the bonds any time.* Twenty-four per cent were against such a plan and the remaining 13 per cent registered no opinion.**

The largest group willing to waive the right of cashing in stamps was found among the bond-buyers. Sixty-nine per cent of them were in favor of the proposed change as against 64 per cent of those who bought only stamps and 51 per cent of those who had bought neither bonds nor stamps. Those who limited themselves to buying stamps were slightly but not significantly more inclined to oppose the change.

It is interesting to note that the opposition group—constituting one-quarter of the respondents—recruits its members not only among those most directly concerned (i.e. those who bought only stamps) but in even greater numbers from among bond-buyers. It appears that the change might be resented by this group in principle rather than in practice as an infringement upon the rights of the purchasers. (Table 8)

This hypothesis is supported by the fact that the most prosperous class of people—those who would presumably be least affected by the innovation—opposed the change in greater force than did others. Thirty per cent of the prosperous registered opposition, in contrast to 21 per cent among those of average means, and 22 per cent among the poor. (Table 9)

Further corroboration that this may have been considered more an academic than a practical problem is found in the fact that only one per cent of the respondents had ever availed themselves of the opportunity of cashing in their stamps under present conditions.

* The question asked was:

As you know, you can cash in war savings stamps any time you want to now, and get your money back. Would you be in favor of changing this so war stamps could not be cashed in 'til after the war — provided you could still buy bonds with the stamps, and cash in the bonds any time, just as you can now?

** When attitudes toward the proposed change were broken up by geographical region, certain apparent differences emerged. The New England and Southern states evidenced least opposition to the proposal (12 per cent and 18 per cent respectively as against 24 per cent in the national total). These differences are highly unreliable, however, in the light of the small size of the sample. (Table 10)

Government War Bond and Stamp Purchasing

	<u>Per cent</u>
Bought bonds:	
Outright	16%
Bought stamps first.	11
Both	21
Total "Bought bonds"	48
Bought stamps only.	23
Bought neither.	29
	100% = 480

Government War Bond and Stamp Purchasing

By

Economic Status

	<u>Prosperous</u>	<u>Average</u>	<u>Poor</u>	<u>Total^a</u>
Bought bonds:				
Outright	31%	14%	3%	16%
Bought stamps first.	10	15	6	11
Both	38	20	4	21
Total "Bought bonds"	79	49	13	48
Bought stamps only.	10	28	29	23
Bought neither.	11	23	58	29
100% =	136	209	120	480

^a There were 15 farmers whose economic status was not ascertainable. These cases are included in the total column.

Government War Bond and Stamp Purchasing

By

Sex

	<u>Male</u>	<u>Female</u>	<u>Total</u>
Bought bonds:			
Outright	16%	16%	16%
Bought stamps first.	11	11	11
Both	22	19	21
Total "Bought bonds"	49	46	48
Bought stamps only.	22	25	23
Bought neither.	29	29	29
100% =	240	240	480

Government War Bond and Stamp Purchasing

By

Age

	<u>Under 40</u>	<u>Over 40</u>	<u>Total</u>
Bought bonds:			
Outright	14%	18%	16%
Bought stamps first.	13	8	11
Both	21	21	21
Total "Bought bonds"	48	47	48
Bought stamps only.	28	19	23
Bought neither.	24	34	29
	100% = 243	237	480

Government War Bond and Stamp Purchasing

By

Size of Community

	<u>Over</u> <u>100,000</u>	<u>Under</u> <u>100,000</u>	<u>Farm</u>	<u>Total</u>
Bought bonds:				
Outright	17%	15%	14%	16%
Bought stamps first.	13	13	1	11
Both	20	26	14	21
Total "Bought bonds"	50	54	29	48
Bought stamps only.	27	20	21	23
Bought neither.	23	26	50	29
100% =	240	152	88	480

Government War Bond and Stamp Purchasing
By
Geographical Region

	New England	Middle Atlantic	E. North Central	W. North Central	South	West	Total
Bought bonds:							
Outright	18%	14%	24%	14%	10%	20%	16%
Bought stamps first.	18	17	11	-	8	8	11
Both	15	21	24	38	17	8	21
Total "Bought bonds"	51	52	59	52	35	36	48
Bought stamps only.	20	27	24	19	20	33	23
Bought neither.	29	21	17	29	45	31	29
100% =	34	109	115	42	144	36	480

Question 4. (If respondent or spouse has purchased government war stamps) Have you turned in any of your war stamps for cash?

	<u>Per cent</u>
Yes	1%
No.	53
Not ascertainable	1
Total persons who have bought stamps.	55%
100% = 480	

Question 5. As you know, you can cash in war savings stamps any time you want to now and get your money back. Would you be in favor of changing this so war stamps could not be cashed in 'til after the war - provided you could still buy bonds with the stamps and cash in the bonds any time just as you can now?

By

Government War Bond and Stamp Purchasing

	<u>Outright</u>	<u>Bought bonds</u>			<u>Stamps</u>		<u>Total</u>
		<u>first</u>	<u>Both</u>	<u>Total</u>	<u>Only</u>	<u>Neither</u>	
Yes	70%	69%	69%	69%	64%	51%	63%
No.	21	17	28	23	27	24	24
Not ascertainable . .	9	14	3	8	9	25	13
100% =	76	52	100	228	113	139	480

Question 5. As you know, you can cash in war savings stamps any time you want to now and get your money back. Would you be in favor of changing this so war stamps could not be cashed in 'til after the war - provided you could still buy bonds with the stamps and cash in the bonds any time just as you can now?

By

Economic Status

	<u>Prosperous</u>	<u>Average</u>	<u>Poor</u>	<u>Total^a</u>
Yes	65%	69%	51%	63%
No.	30	21	22	24
Not ascertainable	5	10	27	13
100% =	136	209	120	480

^a There were 15 farmers whose economic status was not ascertainable. These cases are included in the total columns.

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By

Geographical Region

	E. North W. North						
	<u>England</u>	<u>Atlantic</u>	<u>Central</u>	<u>Central</u>	<u>South</u>	<u>West</u>	<u>Total</u>
Yes	76%	66%	59%	59%	63%	55%	63%
No.	12	28	28	31	18	31	24
Not ascertainable . .	12	6	13	10	19	14	13
100% =	34	109	115	42	144	36	480

Analysis of Exposure to Payroll Savings Plans

June 6, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	475	479	99
(2) Firms with 500 to 4,999 employees.....	4,821	6,138	79
(3) Firms with 100 to 499 employees.....	<u>18,559</u>	<u>27,013</u>	<u>69</u>
(4) Subtotal - large firms.....	23,855	33,630	71
(5) Firms with less than 100 employees.....	<u>70,286</u>	*	*
(6) Total business organizations.....	94,141	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>94,141</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,771,558	*	*
(2) Firms with 500 to 4,999 employees.....	6,544,064	*	*
(3) Firms with 100 to 499 employees.....	<u>4,413,878</u>	*	*
(4) Subtotal - large firms.....	18,729,500	*	*
(5) Firms with less than 100 employees.....	<u>1,929,374</u>	*	*
(6) Total business organizations.....	20,658,874	30,000,000 1/	69
II. Governmental organizations			
(1) Federal Government.....	397,981	2,100,000 1/	19
(2) State and local governments.....	<u>1,124,200</u>	<u>2,700,000</u>	<u>42</u>
(3) Total governmental organizations.....	<u>1,522,181</u>	<u>4,800,000</u>	<u>32</u>
III. Grand total.....	<u>22,181,055</u>	<u>34,800,000 1/</u>	<u>64</u>

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

June 12, 1942.

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	May 30	June 6		Apr. 18	May 30	June 6
Alabama.....	149	209	213	285	52	73	75
Arizona.....	43	49	55	64	67	77	86
Arkansas.....	44	47	48	142	31	33	34
Northern California.....	512	589	596	596	86	99	100
Southern California.....	756	818	840	1,171	65	70	72
Colorado.....	113	118	120	124	91	95	97
Connecticut.....	277	300	302	622	45	48	49
Delaware.....	21	49	49	85	25	58	58
District of Columbia.....	52	75	76	152	34	49	50
Florida.....	147	171	175	175	84	98	100
Georgia.....	133	244	259	590	23	41	44
Idaho.....	31	31	31	39	79	79	79
Illinois.....	1,300	1,491	1,515	2,252	58	66	67
Indiana.....	415	541	553	587	71	92	94
Iowa.....	165	200	201	272	61	74	74
Kansas.....	276	277	278	278	99	99	100
Kentucky.....	136	175	180	312	44	56	58
Louisiana.....	179	238	245	384	47	62	64
Maine.....	60	87	93	198	30	44	47
Maryland.....	177	219	221	405	44	54	55
Massachusetts.....	639	711	728	1,523	42	47	48
Michigan.....	689	806	816	1,022	67	79	80
Minnesota.....	376	413	413	413	91	100	100
Mississippi.....	59	62	62	113	41	43	43
Missouri.....	472	569	569*	664	71	86	86
Montana.....	40	44	44	44	91	100	100
Nebraska.....	103	110	111	123	84	89	90
Nevada.....	14	16	16	21	67	76	76
New Hampshire.....	89	100	100*	145	61	69	69
New Jersey.....	463	636	671	867	53	73	77
New Mexico.....	33	33	33	42	79	79	79
New York.....	2,060	2,624	2,694	4,240	49	62	64
North Carolina.....	282	358	372	499	57	72	75
North Dakota.....	14	19	19	29	48	66	66
Ohio.....	1,126	1,188	1,224	1,739	65	68	70
Oklahoma.....	166	201	202	345	48	58	59
Oregon.....	211	257	264	271	78	95	97
Pennsylvania.....	1,682	1,867	1,894	2,032	83	92	93
Rhode Island.....	154	178	180	224	69	79	80
South Carolina.....	71	112	116	174	41	64	67
South Dakota.....	21	23	23	23	91	100	100
Tennessee.....	199	199	199*	449	44	44	44
Texas.....	326	410	423	1,376	24	30	31
Utah.....	36	44	44*	111	32	40	40
Vermont.....	59	60	60	63	94	95	95
Virginia.....	281	348	351	351	80	99	100
Washington.....	234	271	293	323	72	84	91
West Virginia.....	134	140	142	272	49	51	52
Wisconsin.....	278	373	377	680	41	55	55
Wyoming.....	17	18	18*	18	94	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	<u>15,365</u>	<u>18,169</u>	<u>18,559</u>	<u>27,013</u>	<u>57</u>	<u>67</u>	<u>69</u>

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

June 12, 1942.

* Data are for May 30, inasmuch as no June 6 report was received.

Regraded Unclassified

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	May 30	June 6		Apr. 18	May 30	June 6
Alabama.....	41	55	55	77	53	71	71
Arizona.....	9	9	9	12	75	75	75
Arkansas.....	16	16	16	22	73	73	73
Northern California.....	122	124	124	175	70	71	71
Southern California.....	121	127	127	162	75	78	78
Colorado.....	25	27	28	29	86	93	97
Connecticut.....	114	116	117	152	75	76	77
Delaware.....	15	18	18	24	63	75	75
District of Columbia.....	32	32	33	53	60	60	62
Florida.....	28	30	30	63	44	48	48
Georgia.....	86	106	106	111	77	95	95
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	417	417	546	72	76	76
Indiana.....	88	121	124	170	52	71	73
Iowa.....	22	29	29	41	54	71	71
Kansas.....	23	24	24	24	96	100	100
Kentucky.....	38	42	45	73	52	58	62
Louisiana.....	29	39	39	77	38	51	51
Maine.....	48	53	54	58	83	91	93
Maryland.....	84	90	91	108	78	83	84
Massachusetts.....	237	260	269	352	67	74	76
Michigan.....	265	272	273	309	86	88	88
Minnesota.....	79	80	80	84	94	95	95
Mississippi.....	26	30	30	38	68	79	79
Missouri.....	103	114	114*	134	77	85	85
Montana.....	3	3	3	3	100	100	100
Nebraska.....	23	24	24	31	74	77	77
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	31	31*	31	94	100	100
New Jersey.....	142	158	162	201	71	79	81
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	796	804	1,088	70	73	74
North Carolina.....	103	128	128	160	64	80	80
North Dakota.....	0	0	0	0	0	0	0
Ohio.....	412	420	426	496	83	85	86
Oklahoma.....	31	38	39	51	61	75	76
Oregon.....	48	53	54	54	89	98	100
Pennsylvania.....	551	570	574	622	89	92	92
Rhode Island.....	61	69	69	81	75	85	85
South Carolina.....	84	94	94	103	82	91	91
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	50	50*	102	49	49	49
Texas.....	63	74	77	112	44	52	54
Utah.....	8	10	10*	16	50	63	63
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	97	98	100	93	97	98
Washington.....	49	56	59	70	70	80	84
West Virginia.....	36	54	55	62	58	87	89
Wisconsin.....	127	137	137	153	83	90	90
Wyoming.....	1	1	1*	1	100	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>5,243</u>	<u>5,296</u>	<u>6,617</u>	<u>74</u>	<u>79</u>	<u>80</u>

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

June 12, 1942.

* Data are for May 30, inasmuch as no June 6 report was received.

SEVENTY-SEVENTH CONGRESS

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House of Representatives U. S.
Naval Affairs Investigating Committee
Washington, D. C.

June 12, 1942

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

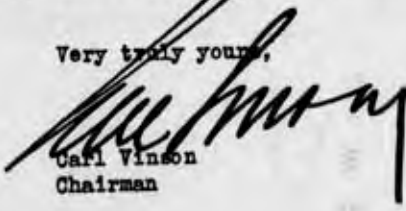
Dear Mr. Secretary:

This will acknowledge your letter of June 5, 1942, regarding my request that you furnish the names and addresses of the companies referred to in your discussion of tax avoidance with the Joint Committee on Internal Revenue Taxation on May 28 and the names of other companies engaging in similar practices.

Inasmuch as the Internal Revenue Code does not authorize the Treasury Department to give such information to the Naval Affairs Investigating Committee, I will direct my request to Chairman Doughton of the Joint Committee on Internal Revenue Taxation.

I appreciate the courtesy that you have shown in this matter and hope that beneficial results will be forthcoming.

Very truly yours,


Carl Vinson
Chairman

Statement by Randolph E. Paul, Tax Adviser to the
Secretary of the Treasury, before the Ways and
Means Committee of the House of Representatives
on the taxation of life insurance companies
June 12, 1942.

The plan for the taxation of life insurance companies that is outlined in this statement differs from the plan that I proposed in my statement of March 3. We have been assured that it has the active support and approval of the two national associations of the life insurance industry, the Association of Life Insurance Presidents, and the American Life Convention, as well as of independent companies that are not members of these two associations. It also has the approval of Mr. Starn of the Staff of the Joint Committee. The Treasury feels that its original plan, arrived at after long and careful consideration of the problem, is sound and equitable. At the same time, in view of the unanimous representations of the industry, the Treasury would not object to the acceptance of the modified proposal as a tentative solution of the problem of the taxation of the life insurance industry.

In order to clarify the basic issues involved in deciding on the proper method of taxing life insurance companies, I should like to discuss first, the present situation with respect to the taxation of life insurance companies, second, the original Treasury proposal, third, the plan proposed by the industry.

1. The taxation of life insurance companies under existing law

Life insurance companies of the United States have combined assets of over \$30 billion, an annual premium income of about \$4 billion, and an annual investment income of about \$1 billion. In 1940, this important segment of our economy paid a total corporation tax of only \$736,000 or less than 1/10 of 1 percent of investment income. None of the 25 largest life insurance companies paid any tax at all in 1938 or 1939. In 1940 only one of the 26 largest companies paid a tax and its tax amounted to only \$21,000. Of the almost 700 life insurance companies that filed income tax returns for 1940, only 139 paid any tax, and these paid only an average of \$5,300 per company.

There are two main reasons why life insurance companies have paid virtually no tax in recent years.

First, under existing law, which taxes only investment income, the companies are allowed an extremely liberal deduction for earnings needed to maintain reserves. This deduction is computed at the rate of 3-3/4 percent of the mean of the reserves required by law (in a few cases, at

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an even higher rate), although the average rate of interest earned by all life insurance companies is less than 3-1/2 percent, and the average rate of interest assumed in computing reserves is about 3-1/4 percent.

Second, under existing law, life insurance companies are in effect allowed to deduct part of their tax-exempt interest twice. The total amount of tax-exempt interest is excluded from the gross investment income. The remaining, taxable part of the gross investment income is then reduced by the allowance for earnings on reserves, computed at 3-3/4 percent of the mean of the legal reserves. Part of the earnings on reserves are derived from tax-exempt interest; yet the whole allowance for reserve earnings is deducted from taxable investment income. That part of tax-exempt interest used to maintain reserves is therefore deducted twice, once by the exclusion of tax-exempt interest from the tax base, and a second time as part of the reserve earnings deduction.

2. The original Treasury proposal

In my statement before your Committee on March 3, I outlined a proposed tax base for life insurance companies that would eliminate these defects in the present law, at the same time that it retained the principle of taxing only investment income.

The tax base proposed in my March 3 statement eliminated the double deduction of tax-exempt interest by disallowing that percentage of the reserve earnings deduction which tax-exempt interest bears to the excess of investment income over other deductions. (See Appendix 1, Example 1.)

It reduced the reserve earnings deduction by substituting for the present interest rate of 3-3/4 percent a weighted average of 3-1/4 percent and the actual rate of interest assumed by the company in computing its reserves. The average was computed by giving a weight of 65 percent to the 3-1/4 percent rate and a weight of 35 percent to the actual assumption rate. In this way, the reserve earnings deduction was made fair and equitable among companies, so that two companies with the same volume of business and the same investment income would pay approximately the same tax, regardless of how they compute their reserves. (See Appendix 1, Examples 2 and 3.)

