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10/27

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 27, 1942.
10/26/42

Press Service
No. 33-86

The Secretary of the Treasury announced last night that the subscription books for the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series D-1943 will close at the close of business today, October 27.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Tuesday, October 27, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Thursday, October 29.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

October 27, 1942.

Dear Henry:

You may have seen the article which TIME printed while you were abroad. It was such an outrageous misrepresentation that I could not refrain from protesting to Mr. John Davenport, one of the editors, in a letter, copy of which I enclose for your information.

Sincerely yours,

Harmer

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

Enclosure



3

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

October 27, 1942.

Mr. John Davenport,
Associate Editor,
Time Magazine,
Time & Life Building,
Rackefeller Center,
New York City.

My dear Mr. Davenport:

TIME'S report on the Treasury's recent four-billion-dollar financing operation is so unfair and such a disservice to the country that I feel compelled to send you this protest, inasmuch as you telephoned me while I was in New York and I assume you had some responsibility for this article.

To state, as TIME'S article does, that this financing was an "outstanding failure" is a gross misrepresentation. To assume, as this article does, that under wartime conditions there should still be the enormous over-subscriptions that characterized the pre-war era, when the banks were inundated with excess reserves and idle funds, is to start with a wholly false premise. Moreover, the article assumes that nonbank investors were expected to subscribe to most, if not all, of the recent 2 per cent bonds of 1950-1952, whereas, in fact, this issue was designed primarily for the banks, though to be sure, it was desirable to sell as much of it as possible to nonbank investors as well. The 2-1/2 per cent long-term open-end issue, which has been offered and probably will be expanded, has been designed for nonbank investors and the banks have been prohibited from subscribing to this issue. Likewise, the Series B, F and G Bonds are available to all investors except banks. The new tax notes are also designed in part for the investment of idle nonbanking funds.

The Secretary of the Treasury was entirely right, in my opinion, in what you stigmatize as his "little howl on 2 per cent financing". Of course, many banks would have welcomed not only "2-1/4 per cent bonds of 12 to 14 years' maturity", as you state, but doubtless would have welcomed an even higher coupon of 2-1/2 or 3 per cent, or more. But the wisest bank judgment has been ably expressed by the Economic Policy Commission of the American Bankers Association in a statement made in April which frankly recognizes that the Federal Reserve System and the Treasury are supplying the banks with the reserves with which to make purchases of Government securities.

Mr. John Davenport - (2)

October 27, 1942

It emphasized the difficulties that would be encountered, particularly in the post-war era, should the banks be heavily invested in long-term securities, and it stated:

"One proposal, therefore, to safeguard this situation is that the securities offered the banks should be wholly of very short maturities of perhaps one to five years and hence subject to only modest fluctuations even with a considerable change in the market. The difficulty with this proposal is that under it the Treasury would have a huge floating debt which has to be renewed embarrassingly often, at the same time that large additional issues for new money are being floated.

"A more realistic suggestion would be the sale to the banks of maturities ranging from one year to about ten years. This would have the effect of spreading out Treasury maturities and would give the banks well distributed portfolios with a fair yield and some market outside the banks. With obligations up to ten years and an average maturity of less than five years the banks would not be exposed to serious fluctuations in values."

The judgment of the ABA economic policy group coincides with that of the Secretary of the Treasury and of the Reserve System. It was for this reason that the 2 per cent ten-year issue was offered and the banks put on notice that they need not expect a higher rate or longer term maturities.

Desirable as it is, in order to avoid inflationary financing, that as much as possible of the cost of the war be met by taxation and by borrowing out of current income from nonbank sources, it is inescapable that the banking system will have to do a substantial amount of the financing. Under present prospects it is estimated that about \$30 billions of new debt may have to be absorbed by the banking system in the current fiscal year. Under the present pattern of interest rates, ranging from 3/8th's to 2 per cent for banks, the return to the banking system in interest alone will amount to some \$450 millions.

It would be short-sighted policy for the banks to seek abnormal profits from war financing. The return to which I have referred would seem to be adequate compensation to the banks for the creation of this money supply based upon reserves furnished to them by the Government. This is especially true in the light of the recurrent political pressures seeking to have the Government finance itself through non-interest bearing issues sold to the central bank.

Had a 2-1/4 per cent 14-year maturity been issued, as your article advocates, then to the extent that the banks had taken this issue, they would have taken that much less of the shorter maturities in line with the sound

Mr. John Davenport - (3)

October 27, 1942

policy advocated by the American Bankers Association. Both in England and in Canada this basic principle of bank financing of the war is recognized and adhered to. In effect, the governments of those countries are compensating the banks by giving them what amounts to a living wage, not a large profit-making return, for the services they are rendering.

The theory upon which *TIME'S* article appears to be predicated is that wartime financing is like peacetime financing and that rates should remain uncontrolled, notwithstanding the controls placed upon all other elements in the economic picture, including labor, agriculture and prices in general.

In the pre-war period, when Treasury offerings were priced at a sufficient premium above the market to insure a substantial profit in their underwriting, there were heavy oversubscriptions, known as padding, by the banks, security dealers and others, which did not reflect a true investment demand but rather the speculative opportunity for a quick turnover at a profit. These subscribers did not expect to receive the full amount of their subscriptions, a fact that tended to add to the amount of the oversubscriptions. In contrast with this, the 2 per cent issue, which you castigate, was offered at par. The subscriptions represented a non-speculative investment demand. There was no incentive for padding and hence there was no padding, and subscribers expected to get the full amount of their subscriptions.

TIME'S article proposes an "over-all rise in interest rates". This again reflects a lack of understanding of wartime conditions and the situation with which we are confronted. As the ABA report to which I have referred rightly emphasizes, it is important that the war be financed "on a fairly stable level of interest rates", and adds, "The Treasury, moreover, would be handicapped in its financing program if succeeding issues of bonds appeared at sharply rising interest rates. Investors would be tempted to wait for better rates. Such a tendency would be natural in view of the fact that the present interest rates are the lowest in the history of this or any other country."

In various other particulars *TIME'S* article is misleading as, for example, in implying that selling Government securities to a central bank is disastrous to the economy, whereas selling them to the commercial banks would not be. The fact of the matter is that the same amount of new money would be created in either case.

I enclose a copy of a letter to customers issued by a prominent bond house in Chicago which takes just the opposite view from that expressed by *TIME'S* article.

As I said at the beginning and as I wish to repeat, this article is a distinct disservice to the country in its prosecution of the war.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Enclosure

From Bond Comment, by Wayne Hummer & Co., Chicago

"There are certain groups interested in the Government bond market who believe that the war must be won but it must not in any way inconvenience them nor disturb their usual mode of business. In fact, among a great body of citizens (fortunately growing smaller) who still believe in 'business as usual' this group is the most vocal. It has been very apparent, to the observing, ever since the outbreak of World War II in 1939 that the Treasury and the Federal Reserve authorities had in mind a definite program for financing the Nation's war needs, if and when war did come. Since our entry into the war, Government financing has followed that general pattern. As a result of that foresight and that preparedness, the Government bond market since Pearl Harbor has been stable and orderly and has absorbed astronomical amounts of new securities without a tremor. This orderliness, of course, was fatal to the activities of that group who believe that the Government bond market is a legitimate place for security speculation and that Government bond prices should be in a continual state of ferment in order that their speculative activities could proceed as usual. At the time the October financing was under discussion this group urged that the Treasury offer a 2 $\frac{1}{2}$ % bond. Such an offering, of course, would have disturbed the orderliness of the market, would have attracted a large over-subscription and again probably have revived the 'free rider' problem. The Treasury and the Federal Reserve authorities decided to adhere to their original program and to the program for a 10 year deadline on maturities for commercial banks, developed by the bankers themselves in the report made public last April by the Economic Policy Commission of the American Bankers Association, and offered a 2% bond due in 8-10 years. This was a wise decision. The October financing was successful and well received in view of the stiff opposition it met in certain quarters. This group continues to be very vocal in their opposition to the Government's program which, incidentally, was publicly announced by Mr. Morgenthau last week. We are in complete accord with the Government's announced program and we are sure that program will be successful. Many bankers are prone to forget that if the Treasury had acceded to the high coupon advocates at this time, it would only be a short while until a 2 $\frac{3}{8}$ % coupon would be demanded, then a 2 $\frac{1}{2}$ % and a 2 $\frac{5}{8}$ %, and so on until our Government war finance pattern would have been the same as it was in World War I. A program of ever higher coupons could only be destructive to the price stability of the Government market. Government bond price stability is what we need more than any one thing in the period ahead when the ratio between bank capital and bank deposits will be ever widening."

BUSINESS & FINANCE

GOVERNMENT

Report on Reports

With pardonable pride, Donald M. Nelson, committee-to-cut-down-paperwork (July 13) this week reported on the first operation on red tape in history. Before & after report on reports phantasmagoric reading.

Before: One auto company moaned on one occasion it had to spend \$125,000 and 100,000 man-hours to fill out government forms. Another tiny manufacturer got so far behind on his paper that he had to shut down for three months to catch up. Some tell-us-everything forms "reached the dimensions of a window shade" (at the same time WPB prohibited the sale of wide-range typewriters). Worst of all, the committee found that, despite an early order allegedly limiting data requests, eager WPBureaucrats "with constant mimeograph machines" were sending out sheaves of "bootleg" forms, notwithstanding countless stop-the-press telegraphic requests for information and duplicate queries from decentralized agencies.

After: The committee took credit for saving industry 30,000,000 man-hours of work a year (enough, had they been effective, to turn out more than 1,000 bombers). One hundred twenty forms were eliminated, 133 more simplified, reducing number of forms 20% from the heyday of red tape, eliminating more than 10% of the actual paperwork required. Of the defunct forms would have cost industry alone 400,000 man-hours a year, it would have cost the Government 100 more man-hours. As for the "bootleggers," the committee wryly noted that they had been "eliminated" by the beautifully simple "expedient of getting errant mimeograph machines into storage, and providing that no financial surmount be allowed for printing... pending unauthorized data requests." Small wonder, as one proud committee member bragged last week, that "we were the most unpopular committee in WPB business just loved us." Don Nelson, who jokingly compared his adventures in Government finance with those of Alexander Hamilton.

TREASURY
Greatest Flop Since Mellon

Week Secretary of the Treasury Morgenthau turned up in London on an unannounced mission and was introduced to some 300 newspaper correspondents by Minister of Information Brendan Bracken, who jokingly compared his adventures in Government finance with those of Alexander Hamilton.

To many a U.S. banker it seemed that Mr. Bracken would have been smarter to compare Mr. Morgenthau to the late An-



Harris & Ewing

SECRETARY MORGENTHAU
He thinks he has saved 1%.

drew Mellon, whose astute Government financing was marred by the market flop of the famous Mellon issue of 3% bonds in 1931. For Mr. Morgenthau went to London just after he had had an equally outstanding failure.

The U.S. Treasury's gigantic \$4 billion bond issue consisting of 1½% notes of 1946 and 2% bonds of 1952 had just been subscribed for a total of \$4,100,000,000—a squeak-through compared to the 50% (and greater) over-subscriptions of recent years. But to save even this much face the Treasury had to beg banks to increase their purchases, for the unsolicited subscriptions fell considerably short of the necessary total (about \$1,000,000,000 short, according to many bankers' beliefs).

The Fetish of 2%. This fiasco was the result not of any weakness in the Government's credit but of the Treasury's stubborn amateurishness. Most bankers agreed that the offering would have been a success if it had consisted of 2½% bonds of 12 to 14 years maturity, but the Treasury brushed aside their advice. More than that, unlike Mr. Mellon who confessed to his error when he misjudged the market, Mr. Morgenthau stuck to his dignity, put on a little homily on 2% financing.

"Now that we have successfully raised \$4 billion with the cooperation of the investors of the nation, I sincerely hope we will be able to continue to finance this

war in the seven-to-ten-year range at 2%. If we are able to accomplish this... we will save not only this but future generations many millions of dollars on the public debt."

This talk of saving the taxpayer money was of course sheer eyewash since the Treasury, if it chose to put out short enough maturities, could finance the war at a fraction of 1%, or for nothing if it issued greenbacks. Moreover, a 2½% long-term issue would not have been out of line with current Government bond yields. But the Treasury feared that if it put out such an issue just now investors in the future might demand this higher rate on shorter maturities. This would jack up the price of money all around and might—so the argument runs—unsettle the market for existing Government obligations.

With these fears in mind the Treasury forgot about the dangers of the failure of its issue, ignored the fact that it was antagonizing its customers, the bond buyers, blandly pooh-poohed the consequences of its decision.

The Customers Be Damned. Mr. Morgenthau is very high-principled, very modest about his limited financial ability, very timid. His daring move in sticking to 2% was out of character for him but not for his New Deal advisers. Those advisers were not worried about the consequences. They are quite sure that the banks will continue to take Government offerings, at almost any price, and that they do not have to worry about giving the banks what they want. Their attitude is: This is war; the banks have to buy our offerings, they have no choice, nor any other way of earning a living.

The Treasury still throws up its hands in horror at the idea of forced allocation of bonds to the banks, but recognizes that possibly it may be necessary to allot the banks quotas of bonds to be bought. This, the New Dealers point out, is voluntary and was done in the last war. How voluntary it will be with the Treasury in the mood of "the customers be damned" remains to be seen. But if forced allocation becomes a fact by whatever name it may be called, the Government will in effect have to take control of the whole banking and credit system.

What Price Inflation? If the banks fail to absorb Government loans on a voluntary basis the Government expert comforts himself that he can always sell his bonds to the Federal Reserve. Selling the Government bonds to the banks is of course inflationary because it adds to the amount of credit money in circulation. But selling them to the central bank is the next thing to printing greenbacks. (France followed that road to inflation in the early '20s.) It means one more retreat from what the Treasury itself has said was its wartime objective: to cut down the sale of bonds to the banking system (whether the Federal Reserve or individual banks)

October 29, 1942.

Dear Mr. Eccles:

In the absence of the Secretary, who is still abroad, I am acknowledging your letter of October 27, enclosing a copy of one you have written to Mr. John Ravenhorst, Associate Editor of TIME magazine.

I shall be very glad to bring these communications to Mr. Morgenthau's attention immediately upon his return to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

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Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

TREASURY DEPARTMENT

12

INTER OFFICE COMMUNICATION

DATE OCT 27 1942

TO Secretary Morgenthau

FROM Mr. Paul

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

REP
IR

Attachment.