In addition to these major changes in the tax base the Treasury's original proposal included three minor changes designed to relieve inequities and hardships that might otherwise have arisen: (1) All interest paid on all supplementary contracts not involving life, health, or accident contingencies, such as a contract to pay the insurance benefit in 10 annual instalments, is allowed as a deduction. At present, a

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deduction is allowed only for interest on contracts in which the manner of payment is elected by the beneficiary and, for mutual companies, only for interest at the rate guaranteed in the contract.

(2) Reserves computed on the preliminary term plan, a plan which is used primarily by the smaller and younger companies and which gives a smaller reserve than the plan commonly used, are increased by 7 percent in computing the reserve earnings deduction. This put these reserves on the same basis as other reserves. (3) The limit on investment expenses, other than specific real estate expenses, that is now imposed if any of the expenses are computed by allocating expenses between investment and other activities is made somewhat more generous. The present limit of $1/4$ of 1 percent of invested assets is replaced by a sliding scale limit of $1/4$ of 1 percent plus $1/4$ of the excess, if any, of the rate of interest actually earned over $3-3/4$ percent. (For a more detailed statement of the original Treasury proposal, see Appendix 2.)

3. The industry plan

In preparing these recommendations, the Treasury held numerous conferences with representatives of the principal organizations of life insurance companies as well as with representatives of many individual companies. The views expressed by them were given every practicable consideration in the development of these proposals.

We have been informed by representatives of the insurance industry that the proposed elimination of the double deduction for tax-exempt interest, and the proposed change in the limit on investment expenses are entirely acceptable. Further, the industry accepts the original formula proposed by the Treasury as a method of determining the aggregate tax liability for all insurance companies combined. It does not, however, accept the original Treasury proposal as a method for determining the tax liability of each company separately. The industry therefore proposes that the Treasury formula be used to determine the aggregate tax base of all companies combined; but that a different method be used to distribute the total tax among the insurance companies.

The industry proposal is that a single new deduction (to be called a "reserve and other policy liability deduction") be substituted for the present reserve earnings deduction, the deduction for interest paid on supplementary contracts, and the deduction for deferred dividends. This new deduction would be a flat percentage of net investment income after deducting tax-exempt interest, the percentage to be the same for all companies. This percentage would be determined in such a way as to give the same aggregate deductions for all companies as under the original

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Treasury proposal described above. For example, for 1941, the aggregate deductions of all companies under the original Treasury proposal for reserve earnings, interest on supplementary contracts, and deferred dividends amount to approximately 93 percent of the aggregate net investment income after deducting tax-exempt interest. Consequently for the taxable year 1942, each company would be allowed a deduction of 93 percent of its net investment income after deducting tax-exempt interest.^{1/} For subsequent taxable years, the corresponding percentage would be determined by the Secretary of the Treasury.

In summary, under the industry plan, each company's tax base would equal investment income less investment expenses less tax-exempt interest less a flat percentage of the remainder, the percentage to be based on the aggregate deductions of the industry under the Treasury formula. (See Appendix 1, Example 4.)

This statement covers the basic problem of the general method to be used in taxing life insurance companies. Some subsidiary problems remain. We are ready to outline these at the Committee's convenience.

^{1/} The 93 percent is based on preliminary figures and is subject to revision on the basis of a more complete analysis of 1941 data.

Appendix 1 - Examples of proposed changes in the
taxation of life insurance companies

Example 1 - Double deduction of tax-exempt interest
under present law and original Treasury
proposal

1. Investment income	\$4,000,000
2. Expenses, interest paid, and other deductions	500,000
3. Investment income after deductions (Item 1 less item 2)	3,500,000
4. Exempt interest	700,000
5. Percentage of exempt interest to investment income after deductions	20%

Present law

6. Reserve earnings deduction	3,375,000 ^{1/}
7. Normal tax net income (Item 3 less items 4 and 6)	-575,000

Treasury proposal 2/

8. Reserve earnings deduction	\$3,375,000
9. Portion thereof from exempt income (Item 8 times item 5)	<u>675,000</u>
10. Reserve earnings deduction (Item 8 less item 9)	2,700,000
11. Normal tax net income (Item 3 less items 4 and 10)	100,000

^{1/} 3-3/4 percent of mean of legal reserves, assumed to be \$90,000,000.

^{2/} This example illustrates solely the Treasury proposal for the elimination of the double-deduction of tax-exempt interest. Consequently, the reserve earnings deduction has been kept the same as under the present law. Example 2 illustrates the Treasury's proposed change in the reserve earnings deduction.

Example 2 - Computation of reserve earnings deduction
under present law and original Treasury
proposal

	<u>Company A</u>	<u>Company B</u>
1. Rate of interest assumed in computing reserves	3%	3½%
2. Assets	\$100,000,000	\$100,000,000
3. Legal reserves	90,000,000	85,281,000
4. Surplus	10,000,000	14,719,000

Present law

5. Reserve earnings deduction (3-3¼% of item 3)	\$ 3,375,000	\$ 3,198,038
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Treasury proposal

6. 65% of 3-1¼%	2.1125%	2.1125%
7. 35% of actual rate assumed (35% of item 1)	1.05	1.225
8. Reserve earnings rate (item 6 plus item 7)	3.1625	3.3375
9. Reserve earnings deduction (item 8 times item 3)	\$ 2,846,250	\$ 2,846,253

Example 3 - Computation of tax under present
law and original Treasury proposal

	<u>Company A (3%)</u>	<u>Company B (3½%)</u>
1. Investment income	\$4,000,000	\$ 4,000,000
2. Expenses, interest paid, and other deductions	<u>500,000</u>	<u>500,000</u>
3. Investment income after deductions (Item 1 less item 2)	\$3,500,000	\$ 3,500,000
4. Exempt interest	\$ 700,000	\$ 700,000
5. Percentage of exempt interest to investment income after deductions (Item 4 divided by item 3)	20%	20%
<u>Present law</u>		
6. Reserve earnings deduction (See item 5 of Example 2)	\$3,375,000	\$ 3,198,038
7. Normal tax net income (Item 3 less items 4 and 6)	-575,000	-398,038
<u>Treasury proposal</u>		
8. Reserve earnings (See item 9 of Example 2)	\$2,846,250	\$ 2,846,253
9. Portion thereof from exempt income (Item 8 multiplied by item 5)	<u>569,250</u>	<u>569,251</u>
10. Reserve earnings deduction (Item 8 less item 9)	\$2,277,000	\$ 2,277,002
11. Normal tax net income (Item 3 less items 4 and 10)	\$ 523,000	\$ 522,998

Example 4 - Computation of tax under the
Industry proposal

1. Investment income	\$4,000,000
2. Investment expenses	200,000
3. Exempt interest	<u>700,000</u>
4. Taxable net investment income (Item 1 less items 2 and 3)	3,100,000
5. Reserve and other policy liability deduction (93% of item 4) <u>1/</u>	<u>2,883,000</u>
6. Tax base (Item 4 less item 5)	217,000

1/ Determined on the basis of the aggregate deductions and aggregate investment income of all companies under the original Treasury formula. Ninety-three percent is the percentage to be used for the taxable year 1942. For subsequent years, the percentage is to be determined by the Secretary of the Treasury.

Appendix 2 - Original Treasury proposal

Suggested tax base for life insurance companies
Investment income only

The tax base shall be:

- (1) Investment income
- less (2) Investment expenses
- less (3) Interest paid, including all interest paid (whether or not guaranteed) on all contracts not involving life, health, or accident contingencies, regardless of the manner in which the method of payment was selected
- less (4) 2 percent of reserves for deferred dividends
- less (5) 85 percent of dividends received from domestic corporations
- less (6) Tax-exempt interest
- less (7) Reserve earnings deduction

- (1) Investment income shall be gross receipts from interest, dividends, rents, royalties, leases, etc., plus capital gains ^{1/} and less capital losses on assets acquired subsequent to December 31, 1941, less real estate expenses, real estate taxes, and depreciation on property held as an investment. Capital losses are to be allowed in full against other income if attributable to sales or exchanges of bonds or other evidences of indebtedness, the capital loss to be measured by the purchase price (or amortized value if the Committee should adopt the Treasury's recommendation with respect to amortization) and the selling price. Losses from other types of capital assets will be allowed only to the extent of capital gains.
- (2) Investment expenses shall be allowed in full if completely segregated; but if any general expenses are included in or apportioned to investment expenses, the amount allowed in addition to specific expenses allowed under (1) shall not exceed $\frac{1}{4}$ percent of invested assets, plus $\frac{1}{4}$ of the amount by which investment income exceeds $3\frac{3}{4}$ percent of invested assets.

^{1/} The House Ways and Means Committee has tentatively approved a maximum rate of 25 percent on net capital gains realized by corporations on assets held more than 15 months. If this provision is enacted, the final computation of the tax will be made by deducting such gains from the base as here defined, applying a 25-percent rate to such gains, and the regular normal and surtax rates to the balance.

- 2 -

- (7) The reserve earnings deduction shall be the product of (a) the mean of the adjusted legal reserves at the beginning and end of the taxable year, (b) the reserve earnings rate, and (c) the ratio of (i) investment income, less investment expenses, less interest paid, less 85 percent of dividends received from domestic corporations, less 2 percent of reserves for deferred dividends, less tax-exempt interest to (ii) investment income less investment expenses, less interest paid, less 2 percent of reserves for deferred dividends.
- (a) The adjusted legal reserves shall be the legal reserves plus 7 percent of the legal reserves that are computed on a preliminary term basis.
- (b) The reserve earnings rate shall be a weighted average of (i) $3\frac{1}{2}$ percent, and (ii) the weighted average rate of interest assumed in computing the various reserves, each rate of interest being weighted by the mean of the adjusted legal reserves computed at that rate at the beginning and end of the year. Item (i) shall be weighted 65 percent; item (ii), 35 percent.

This formula will have to be applied twice, first, to compute normal tax, second, to compute the surtax; the term "tax-exempt interest" being given the appropriate interpretation in each case.

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

E. R. Stettinius, Jr.
Administrator

June 12, 1942

My dear Mr. Secretary:

We are pleased to send you an advance copy of the Fifth Report to Congress on Lend-Lease Operations, with the request that you treat it as confidential until the President's transmittal letter is read in Congress on Monday.

We are very grateful for the assistance of the Treasury Department in the preparation of this report, especially the contributions of Mr. Eberle, from Clifton Mack's office, whose suggestions and criticisms of the various drafts were most constructive.

I would like to add a word of sincere appreciation for the sympathetic and cooperative attitude of your people in our relationships generally with the Treasury Department.

Sincerely yours,

Thomas B. McCabe

Thomas B. McCabe
Acting Administrator

The Honorable

The Secretary of the Treasury

DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

.....
**FIFTH REPORT TO CONGRESS
ON LEND-LEASE OPERATIONS**

For the Period Ended June 30, 1949
.....

=====

FIFTH REPORT TO CONGRESS ON LEND-LEASE OPERATIONS

For the Period Ended June 11, 1942

=====

"The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose."

[From Section 5, subsection b of "An Act to Promote the Defense of the United States" (Public Law No. 11, 77th Congress, 1st Session).]

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PRESIDENT'S LETTER OF TRANSMITTAL

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

This is the fifth ninety-day report to the Congress on operations under the Lend-Lease Act.

For the three months ending May 31, 1942, lend-lease aid amounted to more than \$1,900,000,000. For the fifteen-month period from March 1941 through May 1942, aid totalled \$4,497,000,000 in goods and services. We are now making aid available at a monthly rate equivalent to \$8,000,000,000 per year.

Dollar figures do not portray all that is happening. The Congress has wisely set few limits to the types of aid which may be and are being provided. Food—over 5,000,000,000 pounds—and medicine have helped to sustain the British and Russian and Chinese peoples in their gallant will to fight. Metals, machine tools and other essentials have aided them to maintain and step up their production of munitions. The bombardment planes and the tanks which were ordered for them last spring and summer are now putting their mark on the enemy. The British pilots trained in this country have begun their work at Cologne and Essen.

And lend-lease is no longer one way. Those who have been receiving lend-lease aid in their hour of greatest need have taken the initiative in reciprocating. To the full extent of their ability, they are supplying us, on the same lend-lease basis, with many things we need now. American troops on Australian and British soil are being fed and housed and equipped in part out of Australian and British supplies and weapons. Our allies have sent us special machine tools and equipment for our munitions factories. British anti-aircraft guns help us to defend our vital bases, and British-developed detection devices assist us to spot enemy aircraft. We are sharing the blueprints and battle experience of the United Nations.

These things, invaluable as they have proven, are not the major benefit we will receive for our lend-lease aid. That benefit will be the defeat of the Axis. But the assistance we have been given by our partners in the common struggle is heartening evidence of the way in which the other United Nations are pooling their resources with our own. Each United Nation is contributing to the ultimate victory not merely its dollars, pounds or rubles, but the full measure of its men, its weapons, and its productive capacity.

Our reservoir of resources is now approaching flood stage. The next step is for our military, industrial, and shipping experts to direct its full force against the centers of enemy power. Great Britain and the United States have together set up expert combined bodies to do the job, in close cooperation with Russia, China and the other United Nations. They are equipping the United Nations to fight this world-wide war on a world-wide basis. They are taking combined action to carry our men and weapons—on anything that will float or fly—to the places from which we can launch our offensives.

By combined action now, we can preserve freedom and restore peace to our peoples. By combined action later, we can fulfill the victory we have joined to attain. The concept of the United Nations will not perish on the battlefields of this terrible war. It will live to lay the basis of the enduring world understanding on which mankind depends to preserve its peace and its freedom.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
June 11, 1942.

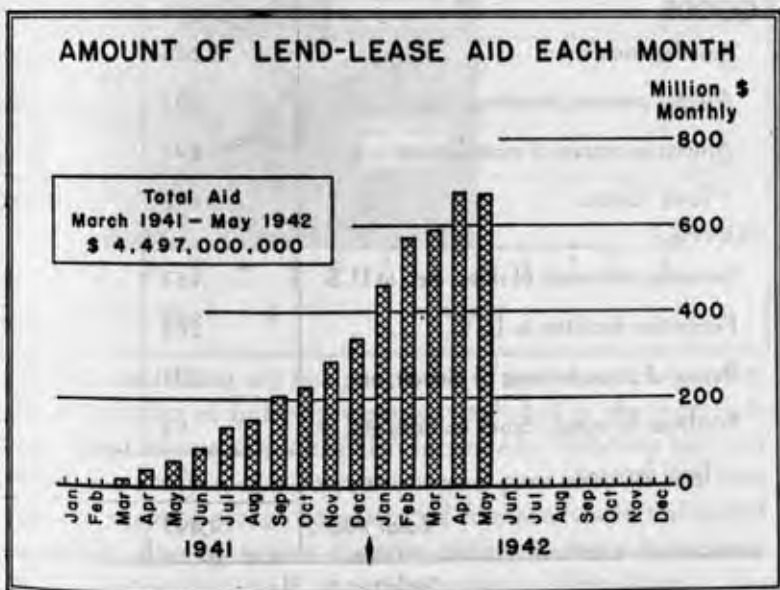
Chapter 1

LEND-LEASE PROGRESS

The lend-lease program was inaugurated on March 11, 1941 as our peacetime contribution to nations aiding our defense by resisting Axis aggression. Now that we are at war, lend-lease continues as an instrument by which we strengthen our allies according to the strategic plans of the United Nations as a whole. The assistance we have rendered to date represents 12 percent of our entire war program.

Amount of Lend-Lease Aid

Lend-lease aid for the 15-month period from March 1941 through May 1942, has totaled \$4,497,000,000. The rapidly rising trend in the amount of this aid is indicated by the chart, which shows the amount of aid provided during each month since lend-lease began. Currently, aid is being provided at a rate equal to approximately \$8,000,000,000 per year.



ACCELERATION IN LEND-LEASE AID

[Millions of Dollars]

	Quarter Ended				
	May 31, 1941	Aug. 31, 1941	Nov. 30, 1941	Feb. 28, 1942	May 31, 1942
Quarterly..	118	369	715	1,368	1,927
Cumulative..	118	487	1,202	2,570	4,497

Table No. 1

TOTAL LEND-LEASE AID

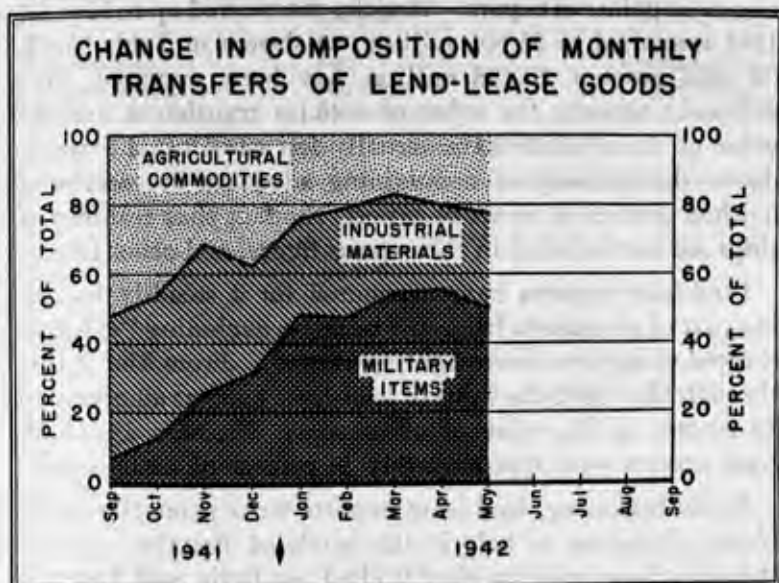
[Millions of Dollars]

Type of Aid	Total Aid to May 31, 1942	Aid During Quarter Ended May 31, 1942
GOODS:		
Articles transferred.....	2,601	1,210
Articles awaiting transfer or use.....	231	136
Articles in process of manufacture.....	841	320
Total Goods.....	3,673	1,666
SERVICES:		
Servicing and repair of ships, etc., in U. S. .	157	31
Production facilities in U. S.	283	114
Rental of ships, ferrying of aircraft, etc. . .	371	107
Facilities for supply bases abroad, etc. . .	13	9
Total Services.....	824	261
Total Aid..	4,497	1,927

Table No. 2

Lend-lease aid has two main divisions—the value of **GOODS**, actually shipped, awaiting shipment or in process of manufacture, and the value of various **SERVICES** of production and supply. Goods include military items, such as planes, tanks, guns and ammunition, as well as food, medical supplies, machine tools, metals and other materials. Services include the shipping necessary to carry goods to lend-lease countries, the servicing and repair of warships and merchant ships of the United Nations, new factory and shipyard facilities in the United States for production of lend-lease goods, and facilities for supply bases abroad.