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

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

1. Recommendation for Prosecution of Ralph C. Felsted, former State Procurement Officer. The Intelligence Unit recommended that criminal prosecution be instituted against Ralph C. Felsted, who was appointed as State Procurement Officer, U. S. Treasury Department, Salt Lake City, Utah, on July 2, 1935. Felsted was discharged from that position with prejudice on December 4, 1941. Criminal proceedings were subsequently recommended in two separate reports prepared by Special Agent Elsberry. One of those reports was submitted directly to the U. S. Attorney at Salt Lake City, as a result of which a complaint has been filed alleging that subsequent to his suspension Felsted falsely pretended to be an officer of, and to be acting under authority of, the United States Treasury Department while procuring materials and money for his own personal benefit. The U. S. Attorney has also prepared a draft of a second complaint, which has been referred for the recommendation and advice of the Department of Justice, alleging that Felsted fraudulently issued tax exemption certificates covering

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nonofficial purchases of a large quantity of automobile tires and inner tubes and of one Ford station wagon. The other report of the Special Agent was transmitted to the Chief Counsel's Office with the recommendation of the Intelligence Unit that Felsted be prosecuted for attempting to evade and defeat manufacturers' excise taxes in the amount of \$643.66 through the issuance of fraudulent tax exemption certificates, and for failure to pay vendors a balance of \$6,749.23 owing on nonofficial purchases procured through the issuance of standard Government purchase orders as a result of which claims now totaling \$1,952.61 have been presented to the United States Treasury Department for payment.

2. J. T. Daniel and Howard B. Drake, Oklahoma City, Oklahoma. The Chief Counsel's Office has been advised that Daniel, a newspaperman of Ryan, Oklahoma, State Legislator for six terms, and Speaker of the Oklahoma House of Representatives during the term of office of the late Governor E. W. Marland, and Drake, former campaign manager for Governor Marland, have both entered pleas of nolo contendere to indictments charging them with wilfully attempting to evade and defeat their respective income taxes for the years 1937 and 1938. Each individual received a sentence of two years to be served in a

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Federal penitentiary.

3. Joseph M. Schenck. Schenck was indicted for attempting to defeat and evade his income taxes for the years 1935, 1936, and 1937. Last year he was convicted with respect to 1935 and 1936 but was acquitted for 1937. His conviction was affirmed by the Circuit Court of Appeals for the Second Circuit six months ago. Following the affirmation Schenck pleaded guilty to a charge of perjury in connection with testimony before Special Agent Ronayne, and was sentenced by Judge Moskowitz to a year and a day imprisonment. On recommendation of United States Attorney Correa, the Judge suspended the three-year imprisonment sentence on the income tax charges and put Schenck on probation with the understanding that he was to pay all of his tax liabilities. On September 8, 1942, Schenck was paroled after having served about four months of his sentence on the perjury charge. For the past several weeks negotiations have been proceeding for the settlement of his income tax liabilities for the years 1935 to 1941, inclusive, and it now appears that those liabilities will be settled on the payment of additional tax of \$321,720.16, fraud penalties of \$86,178.20, which with interest up to September 15, 1942 would total slightly less than \$490,000. Negotiations have also been proceeding with

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respect to the settlement of an outstanding gift tax case for 1935, and it is expected that that matter will be settled with the payment of an amount in excess of \$100,000, including interest.

4. Fred Perkins in Trouble Again. The case of Fred Perkins was referred to the Department of Justice on September 15, 1942, with the recommendation that he be prosecuted for wilfully failing to pay the employers' excise tax imposed by Section 1410 of the Internal Revenue Code. The case has received wide spread publicity in the newspapers due to Mr. Perkins' constant refusal to pay his taxes. A contest between Mr. Perkins and the Collector at Philadelphia has been going on for a period of four or five years. It is to be noted that the taxpayer is the same individual who served an 18 day sentence for violation of the N.R.A.

5. Boeing Aircraft Company - Renegotiation. Near the end of 1940 Boeing signed a contract with the War Department for 260 bombers, which was later increased to 530, pursuant to terms of the contract; deliveries were commenced in 1941, and the contract was completed in 1942. The company now proposes to return \$38,000,000. They are requesting a closing agreement to exclude this amount from the 1941 and 1942 returns on

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the basis of deliveries made in those years. At the time of filing an application the 1941 return had not been filed.

6. Amortization of War Facilities. The Hartford Machine Screw Company has facilities which it constructed pursuant to an emergency plant facilities contract whereby it was to be reimbursed by the Government for the cost of the facilities. It now proposes to return the amount of reimbursements received this year and not to receive any further reimbursements. It has requested a closing agreement that the reimbursements received and returned are to be excluded from gross income, and that the new arrangement will not affect the company's rights with respect to amortization. There appears to be a trend to get away from the emergency plant facilities contract even in cases where facilities have been constructed pursuant to such contract. The Wall Street Journal of September 29 reports that the Beech Aircraft Company is negotiating along this line. On the other hand, the Glen Martin Aircraft Company is tentatively considering transferring all title to a large part of its facilities to the Government, which action would eliminate the necessity for complying with the procedure in respect of amortization, for it would not be entitled to any amortization of the facilities after the transfer to the Government.

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7. Levy on War Bonds. The Chief Counsel's Office is considering what procedure should be followed in connection with possible distraint and levy on war bonds to satisfy delinquent Federal taxes. With the increasing sale of war bonds and the increasing number of Federal taxpayers, a large number of situations will undoubtedly arise where the sole asset of value of a delinquent taxpayer may be his war bonds. Aside from considerations of general Treasury fiscal policy as to the wisdom of reaching such bonds for payment of tax, there are a number of troublesome legal questions involved. Suggestion has been made that possibly a notice filed by the Collector with the Treasurer of the United States would be sufficient to impose an effective lien on the bonds prior to their redemption. However, inasmuch as bonds may be inscribed in the names of two persons, controversy will arise as to the effect of such notice where the person cashing the bond is not the delinquent taxpayer. Also, it will be necessary in many instances to determine what are the respective rights of the parties whose names are inscribed on the bonds, especially in those cases where, for example, a parent intends to make a bona fide gift of a bond to his minor child but for protective purposes has his own name as well as that of the child inscribed on the bond. Moreover,

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there is some doubt as to the practical efficacy of a lien notice filed with the District Court in whose district the taxpayer resides. While the notice would be good constructively, it might be of little utility due to the fact that the bonds can be turned in anywhere in the United States. In other words, each Federal Reserve Bank would have to be notified with some sort of caveat list and this procedure might create some additional administrative problems.

8. Interest on Refunds of Voluntary Advance Payments on Account of Taxes. A conflict in the courts, which may lead to an early Supreme Court decision as to the liability of the Government for interest upon refunds of voluntary advance payments on account of taxes, has resulted from a decision for the Government on August 28, 1942 by the Circuit Court of Appeals for the Third Circuit in Ralph C. Busser v. United States. The court held that the provision of law requiring payment of 6% interest upon an "overpayment in respect of any internal revenue tax", does not require the Government to pay interest upon the refundable excess amount of a voluntary payment on account of estate taxes made on the due date of the tax but prior to the extended date for filing the return. A contrary decision was entered by the Court of Claims on December 2, 1940

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in Atlantic Oil Producing Co. v. United States, involving interest upon a refund of an excess payment of capital stock tax made prior to the filing of the return. The Bureau has been in favor of allowing interest upon the refund of such excess payments, and the General Accounting Office has withheld interest in such cases.

9. Restrictions on the Sale or Purchase of Stock Transfer Stamps. In view of the insistant demand on the part of the philatelic interests to include stock transfer stamps among the various classes of stamps now allowed to be sold by stamp collectors, consideration is now being given to the question of whether a Treasury decision should be submitted so as to cancel section 113.144 of Regulations 71. The regulations cover only stock transfer stamps, that is, stamps used to cover sales of stock on the Exchanges. For the year ending June 30, 1941 the sale of stock transfer stamps amounted to \$12,176,496.92 as against \$22,075,503.40 of all other documentary stamps.

10. Radio Station Held to be State Instrumentality. The WWL Development Company, Inc., was organized in 1929 by Loyola University, an organization exempt under section 101(6) of the Internal Revenue Code, to operate radio station WWL. All its stock is owned by or on behalf of Loyola University and the

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University absolutely controls its policy. The license from the radio commission is in the name of the University, and the University receives all the income of the company and uses it exclusively for its educational purposes. The Chief Counsel's Office held that the WWL Development Company is doing no more than carrying on functions which the University itself might do directly; that in substance it is no more than an arm or a branch of the University; and that it is, accordingly, entitled to exemption from income tax under section 101(6) of the Internal Revenue Code.

11. Discussion with Canadian Revenue Officials of Regulations under Tax Convention. (See June 1942 report, item 13). Mr. P. J. Mitchell of the Chief Counsel's Office accompanied Special Deputy Commissioner King to Ottawa, Canada, on October 4 for the purpose of discussing with Canadian revenue officials proposed regulations to be issued under the Tax Convention between the United States and Canada, which was ratified on June 15, 1942, and to discuss problems which have arisen in the administration of the convention since its adoption.

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

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12. Foreign-trade Zones. An informal meeting of the Committee of Alternates of the Foreign Trade Zones Board, attended by Mr. Chambers, was held on September 9, 1942, to obtain the views of Deputy Collector Bradley on the proposed new zones at Houston and New Orleans. Mr. Bradley, who is in charge of the New York zone and made an inspection trip under instructions from the Bureau of Customs, made several suggestions regarding physical features of the zone site at Houston. The Committee agreed that action should be taken to secure compliance with his suggestions. Discussion of the New Orleans zone indicated that the proposed site is open to serious objection and that advocates of a zone at that port will probably be required to do further exploratory work before a concrete proposal is in shape for acceptance by the Board.

There was also discussed at the meeting the failure of the City of New York, the grantee of the New York zone, to fulfill its legal obligation to pay for the services of the customs employees in the zone since the requisition last February by the War Department of most of the original zone territory and the inclusion of additional substitute space in the zone. The difficulty arises out of a misunderstanding between the City of New York and the War Department over an alleged agreement of

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the War Department, in requisitioning zone territory, to assume payment of customs expenses. The Bureau of Customs has communicated with the City of New York and the War Department in regard to the matter. If efforts to obtain payment are unsuccessful, the Treasury Department will probably find it necessary to place the matter before the Board as a violation by the City of New York of its obligations under the Foreign-Trade Zones Act.

13. S. B. Penick & Company Case (See August 1942 report, item 18). This company obtained a contract to supply the Navy with 5,000 ounces of codeine sulphate. Supplies of codeine sulphate were available, but the company wished to manufacture the drug from crude opium, and insisted that its order for crude opium for the purpose was entitled to priority. The Penick Company endeavored to have the War Production Board enforce compliance with the alleged priority. In response to an inquiry from Mr. Fred Stock, Chief, Drugs and Cosmetics Section, Chemicals Branch, War Production Board, a letter was prepared by Mr. Tennyson, for the signature of the Commissioner of Narcotics, expressing the opinion that compliance should be required as to Army or Navy orders for narcotic drugs, but that the priority should not extend to the acquisition of the raw

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opium equivalency of the order. Subsequently, the Chief of the Compliance Branch of the War Production Board advised the attorneys for Penick & Company that the Board had decided to adhere to its former decision not to require delivery of raw opium to Penick & Company.

14. War Production Board General Preference Order No. M-82, Part 1079.1, to Conserve the Supply and Direct the Distribution of Domestically Produced Hemp Seed. This order, which was issued September 22, 1942, is designed to give the Commodity Credit Corporation control over all transactions in domestically produced viable hemp seed. Its particular purpose is to foster the growth of a greatly expanded hemp crop in 1943 to meet demands for hard fibers due to the war emergency. A letter, which was prepared by Mr. Tennyson, requested concentration of the growth of the hemp crop to the area of the States of Kentucky, Illinois, Indiana, Wisconsin, Minnesota, and Iowa, in order to facilitate proper protection, due to the presence of marihuana which is also produced as part of the hemp plant. The War Production Board agreed to this request.

15. Change in Beneficiary of War Savings Bonds Already Issued. The opinion, addressed to Mr. D. W. Bell, which was prepared by Miss O'Connor, Mr. Meyer, and Mr. Feidler and signed

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on September 17, 1942, considered a proposed amendment to the Regulations governing War Savings Bonds (Department circular No. 530) which would permit the reissue of any bond (outstanding as well as future issues) upon the request of the registered owner and with a change in beneficiary. The opinion concludes that such amendment would be illegal and invalid as applied to outstanding bonds.

16. Valuation of Reciprocal Lend-Lease Aid. The opinion, addressed to Secretary Morgenthau, which was prepared by Mr. Meyer and Mr. Gilmore and signed on September 29, 1942, advised that the Secretary is not charged by law with the responsibility of ascertaining the value and keeping a record of the benefits received by the United States from the nations receiving Lend-Lease aid. Any articles actually coming into the possession of the Treasury Department would of course require the ordinary departmental records.

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

17. Defense Loan to District of Columbia. A proposed loan agreement was reviewed and revised by this office for

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use in connection with the \$2,000,000 loan for defense purposes by the Secretary of the Treasury to the Commissioners of the District of Columbia. This loan is authorized by the Act of December 26, 1941 (Pub. No. 373, 77th Cong.), as amended.

18. Donations of Real Property to the United States (See May 1942 report, item 31). Mr. Reeves attended a conference in Mr. Bartelt's office at which were present representatives of the Public Buildings Administration of the Federal Works Agency and members of the Bureau of Accounts. The subject of the conference was the procedure to be followed in connection with offers to donate real property to the United States under Title XI of the Second War Powers Act, 1942. Many offers of this nature have been received but investigation in most cases has revealed the property to be of little or no value. It was decided that the expense of making investigations in many cases could be eliminated by requesting the persons offering to donate real property to fill out a questionnaire similar in form to an appraisement schedule. The representatives of the Public Buildings Administration (the agency which makes the investigations in these cases) stated that they would furnish a draft of a questionnaire for consideration by the Treasury Department.

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19. Release of Gold Bullion Deposited with High Commissioner Sayre (See August 1942 report, item 25) (a) National City Bank of New York. Mr. Reeves and Mr. Wald conferred with Mr. Heffelfinger and Mr. Batchelder of the Under Secretary's office and Mr. Floyd Blair, Vice President of the National City Bank of New York, concerning the release of certain gold bullion which was received by High Commissioner Sayre from the Director of Posts of the Commonwealth of the Philippines at the time of the Japanese invasion, and is now held in custody by the United States Mint at San Francisco. The National City Bank has submitted documentary evidence that this gold bullion which was produced by four Philippine mining companies had been pledged by such companies to secure loans made to them by the Manila branch of the National City Bank of New York. Mr. Blair was advised that upon execution by the National City Bank of New York of an appropriate agreement of indemnity, consideration would be given to the purchase by the United States of the gold bullion. This office drafted the agreement of indemnity.

(b) Chartered Bank of India, Australia and China. A letter to the New York agent of this bank was prepared in which he was advised that certain gold bullion now held at the United States Mint at San Francisco had been deposited with High Commissioner

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Sayre by the Manila branch of his bank and he was requested to furnish the Department with evidence of his authority to act upon behalf of his bank in connection with the release of such gold bullion and its purchase by the United States.

(c) Marsman & Company. At the request of Mr. William J. Mahaney, attorney for this company of Manila, P.I., there was prepared a memorandum setting forth in outline form the information contained in records received by the Treasury Department from High Commissioner Sayre with respect to gold bullion which appears to have been produced by companies managed by the Marsman interests and which was deposited with High Commissioner Sayre for safekeeping.

20. Payments to States on Account of Absentee Voting by Members of the Armed Forces. Mr. Reeves, with representatives of the War and Navy Departments and members of the Bureau of Accounts, attended a conference in the office of the Commissioner of Accounts concerning the administrative procedure to be followed in connection with the Act of September 16, 1942 (Public No. 712, 77th Congress), which provides that the Secretary of the Treasury shall, upon the basis of reports received from the several states, submit estimates of

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appropriations for the amounts to be paid by him to the states for carrying out the provisions of the Act. All amounts advanced to the states are to be accounted for to the Secretary of the Treasury, and any parts thereof not needed are to be returned to the Secretary of the Treasury upon his demand.

21. Bonds of Vice Consuls and Foreign Service Officers (Department of State). The surety bond forms now used in connection with the bonding of Vice Consuls and Foreign Service Officers of the State Department is being revised. As revised, these bonds will be in composite form covering the duties of such officers in their capacities as (1) Vice Consuls or Foreign Service Officers and (2) Certifying Officers. In each case a specific amount of the penal sum of the bond will be prorated to cover their duties with respect to the certification of vouchers for payment. The revision of existing bond forms is necessitated by the Act of December 29, 1941 (Public No. 389, 77th Congress), which fixes the responsibility of certifying officers and requires all certifying officers to be bonded.

22. Exchange of British Coin in Liberia (See August 1942 report, item 30). At the request of the Assistant Treasurer, this office prepared a commitment to be signed by the Secretary

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of the Treasury to reimburse the Treasurer for any losses which the Treasurer suffered in carrying out his part in effecting the exchange of British current coin in Liberia for American coin.

23. Railroad Reorganizations. (a) Ft. Dodge, Des Moines and Southern Railroad Co. This office considered legal questions involved in the possible sale of \$400,000 1st Mortgage Bonds of the above company pledged to the United States, and prepared a letter for the Under Secretary's signature rejecting the bid of Freeman & Company of New York for the purchase of these bonds.

(b) Seaboard Air Line Railroad Company (See July 1942 report, item 23). Conferences were held with Messrs. Proctor and Zarky on problems incident to scheduled hearings on Government motion for permission to intervene and for relief in the Reorganization proceedings of the above railroad company. Exhibits necessary for the support of the Government's motion were collected.

24. Public Debt. (a) Litigation, New Jersey Case. A case has developed in New Jersey in connection with registration of savings bonds in the form "A, payable on death to B". The Department of Justice was notified, and that Department has been

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in telephonic communication with the New Jersey attorney representing the beneficiaries. Mr. Bell executed a motion to be filed in the court indicating the interest of the United States. This particular case seems to be an excellent test case.

(b) Financing. On September 9, 12, and 28, Mr. Tietjens and Mr. Cunningham reviewed the legality of the issuing circulars, press statements and texts in connection with the following issues: (1) 0.65% Certificates of Indebtedness, Series C-1942 1-1/4% Treasury Notes, Series C-1945; (2) Treasury Tax Savings Notes, Series A-1945 Treasury Tax Savings Notes, Series C; (3) Partial redemption of 2-3/4% Mutual Mortgage Insurance Fund Debentures, Series B, before maturity.

The following work was done under the supervision of Assistant General Counsel O'Connell.

25. War Communications Board (for description see November 1940 report, item 23). Mr. Shea attended a meeting of the Law Committee of the War Communications Board on September 28, 1942.

26. Coordination Conference of Treasury Law Enforcement Agencies. On September 14, Mr. Shea attended a meeting of enforcement agencies.

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27. Proposed Legislation on Renegotiation of Treasury Contracts. Proposed legislation on the subject of the renegotiation of Treasury Department contracts, submitted by the Procurement Division, was reviewed by Mr. Shea and Mr. Speck. Mr. Shea prepared a memorandum to Mr. Tarleau pertaining to this matter.

28. White House Police Force Recruitment. Mr. Shea and Mr. Speck, together with Mr. Joseph E. Murphy, Assistant Chief of the Secret Service Division, on September 16, attended a hearing of the House Committee on Public Buildings and Grounds on S. 2584, our bill to permit the appointment of White House police from sources outside the Metropolitan and United States Park Police forces. This bill was passed by the Senate on July 21.

29. Huntsville, Texas, First National Bank Bill. Earlier in the session (February 19, 1942) the Treasury Department submitted legislation for the relief of the First National Bank of Huntsville, Texas, and bills for that purpose were introduced. The Senate bill, S. 2309, was passed by both houses, but in the House it was amended to provide relief for two other banks. The claims of these two other banks are of such nature that provision for relief would result in preferential treatment for

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them. The President vetoed the bill on that ground, although in his veto message he stated that relief for the First National Bank of Huntsville, Texas, would appear to be unobjectionable (Sen. Doc. No. 221). On September 2, 1942, Representative Patton, of Texas, advised Mr. Shea informally that he would introduce a bill for the relief of the First National Bank of Huntsville, Texas, which is in his district.

30. State Legislation Relative to the War Effort (for description see November 1941 report, item 30; August 1942 report, item 40). In response to a letter from the Attorney General relative to the renewal of an offer of assistance by the Council of State Governments to secure helpful state legislation in the national war effort, Mr. Ranta prepared a letter for Mr. Gaston's signature transmitting a draft of a bill on marihuana eradication which the Bureau of Narcotics desires to have adopted by various states. The various bureaus of the Department were circularized and requested to offer suggestions.

31. Federal Reporting Services Bill (see August 1942 report, item 41). The legislative section completed a canvass of the various branches of the Department with respect to their

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views on the amendments proposed by the Bureau of the Budget to S. 1666, "To coordinate Federal Reporting Services, to eliminate duplication and reduce the cost of such services, and to minimize the burdens of furnishing reports and information to Governmental agencies". After consideration of the various memoranda which were received, Miss McDuff prepared a memorandum setting forth the objections advanced against the proposed amendments to the bill.

32. Directive of War Production Board (see August 1942 report, item 36). A proposed Directive of the War Production Board to delegate to the Bureau of Narcotics the President's priority and allotment powers with respect to narcotic drugs under Title III of the Second War Powers Act, was prepared by Mr. Speck and Mr. Feidler. Upon informal clearance with Mr. Manly Fleischmann, Assistant General Counsel of the War Production Board, and at his request, a letter to the Chairman of the War Production Board, in explanation and justification of the proposed Directive, was prepared in the Bureau of Narcotics and reviewed by Mr. Speck. Subsequently, the Legal Division of the War Production Board submitted a revised draft of this Directive. The revised draft was cleared

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by Mr. Speck with the Bureau of Narcotics, Mr. Cairns and Assistant Secretary Gaston, and the Legal Division of the War Production Board, was advised by telephone that the revised draft was satisfactory.

33. War Manpower Commission Directive on Occupational Deferments. Mr. O'Connell and Mr. Speck prepared a memorandum for Mr. Thompson, Administrative Assistant to the Secretary, which discussed the impact of the draft upon the staff of the Legal Division and suggested policies with respect to matters of deferments and releases for commissions in connection with War Manpower Commission Directive No. XI. This Directive requires agencies to submit a list of their key positions, on the basis of which any requests for occupational deferments are to be made. Mr. Speck prepared for submission to Mr. Thompson a list of the key positions in the Office of the General Counsel.

34. Proposed Executive Order Transferring Control of Communication Facilities (see August 1942 report, item 39). Mr. Speck examined the revised draft of proposed executive order relating to the control of communication facilities, prepared suggestions thereon, and submitted them to the Procurement Division.

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35. Procurement Division Proposed Order re Audits and Inspections on Defense Contracts. Messrs. Shea and Speck reviewed and suggested the revision of a proposed Procurement Division order to delegate the Secretary's power under Executive Order No. 9127 with respect to audits and inspections in connection with defense contracts. The suggested revision involved the question of the Secretary's power under the executive order to provide for the redelegation by Procurement Division officials of the power to administer oaths and to require by subpoena the attendance of witnesses or the production of books and records.

36. Wollner and Matchett v. Brewer and Madorsky (see August 1942 report, item 42). On September 19 Mr. Rupert attended the second meeting of the interdepartmental board, of which he is a member, that will determine the question of priority of invention between two groups of Government employees, on behalf of each of whom the Department of Justice has been requested to prosecute a patent application covering what appears to be the same invention.

37. Material for Secretary on Certain Revenue Acts. Messrs. Shea, Speck, and Rupert prepared chronologies in connection with major Revenue Acts from 1934 to 1942, showing

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action taken by the President during pendency of the bills.

38. Speech by Senator Vandenberg Criticizing the Secretary. A memorandum to the Secretary was prepared by Mr. Speck on Senator Vandenberg's speech on the Senate floor which criticized the Secretary's press comments on the Vandenberg amendment to include in the current revenue bill a provision reducing social security taxes.

39. Illustrations of War Savings Stamps. A letter was prepared by Mr. Ranta to the editor of the American Home Magazine, New York City, advising that illustrations of War Savings Stamps were prohibited.

40. Reproduction of German Stamps. Mr. Ranta prepared a letter for the signature of the Administrative Assistant to the Secretary advising Mr. Merle Fainsod of the Office of Price Administration that this Department had no objection to the use of reproductions of German stamps in a pamphlet on inflation to be prepared by the Office of Price Administration, provided only black and white illustrations were used and that such illustrations were less than three-quarters or more than one and one-half the size of the original stamps.

41. Microfilming of Government Securities. Mr. Ranta prepared a letter for Mr. Gaston's signature addressed to the Federal Reserve Bank, Boston, Mass., advising that the

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Department had no objection to the microfilming of Government securities held by the Peoples' Savings Bank, Providence, R. I., upon the condition that the films were used only for projection purposes in the event the securities were destroyed and not to make actual facsimiles of the securities. The bank desired to microfilm its securities as a precautionary measure in the event of air raids along the Atlantic Coast.

42. Compromise Offers. The offers made by Mrs. Martin Norum, Shelby, Montana, and Mrs. Elizabeth I. McCarthy, Scarsdale, New York, in settlement of claims in favor of the United States were accepted by the Acting Secretary of the Treasury. Miss McDuff prepared letters addressed to the Secretary of the Treasury, which recommended acceptance of the offers in compromise of the claims of the United States against Mrs. Leila S. Harrell, Eastman, Georgia, and Frank Grasso, Oakland, California.

The offers in compromise of the claims of the United States against the following proponents were returned to the Departments or Agencies submitting them to this Department for consideration under the general compromise statute: Ohio Farmers Cooperative Milk Association; Ernest Copeland;

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Candido Pisoni, Iron River, Michigan; North Bend Timber Company of North Bend, Washington. These matters were also handled by Miss McDuff.

43. Dismissal of Indictment. Letters were prepared by Mr. Ranta to Assistant Attorney General Berge advising that this Department had no objection to the dismissal of the following indictments: John Doe, a soldier, for the forgery of a Government check; John Settles for the forgery of a Government check; Dan A. Kotsetas and Walter J. Stewart for the forgery of Government checks; and Joseph Frank Funderburk for passing coin slugs resembling ten-cent pieces.

44. Congressional Action on Treasury-sponsored Legislation. (a) Widener Art Collection. S. J. Res. 160, "Providing for the acceptance of title to the Widener art collection of Philadelphia, and for other purposes", drafted in the legislative section, was signed by the President on September 3, 1942 (Public Law No. 708).

(b) Allen Relief Bill. Our bill, H.R. 6990, "For the relief of G. F. Allen, Chief Disbursing Officer, Treasury Department, and for other purposes", was reported on September 3, 1942, from the House Committee on Claims (H. Rept. 2436) with an amendment. The amendment, however, was a part

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of the proposed legislation which we submitted to the Congress, but had been inadvertently omitted when H.R. 6990 was introduced.

(c) Huntsville, Texas, First National Bank. On September 10, 1942, Mr. Connally introduced S. 2761, for the relief of the First National Bank, of Huntsville, Texas. The bill was then referred to the Committee on Claims. This bill had been introduced in the House on September 9, 1942, as H.R. 7535, and had been referred to the Committee on Claims in the House. These bills as introduced on September 9 and 10 are the same as the one we originally presented to Congress earlier in the session (February 19, 1942).

(d) White House Police Force Recruitment. S. 2584, our bill to permit the appointment of White House Police in accordance with the Civil Service laws from sources outside the Metropolitan and U. S. Park Police forces, was reported from the Committee on Public Buildings and Grounds, without amendment (Rept. No. 2470), on September 17, 1942.

(e) Opium-Poppy Bill. On September 21, 1942, Representative Doughton introduced H.R. 7568, to discharge more effectively the obligations of the United States under certain

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treaties relating to the manufacture and distribution of narcotic drugs, by providing for domestic control of the production and distribution of the opium poppy and its products, and for other purposes. It was referred to the Committee on Ways and Means. This bill was introduced in the Senate on March 25, 1942, as S. 2405.

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

45. Patents (See August 1942 report, item 50). Mr. Aarons and Kehl attended conferences with representatives of the Alien Property Custodian and the Anti-Trust Division of the Department of Justice on a large number of applications arising out of the Consent Decree obtained by the Department of Justice against Standard Oil Company of New Jersey and its affiliates, as a result of which the Treasury was able to dispose of a number of applications involving the filing and assignment of patents in Great Britain, Canada, and South America.

A study of a draft of a general order to be issued by the Alien Property Custodian affecting patent transactions is being made by Mr. Aarons and Mr. Kehl. Under this proposed general

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order, the filing of patent applications by blocked nationals other than enemy nationals will be permitted as is now done under the Treasury's General License No. 72. It has been suggested by this office that in those cases where trade or communication with an enemy national is involved, a Treasury license should be obtained and such license should not be granted in the absence of a request for approval by the Alien Property Custodian. The transfer of interests in United States patents owned by blocked nationals, whether by assignment or otherwise, would be handled under the proposed general order by the Alien Property Custodian. However, the payment of all United States Government and attorneys' fees and the filing and prosecution of all patents in blocked countries and the payment of fees in connection therewith would continue to be subject to the control of the Treasury Department. Revisions were made in General License No. 72 and in Public Circulars Nos. 5 and 5A to conform to the new plan of action.

46. Insurance Problems (See August 1942 report, item 51). An analysis was made by Mr. Aarons, Mr. Kehl, and members of the Administrative Staff of the chain of corporations, the majority of which deal in insurance, controlled by C. V. Starr through various China Trade Act corporations. On the

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basis of this study letters were prepared licensing seven of these corporations to engage in normal business operations.