A breakdown of the total of \$4,497,000,000 of lend-lease aid is given in Table No. 2. About 82 percent of aid is represented by goods and 18 percent by services.



While lend-lease aid has continued to increase each quarter, the proportion of fighting weapons included in the materials transferred to our allies has also increased. Whereas last fall munitions comprised a relatively small part of total transfers and the major portion consisted of foodstuffs and industrial materials, during recent months military items have constituted more than half of total transfers. (See chart.)

The proportion of our total production of guns, planes, ships and industrial materials that goes to lend-lease countries and the proportion that is furnished to our own armed forces and industries is determined by the expert military and civilian bodies in charge of our entire war program, not by the agencies charged with the immediate supervision of the lend-lease program. Every decision is aimed at putting our resources to their most effective use in fighting our common enemies.

Exports of Lend-Lease Goods

Articles transferred are those which have been delivered in this country to lend-lease nations, either at points of production or at points of export. Articles transferred up to May 31, 1942 amounted to \$2,601 million, as shown in Table No. 2. Of this amount \$2,138 million has been exported. The difference between the value of articles transferred and the value of those which have actually left the United States is due to the necessity of maintaining adequate inventories of finished articles at points of export, the fact that transfers of ships are not included in the exports figure, and other factors.

Lend-lease exports have accounted for a steadily increasing part of all exports from this country, excluding "exports" shipped to our own forces fighting abroad. From March 1941 through May 1942 the value of lend-lease exports amounted to 29 percent of the value of all exports. In May 1942 lend-lease exports were approximately 54 percent of total exports.

In the beginning, lend-lease exports went primarily to the United Kingdom to help in the battle of Britain. As the theaters of war in Africa, the Middle East, India, and Australia became critical lend-lease aid was sent to the support of our allies fighting in those areas. With the signing of the Russian protocol last October, arms and supplies began to flow to Russia in large quantities. Transportation difficulties, climaxed by the closing of the Burma Road, have been the factor limiting the volume of aid to China, but new ways of getting help to China in substantial amounts are being developed.

(Lend-Lease Countries

As the war has spread over the world and aid to more and more countries has become essential to our own national safety, the President has added to the list of lend-lease nations now eligible for lend-lease assistance. The roll now includes the members of the British Commonwealth of Nations and 35 other countries:

Argentina	Egypt	Nicaragua
Belgium	El Salvador	Norway
Bolivia	France (Free)	Panama
Brazil	Greece	Paraguay
Chile	Guatemala	Peru
China	Haiti	Poland
Colombia	Honduras	Turkey
Costa Rica	Iceland	U. S. S. R.
Cuba	Iran	Uruguay
Czechoslovakia	Iraq	Venezuela
Dominican Republic	Mexico	Yugoslavia
Ecuador	Netherlands	

British Commonwealth of Nations

Chapter 2

LEND-LEASE AND THE WAR

In the three months since the last report, the lend-lease program has been further adapted to the needs of war. The administrative machinery for fulfilling the Act of March 11, 1941, has evolved in response to the pressures and shortages of our wartime economy. That machinery now serves the United Nations in the developing processes by which they are unifying their strategy and pooling their resources.

One of the major contributions of the lend-lease program has been the resulting expansion of American munitions capacity to meet the needs of our allies and ourselves. The first lend-lease orders, together with the earlier munitions contracts of the British, French, and Netherlands governments, helped to erect the factory facilities that have become the backbone of our armament program. Today the battle of production is on the way to being won. The pressing immediate problem is to distribute our weapons where the need is greatest, and to get them there in sufficient quantities in the shortest time. The battle of distribution is in its critical phase.

In this battle, lend-lease is the principal means through which those charged with strategic direction of the war allot American supplies to our allies. And it is becoming an element of increasing importance in the process by which our allies supply us with reciprocal aid.

Lend-Lease and the United Nations

On January 1, 1942, the United States, Great Britain, Russia, China, and 22 other nations* united in a declaration that "they are now engaged in a common struggle

* Mexico has now become the twenty-seventh government to announce its adherence to the Declaration.

(against savage and brutal forces seeking to subjugate the world." They resolved that "complete victory over their enemies is essential to defend life, liberty, independence, and religious freedom, and to preserve human rights and justice in their own lands as well as in other lands." They subscribed unanimously to the principles and purposes set forth in the Atlantic Charter. They pledged themselves to employ their full military and economic resources in the war, and not to make a separate peace.

The United Nations have thus declared that they are more than a temporary military combination, and that they will wage the war together for a common victory and a common program of peace aims.

To fight a common war which extends around the world, the United Nations need a common plan for the most effective possible use of their resources in men and materials and machines. All the battlefronts are linked together. The United Nations are concentrating their weapons on those battlefronts where pressure is heaviest and where military success is of the greatest strategic importance. They are moving in a coordinated way toward organizing offensives backed by their combined resources.

(Our lend-lease program is one means, and a simple one, by which the common economic effort pledged in the Declaration by United Nations may be secured. The lend-lease principle, as it develops, is removing the possibility that considerations of finance can interfere with the full use of material resources. The transfers made under the Lend-Lease Act are not commercial loans to other nations. They are contributions of material to a common pool with which a common war is being waged. In return, other United Nations are contributing their utmost to the common fight—in men, materials and machines—and are furnishing us with the weapons and supplies which we, rather than they, can most effectively use.

Considerations of transportation, supply, and strategy must determine the countries from which war materials are to be drawn and where they are to be sent. Some nations

are able to contribute vast quantities of finished munitions; some only the materials from which those munitions are to be made. Some are able to give industrial and military information which will expedite the war production of all the United Nations. These contributions, varying greatly both in character and amount, find their uses in various parts of the world, as common plans for victory dictate.

It is for this reason that American, Canadian, and British tanks are found in North Africa, and American planes, based in England, fly regularly over Germany, that British and American planes fight in Russia and English antiaircraft guns defend our bases. This is why the United States sends food to Great Britain while American troops on British and Australian soil are being maintained and equipped in part with British and Australian materials and weapons; and why the patents, secret processes, production know-how, and battle experience of each United Nation are available to the armies and industries of its allies.

Control by United Nations Cooperation

Long strides have been made toward achieving the unified direction necessary to put the combined resources of the United Nations to most effective use. Combined agencies have been established by joint action of the United States and Great Britain to coordinate strategy and to map the production and distribution of munitions and raw materials. The members of these combined boards have been instructed to "confer with representatives of the Union of Soviet Socialist Republics, China, and such other of the United Nations as are necessary to attain common purposes and provide for the most effective utilization of the joint resources of the United Nations."*

To date, the combined boards which have been created include the Combined Chiefs of Staff, the Munitions Assignments Board, the Combined Raw Materials Board, the Combined Shipping Adjustment Board, the Combined Production

*The quotation is from the joint announcement issued January 26, 1942, when the combined boards for munitions, raw materials and shipping were established.

and Resources Board, and the Combined Food Board. These expert bodies are welding the American and British war efforts together. As part of their job, they exercise control over all lend-lease transfers. They plan for the production of materials to fill lend-lease needs, determine the quantities of finished and raw materials available for immediate lend-lease transfer, fix their destination, and provide the necessary shipping. By shaping their plans to fit the needs of all United Nations, they are helping us to fight a world-wide war on a world-wide basis.

COMBINED CHIEFS OF STAFF

The Combined Chiefs of Staff is composed of the ranking staff officers of the various branches of the American and British armed forces. It meets in Washington to formulate the broad strategic plans to which the actions of the other combined agencies are adjusted. Production requirements, raw material allocations, munitions assignments, and ship routings are all related to its decisions.

MUNITIONS ASSIGNMENTS BOARD

With Russia and China locked in decisive struggles on their own soil, the principal United Nations in a position to export munitions are Great Britain and the United States. To solve the technical and practical problems involved in distributing British and American munitions among all the United Nations, the Munitions Assignments Board was created on January 26, 1942. It has two coordinate branches, sitting in London and Washington, under the Combined Chiefs of Staff. Each branch is staffed by officers of the British and American armed forces, under the direction of a civilian chairman.

The Board operates upon the principle that the entire munition resources of Great Britain and the United States are considered as a common pool. As munitions are produced and ready for distribution in each country, the branch of the Board sitting in that country advises on their assignment to Great Britain, the United States, or one of the other United Nations in accordance with strategic needs. The American branch of the Board now assigns almost all munitions manu-

factured in this country and presently ready for distribution. Regardless of whether a given weapon was originally ordered for our own Army or Navy, for cash sale to another nation, or for transfer under lend-lease authority, its assignment is examined anew to meet the most urgent need existing at the time it rolls off the production lines.* As part of this same pooling policy, most of the munitions now being ordered are usually not earmarked in advance for particular forces. To facilitate final assignment, efforts have been made to integrate the requirements and specifications of other nations with our own, so that, where feasible, standard types of each weapon can be manufactured.

Assignments of finished munitions raise many complex strategic and technical problems. The needs of the forces of the nation producing the munitions must be appraised in terms of the uses to which those forces will be put, and weighed against the competing needs presented by the forces of other United Nations. After the basic decisions on such questions have been made in accordance with broad principles determined by the Combined Chiefs of Staff, they must be implemented by specific assignments of innumerable types of equipment. To handle this vast body of work, various groups of technical subcommittees have been organized. Thus, the branch of the Board in the United States has a special aircraft assignment committee under which there are subcommittees for aircraft, for aircraft ammunition and bombs, and for aviation petroleum products. Similar committees and subcommittees advise on assignments of land and naval items.

Except for a substantial number of British and other dollar contracts on which deliveries are still being made with the approval of the Munitions Assignments Board, American munitions allocated to other nations are usually transferred under lend-lease authority. The actual assignments, however, are not made by the Office of Lend-Lease Administration, but by the military experts on the Munitions Assignments Board. A copy of each request for American munitions is sub-

*Assignments to nations other than the United States are made within the limits of the authority granted by the Congress in the appropriation acts summarized in Appendix II.

mitted to the Lend-Lease Administration, which in appropriate cases will assist the applicant country to present its case to the Board. The Lend-Lease Administration also acts as the central recording agency for all lend-lease munitions transfers.

COMBINED RAW MATERIALS BOARD

The common war pool of the United Nations goes far beyond munitions. It also includes the raw materials from which munitions are made. Scarcities in many of these materials have been caused by military reverses which have shut off or curtailed sources of supply, by shortages of shipping space, and by the rapidly expanding requirements of war production.

To manufacture munitions, the United States must import many raw materials; Great Britain, nearly all of hers. To a considerable extent, they have competing needs which must be filled from the same sources of supply. The entire war effort of the United Nations depends on the most efficient possible distribution, use, and expansion of these available raw material resources.

On January 26, 1942, the Combined Raw Materials Board was set up to achieve these results. It consists of an American member, representing the Chairman of the War Production Board, and a British member, representing the British Minister of Production. The Board allocates strategic raw materials controlled by the United States and Great Britain among the United Nations and collaborates with other countries to secure the maximum development and utilization of their raw material resources.

Complete allocations have been made on a world basis for such materials as tin, rubber, and manila fiber, of which the principal sources of supply were cut off by the war. Similar action has been taken on certain ferro-alloys, copper and other materials which have not been cut off, but which are in short supply because war requirements have outstripped available production. In addition, the Combined Board makes temporary allocations from time to time to meet urgent special needs, as, for example, tin plate for Great Britain, aluminum for the United States, and rubber for Russia.

Through the allocations made by the Board, the United States receives strategic materials under British control and provides Britain with materials under American control, while other United Nations share in the total supply on the basis of relative need in terms of the common war effort. Normal considerations of international commerce, finance, and foreign exchange are not permitted to interfere with fundamental war needs. In appropriate cases where dollars have been needed to purchase materials for the use of another United Nation, and are unavailable to it, lend-lease has been used to obtain the supplies to further the prosecution of the war.

The Combined Raw Materials Board performs other important functions. It has acted to increase the supply of strategic raw materials by recommending specific production projects in many parts of the world. It has promoted conservation of materials by changes in specifications, substitutions, and other means. Where present buying methods have been found to impede effective distribution, the Board has recommended changes. In collaboration with the Combined Shipping Adjustment Board and other agencies, it has also acted to secure more effective use of shipping and rail transport in order to speed the flow of materials and to bring strategic supplies out of war-threatened areas to safe destinations under emergency conditions.

COMBINED SHIPPING ADJUSTMENT BOARD

The Combined Shipping Adjustment Board was created on January 26, 1942, in recognition of the principle that the shipping resources of the United States and Great Britain are a common pool, to be operated for the benefit of all the United Nations.

The Ministry of War Transport directly controls the movement of British shipping, while American vessels operate under orders from our War Shipping Administration. Norway, the Netherlands, and many other United Nations have contributed their many ships and sailors to the service of the common cause, for charter operation under Ministry of Transport or War Shipping Administration direction.

The Combined Shipping Adjustment Board integrates the work of these two agencies and the portions of the pool under their respective control. The Board has coordinate branches in London and Washington, each composed of a representative of the War Shipping Administration and a representative of the Ministry of War Transport.

The struggle to move materials in sufficient quantities to the places where they are most needed has assumed paramount importance. The job of the Combined Board is to see that the shipping of the United Nations is utilized in the most effective manner, by eliminating overlapping and unnecessary duplication of services, and by exploring the possibilities of joint economies in the use of the two portions of the pool.

With available cargoes in excess of available ships, loading and routing have become matters of strategic selection among conflicting needs. The ships which carry lend-lease goods are assigned by the Combined Board through the Ministry of War Transport and the War Shipping Administration after appraisal of all competing needs. When American-controlled shipping is assigned to carry lend-lease cargoes, lend-lease funds are used to finance their operation, in order to prevent dollar exchange problems from impeding vital movements to the battle areas. Additional sums have been provided to service and supply the vessels of other United Nations which carry materials to and from our shores.

COMBINED PRODUCTION AND RESOURCES BOARD

One of the most recent additions to the machinery being developed for coordination of the United Nations war effort is the Combined Production and Resources Board, which was established on June 9, 1942, by the United States and Great Britain.

The Combined Production and Resources Board consists of the Chairman of the War Production Board and the British Minister of Production. The Board is charged with responsibility for combining the war production programs of the United States and Great Britain in a single, integrated program which will meet the military requirements and essential civilian needs of the United Nations as a whole.

The Board will work in close collaboration with the Combined Chiefs of Staff and the Munitions Assignments Board in order to assure continuous adjustment of the combined production program to munitions requirements. It will keep the Combined Chiefs and Munitions Assignments Board currently informed of all relevant factors and potentialities of war production, and they will keep the Board informed of changing military needs.

Planning for utilization of the combined resources of the two countries in such a way as to reduce demands on shipping space will be one of the Board's prime objectives.

COMBINED FOOD BOARD

On the same day the Combined Production and Resources Board was established, the United States and Great Britain created a Combined Food Board "to obtain a planned and expeditious utilization of the food resources of the United Nations."

The Board will sit in Washington and be composed of the Secretary of Agriculture and the head of the British Food Mission. It will consider common problems concerning the supply, production, transportation, disposal, allocation or disposition of food and food-producing equipment throughout the world.

These are the principal agencies so far developed to carry out the principles of combined effort set forth in the Declaration by United Nations, and to govern the distribution of lend-lease aid. Additional agencies will be established to function in other fields when necessary.

Chapter 3

LEND-LEASE AND THE PEACE

The lend-lease program has already become a prime mechanism in the combined efforts the United Nations are making to win the war. The program of lend-lease agreements is also emerging as a factor in the combined effort of the United Nations to weave a pattern for peace. Those agreements are taking shape as key instruments of national policy, the first of our concrete steps in the direction of affirmative post-war reconstruction.

The agreement with Great Britain was signed on February 23, 1942. On June 2, 1942, an agreement was made with the Republic of China embodying the same terms (see Appendix III). On June 11, 1942, a similar agreement was signed with the Union of Soviet Socialist Republics. The provisions of these agreements are now being offered to our other allies receiving lend-lease assistance.

These basic lend-lease agreements place the problem of the peacetime settlement in a realistic and appropriate setting. The agreements postpone final determination of the lend-lease account until "the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests" of the signatory nations, and which "will promote the establishment and maintenance of world peace." Final settlement has been postponed since the course of the war may further change the complexion of the issue.

We are now in the war, as we were not in March 1941 when the Lend-Lease Act was passed. We have pledged our resources without limit to win the war, and the peace which will follow it. We look forward to a period of security and liberty, in which men may freely pursue lives of their choice, and governments will achieve policies leading to full and

useful production and employment. If the promise of the peace is to be fulfilled, a large volume of production and trade among nations must be restored and sustained. This trade must be solidly founded on stable exchange relationships and liberal principles of commerce. The lend-lease settlement will rest on a specific and detailed program for achieving these ends, which are, as Article VII of the agreements with Great Britain, China and Russia point out, "the material foundations of the liberty and welfare of all peoples."

Cooperative action among the United Nations is contemplated to fulfill this program for economic progress, in the many spheres where action is needed. It is hoped that plans will soon develop for a series of agreements and recommendations for legislation, in the fields of commercial policy, of money and finance, international investment and reconstruction.