The problem of reinsuring intervened Proclaimed List companies in Colombia pending their removal from the Proclaimed List was discussed by Mr. Kehl and members of the Administrative Staff with the State Department and a representative of the British Embassy. As a result of these discussions, the American Mission in Colombia was authorized to permit temporary reinsurance of such intervened companies on the condition that satisfactory governmental interventors be installed, that all known Axis employees be eliminated from personnel, and that steps be taken to remove such companies from the Proclaimed List.

47. Estates (See August 1942 report, item 52). A new general license and public circular have been drafted which will constitute the first real codification of the Treasury Department's rulings and interpretations concerning the handling of blocked estates and which will obviate the necessity for much of the specific licensing presently being done in this field. Miss Klein and Messrs. Aarons, Luxford, DuBois and Alk worked on this matter.

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48. Litigation (a) General Aniline & Film Corporation
(See August 1942 report, item 60). Suits by Aickelin and Alexewicz against General Aniline & Film Corporation were brought by employees of General Aniline & Film Corporation who were discharged or suspended pursuant to the instructions of the Treasury Department. Messrs. Luxford, Golding, Murphy and Alk considered the legal problems in these cases and the procedure to be adopted in connection therewith, and have cooperated with representatives of the Department of Justice in the preparation of briefs, which are being prepared for filing in New York State and New Jersey on pre-trial motions.

(b) Sumitomo Bank of Seattle et al. v. Utterback. This case, which arose in the United States District Court for the Western District of Washington, involved the liquidation of the Sumitomo Bank of Seattle. Legal memoranda were prepared on this matter, and conferences were held by Messrs. Luxford, Daum, Aarons, and Alk with representatives of the Department of Justice, the Comptroller of the Currency, and the Alien Property Custodian. Consideration was given to the disposition of this case by the Alien Property Custodian's vesting of the shares of the bank and the matter disposed of along these lines.

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(c) Stern v. Hallgarten & Co.; Alien Property Custodian, intervenor. This office acted in an informal advisory capacity to the Department of Justice on the approach to be adopted in the brief of the Alien Property Custodian. The suit was brought by a French national within the United States against Hallgarten to replevy certain shares of stock of which A. J. Stern et Cie., Paris, France, is the registered owner but which were claimed as property of the French national. The Alien Property Custodian has vested these shares. Messrs. Golding and Murphy worked on this case.

(d) Brown v. Morgan. Messrs. Reeves and Golding are studying the brief to be filed by Davis, Polk, Wardwell, Gardner & Reed as amicus curiae before the New York State Supreme Court, Appellate Division, First Department. This case involves the question whether a person who seeks to plead the prohibitions of the Executive Order as a defense must show that he has first applied for and been denied a license to effect the transaction in question.

(e) Yokohama Specie Bank. The Superintendent of Banks of California, the liquidator of Yokohama Specie Bank, Ltd. (California), requested this Department to intervene in an

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action brought by the trustee in bankruptcy of the NYK Lines on an alleged claim of the NYK Lines against Yokohama Specie Bank, in connection with which the Federal Reserve Bank of San Francisco was subpoenaed to appear with copies of various Treasury Department licenses. This office decided that inasmuch as both liquidations were licensed by the Department it would be inadvisable for the Department to intervene in the case and authorized the Federal Reserve Bank of San Francisco to appear. The matter was referred to the Alien Property Custodian and it is expected that he will appear in the proceedings. Messrs. Aarons and Alk worked on this.

49. Remittances. A public circular is being prepared by Messrs. Luxford, Aarons, DuBois, Alk and Daum, which will announce that the Treasury will deny applications for specific licenses to effect remittances not covered by outstanding general licenses (General Licenses Nos. 32, 33, 49, 50, 52, 70, and 75). The public circular will also point out that the same procedure will be followed with respect to remittances of dividends, interest, and proceeds of decedents' estates, adding that such remittances may be made to blocked accounts in the United States under General Licenses Nos. 1 and 27.

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General License No. 33 will also be amended to authorize remittances to blocked nationals in the generally licensed trade area.

50. Retroactive Cases -- General Ruling No. 12 (See August 1942 report, item 63). The Retroactive Committee which is now functioning and acting upon cases, was instituted for the purpose of formulating policy and procedure to be followed in connection with the handling of cases arising under General Ruling No. 12, which involved transactions performed without a Treasury Department license. Messrs. Luxford, Golding, and Murphy worked on this matter. General Ruling No. 12A, which was drafted by Messrs. Luxford, DuBois and Golding, is designed to ameliorate the effect of General Ruling No. 12 where an unlicensed transfer was not wilful by the holder of the blocked account or where such person was not apprised of the fact that the transfer was not licensed or authorized or that the license purporting to cover it was obtained through fraud or misrepresentation.

51. Scorched-Earth Programs (See August 1942 report, item 64). Various aspects of the Hawaiian scorched-earth program pertaining to securities and currency in Hawaii were considered by Messrs. Luxford and Murphy. These matters

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relate largely to the preparation of letters in response to inquiries and the adjustment of minor administrative matters arising in connection with the program. One of the problems is that of determining the approach to be followed in requiring the opening and inspection of safe deposit boxes which have not been opened in accordance with the regulations issued by the Governor of Hawaii, because the holders cannot be communicated with.

Messrs. Luxford and Murphy are also studying the necessity for promulgating similar programs with respect to the other territories and the possessions of the United States--principally Alaska, Panama, Puerto Rico, and the Virgin Islands. In some of these areas, such as Panama and Puerto Rico, the adoption of a scorched-earth policy might well be integrated with measures curtailing the availability of currency to the Axis. At the present time, regulations are being prepared which would require the institution of a special series of currency for Puerto Rico and Panama.

52. Philippine Program (See August 1942 report, item 61). The study of the problem of issuing regulations which will provide the mechanics for the release of Philippine securities deposited in reputable banks located abroad in accordance

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with the notice of the Philippine Government of January 14 is being continued by Messrs. Luxford and Murphy. They have cooperated with the Federal Reserve Bank of New York and the office of the Resident Commissioner of the Philippines in working out a joint memorandum to be issued by the United States and the Philippine Government. Documents, which were drafted in this office, are now being considered in the office of the Resident Commissioner.

53. Interned Aliens (See August 1942 report, item 53). The documents concerning the handling of funds of interned aliens have been completed and agreed to by representatives of this Department and the War Department. It is expected that the documents will be issued in the near future. Messrs. Aarons, Lawler, Alk, and Arnold worked on these matters.

54. Public Documents. (a) Public Circular No. 19 (See July 1942 report, item 42, May 1942 report, item 36). This office participated in the issuance of Public Circular No. 19 and a press release descriptive of it. The public circular contained revisions of several of the outstanding freezing control documents--notably, a revision of General License No. 4 to permit over-the-counter sale of Government securities; the inclusion of the Faroe and the New Hebrides

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Islands in the generally licensed trade area as defined in General License No. 53; and a revision of General License No. 5 to limit its applicability to taxes, customs duties, and fees owed to the United States Government. Several other amendments were made which effected formal changes, simplified report requirements, and brought the freezing control documents up to date. Messrs. Luxford, Aarons, and Golding worked on this matter.

(b) TFR-300, Series L, and Public Circular No. 4C (See August 1942 report, item 57(b)). Series L, a form for a supplemental census of foreign-owned property, its accompanying circular and a press release were issued. Action has been taken to have these documents translated into various languages and to issue instructions to Collectors of Customs. Messrs. Reeves, Arnold, and Luxford worked on this.

(c) Public Interpretation No. 6. Messrs. DuBois and Luxford participated in the preparation of Public Interpretation No. 6 and its press release to the effect that the unlicensed sending of securities, currency, checks, drafts, or promissory notes to persons in Sweden, Switzerland, Spain, Portugal, and unoccupied France is prohibited by the Order and not authorized by any of the general licenses.

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55. Administrative Status for Foreign Funds Control.

Mr. Aarons and Miss Klein collaborated with the Administrative Staff in the preparation of Treasury Department Order No. 46, which gives separate administrative status to Foreign Funds Control. A study of the questions of administrative law involved was made.

56. Bank of Guam. (See February 1942 report, item 28(d)).

Mr. Alk and Mr. Aarons considered legal problems in connection with claims filed against the Bank of Guam, for which the Treasury Department has been acting as conservator since February 7, 1942, at the request of the Navy Department. Recommendations concerning the treatment of specific claims have been made to the Navy Department.

57. Investigations (See August 1942 report, item 54).

The Investigative Section of this office, formerly under the direction of Mr. Eugene Clay, is now headed by Mr. J. John Lawler.

A memorandum to the Secretary and a memorandum to the President with regard to the Draeger Shipping Company was prepared by Messrs. Lawler and Proctor in collaboration with members of the Administrative Staff of Foreign Funds Control. Conferences were held with the Administrative Staff looking

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toward the further investigation of freight forwarding.

The investigations of the French Line made by Mr. Marks, the Val J. Peters newspaper chain, made by Mr. Moore, the Swiss Banks investigation, made by Messrs. Lesser, Ackermann, King, and Ewing, and Anton Smit & Co., made by Messrs. Lesser and Schwartz, have been completed and reports are now in preparation. A final report has been filed of the investigation of Eastern Provinces Administration, Ltd., made by Messrs. Lesser and Quint.

The investigation of the Swiss insurance companies, made by Mr. Proctor, is continuing and an investigation of "The Iowa Reform" has been initiated by Mr. Moore.

58. Enforcement (See August 1942 report, item 55).
On September 25, 1942, Kenji Iki, a Japanese claiming American citizenship, pleaded guilty in the U. S. District Court at Seattle, Washington, to an indictment charging that he failed to file a TFR-300 report disclosing that he held \$15,000 in currency and \$515,000 face amount of Japanese bonds for United Ocean Transport Company, a Japanese national. He was sentenced to nine years imprisonment and a \$5,000 fine. Iki also pleaded guilty to charges of perjury and conspiracy

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on which he received sentence of five and two years, respectively, to run concurrently, however, with the nine year sentence.

On September 21, 1942, a criminal reference report was submitted to the Department of Justice relating to another Japanese who transmitted funds without a license therefor to a South American bank for the account of a Japanese bank in payment of merchandise imported from Japan, and upon the instructions of the Japanese seller.

Supplemental investigations are being conducted of twelve cases to determine whether criminal reference reports with respect to them should be prepared. Messrs. Lesser, King, Quint, Ackermann, Schwartz, Ewing and Cook are working on these matters.

A study is being made by Messrs. Lesser and Ackermann of the possibility of using the internal revenue statutes and regulations as a means of forcing the disclosure of the beneficial owners of cash balances and securities in "omnibus" accounts.

The Board of Economic Warfare requested and received assistance in the conduct of a hearing in proceedings to determine what if any action it should take with respect to

Gillespie & Co. because of its alleged dealings with a "cloak" for a proclaimed list national. Messrs. Lesser, Ackermann, King and Cook worked on this.

The United States attorney for the southern district of New York has requested and is receiving assistance in the preparation of a case referred to him by the Bureau of Customs. Messrs. Lesser and Cook are handling this matter.

59. Preparation of Legal Memoranda. Legal memoranda have been prepared by Mr. Minskeff, relating to the liability of blocked nationals for the failure to perform a contract because of the freezing control prohibitions. The case considered involved the general problems of frustration, excusable impossibility and illegality, and the extent of recovery on the theory of quantum meruit.

In conjunction with the briefs in Hans Aickelin v. General Aniline & Film Corporation, a memorandum was prepared by Mr. Golding, summarizing the alter ego theory and its applicability to the facts of that case.

A memorandum was prepared on the Columbia Law Review article relating to the Polish Relief case by Mr. Golding. Likewise, a memorandum stating the position of the Treasury Department with respect to an article appearing in the

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Harvard Law Review dealing with the Conflicts of Laws problems arising out of the freezing control is presently being prepared by Messrs. Golding and Minskoff.

60. Securities. Documents have been prepared consisting of a proposed general license and public circular which will govern the voting of securities by blocked nationals and the transmittal of solicitation material to blocked areas. The proposed public circular announces the policy of the Treasury Department to deny any such voting or solicitation where securities are physically within blocked areas or are held in special blocked accounts (General Ruling No. 6 accounts). These documents will supplement the tightening up of our controls respecting accounts of persons who are nationals of neutral countries. Messrs. Aarons, Luxford, DuBois, Alk, and Daum are working on these matters.

An amendment to General License No. 29 which would extend the provisions of General Licenses Nos. 1, 2, 4, 5, 27, 32, and 33 to General Ruling No. 6 accounts, the concept of which would be extended by a proposed General Ruling No. 15 to include blocked accounts held by persons outside the United States, is being prepared by Messrs. Luxford, Aarons, DuBois,

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Alk and Daum.

Documents are being prepared by Mr. Daum to permit the importation of United States Government securities by United States employees who are returning from the Canal Zone. An action guide relating to General Ruling No. 10A is, also, being prepared.

A study is being made by Mr. Daum of the status of short sales under the freezing order.

61. Safe Deposit Boxes (See August 1942 report, item 62). In connection with the program to compel disclosure of the contents of safe deposit boxes leased by persons residing outside the United States, a general ruling is being drafted by Messrs. Luxford, DuBois and Daum.

62. Diplomatic Pouches. This office has participated in the consideration of the problem of permitting various types of communications to be sent to foreign countries via diplomatic pouches. Messrs. Luxford, DuBois, and Moskovitz worked on this.

63. Latin America (See August 1942 report, item 69).
(a) Trade Marks of Vested Enterprises. Messrs. Lawler and DuBois represented the Department in a conference with representatives of the Alien Property Custodian and of the

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Departments of State and Justice concerning the treatment of trademarks and patents in the South American republics of enterprises vested by the Alien Property Custodian. The specific problem arises in connection with the trademarks and patents of Schering Corporation.

(b) Argentina. Messrs. DuBois and Moskovitz have been making a study of the various steps which might be taken vis-a-vis Argentina through freezing control. A number of conferences have been held with members of the State Department in an effort to formulate a program of action against Argentina. The following steps are being considered: (a) Adding to the Proclaimed List or blocking ad hoc a large number of firms in Argentina with respect to which there is evidence indicating Axis influence, but which have not as yet been added to the Proclaimed List; (b) ad hoc blocking partners, managers, employees, or other individuals who are in any way connected with Proclaimed List firms; and (c) blocking ad hoc or monitoring the accounts of banks, exchange houses and other institutions which may be cloaking funds for blocked nationals. Other steps which are being considered on which the State Department has not indicated agreement are: (a) Public freezing of Argentina; (b) a method of supervising Argentine transactions

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without issuance of a public freezing order; (c) exclusion from the general licenses applicable to the European neutral countries of transactions with Argentina; and (d) vesting of assets of certain firms on the Proclaimed List in Argentina. An extensive study has been in progress for obtaining all available information concerning Argentina and Argentine firms in connection with the formulation and execution of a program.

(c) Brazil. A proposed Brazilian decree, providing for the taking over of enemy property in Brazil by the Brazilian Government, was studied by Messrs. DuBois and Cassoday, and suggestions made which were communicated to the Brazilian Government through the State Department. It is expected that the Brazilian Government will shortly enact the proposed decree.

(d) Venezuela. A memorandum was prepared by Messrs. DuBois and Sommerfield, which contained a draft of a law suggested for submission to the Venezuelan Government which would enable American-owned oil companies to refuse sales to Proclaimed List nationals without fear of having their franchises revoked. The memorandum also pointed out certain legal inadequacies in the present Venezuelan freezing controls.

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(e) Mexico. Mr. Luxford and Mr. Rains participated in the preparation of a program which will deal with Mexican securities. The plan envisages registration of all Mexican securities of certain named issues, regardless of the identity of the holder. It is hoped that this program will be an important part of our efforts to prevent the Axis from realizing any benefit from this property.

Mr. Rains returned from Mexico after having concluded arrangements made in connection with the joint program for the control of United States currency adopted by the Mexican Government and the United States. Certain problems which arose in connection with the administration of this control have been solved and the program appears to be working very satisfactorily. Messrs. DuBois and Rains worked on these matters.

A conference was held by Messrs. DuBois and Lawler with a representative of the Mexican Government concerning what action should be taken by the Mexican Government with respect to Axis-controlled enterprises in Mexico, particularly in respect to chemical and drug firms.

64. Neutral European Countries (See August 1942 report, item 70). A general ruling has been prepared which provides that assets held in the United States for persons within the

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European countries may not be withdrawn for any purpose until the identity of the true owner of such assets on the date the freezing Order was extended to such country is established and until it is established that no transfer of any such assets has been made since that date except transfers licensed by the Treasury Department. This ruling is particularly aimed at banking institutions in the neutral European countries, especially those in Switzerland, which may be holding funds and securities within the United States which actually belong to nationals of enemy countries and countries occupied by the enemy. Messrs. DuBois, Luxford, Lesser and Daum have held several conferences concerning the ruling with the State Department and has submitted memoranda in connection therewith. Issuance of the documents now awaits clearance from the State Department.

65. Currency Program (See August 1942 report, item 66). Documents have been prepared in connection with a program to call in all United States currency bills in \$500 denominations or over, both in this country and in the rest of the world. The purpose of this program is to implement our existing controls with respect to United States currency so as to prevent

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the Axis from realizing on looted currency. Messrs. Luxford, DuBois, and Rains worked on this problem. Memoranda were prepared by Mr. Sommerfield relating to certain legal aspects of this program.

Documents which will have the effect of lowering to \$50 the present \$250 exemption allowed incoming passengers under our currency import controls have been prepared by Messrs. DuBois and Rains.

A summary of all currency controls which are now existing in the other American Republics is being made by Mr. Cassoday for the purpose of determining what additional steps we may desire any of the American Republics to take.

A number of currency problems, arising out of the enforcement of General Ruling No. 5 and General Ruling No. 14 have been handled by Mr. Rains, Miss Goode and Mr. Lesser in collaboration with members of the Administrative Staff. One of the problems now under consideration is whether currency illegally imported may be forfeited to the United States. Pending a decision on that question, instructions have been issued to Collectors requiring them to deliver currency for which a false declaration was made to the Federal Reserve Bank

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and to file a report of all the facts with the Bureau of Customs and Foreign Funds Control.

A program has been prepared by Mr. Rains which is designed to meet difficulties presently being experienced by seamen of the United States in connection with the currency program. A conference with the Maritime Section of the CIO was held and a procedure agreed upon which is now ready to be put into effect.

66. Censorship. The Office of Censorship is preparing a codification of existing censorship regulations. A draft submitted for the consideration of this Department was studied by Mr. Rains and Miss Goode, and several changes suggested and discussed in a conference with representatives of the Office of Censorship.

67. Silver (See August 1942 report, item 72). Arrangements were made for the sale of approximately five million ounces of silver classified as silver ordinary to industrial users who were certified by the War Production Board to be in urgent need of silver for immediate use in war production. Mr. DuBois, Miss Hodel and Mr. Brenner worked on this matter.

68. Silver Legislation. A study has been made of the legislation introduced in Congress relating to silver,

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particularly the Green Bill which would permit the Treasury to put practically all the silver now held by the Treasury to use in the war effort. A report on the Green Bill has been prepared by Messrs. DuBois and Brenner.

69. Coinage (See August 1942 report, item 71). Miss Hodel and Mr. Brenner, in cooperation with the Legislative Section and the Mint Bureau drafted legislation to provide for the coining of minor coin of any denomination, size, weight, shape or material, and for the melting of standard silver dollars held in the Treasury.

70. Pershing Hall. An opinion to the Commissioner of Accounts, which was prepared by Miss Hodel and Mr. Brenner, concluded that the Treasury Department is not obligated to continue to make regular payments of earnings on the Pershing Hall Memorial Fund to the National Treasurer of American Legion, Inc.

71. Stabilization Agreements (See May 1942 report, item 64). The appropriate documents were received from the State Department with respect to the Stabilization Agreement entered into with Iceland and such stabilization agreement is now in effect. Mr. DuBois worked on this.

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72. International Stabilization (See May 1942 report, item 66). This office participated in the Interdepartmental Committee study of J. M. Keynes' plan for an international clearing unit and Dr. White's plan for an international stabilization fund.

73. China (See July 1942 report, item 52 (b); June 1942 report, item 68). This office participated with Dr. White's office in the disposition of a number of problems arising in connection with China stabilization and financial agreements and exchange problems.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

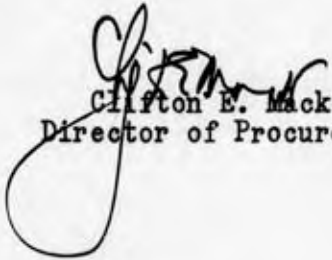
WASHINGTON

October 27, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended October 24, 1942.

We are currently concerned with the final determination of the Lend-Lease warehouse program which is being carried out in conjunction with the Army. Certain locations have been agreed upon and there are other locations which are under discussion. It is hoped that a conclusion will be reached in the very near future.


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 OCTOBER 24, 1942
(In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2325.5 (2325.4)	\$1167.8 (1153.4)	\$695.5 (661.3)	\$56.7 (56.7)	\$3.7 (3.7)	\$401.8 (450.3)
Purchase Authoriza- tions (Requisitions)	\$1794.5 (1745.3)	\$1048.7 (1025.3)	\$688.2 (663.4)	\$40.1 (40.0)	- -	\$ 17.5 (16.6)
Requisitions Cleared for Purchase	\$1723.2 (1643.8)	\$1021.1 (994.5)	\$645.0 (593.3)	\$40.0 (39.9)	- -	\$ 17.1 (16.1)
Obligations (Pur- chases)	\$1589.8 (1548.3)	\$ 988.5 (971.1)	\$544.9 (522.1)	\$40.0 (39.9)	\$2.6 (2.5)	\$ 13.8 (12.7)
*Deliveries to Foreign Governments at U. S. Ports	\$ 666.0 (644.0)	\$ 530.4 (512.7)	\$111.5 (107.4)	\$20.1 (20.1)	- -	\$ 4.0 (3.8)

* 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 October 17, 1942

October 27, 1942.

Dear Mr. Lockhead:

As you doubtless know, the Secretary is out of the country. Just as soon as he returns, I shall be glad to call to his attention your letter of October 23, enclosing a letter addressed to him by Mr. K. P. Chen.

With kind regards,

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Archie Lockhead,
President, Universal Trading
Corporation,
680 Fifth Avenue,
New York, New York.

EP/dbs

UNIVERSAL TRADING CORPORATION

ARCHIE LOCHHEAD
PRESIDENT

630 FIFTH AVENUE
NEW YORK, N. Y.

October 23rd, 1942

My dear Mr. Secretary:

There is enclosed herewith a letter directed to you by Mr. K. P. Chen, which he has asked me to forward.

With best personal regards, I remain

Sincerely yours,



Archie Lochhead.

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

RECEIVED OCT 30 1942

RECEIVED OCT 30 1942

KWANG PU CHEN

Chungking, August 19th, 1942.

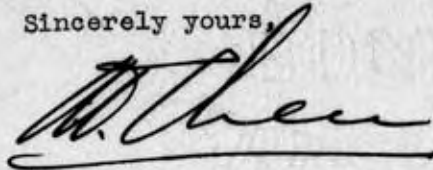
Dear Mr. Morgenthau,

Acknowledging receipt of your letter of the 18th of May, I wish to thank you for the kind words you gave me for the speech I made over the broadcast on May 6th.

I spoke simply, straight from my heart and believe I voiced the sentiments of my people when I placed my confidence in the American production and large scale preparation to safe-guard this civilization from destruction.

Thanking you once again,

Sincerely yours,



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

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 27, 1942

TO Secretary Morgenthau
FROM Mr. Heflich

Subject: Interviews with Chinese leaders.

Following are highlights of the appended O.S.S. report on interviews with a number of Chinese leaders in the spring of 1942:

A. General Ho Ying-ch'in, Chinese Minister of War:

1. Russia will attack Japan when pressure on the German front is relieved.
2. The Allies should evolve military plans as a whole. There is great need of coordination.
3. The Chinese Communists are not strong enough to fight the enemy alone, and are capable only of making trouble behind the Chinese lines.
4. Chinese armies will take the offensive when Japanese lines of communication are endangered.
5. The British rejected Chinese plans for the mobilization of Chinese minorities in British Asiatic territories long before December 7, 1941.

B. General Chou En-lai, representative in Chungking of the Chinese Communist Party:

1. The British authorities discriminated against and treated as inferiors the Chinese who fought with the British at Hongkong and in Malaya.
2. The Chinese Ministry of War pays no attention to military training in the modern technique of war, but has become chiefly concerned with "disciplining the Communists and squeezing money". Recently, however, the Government has shown a less hostile attitude toward the Communists.
3. Soviet influence on the Chinese Government is negligible.

4. Chinese Communist domestic peace aims include (a) a democratic political system throughout China, (b) state ownership and control of railways, arsenals, banks and mines, (c) freedom for private enterprise to develop China's productive capacity in other fields.

5. Chinese political complications, e.g., the mutual distrust between the Kuomintang and the Communists, make it difficult for the U.S. to give effective aid to China. The situation is complicated further by the tendency of Chinese officials to consider Americans "easy prey" because of their generosity, as in the matter of loans to China.

C. Dr. Tsiang T'ing-fu, chief of the Political Bureau of the Executive Yuan, April and May, 1942:

1. The Chinese counter-offensive cannot succeed until air cover is provided and the Japanese Navy defeated.

2. The Chinese in Malaya would have cooperated actively in guerilla fighting and applying the scorched earth policy, if they had been given the opportunity.

D. Dr. Wang Ch'ung-hui, head of China's Supreme National Defense Council, April 1942:

1. The American counter-offensive against Japan should be based on China and India.

2. China's principal military requirement is planes. There are at least 1,000 trained Chinese pilots ready to use them.

3. Offers to organize Chinese volunteers were made to the Hongkong and Malayan governments repeatedly before December 7, 1941. The first serious offer of help was made shortly before the collapse of France in 1940. The offer related to Burma and was flatly rejected by the British who feared offending Japan. Subsequent offers were made to British authorities in Hongkong, Malaya and Burma. The British attitude was one of indifference, vacillation and discrimination.

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OFFICE OF STRATEGIC SERVICES

Far Eastern Section

Report No. 6

**NOTES ON INTERVIEWS WITH
CHINESE LEADERS**

September 5, 1942

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INTRODUCTION

The interviews which are reported in the following pages represent opinions expressed privately by representative Chinese leaders in Chungking during a period extending from April 10 to May 10, 1942. The interviews were conducted by a thoroughly competent American observer who succeeded in eliciting unusually frank statements on many delicate or controversial issues. The present accounts of these interviews are prepared from notes made in Chungking and are written as of the time the interviews took place.

On December 7 the China war had entered the wide context of hostilities between the Japanese Empire and the United Nations in the Pacific war theater. During April and May Chinese leaders observed the swift dissipation of the practical advantages expected from this association. By May 10 Burma, as well as Malaya, Java, and the Philippines, had been lost to Japanese forces of occupation. As Japanese forces swept day by day through Mandalay, Lashio, Myitkyina towards Wan-ting and Teng-yueh within China's southwestern frontiers, Chinese leaders were forced to reassess the new realities of their military, economic, and political situation. They stood in the presence of a pathetic anomaly wherein physical isolation was the accompaniment of the political and moral recognition for which they had so long waited.

In these circumstances the statements and opinions of a variety of Chinese leaders are significant. General Ho Ying-ch'in is China's Minister of War. General Chou En-lai is the acute, but somewhat acid and resentful Chungking representative of the Chinese Communist Party.

Dr. Tsiang T'ing-fu, as chief of the Political Section of the Executive Yuan, is China's Government spokesman and a man of remarkably catholic interests. Dr. H.H. K'ung is China's Minister of Finance; Mr. K.P. Ch'en is head of the American-British-Chinese Currency Stabilization Board; Dr. Wang Ch'ung-hui, formerly Minister of Foreign Affairs, is now Chairman of the National Supreme Defense Council; and Dr. Chang Chia-ngao is China's Minister of Communications. Mr. C.C. Ch'en is ex-assistant director of the National Resources Commission, Dr. C. Sun is research director of the same Commission, and Mr. C.C. Wu is private secretary to the Minister of Economic Affairs, Dr. Wong Wen-hao. Dr. Ch'en Li-fu is the Minister of Education and a powerful influence within the Kuomintang.

The interests of Chinese leaders are remarkably catholic. Persons who are thought progressive in their views on one of these issues are likely to adopt a conservative or reactionary position on others. It is hazardous to attempt to assign a consistent or embracing political philosophy to any of these men -- much less to the factions or groups in which they are associated.

Chinese opinion is divided upon several main issues, some of which appear likely to persist beyond the cessation of hostilities. Persons are held to be radical, progressive, conservative, or reactionary in terms of their position in these controversies. Opinion is divided on the extent to which the Chinese Army should be developed as a large-scale guerrilla combat force - or built up as a regular modern mechanized army. This issue is related to the question of Kuomintang-Communist relations. Opinions differ upon

upon the practicability of immediately introducing general democratic reforms politically and educationally, at a time when the trend towards authoritarian central control is being intensified. Controversy rises from the question of relations between the Chinese and the Anglo-Saxon powers now and in the future. Having long time as well as immediate interest and importance, controversy centers upon industrial and transport problems, particularly as related to factors involved in China's future economic reorientation. The perils of Chinese inflation, and consideration of measures to arrest its aggravation, prompt the expression of opinion upon corollary issues involving budgetary matters, long-term planning, administrative corruption, and the role of foreign assistance.