Article VII of each of the basic agreements pledges that "the terms and conditions" of the final determination of the benefits to be provided the United States in return for aid furnished under the Act "shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations." By this provision we have affirmatively declared our intention to avoid the political and economic mistakes of international debt experience during the twenties.

A lend-lease settlement which fulfills this principle will be sound from the economic point of view. But it will have a greater merit. It will represent the only fair way to distribute the financial costs of war among the United Nations.

The real costs of the war cannot be measured, nor compared, nor paid for in money. They must and are being met in blood and toil. But the financial costs of the war can and should be met in a way which will serve the needs of lasting peace and mutual economic well-being.

All the United Nations are seeking maximum conversion to war production, in the light of their special resources. If each country devotes roughly the same fraction of its national

production to the war, then the financial burden of war is distributed equally among the United Nations in accordance with their ability to pay. And although the nations richest in resources are able to make larger contributions, the claim of war against each is relatively the same. Such a distribution of the financial costs of war means that no nation will grow rich from the war effort of its allies. The money costs of the war will fall according to the rule of equality in sacrifice, as in effort.

APPENDICES

Appendix I

LEND-LEASE ACT

Further to promote the defense of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States."

Section 2.

As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection Manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article.

Section 3.

(a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

- (1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,300,000,000. The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency or officer as shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for any such government, or to procure any or all such services by private contract.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(5) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of conveying vessels by naval vessels of the United States.

(e) Nothing in this Act shall be construed to authorize or to permit the authorization of the entry of any American vessel into a combat area in violation of section 3 of the Neutrality Act of 1939.

Section 4.

All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

Section 5.

(a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

Section 6.

(a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946.

Section 7.

The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all

citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Section 8.

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

Section 9.

The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

Section 10.

Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

Section 11.

If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

APPROVED, March 11, 1941.

Appendix II

ACCOUNTING FOR LEND-LEASE FUNDS

In the early stages of the lend-lease program, emphasis was placed on the allocation and obligation of funds appropriated by the Congress, since it was essential for the moneys to be made available to the procuring agencies and to be put to work by them at the earliest possible date. This has progressed so far, however, that today the significant thing to know is not the amount of money that has been allocated or obligated, but the amount that has been converted into articles and services, and this has been shown in Chapter I.

Lend-lease aid is now being provided from appropriations which have been made directly to the Army, Navy, and Maritime Commission, as well as from appropriations made directly to the President. It is not feasible to give a detailed accounting of the lend-lease portion of the funds appropriated to the Army, Navy, and Maritime Commission, since the lend-lease portion (see Lend-Lease Appropriations and Transfer Authorizations) is pooled with the funds appropriated to those agencies for our own war program. However, an accounting of the allocation, obligation and expenditure of funds appropriated to the President is given in the following table.

ALLOCATIONS, OBLIGATIONS, AND EXPENDITURES Lend-Lease Funds Appropriated to the President [Millions of Dollars]

Appropriation Category	Adjusted Appropriations	Cumulative to May 31, 1942		
		Allocations	Obligations	Expenditures
Ordnance and stores . . .	2,026	2,003	1,484	394
Aircraft and material . .	2,877	2,839	2,526	690
Tanks and other vehicles .	1,100	996	780	348
Watercraft	2,417	1,918	1,364	475
Misc. military equipment .	468	461	300	73
Prod. facilities in U. S. . .	1,163	1,066	883	345
Agr. and indust. commod.	6,831	4,397	2,441	1,527
Servicing, repair of ships .	513	348	238	171
Services and expenses . . .	982	328	159	57
Administrative expenses . .	20	10	6	6
Total	18,397	14,366	10,181	4,086

The amount of lend-lease aid that may be provided under the various acts is given below.

LEND-LEASE APPROPRIATIONS AND TRANSFER AUTHORIZATIONS

Appropriations to the President

First Lend-Lease Appropriation Act.....	\$7,000,000,000
Second Lend-Lease Appropriation Act.....	5,985,000,000
Third Lend-Lease Appropriation (Fifth Supplemental)...	5,425,000,000
	\$18,410,000,000

Transfers Authorized from Other Appropriations

War Department—Third Supplemental.....	\$2,000,000,000
War Department—Fourth Supplemental.....	4,000,000,000
War Department—Fifth Supplemental.....	11,250,000,000
War Department—Sixth Supplemental.....	2,220,000,000
Navy Department—Naval Approp. Act (Ships).....	3,900,000,000
Navy Department—Naval Approp. Act (Articles).....	2,500,000,000
Navy Department—Sixth Supplemental.....	18,000,000
Maritime Commission—First Supplemental.....	1,296,650,000
Maritime Commission—Fifth Suppl. (Approp. Funds)...	1,500,000,000
Maritime Commission—Fifth Suppl. (Contr. Auth.).....	2,350,000,000
Other Departments—Third Supplemental.....	800,000,000
	\$31,834,650,000

MAXIMUM AMOUNT OF AID THAT CAN BE PROVIDED..... \$50,244,650,000

Appendix III

MASTER AGREEMENT WITH CHINA

Agreement between the United States of America and China on the Principles Applying to Mutual Aid in the Prosecution of the War Against Aggression.

Whereas the Governments of the United States of America and the Republic of China declare that they are engaged in a cooperative undertaking, together with every other nation or people of like mind, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations;

And whereas the Governments of the United States of America and the Republic of China, as signatories of the Declaration by United Nations of January 1, 1942, have subscribed to a common program of purposes and principles embodied in the Joint Declaration made on August 14, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, known as the Atlantic Charter;

And whereas the President of the United States of America has determined, pursuant to the Act of Congress of March 11, 1941, that the defense of the Republic of China against aggression is vital to the defense of the United States of America;

And whereas the United States of America has extended and is continuing to extend to the Republic of China aid in resisting aggression;

And whereas it is expedient that the final determination of the terms and conditions upon which the Government of the Republic of China receives such aid and of the benefits to be received by the United States of America in return therefor should be deferred until the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and the Republic of China and will promote the establishment and maintenance of world peace;

And whereas the Governments of the United States of America and the Republic of China are mutually desirous of concluding now a preliminary agreement in regard to the provision of defense aid and in regard to certain considerations which shall be taken into account in determining such terms and conditions and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfil or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of the Republic of China have been performed, fulfilled or executed as required;

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

Article I

The Government of the United States of America will continue to supply the Government of the Republic of China with such defense articles, defense services, and defense information as the President of the United States of America shall authorize to be transferred or provided.

Article II

The Government of the Republic of China will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities or information as it may be in a position to supply.

Article III

The Government of the Republic of China will not without the consent of the President of the United States of America transfer title to, or possession of, any defense article or defense information transferred to it under the Act of March 11, 1941 of the Congress of the United States of America or permit the use thereof by anyone not an officer, employee, or agent of the Government of the Republic of China.

Article IV

If, as a result of the transfer to the Government of the Republic of China of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Republic of China will take such action or make such payment when requested to do so by the President of the United States of America.

Article V

The Government of the Republic of China will return to the United States of America at the end of the present emergency, as determined by the President of the United States of America, such defense articles transferred under this Agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

Article VI

In the final determination of the benefits to be provided to the United States of America by the Government of the Republic of China full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the Republic of China subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

Article VII

In the final determination of the benefits to be provided to the United States of America by the Government of the Republic of China in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the Republic of China, open to partic-

ipation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce; to the reduction of tariffs and other trade barriers; and, in general, to the attainment of economic objectives identical with those set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

Article VIII

This Agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two Governments.

Signed and sealed at Washington in duplicate this second day of June, 1942.

For the Government of the United States of America:

CORDELL HULL,

Secretary of State of the United States of America.

For the Government of the Republic of China:

T. V. SOONG,

Minister for Foreign Affairs of China.

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

OFFICE OF THE EXECUTIVE DIRECTOR

201

*no white
(need his
own copy)*

JUN 12 1942

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Following our last Board meeting on shipping,
Mr. Douglas of the War Shipping Administration sent the
Vice President a chart giving the over-all picture. The
Vice President has asked that I send you this copy.

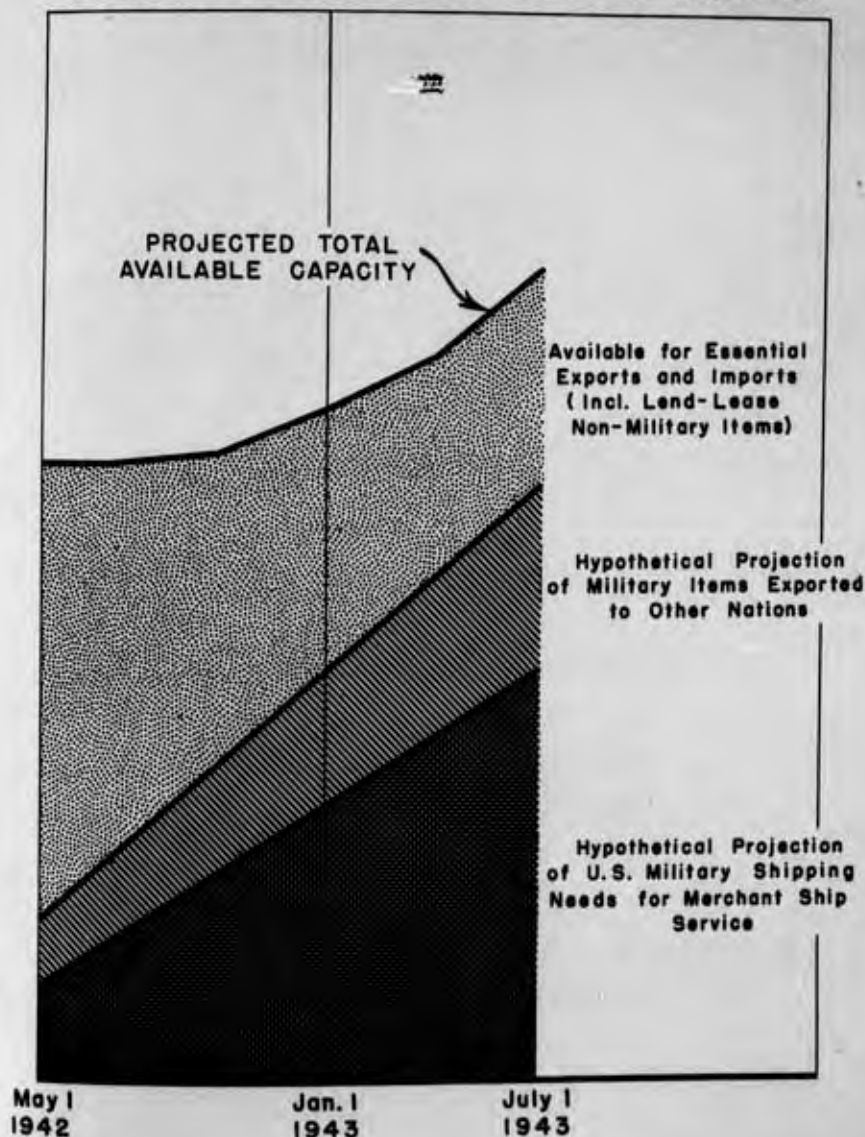
Sincerely yours,

W. H. Perkins
Executive Director

Enclosure

SHIPPING CAPACITY AVAILABLE TO U.S.

(TANKERS, TRANSPORTS AND AUXILIARIES EXCLUDED)



Based on information made available by War Shipping Administration

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 37 - Aircraft Despatched
- for week ended June 9, 1942.

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

June 12, 1942.

STATEMENT NO. 37
AIRCRAFT DESPATCHED FROM THE
UNITED STATES DURING WEEK ENDED
JUNE 9, 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DEL'D FOR USE IN GB
<u>CONSOLIDATED</u>					
B 24D	U.K.	Canada en route		8	
<u>BOEING</u>					
Boston III	U.K.	U.K.	1		
<u>CURTISS</u>					
Kittyhawk 2A	Middle East	Port Sudan	7		
<u>LOCKHEED</u>					
A 29 Hudson III A AC 5	Canada	Canada			2
A 29A AC 151	U.K.	Canada en route		7	
A 28 Hudson VIA	U.K.	Canada en route		25	
Ventura	U.K.	Canada en route		11	
"	Canada	Canada	1		2
<u>GRUMMAN</u>					
G 21A	U.K.	U.K.	1		
<u>NORTH AMERICAN</u>					
B 25C	U.K.	Canada en route		21	
Mustang	U.K.	U.K.	16		
<u>STEARMAN</u>					
PT 27	Canada	Canada			8
TOTALS			25	72	12

British Air Commission

June 11th, 1942.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

June 14, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended June 3, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

A

lap-6/15/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

June 11, 1942

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

I am enclosing our compilation for the week ended June 3, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:vw:6-13-42

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

Week Ended June 3, 1942

Strictly Confidential

BANK OF ENGLAND (BRITISH GOVERNMENT)

BANK OF FRANCE

PERIOD	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance		DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Expendi- tures (a)	Gov't Debts	Other Debts	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)			Total Expendi- tures (d)	Gov't Debts	Other Debts	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.5(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (1/29/40-8/27/41)	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.4	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3
WEEK ENDED:															
May 6	31.0	23.9	7.1	78.2	-	-	78.2	+ 47.2	-	-	-	0.1	-	0.1	+ 0.1
13	19.8	15.9	3.9	74.6	-	-	74.6	+ 5.2	-	-	-	-	-	-	-
20	16.4	13.0	3.4	26.1	-	-	26.1	+ 9.7	-	-	-	0.1	-	0.1	+ 0.1
27	20.5	15.8	4.7	28.6	-	-	28.6	+ 8.1	-	-	-	-	-	-	-
June 3	16.3	12.8	3.5	18.2	-	-	18.2(f)	+ 1.9	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 37.7 million

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

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

Week ended June 3, 1942

Cumulation from July 6, 1940 \$ 162.7

million
million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those affected through direct requisitioning. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes: \$5.6 million presumably representing refunds of advances made to American concerns by the British Purchasing Commission.
1.0 million transferred from account of Commonwealth Bank of Australia here.

Strictly
Confidential

Weekly Average of Total Debits Since Outbreak of War	11.5	5.3
--	------	-----

Through June 3, 1942 8.0 million
* For monthly breakdown see tabulations prior to April 23, 1941.
** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Includes \$3.4 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

TELEGRAM SENT

ELP

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

June 12, 1942.

2 p.m.

AMEMBASSY,

RIO DE JANEIRO, (BRAZIL)

1508

The Treasury suggests that the Finance Minister's attention might be called to the fact that the Stabilization Agreement of 1937 expires July 15, 1942. If it should develop in the course of the conversation that the Finance Minister has any suggestion to make in the matter the Treasury would be glad to be advised.

HULL
(FL)

FD:FL:BM

RA

EO

June 12, 1942

Mr. Livesey

Mr. Dietrich

Will you please send the following cable to the American Embassy, London, England, "For Casaday from the Secretary of the Treasury".

TO L W CASADAY
AMERICAN EMBASSY
LONDON ENGLAND

FROM THE SECRETARY OF THE TREASURY

IN ANSWER TO YOUR CABLE NO. 3149 OF JUNE 5, 1942, THE WAR SAVINGS STAFF HAS FURNISHED THE FOLLOWING STATEMENT, FOR THE USE OF AMBASSADOR AND MRS. WINANT, THE NATIONAL SAVINGS COMMITTEE, AND OTHER INTERESTED PARTIES:

"AMERICAN WOMEN ARE BEING ORGANIZED TO WORK COLLECTIVELY THROUGH WAR SAVINGS COMMITTEES IN EACH OF 48 STATES AND APPROXIMATELY 5,000 LOCAL COMMUNITIES. WAR SAVINGS PROGRAMS ARE ALSO BEING DEVELOPED THROUGH 245 NATIONAL WOMEN'S ORGANIZATIONS INCLUDING WOMEN'S CLUBS, BUSINESS AND PROFESSIONAL ORGANIZATIONS, PATRIOTIC SOCIETIES, CHURCH GROUPS AND LABOR UNION AUXILIARIES.

"THROUGH THESE CHANNELS, THE WOMEN'S SECTION OF THE WAR SAVINGS STAFF IS: 1) DESCRIBING THE PURPOSES AND THE NATURE OF WAR SAVINGS, 2) EMPHASIZING THE NEED OF CONTINUOUS SAVINGS AND 3) EDUCATING WOMEN TO CUT DOWN THEIR SPENDING AND HELP WIN THE WAR.

"THE STATE AND LOCAL WAR SAVINGS COMMITTEES HAVE COOPERATED IN THE CAMPAIGN TO INAUGURATE PAYROLL SAVINGS PLANS THROUGH WHICH THE EMPLOYEES OF LABOR ORGANIZATIONS ARRANGE TO HAVE SPECIFIED SUMS DEDUCTED FROM THEIR SALARIES EACH MONTH FOR THE PURCHASE OF WAR SAVINGS BONDS. IN NEW YORK STATE, FOR EXAMPLE, THE WOMEN'S GROUPS HAVE DONE AN IMPRESSIVE EDUCATIONAL JOB AMONG THE GARMENT WORKERS AND LABOR UNION GROUPS IN WHICH WOMEN PRE- DOMINATE. THEY HAVE ALSO ESTABLISHED PAYROLL SAVINGS PLANS AMONG THE FACULTIES OF SCHOOLS AND COLLEGES.

"WOMEN HAVE ALSO COOPERATED IN THE NATION-WIDE PLEDGE CAMPAIGN THROUGH WHICH ALL RECIPIENTS OF INCOMES WERE INTERVIEWED AND ASKED TO PROMISE TO INVEST SPECIFIED AMOUNTS IN BONDS AND STAMPS REGULARLY. MINNEAPOLIS, FOR EXAMPLE, A CITY OF 500,000, WAS ONE OF THE HUNDREDS OF CITIES WHERE WOMEN VOLUNTEERS WERE VERY ACTIVE IN THE PLEDGE CAMPAIGN.