Some comment should be made concerning the internal pattern of political pressures within which the views of individual personalities must be accommodated. First, each of the persons interviewed, whatever his relation to others, owes a genuine loyalty to Generalissimo Chiang Kai-shek. None of them--not even General Chou, the Communist--is associated in an anti-Chiang nucleus or faction. Second, the development of actual hostilities, particularly as it effects the degree of China's isolation from outside sources of assistance, influences directly, and sometimes decisively, the relative strength of groups competing for Generalissimo Chiang's favor. Third, not even the military catastrophes in the South Seas has set in motion the growth of a peace party. On the contrary, China is impressed with her own accomplishment in lasting six years while her Allies in Asia have been knocked

out one by one within a few months. There is great national pride in China. China is confident that she stands in the vanguard of all Asiatic peoples in the fight for freedom from Japanese or Western imperialist rule. China knows that within the Japanese New Order she has no role to play except that of a slave state. With few exceptions all Chinese have always known this. Those exceptions have disappeared from the Chungking scene.

GENERAL HO YING-CH'IN

On the morning of April 18, 1942 General Ho Ying-ch'in, Chinese Minister of War, granted an interview which lasted for almost 2 hours. Others present during the discussions were Colonel Homer Yang, Staff Liaison Officer; Mr. C.C. Chi of the Ministry of Information; and General Ho's official interpreter, Mr. Bao.

General Ho is a short man, standing about five feet six. His face is smooth and youthful, his manners Chinese to the point of being almost feminine. His replies to questions were extremely brief and soft except when he talked of the Communists, when his answers became more extended, but showed no heat. He has a quick, boyish smile which he flashes when he hears compliments paid to the Chinese or the Chinese Army.

With very slight revision in language and none in organization, the following draft represents the form and substance of the extensive running notes taken in the course of the interview.

How many troops are tied down on Chinese fronts at the present time (April 18, 1942)?

There are 1 million Japanese troops on Chinese fronts; approximately 500,000 in Manchuria.

Are Chinese armies self-sufficing in small arms?

Yes, China is self-sufficing in the production of rifles, light machine guns, heavy machine guns, anti-tank guns, and trench mortars.

Chinese arsenals can, moreover, produce 7.5 mountain guns, but not in any considerable quantity. There are about 69 arsenals in China, large and small.

What preparations are the Chinese now making for use of their front as a base for counteroffensive operations by the United Nations?

In the future China may be used by the United Nations as a base for land, air, and naval operations. The Soviet Union also will provide land, air, and naval bases against Japan. Australia can provide only naval and air bases. China is already well provided with bases, ground facilities, and stores of gasoline for the British, American, and Chinese air forces. Ample facilities are in existence in Chekiang and Fukien.

In Chinese military circles there is no fixed opinion regarding the objectives which will first be struck. Air fleets will hit where the target is most concentrated and strategic, whether that be Nainan, Formosa, or Japan.

When the U.S.S.R. becomes a belligerent, the present war plans call for pincer action carried out by Russian and Chinese armies. This is what the Russians want and this the Chinese will do. China and Russia are allies. There are Russian advisors in Chungking. General Ho thinks that the U.S.S.R. will attack Japan at the right time. Because German pressure in the western front is extremely strong, Russia must concentrate her energies there at the present time. When pressure on that front is relieved, Russia will attack Japan.

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Would the opening of the western front in Europe hasten Russia's attack on Japan?

Yes.

What differences were observed in the liaison between British and Chinese officers in Burma and between American and Chinese officers?

General Ho said that Chinese relations with British or with American military authorities were the same during the first few months. All were working together on the same basis and it was difficult to differentiate characteristics of liaison.

What is the position in the Chinese army of General Stilwell?

General Stilwell is Chief of Staff in the Chinese war theater, under orders of the Generalissimo. The Chinese in Burma fought under the command of General Stilwell. There was no other reason behind Stilwell's appointment beyond the Generalissimo's thought that the United States should take the lead in the Pacific war theater. Therefore the United States was requested to appoint him to work with the Chinese armies and to facilitate cooperation among the Allied powers.

General Ho feels very strongly that the Allies should evolve ideas and plans as a whole. The United States should take the lead in the Pacific; Great Britain should take the lead in western Europe and the Mediterranean; and the U.S.S.R. should take the lead in eastern Europe.

Should the whole strategy for the Pacific war theater be drawn up in Washington or Chungking?

General Ho thinks that the Pacific war theater should be divided into war areas. Within China itself Chinese responsibility

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would be fulfilled with American help. The United States, however, should map out strategy as a whole. There is a great need for coordination.

Are the Chinese satisfied with the Pacific War Council in Washington?

General Ho replied that he had received no reports from the Council, and believed that only principles are being discussed at its meetings.

In military terms, what contribution to defense had been made by Chinese minorities in the South Seas before December 7 and what has been since?

General Ho said that the Chinese had offered plans to the British for general mobilization of Chinese minorities long before December 7. None was accepted. Since no plans were formulated the Chinese were unable to make concrete preparations. After December 7 Chinese and British authorities agreed upon plans for mobilization of Chinese, but hostilities developed so rapidly and the areas involved were so vast that the plans were not carried out with really satisfactory results.

Guerrilla activities organized by the Chinese have been conducted in Malaya and Burma. However, the period for organization was so short that their fullest possible effectiveness has not been realized.

What did the plans offered by the Chinese before December 7 involve in concrete terms?

General Ho explained that military units were to be formed to strike behind the Japanese lines, other units were to engage in sabotage activity, and Chinese detachments were to cooperate with British forces in regular operations.

What position do Chinese leaders believe will be occupied by the Chinese minorities in the South Seas after the war?

General Ho thinks that the position of the Overseas Chinese will be promoted and improved at the end of hostilities. Even today the Japanese must respect Chinese economic influence in the Netherlands East Indies and Malaya. The Japanese radio reports that tin and rubber interests there remain in Chinese hands. In the economic sphere Chinese influence remains dominant. The Japanese are saying that the British oppressed the Chinese in these areas. When even the Japanese can make this point, General Ho asserted, the British certainly will be called upon in the future to improve the position of Chinese in those areas.

General Ho, however, had given no thought to the possibility of internationalization of those areas; the establishment of Chinese dominance; or to the possible implications of the return of these areas to British jurisdiction.

Are Chinese Communist armies now fighting the Japanese? Are they adequately supplied?

General Ho said that the Communist Party now realizes that its action against the Kuomintang last year lost for it the sympathy of the Chinese people. Its prestige is low. The Kuomintang and the Chinese people regard the Communist Party as traitorous--like Wang Ch'ing-wei. The Communists are not attacking the Japanese; nor have they been attacking the Kuomintang lately.

Why do the Chinese regard the Communists as traitors?

Wang Ch'ing-wei has organized a puppet army, and the Communists have done the same. Wang Ch'ing-wei has created an administrative machinery in occupied areas not under the Kuomintang. The Communists have done the same. Wang Ch'ing-wei's troops do not attack the Japanese -- nor do the Communists.

The Chinese Communist Army is officially only three divisions, but there are other units which the Kuomintang regards as bandits, comprising in all 100,000 men distributed through Japanese occupied areas.

General Ho said that three officially recognized divisions were under Central Government orders, but after 1940 their insubordination terminated formal relationship between these Communist forces and the Central Government. Before December 1940 these three divisions were given better treatment than other Chinese divisions. Since the New Fourth Army incident the Central Government has ceased entirely giving them orders or sending them supplies.

The Communists issue their own bank notes and collect their own taxes. Fapi is not used in the border areas. When Communists receive fapi, it is used for propaganda in the Chinese rear. This is sufficient reason for stopping financial assistance to them.

In what special forms is assistance required from the United States at the present time?

China needs airplanes, artillery, and raw materials to be used in her own arsenals. Due to lack of communication at the present time, it seems unlikely that factories can be sent to China.

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General Ho observed at this point that American friends of China invariably show great interest in the Communist situation. He has noted this for several years, and believes the reason for their interest lies in the fact that they have been deceived by false Communist propaganda, which maintains that Japan can be defeated by guerrilla warfare. The United States now realizes the error of this principle.

General Ho said that the Chinese Government and Chinese military authorities, generally, wish to give the Communist Party a chance to repent and rejoin the regular Government armies. The Chinese Government, therefore, gives no publicity to the illegal activities of the Communists who have attacked Central Government troops in Shansi and Shantung. Very recently, Communists almost wiped out one Chinese division in Shantung under General Yü Hsueh-tsung. The Soviet Military Mission in China, which has been holding three meetings per week with General Ho, has expressed great annoyance over activities of the Communist Party at this stage of the war with Japan.

General Ho said that in Chungking there were many organizations, including the Peoples Political Council, in which the Communist Party was represented. On the Chinese war front, however, at present extending from Paotow to Canton, there is not one single Communist soldier. This regular war front extends 2,700 kilometers. If we depend on the Communists, General Ho insisted, it is impossible to expect victory at all. The Communists are not strong enough to fight the enemy and are capable

only of making trouble behind our lines. This can accomplish nothing advantageous, but can make difficulties for us. Recently, General Ho pointed out, the Communist Party changed its attitude. He hoped the Party would change it even more. If Communist troops will fight Japan and will take orders, the Central Government, General Ho said, will gladly welcome them back into the regular Chinese Army.

What is the present deployment of the Chinese Army?

There are more than 100,000 troops now in Burma -- or two large armies. The main concentration is on the southern front.

China has 4 million fully equipped front line troops. Of these there are 2 million in Kwangsi, Kwangtung, Hunan, Hupeh, Kiangsi, Chekiang, and Fukien.

The province of Yunnan has a separate military status. It is called the South Yunnan War Zone.

There are nine war zones, each containing about four or five armies. A large army comprises 50,000 men; a small army, 30,000. One army includes three divisions and is equivalent to an American Army corps.

Chinese armies will seize the offensive when Japan's lines of communications are in danger. The attack will not be launched against Indo-China, for if that route had been negotiable the Japanese would have used it long ago in attacking Kunming.

What was the extent of Japanese losses at the battle of Changsha?

General Ho said that Japanese suffered 30,000 killed and wounded.

Even if the Japanese had occupied Changsha, they would have gained little. Many more Japanese could have been sent into the expedition. Had they been, the Japanese could have taken the city. The motive of their attack was not to hold the city but to divert an important movement of Chinese troops merging on Wuchang. The Japanese wished to crush, moreover, the developing Chinese concentration at Changsha. Every Japanese attack on Changsha has had as its aim forestalling Chinese attacks on Wuchang and Hankow.

The Japanese have nearly reached their maximum point in holding territory in China. If Japanese lines were extended another two hundred kilometers, more than two additional divisions would be required on their Chinese fronts. Had Japanese forces actually occupied Changsha, no settlement of the military situation would have been achieved by the Japanese. Only a need for more troops would have been created. Japan's holding of Yo-yang serves her strategic purposes satisfactorily.

The Japanese, incidentally, used three full divisions and one brigade in Changsha, General Ho said.

As the interview came to an end, General Ho Ying-oh'in expressed the view that there was no need whatever for one to see any Communists while in China. "Their mouths utter one thing while their hearts conceal another."

General Ho said that in a recent report before the Peoples Political Council, Communist representatives praised him. However, he knew that in Japanese-occupied China the Communists were calling him pro-Japanese. Last year they were calling him, in addition, a pro-Nazi.

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General Ho quoted himself as telling a foreign visitor recently that the Communists called him pro-Japanese in the occupied areas because the people are ignorant, while in the cities they called him pro-Nazi because the people knew him to be consistently and untiringly anti-Japanese during these 5 years that he has led the Chinese armies in battle against the Japanese.

General Ho said that 2 months ago he had told representatives of the Communists that their propaganda could do him no damage; rather, it played into the hands of the Japanese, who frequently repeated their arguments and accusations. General Ho observed that recently the Communists have removed anti-Ho Ying-ch'ia posters in Yen-an and Yu-ling. Thus it is evident that Communist policies are being modified.

General Ho pointed to the fact that the Communist newspaper Hsin Hua Jih Pao has never carried any anti-Japanese proclamations made by the Kuomintang, or any anti-Japanese speeches made by its leaders. Just 2 days before, when General Ho had broadcast to the people in Occupied China, the text of his speech had been carried in all Chinese newspapers in Chungking except the Hsin Hua Jih Pao.

General Ho, moreover, recalled a speech he had made praising the performance of the Americans and Filipinos on Bataan. The Japanese, the German, and the Chinese Communist press ignored it. "So actually the Communist Party newspaper is operated by the enemy!" General Ho was unable to say whether or not the Chinese Communist Party maintained close and continuous contact with the Comintern in Moscow.

The interview came to an end with General Ho's half-humorous admonition to avoid any contact with the Communists in China.

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GENERAL CHOU EN-LAI (A)

General Chou En-lai, representative in Chungking of the Chinese Communist Party, granted an appointment on April 22, 1942. Fourteen months before the same observer had interviewed him concerning the New Fourth Army incident and the issue of future Communist Party representation in the Peoples Political Council. At that time views of the Communist Party were finding their way into the international press. From General Chou flowed much of the authority for these views. A great many important men and officials were turning to General Chou for an interpretation of events regarded then as having extreme importance. This interest offended Kuomintang officials. By April 1942 General Chou had been retired to virtual isolation within Chungking. He has not been in the Communist Northwest within the past 2 years and does not believe that Government officials would permit him to make the trip at the present time.

General Chou is active in the office of the Hsin Hua Jih Pao, offers hospitality to a few other Communists, and receives and delivers intermittent reports from Communists in the Northwest and in guerrilla areas. He reads several languages and speaks English haltingly.

General Chou offered no objection to very full notes being taken upon his replies to a number of set questions which had been formulated in advance.

Are the Chinese Communists satisfied with the Chinese war effort? By what methods could the effectiveness of this effort be improved?

General Chou said that, if we divide the China war into two periods, we find during the first 2 years fierce fighting on many fronts. The most important of these were the Shanghai, the Hauchou, and the Wuhan fronts. Although the Chinese lost many men during this period, their armies became stronger and stronger. During this first 2 years the Central Government paid most attention to strictly military affairs -- training troops, mobilizing the masses, and improving military organization.

In the past 3 years a change has occurred. The attacks of Japanese armies have not been as strong as formerly. The Japanese have not used their main forces to attack on all fronts. Occasionally they have attacked on one front vigorously, but never as energetically as in earlier stages of the war. Hence, most of the fronts have been relatively calm. Only at such points as the Japanese have attacked would Chinese troops fight. In this period the troops of the Central Government have not been provided with an opportunity to be tried and strengthened; in fact, on the contrary, troops have grown weaker and weaker.

Within this same period China's international support has deteriorated considerably due, for example, to the cutting of the road and railroad through Indo-China, the temporary closing of the Burma Road by the British, and the collapse, since the outbreak of Soviet-German hostilities, of Soviet aid to China. During the last 4 months the Pacific war has sealed China's other remaining channels. Hence, the international situation has

isolated China from outside supplies.

During these last 3 years the Central Government has devoted only one-half of its attention to military affairs, the other half being devoted to internal affairs. Probably more than one-half of the 10 armies, under Hu Tsung-nan are concentrated in Ninghsia, Kansu, Shansi, and western Honan. These armies are deployed mainly, General Chou maintained, to deal with internal problems. Under General T'ang En-po there are five armies. General Chou reported that General Stilwell requested that General T'ang En-po be allowed to go to Burma. Tang is known to be an anti-Communist commander in eastern Honan, northern Anwei and southwestern Shantung. Under General Li Tsung-jen in Hupeh, and on the Hunan border, forces are held in readiness for anti-Communist activity. The governor of Anwei, General Li Ping-hsien, an important follower of General Li Tsung-jen has engaged new Fourth Army detachments in Anwei and partisan troops in the Wuhan area.

The Chinese Government has sent only two armies into Burma to help the British. Had they been provided with more supplies, greater success might have resulted. However, the Chinese have neglected making other moves which might indirectly assist the allies in the Far East. They have, for example, failed to concentrate troops to attack strategic points in Kwangtung or to attack Ichang or to open up other important fronts against the Japanese. Were the Chinese to open new fronts they would create difficulties for the Japanese and hold more troops in China.

In the Chinese Army there are 30 artillery regiments organized

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but lacking their complement of equipment. The Ministry of War pays no attention to the training of men in the modern technique of war and has become mainly concerned in disciplining the Communists and squeezing money.

The Chinese soldier himself has demonstrated his excellence. If well commanded and supplied he will fight anywhere, especially against the Japanese, with courage and effectiveness.

How effective have the Chinese armies been in Burma?

Under present conditions Chinese armies in Burma encounter geographical obstacles and supply difficulties. Shortages of supplies in upper Burma are caused by a deficiency of workers. Workers' and supplies must be brought from Yunnan, a province which is not rich in food. Chinese troops are numerically inadequate because before the outbreak of the Burma war General Wavell told Generalissimo Chiang that the British did not want more than three Chinese divisions, partly on the grounds that supplies would not suffice for more. Six Chinese divisions are now in Burma experiencing general shortages of supplies. These six divisions, moreover, have operated according to a poor military plan. Divisions have been advanced one by one with little coordination or a general strategic purpose. Their leadership has been poor, resulting actually in parallel disorder. For example, first General Stilwell was sent to Burma to command Chinese forces, then General Lo Chou-ying was sent to command the same Chinese troops; hence, two commanders were leading the same troops. When General Alexander was ordered to Burma to command all the Allied troops, staff relationships became entirely too complex.

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In other words, the prospects of the Allies in Burma are poor because of geographical, food, and supply considerations, together with the absence of military plans or coordinated leadership.

China's present mood makes her inhospitable to any action or policy savoring of imperialistic interest. How can the United States help China militarily, economically, or politically at this stage in the war?

General Chou said that at present it is difficult for the United States to help China. Historically, Chinese authorities have had their own way of understanding and dealing with the British and with the Americans. They regard the British as cunning and shrewd. Therefore, when Britain had a strong position in the Far East, the Chinese were careful to preserve friendly relations. Now that the British have been defeated by the Japanese, Chinese authorities take a contrary attitude and despise the British position, and, in fact, fail to treat the British as allies in a united war effort. In reaction to the traditional arrogance of the British, anti-British sentiment in China is developing rapidly.

Toward the United States, Chinese leaders and their Government present a different attitude. Chinese authorities think that the United States is easily satisfied and that Americans in general know very little about China. Therefore, when they see in Americans a "good attitude," when they hear "good words" they think it is easy to get help, materials, and money. Chinese authorities think the United States is an easy prey. For example, General Chou explained, soon after the outbreak of the Pacific war President Roosevelt very properly gave a large loan to China. The

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Chinese got another impression. They thought, General Chou said, that since Britain and the United States were defeated by Japan, while China had resisted Japanese aggression for 5 years in the Far East, only China was able to fight against Japan, and the United States was very much afraid that the Chinese Government would make peace with Japan. Chinese authorities had therefore permitted Sun Fo to talk about a separate peace with American correspondents and at the same time had maintained contact with the Japanese in Shanghai in order to excite fears in Washington. Against this background the Chinese Government asked for a loan. First they asked for 1 billion dollars, then for 500 million dollars, specifying that no strings were to be attached. To make the strongest case to the Americans, General Chou took pains to say, the Chinese Government sent Fox and Lattimore back to the United States to talk with President Roosevelt and Secretary Morgenthau, but while Fox and Lattimore were traveling the Chinese got worried and wanted an immediate reply which they got in the one-half billion dollar loan.

General Chou said that on the American side the performance had been very good, but that Chinese authorities now think that the United States is afraid of a Chinese peace and have become very proud of their own diplomatic skill. They think that the United States is easily deceived. American generosity excites contempt and gives them reason for pride in the effectiveness of their finasse. For example, when the United States Government gives loans and raises the question of terms, the Chinese now demand that there be no conditions. A loan must be a gift for their 5 years of fighting.

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If the United States refused to give help the Chinese Government would threaten to make peace, but General Chou said, as a matter of fact, there is no danger at all of China's making a peace. Incidentally, he said, resistance has become a good business since help is easy to get.

General Chou said that severe limitations governed what aid the United States could give China at the present time. He said that he did not think that aid should be given in a way as might stimulate the Chinese to demand more. Last year American friends talked about democracy in China. Now they hear the Chinese say that the defeats of British and American democracy stand revealed.

Americans and British cannot advise about actual military matters lest Chinese ridicule their military performance in Burma.

If Americans speak of medical aid to the Eighth Route Army, the Chinese will say the question is of purely domestic importance. Interference is not desired.

If the Americans speak of help to the Border regions or to the Chinese Industrial Cooperatives Chinese authorities will say that foreign money must flow to the Central Government in order to strengthen authority there; but the Central Government will not distribute aid to the Eighth Route Army. Salaries to the Eighth Route Army are 16 months overdue. Military supplies and medical supplies have not gone to the Eighth Route Army for over 2 and one-half years. Even 5 tons of British Red Cross medical supplies, driven by two British drivers under the auspices of the British Embassy and American friends, were halted en route in Sian. Chinese authorities say that this is an internal problem and refuse to listen to advice.

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At present, therefore, American friends can help China by taking preparatory steps but not by putting advice or proposals directly to Chinese authorities. There is no other way to work within China than to work with the Chinese Government. If you try to work outside the Government you can do nothing.

So far as relief to Border regions is concerned for example, the only channel is through Madame Chiang Kai-shek who is genuinely interested in relief work in every area of China. She has recently helped the Chinese Communists. Although negligible in quantity this help was better than nothing. Madame Sun Yat-sen's interest in the Chinese Communists and her efforts to help them, antagonize Madame Chiang. Foreigners wishing to help the Communists should work with Madame Chiang, Madame Sun, and Madame Kung, acting jointly under Madame Chiang's name. To channelize assistance through Madame Sun alone excites immediate opposition, although small sums of money may occasionally find their way through. Assistance to the Northwest in the form of medical supplies or other equipment is easily and promptly stopped. Excessive sums of cash remitted to the Northwest endanger the work of the organization involved throughout Free China. The China Industrial Cooperatives and the Y.M.C.A. have learned this.

Nothing is to be gained by Americans appealing directly to Generalissimo Chiang regarding this or that injustice.

In what way does the Soviet Government exercise an influence upon Chinese policy?

Soviet influence on the Chinese Government is negligible. The Chinese are merely waiting for the Japanese to attack the Soviets.

Chinese leaders regard such a development as being China's only hope. If the Japanese attack Siberia they will expend land and air strength--land forces now in China and Manchuria. The Chinese see that in the South Seas the Japanese used their naval and air strength but employed little of their land power. If the Japanese become involved in Siberia, Japanese armies in China will be deprived of offensive power.

General Chou believes that the Chinese Government would utilize the new situation precipitated by Soviet-Japanese hostilities to make trouble at home. The Chinese Communists expect the Central Government to order them to attack the Japanese in Manchuria. When this order comes the Chinese Communists will, General Chou said, ask for supplies to strengthen their military position. It is unlikely that these supplies will be forthcoming. The Communists cannot attack without them. The Central Government will accuse the Communists of disobeying orders and will send their armies to the Yellow River. General Hu Tsung-nan, will be on the left and General Tang En-po will be on the right. Together they will close in upon the Yellow River and wipe out the Chinese Communists' positions. The Chinese Communists' position will be difficult but the Communists are not afraid. They have the necessary foundation to oppose this attack since Communist troops are now in Japanese occupied regions and will continue to remain, resisting Japanese designs, militarily, economically and politically.

If the Central Government cannot provide heavy arms, the Communists cannot fight against big armies but will send partisan

organizers and infiltrating guerrillas to rally up partisan warfare in preparation for the arrival of Chinese regular armies. Even if the Chinese Government closes the Yellow River the Chinese Communists will never do more than assume defensive positions. The Chinese Communists are not afraid of the Military Council of the Central Government and only await leadership which can carry them into a genuinely anti-Japanese fight.

Will regular Chinese armies attack Manchuria?

General Chou does not think that regular Chinese troops will attack Manchuria. How could they (without heavy artillery) attack Manchuria since they have been unable hitherto to retake Peiping and Tientsin which lie on the way. Partisan troops will begin activity in Manchuria but this is another matter.

As to plans for Chinese-Soviet cooperation General Chou did not know the facts but in principle the Soviets want all the assistance that the Chinese can offer. The Soviets, however, do not welcome any development leading to internal friction since they fear internal trouble will frustrate the effective prosecution of any military campaign.

What are the current relations between the Communists and the Kuomintang? Where is friction most intense and frequent?

General Chou said that the areas most frequently in difficulty are northern Anhwei, southern Shantung, eastern Anhwei, and the Wuhan areas. In these areas there is constant friction and bloodshed. Within the 10 days preceding this interview news has been received from Wuhan saying that General Li Tsung-jen had attacked

partisan troops. Twice, Communist partisans had returned captives and arms to the Central Government with the request that trouble be stopped. Nevertheless, the third attack has just taken place.

When General Ho Ying-eh'in made his military report on behalf of the Military Council to the Standing Committee of the Central Executive Committee he boasted of great successes whenever the Central Government engaged Communist troops. The members of the Central Executive Committee are anti-Communist leaders. However, in open meetings -- for example to the Peoples Political Council-- General Ho maintains that the Eighth Route Army always attacks Central Government troops.

At the last meeting of the Peoples Political Council, Tung Pei-wu and Teng En-chow were the two representatives of the Communist Party. In their presence General Ho omitted his boastful remarks. This appeasement of the Chinese Communists was adopted before December 1941. Many evidences of it are seen, but the Northwest remains blockaded to all communications. There is readiness on both sides for hostile action but there is little contact between the antagonists.

There is no regular postal or telegraph service in or out of this area and severe restrictions are placed even on the movement of officials.

What are the most conspicuous characteristics of the economic situation in the Northwest?

General Chou pointed out that prices are high, due to the influence of depreciating fapi. In 1941, however, prices in Yen-an were only 25-40 percent of Chungking general price levels.

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Agricultural production was very good. Food prices were low. What would require 100-150 dollars to buy in Chungking could be bought with 40-50 dollars in Yen-an. Woollen cloth was particularly cheap.

The Communist Government had its own "note issue" with fapi backing. The first issue of these notes came in 1941 when 1 million were printed. General Chou did not know what the current circulation of notes is.

Imported materials are virtually impossible to get. A limited range of small materials has been smuggled in by merchants, but the regulation of drug movements has been so effective there is no importation of medical supplies into the Northwest.

GENERAL CHOU EN-LAI (B)

At the end of the foregoing interview General Chou offered his time for further discussion without previous arrangement. On May 3 the observer obtained his views upon issues which had appeared to interest Chinese leaders belonging within the Kuomintang fold.

To what extent does the emphasis which Chinese leaders lay upon Britain's rejection of China's pre-December offers of aid flow from an honest belief that aid could have changed strategic developments? from a consciousness that good political capital can be made now of recrimination?

General Chou En-lai said that all the Chinese could have done to assist Hongkong after the outbreak of the Pacific war was to attack Japanese land forces converging on Kowloon. When the Japanese assault upon Kowloon did develop, the Chinese movements offered no real threat to the Japanese rear. Some 6 hundred to 1 thousand of the Chinese troops which had been interned in Hongkong in 1938 were released to participate in the defense of Kowloon. This action was, unfortunately, taken too late. The troops were assigned to the Canadian sector but held their positions for only a few days.

In Hongkong there were no other ways that the Chinese could cooperate with the British except in the organization of police units within the city. This was done.

The Chinese who fought alongside Canadian troops objected that the British authorities did not give Canadian and Chinese troops equal treatment. Their equipment and food differed. The Chinese felt that they were subjected to discrimination in the way

they were deployed to serve strategic plans.

China made no pre-war offers which could have altered developments materially. When hostilities began the British requested the Chinese to attack the Japanese rear. This was done, but with little success.

General Chou has not heard that the Central Government had requested permission from the British to send troops to Malaya. General Wavell and the Central Government discussed only Burma. The Chinese offered to send large forces to Burma but General Wavell would accept only three divisions.

In Singapore many Chinese were organized by Mr. Kan Kah-kee, head of the Chinese Mobilization Council. They asked to be provided with arms, but the Government of Malaya permitted these Chinese to serve only in labor corps, in technical capacities, and on relief projects. This policy antagonized all quarters of opinion in Chungking. The only possibility of cooperation in the defense of Malaya would have been an arrangement providing for the arming of the people to engage in guerrilla warfare. Had this been done Japan's position might have become very precarious. With 2 or 3 weeks' training Chinese guerrillas might have become a real strategic factor.

The Chinese character and Chinese ancestor worship account for a relationship to the homeland so deep that anti-Japanese feeling among Overseas Chinese is almost universal. Overseas Chinese have shown their feelings of patriotism in remittances which they have sent home, and in the spirit and language of their publications

and meetings in the South Seas. Often they are more patriotic than Chinese within China. They need only arms and organization to become an effective factor in hostilities.

Wang Ch'ing-wei had some, but negligible, support from Overseas Chinese.

How is one to evaluate the importance of Chinese leaders who hope to fall heir to Japan's Pan-Asiatic plans? Is it correct to describe them as Chinese imperialists?

General Chou stated that China cannot become an imperialist power unless certain economic and military conditions have been fulfilled.

It is impossible now to conceive of China's becoming an imperialist power while at home there continues the pathetic disorganization now existing. Although there are many Chinese abroad, there is no nucleus of organization making them economically or militarily important. Talk of Chinese imperialism is ridiculous in this stage of China's economic development.