"THE WOMEN'S GROUPS ARE ALSO PLAYING AN IMPORTANT ROLE HELPING THEIR STATES AND LOCALITIES MEET THEIR WAR BOND QUOTAS. CHICAGO IS ONE OF THE CITIES WHERE WOMEN WERE SPECIFICALLY TRAINED TO SELL BONDS AND STAMPS. AFTER ATTENDING CLASSES AND TAKING EXAMINATIONS, THEY WENT TO WORK IN BOOTHS, IN THEIR ORGANIZATIONS AND AMONG THEIR FRIENDS, AND IN THEIR FIRST TWO MONTHS AT WORK - FEBRUARY AND MARCH - THEY SOLD MORE THAN 14 MILLION DOLLARS WORTH OF BONDS AND STAMPS.

"IN OTHER CITIES, AS WELL AS CHICAGO, WOMEN ARE INCREASING SALES OUTLETS. BOOTHS ARE BEING SET UP IN RETAIL STORES, THEATRES, MOVIE HOUSES, BUILDING LOBBIES, HOSPITALS, ETC. IN MANY PLACES MOBILE UNITS OF TRAINED WAR STAMP SALES GIRLS, MANY OF THEM WEEK-END VOLUNTEERS, WHO WORK THE OTHER SIX DAYS IN OFFICES OR DEPARTMENT STORES, ARE SELLING STAMPS AT BASEBALL PARKS, PARADES, RESTAURANTS AND BEACHES. SOME WEAR BADGES WITH THE LABEL, 'I SELL WAR STAMPS', OTHERS WEAR IDENTIFYING WAR SAVINGS 'PINAPORES' MADE WITH HUGE PATCH POCKETS IN THE FRONT FOR STAMPS AND MONEY.

"IN WAYS BEST SUITED TO THEIR TYPES OF MEMBERSHIPS, THE 245 NATIONAL WOMEN'S ORGANIZATIONS HAVE PLAYED THEIR PART. APPROXIMATELY 10 MILLION WOMEN BELONG TO THESE ORGANIZATIONS. THEY HAVE HELD DISCUSSION MEETINGS AND RALLIES, HAVE SPONSORED RADIO PROGRAMS AND PLAYS, HAVE GIVEN BENEFIT DANCES AND BRIDGE PARTIES. THEY HAVE FEATURED WAR SAVINGS IN THEIR NATIONAL CONVENTIONS.

"THE GENERAL FEDERATION OF WOMEN'S CLUBS, WITH A MEMBERSHIP OF 2 MILLION, IS SPONSORING A NATION-WIDE PLEDGE-SIGNING CONTEST AMONG ITS MEMBERS. ALMOST 100 PERCENT OF THE MEMBERSHIP OF THE NATIONAL FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN'S CLUBS HAVE HELD SPECIAL WAR SAVINGS PROGRAMS, AND 42 PERCENT OF THIS GROUP HAVE SOME TYPE OF WAR SAVINGS ACTIVITY AT EACH MEETING. THE AMERICAN ASSOCIATION OF UNIVERSITY WOMEN IS SPONSORING A WAR SAVINGS STUDY PROGRAM AMONG ITS 70 THOUSAND MEMBERS. THE LEAGUE OF WOMEN VOTERS HAS PREPARED ITS OWN WAR SAVINGS LEAFLET AND IS DISTRIBUTING IT THROUGH ITS LOCAL LEAGUE MEMBERS. A PROFESSIONAL GROUP FOR YOUNGER WOMEN, BETA SIGMA PHI, ORIGINALLY SET A BOND SELLING GOAL OF \$250,000. WHEN THEY PASSED THIS GOAL, THEY SET A NEW FIGURE OF ONE MILLION DOLLARS.

NEWSPAPER CLIPPINGS BRING EVIDENCE OF SPECIAL ACTIVITY IN LOCAL BRANCHES OF NATIONAL ORGANIZATIONS ALL OVER THE COUNTRY. ONE CLUB USES MONEY FORMERLY SPENT ON DECORATIONS TO BUY WAR STAMPS AND BONDS; ANOTHER OPENS A STAMP CLUB AT A COUNTY FAIR; A THIRD TAKES THE MONEY IT HAS BEEN PUTTING ASIDE IN A BUILDING FUND AND BUYS BONDS INSTEAD; A FOURTH SUBSTITUTES INFORMAL SUPPERS IN PLACE OF ELABORATE BANQUETS AND SPENDS THE MONEY SAVED ON WAR STAMPS- THIS IS KNOWN AS THE 'DIET FOR DEFENSE' PROJECT, A FIFTH STARTS A PLEDGE DRIVE AMONG ITS MEMBERS; A SIXTH GIVES A BRIEF PLAY AND CHARGES A WAR STAMP FOR ADMISSION.

"WOMEN ALL OVER THE COUNTRY HAVE RALLIED TO THE WAR SAVINGS PROGRAM BECAUSE IT GIVES THEM A SPECIFIC JOB TO DO IN THE WAR EFFORT. THOSE WHO DO NOT HAVE TIME TO DO VOLUNTEER WORK ARE HELPING BY CUTTING DOWN ON HOUSEHOLD EXPENDITURES AND BUYING BONDS AND STAMPS OUT OF THEIR OWN HOUSEHOLD BUDGETS."

WE SHALL BE GLAD TO ANSWER ANY QUESTIONS WHICH MAY NOT BE COVERED IN THE ABOVE STATEMENT.

HJH:gp 6/12/42

TELEGRAM SENT

JG

PLAIN

June 12, 1942

AMEMBASSY,

LONDON, (ENGLAND).

2693, twelfth

FOR CASADAY FROM THE SECRETARY OF THE TREASURY.

In answer to your cable no. 3149 of June 5, 1942, the War Savings staff has furnished the following statement, for the use of Ambassador and Mrs. Winant, the National Savings Committee, and other interested Parties:

"American women are being organized to work collectively through War Savings Committees in each of the 48 States and approximately 5,000 local communities. War Savings programs are also being developed through 245 national women's organizations including women's clubs, business and professional organizations, patriotic societies, church groups and labor union auxiliaries.

"Through these channels, the women's section of the War Savings Staff is: 1) describing the purposes and the nature of war savings, 2) emphasizing the need of continuous savings and 3) educating women to cut down their spending and help win

-2- 2693, twelfth

To London, (England)

win the war.

"The state and local war savings committees have cooperated in the campaign to inaugurate payroll savings plans through which the employees of large organizations arrange to have specified sums deducted from their salaries each month for the purchase of war savings bonds. In New York State, for example, the women's groups have done an impressive educational job among the garment workers and labor union groups in which women predominate. They have also established payroll savings plans among the faculties of schools and colleges.

"Women have also cooperated in the nation-wide pledge campaign through which all recipients of incomes were interviewed and asked to promise to invest specified amounts in bonds and stamps regularly. Minneapolis, for example, a city of 500,000, was one of the hundreds of cities where women volunteers were very active in the pledge campaign.

"The women's groups are also playing a important role helping their states and localities meet their War Bond quotas. Chicago is one of the cities where women were specifically trained to sell bonds and stamps. After attending classes and taking examinations,

-5- 2695, twelfth

To London, (England)

examinations, they went to work in booth, in their organizations and among their friends, and in their first two months at work--February and March--they sold more than 14 million dollars worth of bonds and stamps.

"In other cities, as well as Chicago, women are increasing sales outlets. Booths are being set up in retail stores, theatres, movie houses, building lobbies, hospitals, etc. In many places mobile units of trained war stamp sales girls many of them week-end volunteers, who work the other six days in offices or department stores, are selling stamps at baseball parks, parades, restaurants and beaches. Some wear badges with the label, 'I sell war stamps', others wear identifying war savings 'pinafores' made with huge patch pickets in the front for stamps and money.

"In ways best suited to their types of memberships, the 245 national women's organizations have played their part. Approximately 10 million women belong to these organizations. They have held discussion meetings and rallies, have sponsored radio programs and plays, have given benefit dances and bridge parties. They have featured war savings in
their

-4- 2693, twelfth

To London, (England)

their national conventions.

"The General Federation of Women's Clubs, with a membership of 2 million, is sponsoring a nation-wide pledge-signing contest among its members. Almost 100 percent of the membership of the National Federation of Business and Professional Women's Clubs have held special war savings programs, and 42 percent of this group have some typw of war savings activity at each meeting. The American Association of University Women is sponsoring a war savings study program among its 70 thousand members. The League of Women Voters has prepared its own war savings leaflet and is distributing it through its local league members. A professional group for younger women, Beta Sigma Phi, originally set a bond selling goal of \$250,000. When they passed this goal, they set a new figure of one million dollars.

[Newspaper clippings bring evidence of special activity in local branches of national organizations all over the country. One club uses money formerly spent on decorations to buy war stamps and bonds; another opens a stamp club at a county fair;

-5- 2693, twelfth

To London, (England)

fair; a third takes the money it has been putting aside in a building fund and buys bonds instead; a fourth substitutes informal suppers in place of elaborate banquets and spends the money saved on war stamps--this is known as the 'diet for defense' project, a fifth starts a pledge drive among its members; a sixth gives a brief play and charges a war stamp for admission.

"Women all over the country have rallied to the war savings program because it gives them a specific job to do in the war effort. Those who do not have time to do volunteer work are helping by cutting down on household expenditures and buying bonds and stamps out of their own household budgets."

We shall be glad to answer any questions which may not be covered in the above statement.

HULL
(FL)

FD:FL:EM

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FEDERAL RESERVE BANK
OF NEW YORK
Fiscal Agent of the United States

June 12, 1942.

S i r : Attention: Mr. Frank Dietrich

Pursuant to instructions contained in your telegram dated June 11, 1942, we, as fiscal agent of the United States, have despatched the following cable to the Bank of England, London:

No. 898/42

"Secret We have credited His Britannic Majesty's Government Current Account G today \$500 by order of United States Treasury which please pay to Chase National Bank Berkeley Square London for account of Lauren W Casaday Special Assistant to the Ambassador American Embassy London".

We have today debited the account on our books entitled "Secretary of the Treasury-Special Account" \$500.00 representing the amount of this transfer and \$2.04 representing the cost of our cable to the Bank of England.

Respectfully,

(Signed) H. L. Sanford,
H. L. Sanford,
Manager, Foreign Department.

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

Copy:imc:6/13/42

BRITISH EMBASSY
WASHINGTON, D.C.
12th June, 1942

C
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P
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SAFE HAND
NO. TF. 172

Dear Mr. Dietrich,

Following the various comments which I have sent you during the past few months on the efficacy of the freezing measures in Latin America, I now enclose a copy of my letter TF. 171 of today's date to Mr. Pehle.

Yours sincerely,

(Sgd) R. V. Palin

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

Copy:imc:6/15/42

12th June 1942

SAFE HANDTF. 171

For the personal attention of
Mr. Pehle

Dear Mr. Pehle,

Although you have no doubt received reports from the U.S. Mission, I think you may be interested to see some remarks made by the British Legation in Mexico City on the efficacy of the freezing measures in that country. They confirm what has, of course, long been known or suspected to be an extremely unsatisfactory state of affairs, and although written just after Mexico's declaration of war naturally do not take into account any tightening up of control which may already have been made or be in contemplation.

Our Legation says that the measures adopted by the Mexican Government have had comparatively little effect on the financial operation of Axis nationals. In the first place these measures apply only to persons of Axis nationality, of whom there are but few who have failed to acquire Mexican citizenship during the last few years. A considerable number of them withdrew balances from the banks in anticipation of the restrictions. With possibly a few unimportant exceptions, all Axis commercial interests are vested in companies and institutions incorporated under Mexican law whose operations are unaffected.

All the banks, with the exception of the branch of the National City Bank of New York (and presumably also the Banco Germanico), are Mexican institutions and have shown little inclination so far to observe the Proclaimed and Statutory Lists.

"Financial" influence has in some cases been successful in nullifying the effects of the law. A case is known of a German whose funds had been frozen having been able to arrange to have his own Mexican nominee appointed to manage his business and to make his frozen funds available for that purpose, and in general it seems that Axis nationals have been able to circumvent the existing restrictions with comparatively little trouble.

Axis nationals are already seeking to forestall the tighter control which is expected as a result of Mexico's declaration of war. Thus it is reported that depositors in the Banco Germanico have withdrawn funds and some of the bigger commercial houses with Axis interests are setting up other establishments behind a facade of Mexican ownership.

Yours sincerely,
(Sgd) R. V. Palin

Mr. J. W. Pehle,
U. S. Treasury Department,
Foreign Funds Control,
1610 Park Road,
Washington, D.C.

Copy:imc:6/15/42

Treasury Department 223
Division of Monetary Research

○ Date.....June 12.....19 42

To: Miss Chauncey

From: Mr. Southard

This need not be brought to
the Secretary's attention.

GRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: June 10, 1942, 3 p.m.

NO.: 2622

The Consul General at Basel obtained reliable information along the following lines:

3000 kilos of gold were shipped by rail during the second week of May in the custody of Courte Kneurville by the Bank of France at Clermont Ferrand to Lisbon. According to French claims the sale of the gold to Portugal was necessitated in order to pay for imports made by the French.

Italians took the place of the Germans in early May as buyers of escudos when the Germans stopped their heavy purchases.

According to banking circles in Basel, which are competent, escudos are almost certainly being used to finance Axis propaganda in South America. Apparently a specific case is known to one banker in Basel but he refused to give any details concerning it.

Note by the Legation: That the French claim that sale of gold was made to the Portuguese to provide a means of settling needs of all kinds including diplomatic service of the French was corroborated to some extent by an unimpeachable banking source. At least six weeks ago the Bank of France needed escudos and tried in vain to get the B.I.S. to obtain them. Furthermore, for some time now the Bank of France has been purchasing escudos in the open market here in Switzerland.

HARRISON

BRITISH MOST SECRET
(U.S. SECRET)

OPTEL NO. 198

Information received up to 7 A.M., 12th June, 1942.

1. NAVAL

Submarine Attacks - Two Allied vessels attacked in MOZAMBIQUE area on 11th.

2. MILITARY

LIBYA. 10th. Our armoured forces engaged enemy tanks near HARMAT and knocked out six tanks, one 88 MM gun and 10 mechanical transport. We lost 13 tanks from anti-tank fire.

BIR HAKEIM - After a heavy air attack and artillery fire, the enemy attacked and penetrated the Northern defences but by the evening the situation was in hand.

10th/11th. The Free French were withdrawn during the night and by 0800/11th, 2,000 men were clear of the position having fought their way out. No later news is available.

3. AIR OPERATIONS

WESTERN FRONT. 11th. About 110 Spitfires carried out offensive operations but met very little opposition. 2 Focke Wulfs 190 were damaged. One JU 88 was shot down off the HUMBER.

11th/12th. 91 aircraft were sent out sea mining, four are missing.

LIBYA. 9th/10th. Our aircraft dropped supplies to the garrison of BIR HAKEIM and on the following day attacked enemy gun positions and destroyed or damaged about 80 mechanical transport. Enemy air activity increased and a heavily escorted dive bombing attack was driven off. 2 enemy aircraft were destroyed. 3 probably destroyed and 6 damaged. 3 of our fighters are missing but 2 pilots are safe.

CRETE. 9th/10th and 10th/11th. Wellingtons bombed aerodromes.

MALTA. On 10th and 11th four enemy fighters were shot down, another fighter damaged and a night raider destroyed. One Spitfire is missing.

ITALY. 10th/11th. TARANTO Harbour again attacked by 7 Wellingtons, one large fire reported.

4. JAPANESE AIR FORCE

A number of reports received from a Chinese source suggest a movement of Japanese Army Air Units Northwards resulting from withdrawals of about 250 aircraft from BURMA, SIAM (possibly), MALAYA, INDO CHINA and Southern and Central CHINA. If these reports are correct, the disposition of the Japanese Air Force outside the S.W. Pacific area when the movement is completed will be - JAPAN and MANCHURIA 1014, including 324 Naval aircraft; North, Central and Southern CHINA and FORMOSA 200; BURMA, SIAM and INDO CHINA 200. Total including 324 Naval aircraft 1414.

Regarded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 12, 1942

TO

Secretary Morgenthau

FROM

Mr. Kamarek

Subject: Of Possible Interest: Some Instances of Japanese Psychology

(The following stories are not important, but you might find them somewhat amusing. These come from the British Ministry of Information, Far Eastern Intelligence Report).

1. On May 27, Ono, the Rome correspondent of the newspaper Nichi Nichi, complained to his editor that the correspondent of Asahi had stolen a march on him. All the Japanese correspondents in Rome agreed not to cable interviews with the returned Axis diplomats but "Asahi alone was mean enough to cable in defiance of this undertaking...I apologize deeply that even in the matter of promise breaking I was got the better of by Asahi."

2. The new governor of Korea, Koiso, has announced that a "fair and just fraternal spirit" would be his guiding principle in administering Korea. It is recalled that Baron Saito, a previous governor, declared that "towards Koreans, their new brothers, Japanese must always show pure sincerity, infinite love, boundless sympathy", but Koreans continued to be thrashed and tortured.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 12, 1942

TO Secretary Morgenthau
FROM Mr. Kassarck

Subject: Of Possible Interest: Publication of the American secret which made possible our recent naval victories.

1. The Japanese probably have learned how the American Navy secured the information which made possible the victories of the Coral Sea and Midway. The Washington Times-Herald last Sunday printed a story based on a leak from Naval Intelligence which gave the secret away.

2. According to Military Intelligence, our Navy had "cracked" the Japanese radio code and by intercepting the Japanese Navy's radio messages, was able to obtain a clear picture of what the Japanese intended. Our Navy tried to cover this up, of course, by stating that our knowledge that the Japanese were going to attack was based on Knox's and Stimson's knowledge of Japanese psychology and on the results of submarine and air reconnaissance. From the Times-Herald story, the Japanese should be able to infer what really happened, as no knowledge of psychology and no reasonable reconnaissance could give the clear and accurate picture we had of Japanese naval strength. As a result of the story, the Japanese may change their radio code and observe stricter radio silence in the future.

(It is possible that the Japanese may not have been informed of the story, but with the Finnish, Spanish, and Argentine Embassies still in Washington, it is scarcely likely).

3. The pertinent extracts from the Times-Herald story follow (the complete clipping is appended):

"The strength of the Japanese with which the American Navy is battling somewhere west of Midway Island in what is believed to be the greatest naval battle of the war was well known in American naval circles, reliable sources in the Naval Intelligence disclosed here tonight.

- 2 -

"The Navy learned of the gathering of the powerful Japanese units soon after they put forth from their bases, it was said. Although their purpose was not specifically known at that time, the information in the hands of the Navy Department was so definite that a feint at some American base, to be accompanied by a serious effort to invade and occupy another base was predicted.

"It was known that the Japanese fleet...was broken into three sections -- first, a striking force; next a support force, and finally an occupation fleet.

"Well-informed as it was, the Navy was on the alert for the first movements of this force. When it turned eastward into the Pacific from the vicinity on the Chisima or Kurile Island chain all American outposts were warned."

4. The Navy is making an intensive investigation to locate the man in Naval Intelligence who disclosed this information.

In the meantime, the Navy is tightening its control over its information internally.

5. As a by-product of the Navy's increased secrecy, the Army has been cut off from naval information again. It will be remembered that the Navy would give scarcely any information to the Army for months after Pearl Harbor. Recently, however, the Navy relaxed and, as you undoubtedly have noticed, we have been profiting thereby.

U. S. Navy Knew In Advance All About Jap Fleet

**Guessed There Would
Be Feint at One Base,
Real Attack at Another**

The strength of the Japanese with which the American Navy is battling somewhere west of Midway Island in what is believed to be the greatest naval battle of the war was well known in American naval circles, reliable sources in the Naval Intelligence disclosed here tonight.

The Navy learned of the gathering of the powerful Japanese units soon after they put forth from their bases, it was said. Although their purpose was not specifically known at that time, the information in the hands of the Navy Department was so definite that a feint at some American base, to be accompanied by a serious effort to invade and occupy another base, was predicted. Guesses were even made that Dutch Harbor in the Aleutians and Midway Island in the Hawaiian group might be targets.

In Three Sections

It was known that the Japanese fleet—the most powerful yet used in this war—was broken into three sections—first, a striking force; next a support force, and finally an occupation fleet.

It was apparent to Admiral Chester W. Nimitz's strategists in Hawaii that the feint would probably be made by the supporting force, the real blow struck by the striking fleet, with the occupation force standing by, ready to land troops as soon as defenses were broken down.

Had the attack on Midway been successful, Pearl Harbor and the Hawaiian Islands would have been the next point of attack.

The advance information enabled the American Navy to make full use of air attacks on the approaching Japanese ships, turning the struggle into an air battle along the modern lines of naval warfare.

Exactly how the Japanese disposed their units as between Dutch Harbor and the Midway Islands is not known here.

New Forces Were Divided

However, before the fleet was divided for attacks on the Aleutians and Midway, the various forces were made up approximately as follows according to Navy information here.

The striking force: Four aircraft carriers, the Akagi and Kaga of 28,900 tons each, and the Hiryu and Soryu, of 10,000 tons each.

Two battleships of the Kirishima class—29,300 tons, with 14-inch guns.

Two cruisers of the Tone class—new 8,500-ton 6.1-inch gun ships. Twelve destroyers.

Support Force

The support force is described by the same source as comprising:

One aircraft carrier of the Ryuyo class, 7,100 tons.

Two Kirishima class battleships.

Four new 8,500-ton cruisers of the Mogami class—including the Mogami, the Mikuma, Suzuya, Kumano—with 15 guns of 6.1-inch calibers.

One light cruiser, Ten destroyers.

Occupation Force

The occupation force included:

Four cruisers—the Chakas, Myoko, Chitose and Choda, all believed of 8,500 tons with main batteries of 6-inch guns.

Two armored transports of the Kunikida Maru class—converted liners.

Four to six troopships.

Eight to 12 supply vessels.

Twelve destroyers.

Ten submarines.

Well informed as it was, the Navy was on the alert for the first movements of this force. When it turned eastward into the Pacific from the vicinity on the Chishima or Kurile Island chain all American outposts were warned.

Real Goal Concealed

American naval dispositions were made in preparation for the various possible attacks the Japs were believed to be planning. Up to this time the Japanese had not committed themselves to any action. They were still in position to turn their real threat against either Dutch Harbor or Midway. By last Tuesday the Americans were able to conclude that a feint was to be made at Dutch Harbor.

Meanwhile, preparations among all available American forces in the vicinity of Midway were being rushed in the hope of striking a telling blow against the Japs. The wisdom of this course became apparent on Wednesday when the feint was made in the form of air raids on Dutch Harbor. The same day the fleets in the Midway area commenced their now historic battle.

June 13, 1942

Dear Fiorello:

I have just come back to Washington after a few days and have heard wonderful accounts of your welcome to the war heroes on Monday.

I should like you to know how much I appreciate all that you did, not only in speaking at City Hall and at Madison Square Garden but in being willing to turn New York upside down for this occasion.

I feel that these men deserve every bit of honor that could be paid them, and I am sure that the parade and rally on Monday gave a real boost to the war spirit in this country.

Sincerely,

(Signed) Henry

Hon. Fiorello H. LaGuardia,
Mayor of New York,
New York, N. Y.

FK/cgk

*N.M.C.
Copies to Thompson*

June 13, 1942
12:36 p.m.

Edward
Foley: Hello.

HMJr: Ed.

F: Yes, Mr. Secretary.

HMJr: Are you with people?

F: No, I stepped out into a vacant room.

HMJr: Well.....

F: I think the line's clear.

HMJr: Well, anyway, you know who I tried to get for
supper last night?

F: Yeah.

HMJr: And couldn't.

F: Oh, I didn't know you couldn't.

HMJr: Well, I saw him this morning.

F: I see.

HMJr: And I just wanted to tell you.....

F: Yeah.

HMJr:that there's absolutely no doubt in his mind.
He hasn't changed one iota.

F: Well, that's good.

HMJr: And so.....

F: That's good.

HMJr: Hello.

F: We've just started to talk over here. I had a
hard time making this appointment, but I kept

- 2 -

after him, and finally he had to see me, and we're just beginning to talk now; and he's beginning to talk about recreating the whole deal, and I'm saying, "But those things have all been decided,".....

HMJr: That's right.

F:and all I'm trying to do is give effect to the decisions that Sam Rosenman has made after consultation with the President.

HMJr: Three times.

F: And I - my hands are tied. I can't say that we'd rather have this or we'd rather have that.

HMJr: Yeah.

F: Those things have all been decided for us, and all we're doing here is drafting a document to give effect to those decisions.

HMJr: Do you want me to say anything to Oscar?

F: Oh, I don't think that's necessary. He knows that you called me here, because he took the call first, and I stepped out of the room.

HMJr: Well, I mean, does he know that the President's decided this thing?

F: Well, I've told him, Mr. Secretary.

HMJr: Well, I'd just as lief tell him myself. I mean that I don't see, with the exception of their saying whether the Order is well drawn or badly drawn.....

F: That's right.

HMJr: What?

F: It seems to me that that's their only function, form or legality.

HMJr: Well, I'd love to tell that to Oscar.

F: Well, do you want me to transfer you?

- 3 -

HMJr: Yeah, I'd like to talk to him.

F: All right. Okay.
Hello.

HMJr: Oscar Cox?

F: No. They're transferring the call, Mr. Secretary.
They're putting it through now.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Operator: Secretary Morgenthau?

HMJr: Speaking.

Operator: Mr. Cox.

HMJr: Thank you.

Oscar
Cox: Hello.

HMJr: Hello. Oscar?

C: Yes, Mr. Secretary.

HMJr: How are you?

C: Fine.

HMJr: Oscar, do you want to give me an opinion as to
just what the functions of the Attorney General's
Office is on Executive Orders?

C: Yeah. If I could, I would.

HMJr: Well, I'm serious. I mean, beyond going into the
question whether they're properly drawn, does it
extend beyond that?

C: Well, I think the A. G. thought it did in this

- 4 -

case, because of his prior talks with the President on it; and my only function in the thing is to try to cool him down so that he won't go talk to the boss about it and get an order that's agreeable to the Treasury and to the APC.

HMJr: Well.....

C: I think it ought to be worked out that way.

HMJr: Well, I just - just so there's no question, Judge Rosenman has talked three times now with the President.

C: Yeah.

HMJr: So he's got it straight what the President wants.

C: Well, that would be one of the things that I would convey to the A. G. and therefore he ought not to get outside the legal thing on the thing.

HMJr: Well, that's what I think, and I feel very strongly about it.

C: Yeah.

HMJr: Now, the point is this, so that you just get it right from the horse's mouth: The President told me three times what he considered our function should be.....

C: Yeah.

HMJr:and what he wanted alien enemy - underline enemy - property custodian to do.

C: Yeah.

HMJr: Then out came this order, which we never had a chance to see, and it was not what the President wanted.

C: Yeah.

HMJr: And when the President was asked by Judge Rosenmen

- 5 -

what he did want, he again reiterated exactly what my position has been consistently.

C: Right.

HMJr: And based on that, the Judge asked that an Order be drawn to comply with the President's orders.

C: Right.

HMJr: Now, beside everything else in my office, the Attorney General had an agreement with Foley and Crowley and myself, gave pastor's word, and never kept it.

C: Yeah.

HMJr: Now, I just want to - I just want to know why does the Attorney General want to get in beyond, is this a correctly, legally-drawn paper.

C: Yeah.

HMJr: And if his position is otherwise, I'm really - I'm going to begin to get angry.

C: Well, I think you probably should. What I'm going to try to do is convince him that he shouldn't.....

HMJr: Well, the Judge has been to him three times.....

C: Yeah.

HMJr:as a - what shall - as an arbitrator.

C: Yeah.

HMJr: And it isn't that we're asking for something different. What I've been trying to get is what I knew the President wanted.

C: Right.

HMJr: I haven't - and the Judge has been to him three different times, and each time he's told them exactly the same thing, my position, which I maintain.

- 6 -

- C: Well, what actually happened on this thing was that APC's man came to see the A. G. about the thing yesterday, apparently because he wasn't satisfied with the thing and apparently wanted some help in terms of Francis' talking with the President about it. Now, that's outside the legal thing, except that he can say that legally this can be done in six different ways. Now, my own strong feeling is that Francis ought to keep out of that in terms of talking with the President about something that's been hashed and re-hashed so many times; and my only function in the thing is to get enough of the facts as to what Sam did and so forth and what the forms are to just say to him now, "I think the thing ought to go along either this way or some other way."
- HMJr: Well, let me - why is Biddle - why does Biddle feel so violently on this?
- C: Well, I think the only reason he feels that way about it is that because of the prior talks he had with the President on the APC thing, and.....
- HMJr: Well.....
- C:he thinks that that just fairly changes the picture of going ahead with the Order as it's been worked out, or substantially that way; and I think he's got a job of cooling Crowley and his boys down and also not talking to the boss himself about it.
- HMJr: Well, anyway, I - as I say, it's something new to me. I mean, that the Attorney General - I mean, I can understand his passing on orders, but when he gets in and seems to have so much spleen on this thing, I just don't understand it.
- C: Well, I don't think it's a question of spleen. I think not knowing all the details of how freezing and so forth operate, and only having had these palsied discussions with the President and plus Leo's people coming and talking to him about this particular Order, has he gone into it at all; and my own hunch is that he ought not to do it.
- HMJr: Did you know that they brought Ben Cohen in on it?

- 7 -

C: Yeah.

HMJr: Do you know Ben Cohen said this is okay?

C: No.

HMJr: Well, he did last night.

C: Yeah.

HMJr: Pass that on to.....

C: I certainly will.

HMJr:to - no, I mean to Ed.

C: Yeah.

HMJr: No - I mean, I don't - let's just - I haven't had a chance to tell that to Ed.

C: Yeah.

HMJr: That - he told Sam last night that he'd gone into the whole thing and he's satisfied the Order's correctly drawn.

C: Yeah. Well, we'll do the best to keep it on the track. I.....

HMJr: Well, if they keep it on the basis that this is what the President wants.

C: Yeah.

HMJr: And they don't have to take my word for it, although I've said so now for three months.

C: Yeah.

HMJr: But they can take Judge Rosenman's word for it.

C: All right.

HMJr: But it seems to me for a reason which I don't understand, they're waging a personal fight on me - that Biddle is.

- 8 -

C: Oh, I don't think so.

HMJr: Well, you can tell them that I say so.

C: Okay.

HMJr: But I don't understand why he, Biddle, is waging this personal fight on me.

C: Yeah. Well.....

HMJr: Now, I'd like you to pass that along, because it seems to me that it's gotten down to a definite personal fight that he's waging on me for reasons that I can't understand.

C: Yeah. Well, I'll tell him that, and tell him if he feels - if he is doing that, he certainly ought not to do it, and secondly, the only views I have on this thing thus far, outside my bailiwick, is that it doesn't give the Treasury enough power.

HMJr: Which, the Order that's drawn now?

C: Yeah.

HMJr: You mean the new one?

C: Yeah. I mean, I would argue beyond that if.....

HMJr: You mean the way that Ed has it?

C: Yeah.

HMJr: You don't think it gives us enough?

C: Yeah.

HMJr: Well, then, that's something I don't want to get in on.

C: I didn't trust you would.

HMJr: The thing that, as I say, bothers me was, because I happen to be the fellow that told Biddle he was going to be Attorney General when I went to see the President in his behalf and called him up.

- 9 -

C: Yeah.

HMJr: I was the first person to tell it to him, and I worked like hell for him, which is water over the dam; so at least I've always been friendly to him.

C: Yeah.

HMJr: See?

C: Right.

HMJr: And I don't want anything in return, but.....

C: But you don't want the opposite.

HMJr:but I don't want the opposite.

C: Right.

HMJr: And I feel definitely as though this was a personal campaign against me, and I want to know why.

C: Yeah.

HMJr: And I think I'm entitled to know. So if you'd pass that along to him, I'd appreciate it.

C: I certainly will.

HMJr: But you think the Order doesn't go far enough?

C: Yeah.

HMJr: Well, as far as I'm concerned, I'd leave it alone.

C: Well, that's all right; but for the purposes of convincing the APC and the A. G.....

HMJr: You're going to take that?

C: Yes, sir.

HMJr: Well, just as I told Judge Rosenman, I tell you - I mean, all I'm asking for is, on the assumption that this is what the President wants, is this a good Order.

- 10 -

C: Yeah. Well, sure.

HMJr: That's all.

C: Right.

HMJr: And the.....

C: I think the answer to that is yes.

HMJr: Well, then - and if that's that, then it ought to go through unless there's something deep and hidden which I don't know about.

C: Yeah. Well, I don't think there is.

HMJr: Well, I'm frankly worried about it, Oscar. Now I'm talking as a man-to-man basis.

C: Yeah.

HMJr: I just don't understand what it's all about; and if there's something that I ought to know, why I wish you'd tell me.

C: I always will.

HMJr: Thank you.

C: All right.

HMJr: Good-bye.

C: Good-bye.

Luncheon Guests
Saturday, June 13 - 1:15 P.M.

War Department

General Arnold
Capt. George Haddock - Helped arrange ceremonies

British Embassy

Major General F. G. Beaumont-Nesbit -
British Army Staff
Air Marshall D. C. Evill
Air Commodore H. M. Thornton - Air Attache
Col. Rex L. Benson - Military Attache
Admiral H. Pott - Naval Attache
Squadron Leader Graham - Helped arrange

American Heroes

Ensign Donald F. Mason
Ensign Francis Pinter
Lieut. Elliott Vandevanter
Lieut. William M. Carrithers

British Heroes

Squadron Leader John S. Nettleton
Sgt. Donald N. Huntley
Pilot Officer A. F. Taylor
Flight Sgt. Maxwell Riddell
Wing Commander A. M. Loudon
Flight Lieut. Carroll McColpin
Lieut. Thomas W. Boyd
Chief Engine Room Artificer Harry Howard
Lieut. J. Michael Hall
Sgt. R. George Herbert

District of Columbia Sponsors

H. L. Rust, Jr.
Carter Barron
John Payette

Promotion Men

Spyros Skouras
Bill Rainey (our N. Y. radio man)

Treasury

D. W. Bell
H. E. Gaston
J. L. Sullivan
T. R. Gamble
F. Kuhn

BRANT HOLME

Sent from farm by Hays on June 13, 1942

Administrator for Pricing Order #151 for the
Textile-bag Industry, under Mr. David Hollawell.

Mr. Lem Henderson

Office of Price Administration
Washington.
D. C.

I understand that Mr. Brant
Holme is being considered as
Administrator for Pricing Order
#151 for the Textile bag
Industry under Mr. David
Hollawell. I have known
Mr. Holme for over twenty
years and am glad to ~~testify~~
testify to his sterling character
and outstanding ability and
~~dedication~~. H. M. H.

MEMORANDUM FOR THE SECRETARY.

June 13, 1942.

Mail Report

Without doubt, the subject uppermost in the American mind is that of taxes. Almost one hundred per cent of the general mail alludes to this subject, even that which starts out with a comment on bonds or something about the war.

The Secretary's radio address of June 3rd, elicited a number of comments, and on the whole was favorably received. The ratio of those praising it as against those which were unfavorable was 5 to 2. There were, however, many more abusive, anonymous post cards and letters during the past week. These totaled 15. In all, exclusive of these, we had 19 comments on the radio speech.

It is interesting to note that publicity about tax evasions has considerably increased the number of squeals. Almost every day there have been two or three reports of tax evaders, sometimes very definite and other times simply neighborly suspicion.

There were 8 letters giving general approval of the Treasury's tax program, 13 expressing disapproval of lower exemptions, 16 favorable to the sales tax, 15 unfavorable. There were a number of comments on compulsory payroll deductions, both for bonds and for income taxes. Of 7 letters dealing with deductions for bonds, 3 were favorable and 4 unfavorable; of 8 dealing with compulsory payroll deduction for income taxes, two were favorable and 3 unfavorable and 3 simply made suggestions for collection. There were 5 comments on the Pearson and Allen column, one protest against the release of Annenberg, several protests of the automobile stamp in view of the gasoline and rubber situation, and 2 protests of the Government silver policy.

- 2 -

The following have been suggested as items that should be deductible from income taxes: bonds purchased, insurance premiums, illness expenses, educational costs, dependents other than close relatives, alimony, death expenses, and income taxes of the previous year, both Federal and state.

J. E. Forbush

- 1 -

General Comments

F. H. Smith, War Veterans Association of America, Pittsburgh, Pa. A lost W.P.A. check does not, or should not, require 9 months for a replaced check to be sent - this is outrageous. Please advise at once what action will be taken to make immediate payment on check for Frank W. Hastings of 105 Lowell Street, this city -- Ind. No. C-1012. This was reported to you on November 18, 1941, and it's high time a duplicate one was issued to cover. I will be glad to know what action will be taken to abate the matter.

Duncan W. Fraser, President, American Locomotive Co., N.Y.C. I have your letter of June 3 advising me that reports which American Locomotive Company has furnished you in the past, showing the volume of new orders booked, are no longer significant, due to the changes in wartime economy, and may be discontinued. * * * May I say that, during these difficult times when our daily mail contains at least two or three questionnaires, it is most gratifying to realize the thoughtfulness you have displayed by suggesting the discontinuance of a report which is no longer useful.

Mrs. J. Adler, Brooklyn, N.Y. My husband happens to be one of the unfortunate dress manufacturers who has been hit to such an extent that he has had to liquidate his business. Every worldly thing we possessed went into the business. * * * Although he has twelve machines and a factory employing over 40 people, he has been refused any Government contracts on the ground that the place is too small. There isn't a thing in the world for us but to wait until starvation, as despondency shall drive us mad. I have a payment of \$27 due on June 15 for income tax. I haven't the slightest idea how I'm going to meet it. I don't know who is going to read this note, but whoever does, I wish they would have the decency to see that this gets some attention.

- 2 -

A. K. Getman, Associate Administrator, State Education Department, Albany, N.Y. I want to extend to you my hearty congratulations on your radio address of last evening. It was a magnificent contribution in the first broadcast in the important series of your public education program. If copies are available, I would greatly appreciate your having one sent to me. * * *

W. H. Shepherd, Portsmouth, Va. I was looking around for a simple way to help my Government to win this war. Being too old to fight, I pledged myself to give 10% of my income every month for the duration of the war. I went down to the Post Office and had a talk with our Postmaster. I told him my plan to buy Automobile Stamps every month until the war was over. He said it was a very good plan. I am sending you an item which the Postmaster had printed -- "Each Pay Day He Gives \$10 to Uncle Sam - Keeps Buying Federal Auto Stamps, But Has No Car".

Albert Gray, The Crowell-Collier Publishing Co., - Fort Wayne, Ind. Branch. As one who has helped in a small way to put over the top the Indiana Bond Drive...way over its quota, I am taking the liberty of offering a friendly suggestion as one of the forgotten salesmen, three million of us, who well may ask, "Where do we go from here?" If the "outrageous" threat of rationing gas in the Mid-West is put through, your Bond drives will suffer immensely. If we lose the use of our cars, we lose our business; if we lose our business, we cannot buy Bonds, not even Stamps. A gas tax of some 15¢ per gallon would raise over \$2,000,000,000 or about the amount of a general Sales Tax. Those of us who HAVE to use our cars would be glad to pay it. Defense workers who live a few miles from their work, who are the ones getting most of the new money, would pay only a few cents. * * * This and a 40-mile speed limit, ENFORCED, would nearly solve the rubber shortage...the approach to which at present is all wrong. * * * It is too bad that the President could not have been with me on a trip I have just completed through Georgia, Tennessee, Kentucky, and Indiana. He should know of the hatred and disgust that is sweeping the South and Middle-West because of the wrong suggestion of saving rubber through rationing gas where we are drowning in it. Somebody close to him should tell him this unpleasant fact. * * *

- 3 -

William F. Taylor, Darien, Conn. I listened to your interesting radio address and in writing you, realize that with your many important duties, it is hardly possible that you will personally see this letter, yet I believe it presents a subject which should have the consideration of the President, yourself and the heads of the Government Agencies involved. * * * It is your heavy responsibility to devise means of securing more revenue, but it is possible you have not considered the fact that, as the result of perhaps unnecessary restrictions on the normal life of our people, the revenue you received on last year's taxes will be cut down a great deal. * * * I am a salesman, selling for four concerns, products which for the most part are concerned with the maintenance of motor cars. I am paying a federal income tax of \$1,500 on my last year's income. As the result of freezing existing stock of the motor car dealers, -- tires, rationing of gasoline, and other restrictions -- my income has fallen to a point where it is doubtful if I will pay any tax on this year's business, or at most, a small one. * * A patriotic lady of my community calls on me and asks that I pledge a definite portion of my income to buy War Bonds, but how am I to buy War Bonds when the Government takes away my means of a livelihood? * * * I believe that it is up to the Government to provide means of transporting oil to the Eastern Seaboard States, and to do so quickly, in order, as far as possible, to maintain our normal industrial life. Also, to devote a portion of existing stocks of rubber or reclaimed rubber, and of any synthetic rubber which is produced, to this end. * * * Also, that in any drastic action taken, the public is entitled to a frank and truthful statement as to the necessity and reason, in place of the conflicting statements and flippant remarks which have been made by the gentlemen concerned.

- 4 -

E. W. Hirschcock, New Rochelle, N.Y. Keep plugging for the termination of the infamous Silver Purchase Act. Believe me, 95% of the people are all with you, and this should be a good time to risk the wrath of the Silver Bloc by publishing the real facts of the whole situation. If there ever was a ridiculous and inequitable law, that one is it. There must be some men in Congress who realize that only force of character can rebuild the faith of the Public in this crisis.

Wm. G. Davisson, Attorney at Law, Ardmore, Okla. I am sure that each of us has the welfare of the country at heart above every other consideration, but I am likewise sure that many things are being done by the Administration at this time, particularly in an effort to put a stop to any further rise in prices of commodities, and to regulate business generally, which must and will ultimately have exactly the contrary effect to that sought and anticipated by their authors. * * * Whenever you destroy a man's business you destroy his ability to pay taxes. It is only during periods of rising prices that the average man earns large profits. Put into effect regulations which have the effect of stopping the rise in prices of commodities, which means stopping the increase of a man's income, and you at the same time put into effect a limitation upon the taxes that he can or will pay, and if you then go further and curtail the business that he has to the extent that he cannot operate it at a profit, you destroy not only his business, but you destroy him as a taxpayer as well. * * *

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Favorable Comments on Taxation

Max Lively, Attorney at Law, Ashland, Kentucky. I have been writing to you and condemning the income tax and sponsoring the Sales Tax. I am now anxious to take back some of the things I have said about the income tax because I have learned, to my chagrin, that the income tax has its advantages. * * * I learned in the May issue of the Reader's Digest that a racket in Atlantic City was thwarted solely on the basis of the income tax law. * * * It occurred to me, therefore, that we should keep the income tax law as a sword against defrauders. However, I do not believe that we should keep it to gain revenue from the wage earners in the lower income bracket. * * *

Joseph H. Crown, Attorney, N.Y.C. Your radio talk dealing with the President's Seven Point Program, with particular reference to the taxation and savings planks, was very timely and a real necessity. * * * The decisions of the House Ways and Means Committee, which have literally emasculated so many of the sound and progressive proposals of the Treasury Department, are truly alarming. The American people must be awakened to the serious consequences which would occur if the House Committee's plan should ultimately become law. To this end a real campaign is critically imperative to assure the adoption of the Treasury's original tax proposals which are founded on the principle of equality of sacrifice. The Treasury Department and its representatives should be congratulated on the vigorous defense they have made of the Treasury program. * * *

Frank C. Baxter, Accessory Workers Local #105, Philadelphia, Pennsylvania. This organization is supporting your program as this telegram, which was sent to the Chairman, Ways and Means Committee, shows. Keep fighting, and success to your effort. * * * (Telegram urges support of Treasury Department's program and condemns Sales Tax.)

Dr. Thomas Philison Thompson, Chicago, Ill. Good for you, and good luck in your fight to inaugurate the kind of a Tax Bill which takes ill-gotten war profits away from profiteers to run the Government. Please don't get discouraged or ever give up. Hit 'em hard and often and you'll win. Again, good luck!

- 6 -

Samuel Spritzer, N.Y.C. Have read excerpts of your talk, in which you denounced over the radio the extravagant salaries and bonuses paid by some war contractors. Your determination to examine the tax returns of these offending employers, and make them pay for their unfair and dishonest practices, deserves the highest commendation from all public-spirited citizens throughout our land. * * * How fortunate the people should feel that in you, Sir, they have a champion who will ever be "on the alert" to fulfill their desires. Many brilliant minds dare to think, but too few of them have the courage to express their views for the acid test of general discussion and criticism. For clarity of mind, originality, and leadership, few can compare with the irresistible ingenuity of our Secretary of the Treasury. Good health and happiness to you! * * *

Henry B. Walker, Marion, Ohio. It may be always better for a mouse to keep still in the presence of a lion, but something has come to my attention so amazing that I cannot help writing you about it! For the first time in 25 years, the statement calling for my income tax payment, actually bears the word "PLEASE", underscored as shown. It is true, there is still a sour note in the line above which reads, "One-half of charge must be paid by this date", but this, I think, is the first time I have ever found even a suggestion of courtesy in any communication from the Treasury Department towards those who support it. * * *

Dr. John A. Ross, Plymouth, Mich. It gave me tons of pleasure to read of your wonderful program in Drew Pearson and Bob Allen's truly great column. I am praying that Congress will not be permitted to wreck your program, which is so necessary if taxes are to be distributed fairly. I am glad we have statesmen like you, and swell journalists like Pearson and Allen to praise your magnificent work. * * *

- 7 -

R. B. Irwin, Elkin, Pa. (Copy of letter addressed to the House Ways and Means Committee) If half of Pearson's and Allen's account of June 4 is correct regarding the new Tax Bill, it is a damned outrage. The public is waiting to shove some of you boys where you belong. I have a boy on the high seas who has more patriotism per pound than there is in a ton of Congressional beef.

Robert W. Cushman, Cambridge, Mass. The enclosed news item, (Treasury Wants Salary Deductions to Start Jan. 1) simply "burns me up". It seems absurd that the war should go on for over a year before the people really have it hit their pocketbooks. I have been separated from my home and family in Dutchess County to come here to do radio research on U. S. Navy problems for the duration, but I am being paid a good salary and feel it should be taxed now, and so should every one else's earnings. Why should earners have to have a period in which to prepare, what preparation other than a pay check is required? I see no excuse for not enacting a tax law to start with the fiscal year, July 1, then going to work on revisions to meet minor inequalities. * * * Please find an appropriation suitable for purchasing dynamite to be placed under Congressional Committees now sitting on the tax program.

Donald Zeiller, Cresskill, N.J. This is a protest, not against taxes, but against the way the Ways and Means Committee has shifted the burden of them. * * * The Treasury Department's proposal is much better, graduated to tax those most able to pay. Your Department should insist that a plan more nearly like your original proposal be accepted, and that this present Ways and Means Committee proposal be discarded.

- 8 -

Unfavorable Comments on Taxation

An American Taxpayer, Boston, Mass. * * * You said that the Administration was bent on not allowing any millionaires to be created by this war. I do not believe that you are doing a very good job in this undertaking. Here is an example: State officials in Massachusetts are leasing most of the trade schools with United States W.P.A. funds. The owners of these schools were mostly racketeers who lived on money extracted from our unemployed by misrepresentations. Our officials contract to pay these schools 50¢ and over, per hour for each machine the school has set up, 24 hours a day, and 7 days a week. The machines cost less than \$200 each. One trade school set up over 100 machines; at \$12 a day, he receives over \$1,200 every 24 hours, or \$36,000 a month. In a year he will be paid over \$432,000. His entire investment was less than \$25,000, most of which was borrowed from a Govt. Agency. The only expense that this person has to pay out of this vast income is rent, power, and a maintenance man. Instructors are furnished, as well as material, by the Govt. funds. To top this off, the students that are sent to these trade schools are W.P.A. female workers who will never become mechanics. The only worries that the owners of these trade schools have is to be able to hide their income from the tax officials, and they are paying out salaries to all their relatives. * * *

Ernest V. Moncrieff, Rockefeller Center, N.Y.C. Your rather amusing episode with the House Ways and Means Committee was appreciated as a somewhat lighter incident in our war progress. Personally, I believe that the quotation, "Too little and too late" applies to the present situation that belongs on your own shoulders. * * * If you are looking for enough money, you will never get it without a Sales Tax, and a rather high percentage; and if you are looking for money now and not "too late", that is the way to get it; otherwise, you are going to wait until March 15 before you get the money in any event, so what is your hurry? By the way, I believe that the House Ways and Means Committee is doing an excellent job and always has.

Eugene V. Myers, Attorney, N.Y.C. * * * You and many others state that income tax is based upon the "principle of ability to pay". If this were true, it would be fine; but in hundreds of thousands of cases, it is not true. A man's ability to pay does not necessarily depend upon his income alone; it also depends upon his responsibilities. * * * Before the income tax approaches the moral basis of ability to pay, the United States will have to establish some sort of system for permitting exemptions which correspond to taxpayers' moral obligations, rather than the polite fictions which are now indulged in by the law as at present drawn. * * * Among the "obligations" which I have referred to, are the taking care of the sick, the actual cost of bringing up children, actual cost of support of relatives; payments of premiums on reasonable insurance policies, and the payment of income taxes. * * * Whatever the theory of taxation is, the fact remains that a man who has to pay \$1,000 in 1942 for his 1941 income tax, has \$1,000 less real income in 1942 and \$1,000 less ability to pay anything. To tax him in 1943 on this \$1,000 as income for 1942 is to tax him on \$1,000 more than his real income. Income taxes are inevitable obligations which cut down incomes. Congress has considered other taxation of various kinds, including income taxes of the various states, to be properly deductible. No reason is seen why Federal income taxes should not be also deductible.

Favorable Comments on Bonds

Robin Douglas, Evanston, Ill. Because I have complete faith in Government fiscal integrity, I have been, and hope to continue, buying War Savings Bonds up to 20% of my salary. That is good investment, as well as being patriotic. However, when it comes to paying income tax on my 1942 income, I am going to be in a deuce of a situation and will probably have to sell some Bonds to do it. That seems to be a topsy-turvy situation and discouraging to some one - myself - who wants to help. * * * Therefore, why not offer an inducement to those who do Bond-buying-plus in excess of 10% of their earnings? Allow them tax exemption on 50% of all War Savings Bonds over and above the 10% of salary expended in that way. * * *

Leslie E. Schnurle, Real Estate & Insurance, Canisteo, New York. As director of your War Bond Sale Campaign for this community, I feel privileged to write you. * * * Having been in the selling game all of my life, and coming from a family of salesmen, I feel that there is a lot of sales psychology that could have been and could be now injected into the campaign to bring greater results. * * * I am a firm believer in a statement which I think was made by President Roosevelt, and that was that we should have more Flag waving and band playing to create the necessary enthusiasm. Today at our Rotary Club, we had as a speaker, a Chief Petty Officer of the U. S. Navy, and I am sure that just the appearance in uniform and the talk which he gave us stirred every man in the room. * * * While I appreciate the object of the type of Bond which the Treasury is selling, and its ultimate use, I firmly believe that the type of Bond that was sold in World War #1 would bring much better results. Thousands of people would be pleased to invest money if the Bonds were good for collateral, which they might want to use temporarily. If this type of Bond were sold, you have through the banks, the greatest sales force in the country. * * *

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John Shaw, Chicago, Ill. Just a card to let you know I heard your speech on the radio. You know I am doing my part on two a month on a \$60 salary.

A. R. Keller, Acting President, University of Hawaii, Honolulu, Hawaii. Your letter of April 6, together with copies of your PROGRAM FOR COLLEGES, has been received. I thought you might be interested in the start which the University of Hawaii has made along this line. The Associated Students of the University have purchased \$15,000 worth of Bonds. * * * It has undoubtedly been reported to you that the city of Honolulu on Lei Day purchased over \$1,000,000 worth of Defense Stamps and Bonds. The faculty and students of the University did their share in putting this drive across. The University has a Defense Committee and Sub-committee and I am sending a copy of your Program to that group. This University, because of its location, is actually on the front line. It is vitally interested and every member of the faculty and student group will do his utmost to aid in the war effort.

R. A. Koptick, N.Y.C. Americans are noted as souvenir collectors. Why not break up the planes that raided Tokyo, Lt. O'Hara's plane, Lt. Bulkley's boats, in a million pieces and give a piece to every buyer of a \$1,000 Bond.

Walter B. Trout, Tuskegee Institute, Tuskegee, Ala. * * * When the pay reservation plan was introduced here at the Tuskegee Army Flying School, where I am employed, I at once pledged slightly over 10% of my salary to purchase War Bonds. I am very happy to have the opportunity to invest a part of my savings or salary in the preservation of these United States. Hoping continued success of the wonderful program now underway.

Mrs. Anna Margaret Fromm Russell, Jersey City, N.J. It was my privilege to listen in on a radio station and heard Mrs. Morgenthau give a wonderful talk on the Flag of Our Country. Mr. Russell happens to be an Old Spanish American War Veteran of the 1899 Section of veterans serving under Col. Farragut and Captain Dewey, and saw the sinking of the "Maine" about 3 miles off the coast. He also listened in upon Mrs. Morgenthau's speech, and it sure pepped him up to buy more Bonds. * * *

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Unfavorable Comments on Bonds

P. J. McGuire, President, General Indemnity Exchange, St. Louis, Mo. I wrote you personally under date of May 15 about some Bonds - Treasury's 2%, 12-15-55/51 - for which we subscribed on December 13, and have not reached us to date. * * * Under date of May 20, W. Wesley, his file SUR:AUTH:COR, recites the history of the case in a letter to us, and says that he is writing the Federal Reserve Bank on that date. I wrote him again under date of May 22, that the Federal Reserve Bank here claims the matter has been in your hands for some time. The Bonds have not reached us to date, going on 6 months since our original subscription. We would like to have them at the earliest possible moment.

Mrs. P. H. Peterson, San Francisco, Calif. Like a lot of other people, I buy many products which have coupons, as, providing the product is good, it is a convenient way to acquire the little things one might otherwise never spend money for. * * * But the other day I took a stack of Alpine coupons in to redeem them for War Stamps and was told No! The Manager says the Government requested them NOT to buy any War Stamps to give to customers for coupons, on the grounds it was "commercialization". Now it seems downright silly and stupid to tell a large company with thousands of customers not to buy War Stamps when not only is every penny needed for this all-out war effort, but also, since most coupon holders would prefer War Stamps to articles, it would also save the material which goes into the redeemable goods. We buy all the Bonds and Stamps we can, but if trading our coupons for Stamps also keeps the big companies buying Stamps instead of goods, why should the Government object?

John E. Scese, Pleasant Ridge, Mich. * * * Any Bonds turned in to any Internal Revenue Collector should be taken as cash for income tax. Now the Bonds have to be sent in and cashed to get the money, and considering the slowness of any dealing with the Government, a person would not take the chance. March 15 would arrive but his check wouldn't. If this could be done, I would buy enough Bonds extra to pay my tax. As it is, I am saving the cash.

Miss Adele T. Low, Summit, N.J. I listened to your broadcast last evening and cannot understand it. You suggest our going in tatters, figuratively speaking - buy nothing in the stores. If their trade is killed, how can they buy War Bonds? It does not seem like common sense. Heretofore, our country has given a chance for every man to make his living. Your scheme would make a mass of paupers - utterly unable to help our country. * * * It is said that Washington is making vast sums of money. It would seem to me it should be the very first to set the example of self-denial.

Henry Smith, N.Y.C. For a man like myself, supporting a wife and two children on \$25 a week, your plan for a 10% deduction of wages for the purchase of War Bonds would virtually reduce us to a less than subsistence level. * * * Morale among the workers, particularly the white collar class, is pretty low, for we have been caught right in the middle. We are at least endowed with some intelligence, and do at least some of our own thinking. Even F.D.R. with all his persuasive powers can't befuddle us into believing that this is any "peoples' war". * * * Down here in Wall Street the bankers have set up a terrific trumpeting to promote the sale of War Bonds and Stamps, accompanied by all the standard rhetorical claptrap, while little considering how their workers can find the wherewithal that will permit them a seat on the bandwagon. * * * I am in a position to say that what apparent support has been given to this plan by workers, has been far from spontaneous and voluntary. Its strictly a matter of pressure. Very subtle, but nevertheless pressure. * * *

Mrs. G. Heaton, Altadena, Calif. I have just listened to your speech. Quietly beautiful and impressive, like the voice of conscience, too. Beautifully spoken. * * * Mr. Morgenthau, can you honestly say that YOU think carefully, then deny yourself, of some small thing you could do without -- then go and buy a 25¢ War Stamp? Does Mr. Roosevelt exercise the same self-denial and "mortification of flesh" as you advise us to do? * * * When we are exhorted to buy 25¢ War Stamps, because 25¢ will buy so many bullets

for the "brave boys", and think of the "largest printing bill in history" for the sugar rationing.... and for the "mimeographs which are thrown in the wastebaskets", as one columnist said recently...how many bullets would those expenses have bought? * * *

H. K. Banks, Manager, Doc & Bill Furniture Co., Oklahoma City, Okla. I think that you are doing a swell job, and in the main I agree with you, but it seems to me you are making a mistake when you urge every person in the United States to buy War Bonds and Stamps before buying anything else. You should realize that this country has got to have an economic structure. People have still got to earn, spend, and consume in a normal manner, or they will have no money with which to buy War Bonds and Stamps, or pay taxes. When people quit spending part of their earnings for some luxury items, as well as necessary items, a lot of people will be thrown out of employment, and then how are they going to buy War Bonds, or have any income tax to pay? Then eventually there will be one of the worst depressions this country has ever known. Thousands of small businesses, like ours, will be forced to close up. * * *

Miss Josephine Carpenter, Annuities and Life Insurance, Jersey City, N.J. * * * This is what has happened to me so far this year - after over 40 years' work, self-denial and having reached the age of 62 (when men think women too old to work in an office) - Income from stocks in 1941 was \$859.00; income shrunken so far this year, \$99.50. Notice from A.T.&T. advises new Government tax setup shows \$4 per share less profit for investors in 1943. This is the only fair return I have on investments. We are told we must tighten our belts and buy War Bonds. Who must tighten their belts - John Lewis? Labor? Soldiers with everything for nothing and \$50 a month cash? Politicians? CCC boys who could (and we think should) be working on farms? Those on pensions? Some are complaining because of compulsory purchase of Bonds. Our money in the form of profits on lifetime savings is being taken from us, and will never return in any form. * * *

PARAPHRASE OF TELEGRAM RECEIVED

TO: Secretary of State, Washington.

FROM: AMEMBASSY, La Paz

DATED: June 13, 1942, 1 p.m.

NUMBER: 425

Reference is made to circular telegrams regarding currency from the Department dated May 18 and May 27.

The Foreign Office and the Minister of Finance of Bolivian Government, in accordance with instructions from the Department, were promptly notified but as yet no action has been taken; the Bolivian authorities have not even officially informed or warned local banks with respect to dollar currency acceptance although they have been informally advised by the Embassy.

From the manager of the Banco Central the Embassy has learned that some \$15,000 in dollar currency is in that bank's possession and he is concerned about the disposal of this money. Numerous Legation and Embassy despatches, in this connection, the Department will recall regarding dealings between Proclaimed List and Axis nationals and the Banco Central. Any efforts by Banco Central or its manager to dispose of these funds, it is respectfully suggested, should be closely scrutinized and the currency's origin investigated most carefully.

BOAL

Copy:bj:6-18-42

PARAPHRASE OF TELEGRAM SENT

FROM: Secretary of State, Washington.
 TO : AMLEGATION, Ciudad Trujillo
 DATED: June 16, 1942, 11 a.m.
 NUMBER: 178

TRIPLE PRIORITY

Telegrams Nos. 252, June 13, 1 p.m., 246, June 12, 11 p.m., and 260, June 15, 5 p.m. are referred to you.

Concerning the particular currency mentioned there is no information available. The Dominican Foreign Minister, however, should be informed by you that pursuant to General Ruling 5, if such currency were imported into the United States it would be held by this Government.

The suggestion is made that it be recommended to the General Sales Company that the currency be accepted as conditional payment, provided such currency can be utilized in the United States by the General Sales Company as free funds. Should they accept the suggestion, the letter of credit obviously should remain open and provide for payment thereunder should such currency not be released by the United States prior to August 1, 1942, for free use by the General Sales Company. In the event that it accepts such conditional payment, appropriate steps should be taken by the General Sales Company to free itself from responsibility to present owners or holders of currency if it were not released prior to August 1, 1942 by the Treasury Department.

If for some reason the General Sales Company is unable to follow such suggestion, the Dominican Republic, as an allied nation, this Government feels should block such currency in the Dominican Republic as a matter of cooperation in the economic phase of the war. Pending an investigation of all the facts and further consultation with this Government regarding the true origin of the funds, such currency should be blocked.

If neither of the above suggestions can be effected it should be suggested to the Dominican authorities that appropriate steps should be taken to have the currency included in the Iciar's manifest and to see that such currency is actually on board before Iciar's departure from port is permitted. Any other scheduled ports of call of the Iciar in the Western Hemisphere should be reported to Department. It would be most undesirable, in any event, if Martinez were permitted to leave the country with this currency. The appropriate Dominican authorities should also be advised that all United States currency imports will be scrutinized closely under General Ruling 5 and that all such currency will be presumed to have Axis taint which is known to have been obtained from European sources. It should be recommended to the Dominican authorities that all business concerns in the Dominican Republic should be appropriately warned to refuse the acceptance of United States currency in payment for exports and demand payments therefor by letters of credit, et cetera.

In connection with the currency above-mentioned, please report fully any action taken.

Copy:bj:vw:6-18-42

HULL

C
O
P
YDEPARTMENT OF STATE
WashingtonIn reply refer to
FD 846K.5151/9

June 13, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch no. 67 dated May 22, 1942 from the American Consulate, Suva, Fiji Islands, concerning dollar transactions in Fiji and disposal of excess United States paper currency.

Enclosure:

From Consulate, Suva,
no. 67, May 22, 1942.

eh:copy
6-13-42

Suva, Fiji Islands. 263
May 22, 1942.

DOLLAR TRANSACTIONS IN FIJI.
DISPOSAL OF EXCESS UNITED
STATES PAPER CURRENCY.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON.

SIR:

I have the honor to refer to my telegram No. 25 of May 21, 5 p.m., relative to dollar transactions in Fiji, and to enclose herewith for transmission to the Treasury a memorandum setting forth the procedure for such transactions adopted in the Colony.

Respectfully yours,

Wainwright Abbott,
American Consul.

File 851.5
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Copy for U. S. Treasury.
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6-13-42

MEMORANDUM

SUBJECT: Dollar Transactions in Fiji
Disposal of Excess United
States Paper Currency.

Suva, Fiji Islands,
 May 22, 1942.

The Financial Secretary and Colonial Treasurer called the Managers of the Banks of New South Wales and New Zealand and myself to his office yesterday, and stated that after further consideration, and in order to ensure a uniform procedure throughout the sterling area, he had decided against adopting the United States Treasury's scheme for the disposal of excess United States paper currency held by the local Banks, as outlined in the Department's telegram 20 of April 27, 5 p.m., but to adhere to the Bank of England's Notice, F.E. 182, which, among other monetary questions, dealt with this matter.

The Bank of England's procedure differs from that proposed by the United States Treasury in that it divides the purchases of United States paper currency and drafts into two categories, i.e.,

- (A). Official
- (B). Unofficial

CATEGORY (A) covers all purchases (paper currency, drafts, mail or telegraphic transfers) from United States military or naval paymaster, Consular officers, Disbursing officers, or senior officers acting in their official capacity. The buying rate of exchange used, \$3.6433, is based on the Bank of England's telegraphic rate, \$4.035, which is converted into its Fiji equivalent by the formula:

$$\frac{4.035 \times 100}{110.75} \text{ equals } \$3.6433$$

For all OFFICIAL drafts and excess paper currency purchased, the authorized dealers, i.e., the banks, obtain a dollar equivalent credit in the United States, in accordance with the United States Treasury's scheme outlined in the Department's telegram 20 of April 27, 5 p.m. Paper currency purchased from OFFICIAL sources may, if the banks desire, be held by them instead for re-sale, the rate fixed being:

\$3.5813.

CATEGORY (B) covers all paper currency bought from UNOFFICIAL sources, i.e., from members of the United States armed forces and other sources in the Colony, and is purchased at the rate of \$3.7153, i.e. the Bank of England's note rate of \$4.11, converted into its Fiji equivalent, viz:

$$\frac{4.11 \times 100}{110.625} \text{ equals } \$3.7153.$$

UNOFFICIAL paper currency purchases may also be held by the Banks and, as opportunity offers, resold with the Monetary Control's permission; while excess purchases may be disposed of to the Bank of England at its current note rate of \$4.11, the Banks' London agents receiving a sterling credit and the notes being held by the Suva bank in the Bank of England's name.

All other transactions in this category will be effected at current rates which stand today at:

<u>Buying</u>		<u>Selling</u>
3.6558	T.T.	3.5813
3.6668	O.D.	3.5813

United States bank accounts in Fiji or United States currency may be opened in the Colony, and there are no restrictions on the debits to such accounts, but they should be registered with the Control.

The new rates are effective as of May 18, 1942.

Wainwright Abbott,
American Consul.

A true copy of the signed
original. lw

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6-13-42

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BRITISH EMBASSY,
WASHINGTON, D. C.
June 13th 1942.

With the Compliments of

H. W. AUBURN

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

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June 12th, 1942.

C.F.I. 3/2/111

Yves de Boisanger, governor of the Bank of France, Clermont Ferrand, cables their legal representatives in New York, Coudert Brothers, on the expediency and possibility of citing the National Bank of Belgium, Brussels, in order to make opposable to said bank the future decision and to avoid, in case of condemnation, the risk of having to pay twice. They seek to have the National Bank of Belgium, Brussels, intervene and thus add weight to their assertion that a body corporate exists in Belgium and is lawfully considered by them as qualified to make use of the rights of the National Bank of Belgium. Boisanger submits it would make it more difficult for the American judge to decide that the Bank of France should pay the money to the National Bank of Belgium which is under authority of the Belgian Government but is not acknowledged by the French Government. He further intimates that the judge might admit that the trial's decision ought to be deferred. The case centres around a law suit taken by the Bank of Belgium against the Bank of France before the United States Supreme Court. The Bank of Belgium claims to have turned over to the Bank of France, in 1939 and early 1940, a quantity of gold (\$220,000,000.) which the Bank of France turned over to the German Reich. The Bank of France admits the gold transaction but questions the disposition and the right of the claimants to represent the Bank of Belgium.

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BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 200

Information received up to 7 A.M., 13th June, 1942.

1. MILITARY

LIBYA. 12th. The enemy drive eastwards continued in the morning. His main concentration of tanks, 85 in number, was in the area immediately southwest of EL ADEM with about 20 additional tanks extending further to the East. At midday our defended locality 4 miles south of EL ADEM was attacked - no details yet. Our armoured units are operating against these forces whilst our motorised and Infantry columns have been in action about 12 miles south of EL ADEM. A concentration of enemy tanks and M.T. remains about 10 miles Northeast of BIR HAKEIM.

2. AIR OPERATIONS

WESTERN FRONT. 11th/12th. Hudsons bombed and damaged two ships of about 1,000 and 1,500 tons in the HELIGOLAND BIGHT.

LIBYA. 11th. Our bombers and fighter bombers made two effective attacks on enemy forces in the KNIGHTSBRIDGE area and on 12th carried out continuous attacks on the enemy forces moving towards EL ADEM.

MEDITERRANEAN. 10th/11th. Wellingtons bombed the aerodrome near HERAKLION in CRETE and on the following night Wellingtons attacked THE PIRAEUS while Liberators bombed TARANTO HARBOUR.

3. There has been considerable increase in Axis air reconnaissance activity over the Western MEDITERRANEAN during the last three days.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Possible Japanese Preparations for Attack on Siberia

British Military Intelligence states that a number of reports from a Chinese source indicate a concentration of Japanese planes is taking place in Japan and Manchuria. 250 planes are being moved northward from Burma, Thailand, Malaya, Indo-China, South and Central China.

If the reports are correct, the Japanese Air Force will be concentrated as follows:

	<u>Number of Planes</u>
Japan and Manchuria (including 324 naval planes)	1,014
China and Formosa	200
Burma, Thailand, and Indo-China	200
(Southwest Pacific - ?)	<u> </u>
Total of above	1,414

(U.K. Operations Report, June 12, 1942)

(The concentration of planes in preparation for an attack is usually the last step before jumping-off. The army concentration for an attack on Siberia has probably been completed. The Germans are probably likewise about ready to launch their offensive. In spite of the above, it is still possible, of course, that no attack on Siberia may take place in view of the Japanese Midway defeat, but this cannot be relied on).

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 201

Information received up to 7 A.M., 14th June, 1942.

1. NAVAL

Last night our coastal convoys were attacked by aircraft off North CORNWALL, no damage has been reported, one Junkers 88 was probably shot down and another damaged by the escort. A Free French motor launch was attacked off DORSET and had ten casualties.

One of H.M. destroyers was sunk by U-boat off BARDIA on the 12th. 80 survivors were rescued.

One of H.M. destroyers sighted 2 Italian 6 inch cruisers with four destroyers east of CAPE SPARTIVENTO on the 13th and claims a hit with a torpedo on one cruiser.

2. MILITARY

LIBYA. 12th. After an unsuccessful attack on our defences at EL ADEM, the main enemy thrust developed towards the northwest, our armoured forces were in contact with the enemy all day. No precise details of the fighting on the 13th are yet available.

RUSSIA. The Germans are sparing no effort to take SEVASTOPOL quickly. But there is evidence that Russian resistance has upset their original timetable.

3. AIR OPERATIONS

WESTERN FRONT. 13th. Spitfires obtained a number of hits on locomotives near ETAPLES. 13th/14th. About 30 enemy aircraft were operating off North Cornwall and in the ISLE OF WIGHT area, a few of them penetrated inland. One was probably destroyed by a Beaufighter.

LIBYA. 12th. Bostons and fighter bombers continuously attacked columns of enemy tanks and mechanical transport in the battle area, causing considerable damage. Enemy activity increased. Our fighters broke up a large formation of dive-bombers and fighters, shot down 13 and damaged 10 others. Our losses were 9 fighters, 4 pilots safe.

MALTA. 12th/13th. TAKALI aerodrome was bombed and cratered, one enemy bomber was destroyed and another damaged by anti-aircraft fire.

4. HOME SECURITY

A few bombs were dropped on LEAMINGTON SPA on 13th afternoon. Early with a parachute mine fell at PORTSMOUTH, killing four people and damaging several houses.

5. The move of German tank landing craft up the West Coast of NORWAY continues. Five were seen in the NARVIK area on the 11th.