China possesses large armies. China is a military power, but her power is immobile. In Burma the British are doing poorly, but the Chinese are doing badly too. Look at Lashio! How can China engage in military expansion southwards? There exists no military basis for imperialism.

After the war the Chinese will have to discover a method to secure equal rights in the South Seas. Their problem will be a part of the larger problem of achieving equality among natives, Westerners, and the Chinese.

One hears of Chinese "imperialism" because the Western imperialist powers have been expelled recently from some of these

territories. If our allies can get a victory they must greatly increase their forces in the Pacific war theater. In that event we cannot imagine the destruction of British influence or the persistence of American isolationism. The British are weak in Asia. If the Allies are victorious, however, Britain will no longer be weak.

It is inconceivable, however, that the old Commonwealth will survive. The British Commonwealth must have a new spirit. The London Times for example, early in 1942, carried an editorial which said that the British Empire cannot cling to old principles but must change its principles and its methods. New men with new principles are required. General Chou subscribes entirely, he says, to this point of view.

In early 1941 Communists everywhere were hostile to the British imperial system. Do Chinese Communists, today, favor the post-war dissolution of the British Empire?

If British leaders are wise and change their principles, then the Empire can exist. If they do not, they cannot win the war. General Chou said that he could not specify concretely what new principles were required. The British know better than I, he said.

Where lay the cause for the collapse of the Cripps' negotiations with Indian Congress leaders?

General Chou did not think that Sir Stafford Cripps could have been given full power of negotiation; only the fullest powers could have sufficed to solve the problem. He could not say whether the Indian leaders were wise to refuse the Cripps' proposals: India is India. China is China. The Indian problem is

too big, too complex, too bound in history to permit superficial judgment. In principle, the Indian Congress was correct in asking for independence. The vital question lay in the method of obtaining it. The Chinese chose one way! The Indians must find theirs. But they must fight the Japanese. This is the most vital problem for all of us.

Indian resistance to the Japanese requires arms and organization. If the Indians, independently, can organize and arm themselves effectively, their demand for immediate independence is correct. If the Indians cannot do so and the British can, then the British reply is correct.

What safeguards of their interests and what general aims for China do the Chinese Communists wish to see written into the peace?

The first need is to drive the Japanese out. All plans for the post-war future are illusory. If we drive the Japanese out, General Chou said, this itself will produce internal changes. Victory will be achieved through democratization of China and only thus. After victory, China will have democracy, educationally, politically, and economically.

Chinese economic democracy means state ownership and control of railways, arsenals, banks, and mines. China is large. Her productive capacity can be increased by giving play to private capital. Without this it will be impossible for China to become a modern progressive economy. China's economy is too primitive and backward at present to be effectively mobilized. Only through private enterprise can advances be effectively accomplished outside the limited sphere reserved for nationalized

enterprise.

Political democracy must correspond with Lincoln's precept of government of, by, and for the people -- or the San Min Chu I. The persistence of the one-party system is inconsistent with democracy. Other parties must be allowed freedom if democracy is to be brought to China. The operation of a many-party system is practicable today.

Because of Chinese censorship and controls the United States is not in possession of facts. For example, the Peoples Political Council is a great illusion. Its representatives are no more than guests of the Kuomintang.

Next to Generalissimo Chiang there is no second, only many followers. In China there is great dispersion of power. All relations and contacts must be directly with Chiang. General Ho Ying-ch'in, Minister of War, and Generals Ch'en Ch'eng and Hu Tsung-nan severally and separately control forces subordinate only to Generalissimo Chiang.

Ch'en Li-fu and Ch'en Kuo-fu exercise great power within the Kuomintang. Chu Chia-hua, however, counterbalances the Ch'ens. The San Min Chu I Youth Corps controls both.

Tai Li controls military communications, financial affairs, and foreign affairs through the secret police. Hsu Jen-chen and K'eng Tse control other police forces, all of whom are opposed to the Communist Party. The only persons within the Kuomintang friendly to the Communists are a few of the older members of the Kuomintang Central Committee. Unfortunately they have little or no power.

The number of Communist Party members outside the Eighth Route Army areas is unknown. All members are underground, having little or no contact with each other. It is entirely illegal to be a member of the Communist Party in Free China.

Would the Chinese Communists welcome formal separation of Communist and Kuemintang China accompanied by international recognition of a Chinese Soviet?

General Chou said that the Communist Party does not want the breakup of China into separate states. It wishes to help in establishing a democratic system throughout all China -- this system would involve elections, local choice, and freedom for all parties to organize a voting electorate. The Communist Party wants no more than one-third representation in Government from top to bottom. The Communist Party wants the Kuomintang to study and learn from the success of democratic procedures already established in the Northwest.

In the event that Russo-Japanese hostilities should result in Soviet occupation of Manchuria what government would have permanent authority over this area in the post-war period?

General Chou said that the Russians would want a Chinese government in Manchuria. However, unless the Chinese Government drives the Japanese out of China no victory can be won in the Far East. The Central Government cannot drive the Japanese out of China without adopting democratic methods. General Chou believes that discussion of the future status of Manchuria now is premature.

DR. TSIANG T'ING-FU (A)

Dr. Tsiang T'ing-fu, chief of the Political Bureau of the Executive Yuan, is official spokesman for the Chinese Government. Formerly Chinese Ambassador to the Soviet Union and still earlier professor of history at Tsing Hua University, Dr. Tsiang is widely regarded today as the most important non-member of the Kuomintang among Chinese leaders. His interests are catholic and his manner of speech is fluent and forthright. On April 15 Dr. Tsiang voiced the views paraphrased here.

The Chinese Industrial Cooperatives

Dr. Tsiang informed me that Dr. H.H. Kung had recently appointed a standing committee for the Chinese Industrial Cooperatives comprising Mr. O.K. Yui, Mr. Han Li-wu, and Dr. Tsiang. This committee was to cooperate with CIC headquarters. Its formation foreshadowed, Dr. Tsiang believes, strengthening of CIC in China.

In 1938 Dr. Tsiang had objected to the original plans drawn up by Mr. Rewi Alley because (1) they called for financial dependence upon the United Kingdom, the United States, and the League of Nations; (2) because they built only upon the strengths of China's past experience in cooperatives while ignoring weaknesses; and (3) because they called for inclusion of all political groups.

Recently when American friends of CIC cabled the request to Dr. Kung and to the Generalissimo that US\$50 million be designated for CIC, no serious response could have been expected. Did Americans realize this sum amounted to almost 1 billion Chinese

dollars? An outright allocation could only have contributed to inflation.

CIC needs to expand step by step. New funds becoming available must lead directly and quickly to new production.

Recent discussion of CIC expansion has assumed the desirability of doubling the number of cooperative units and tripling membership. Dr. Tsiang favors a 50 percent increase in cooperative units and 100 percent increase in membership. He believes that CNY\$70 million is a top figure of what can be employed really usefully. Such a sum is likely to become available if the CIC organization is strengthened. The movement requires three types of financial assistance. Long term investments should be made by the Government; short term, by the banks; and funds for training and social service should come from private sources.

Dr. Tsiang regards himself as a strong advocate of independent cooperative production. He opposes inclusion of the movement within Government bureaucratic controls. He opposes management of the movement by the banks. He favors keeping the movement independent.

Personnel is the principle shortage of CIC. Personnel must be trained. Trained personnel must be adequately paid.

The Chinese Industrial Cooperative Movement has a wartime importance and may play a very important role in the transitional period after the war.

Post-war Views

The Chinese Government now realizes that at the end of

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hostilities private industry will return to the coast. The Government will, however, operate industries west of Hunan and strengthen communications in the interior. Before the war most of China's roads and railroads were exposed to attack. The Chinese now see the danger of that situation and will avoid repeating it.

Dr. Tsiang expressed very strongly the opinion that China's main problem in the near and further future is to save the Chinese financial system from the complete collapse experienced by Germany. China's foreign exchange reserves are good but the internal value of the dollar is weak. Opening of transport immediately will help the internal value of the dollar. Meanwhile, it is most important to apply economic mobilization in China with a view to preventing run-away price rises, particularly of rice.

The Chinese Government is not greatly concerned in the problem of Chinese minorities in the South Seas. The main concern, so far as the post-war period is concerned, is in China's reconstruction. The Chinese hope to receive for this purpose a great deal more than the one-half billion dollars which the American Government has loaned them.

Relations with Anglo-Saxon Powers

Dr. Tsiang brought up the story of China's repeated offers to help the British defend their own territories in the Far East. He assigned responsibility for wishful thinking in Britain and the United States to Ambassadors Craigie and Grew.

He felt that Ambassador Clark-Kerr was as exasperated as were the Chinese at the British colonial mind.

Dr. Tsiang said there was no doubt whatever that the Chinese in Malaya--even the second and third generations--would have cooperated actively in guerrilla fighting and in applying scorched earth had they been offered an opportunity.

So far as the Burma campaign is concerned the main disappointment of the Chinese lay in (1) lack of coordination between the British forces in the south and the Chinese forces in the northeast and (2) British air losses.

When General Wavell was in Chungking on January 1 he welcomed China's offer of six divisions to fight upon the Burma fronts. However, the Burmese Government frustrated this plan and would accept only two divisions--later only two brigades. Now there are (April 15, 1942) more than two divisions actually in action. The dispatch of larger forces was opposed by the Burma Government on grounds there was a shortage of transportation facilities and other supplies.

The British Royal Air Force has lost most of its planes on the ground. This has been due, Dr. Tsiang said, to poor intelligence and lack of cooperation with the native population.

Radio--Instrument of Defense

The Chinese have evolved the most perfect spotting system in the world. Around Chungking and Kunming, Chinese spotters are no more than 50 kilometers apart, along a circumference 200 miles distant. Other spotters, further distant, are less dense. Warnings are given by radio.

Within China is produced a large part of China's radios. Dr. Tsiang told of "Smallpox Wu" who left General Electric in the United States where he received US\$500 per month to return to establish a factory in Changsha at a monthly salary of CNC\$200. The factory at Changsha is one of many.

Democracy in China

Dr. Tsiang reviewed the present structure of the Peoples Political Council. He said that Dr. Chang Pe-lin has remained head of the praesidium or permanent executive committee of the Peoples Political Council. Two-thirds of the members of the PPC are elected by provincial assemblies. Each province has an assigned quota determined by its population. Szechwan's is eight; as is Hunan's. Every province is represented, including all the occupied provinces. The other one-third of the members are elected representatives of special groups such as professors, journalists, minority parties, etc.

The next election of all representatives to the PPC must be completed by June 1942.

The provincial assemblies or Provincial Peoples Political Councils are elected by hsien representatives who in turn are elected by heads of villages. Heads of villages are elected by householders. There is no disqualification from voting on grounds of party membership in any party. It is not necessary to be a member of the Kuomintang in order to vote. All parties are represented and all may influence elections.

The resolutions of the PPC are placed before the National

Supreme Defense Council which assigns the recommendations in question to appropriate departments with the notation "accepted," "under consideration," or "to be revised." The PPC operates in an advisory capacity alone.

No constitutional conference will be called before the end of hostilities. The PPC system is experimental and educational, leading to experience required before the final stage of constitutional government can be entered.

Kuomintang-Communist relations are quiescent. There has been no outward friction for over a year. Leaders of both parties are trying to compose differences. Dr. Tsiang did not know if supplies were still going to the Communists in the Northwest. He did not think the Communists were actively fighting against the Japanese.

Dr. Tsiang spoke nostalgically of his friendship with Litvinov in 1935-36. Dr. Tsiang said that Litvinov agreed with him that the Chinese should have only one government and one army, and that China's problem then was to obtain an understanding with the Communists on this basis.

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DR. TSIANG T'ING-FU (B)

On May 7 Dr. Tsiang T'ing-fu conversed again with the same observer. At this time Dr. Tsiang said that according to China's best sources of information the Germans and Japanese were planning a joint attack upon Russia in late May. Until recently Russian officials have not taken China's warnings seriously. At last, however, Russia is sending back high officers in the Red Army to the Soviet Far East. Even during the height of the German attack last December virtually none of lower rank troops was transferred from the Soviet Far East to European Russia.

Chinese Military Mission

Dr. Tsiang revealed that China's Military Mission is in Washington for two purposes:

(1) To complete arrangements for air transportation into China under a formula whereby 75 percent of the planes will be operated by the United States Ferry Command; 25 percent, by CNAC. Some experimental flights have been made and limited freight is already being carried. We must change our attitude, Dr. Tsiang said, and cease regarding air freight as an emergency measure or as a substitute avenue for land freight. We must revolutionize our thinking and regard it as a regular, permanent facility.

(2) The Mission is helping to plan an Allied air offensive based on China. The rare surprise attack on Japan may be spectacular, but it will not win the war. China's new strategy--that of General Hsiung and of the Chinese Government--is to advance in the air step by step from Szechwan to Hunan, Kiangsi, Hupeh, then

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finally to Chekiang and Fukien. In each province the Allies would seize mastery of the air so that supply depots could be established and reserves built up under really effective air protection.

The Chinese counteroffensive on land cannot have real effect or success until a decisive naval battle is fought, Dr. Tsiang said. Until then, and until air cover is provided, the Chinese Army will not be sufficiently mobile to take the initiative in a general counterattack to drive the Japanese Army out of China. Decisive land operations must be coordinated, therefore, with air and naval operations.

Anti-British Sentiment

Dr. Tsiang mentioned that Ambassador Gauss called upon him before going to India to see if the anti-British propaganda in the Chinese press could be subdued. Dr. Tsiang said that at the present time (May 7, 1942) there is a noticeable moderation in the tone of the Chinese press. But, he went on, there is ample reason for China's feeling. China's resentment is real and justified. For example, before December 7 the National Resources Commission and Ambassador Clark-Kerr requested Burma Shell to let the Chinese buy units of refinery apparatus to put into operation in Kansu. The apparatus would have helped to ameliorate China's fuel problem. Large reserves of oil are in the ground. The Chinese received no reply from Burma Shell for weeks; not in fact until long after December 7. Then it was too late for plans to be carried through. All the refineries in Burma are now destroyed.

The Chinese Government, Dr. Tsiang said, felt intense

resentment at the conditions which the British Government tried to impose upon its loan to China. One condition was that the Chinese had to explain to the British the use of every withdrawal of more than £10,000. The American loan agreement contained no such stipulation--even regarding the terms for repayment. The American loan is on deposit in the United States. Thus far, only \$100 million has been attached for support of the Chinese issue of savings certificates. These are not going well at all. Dr. Tsiang said he could not understand value variations in the rate of sale for certificates, for bonds, and for market transactions in foreign exchange.

Reverting to the question of Chinese feeling toward the British, Dr. Tsiang said that the most telling condemnation of British policy is seen in Britain's treatment of the Burmese population today. "Look," he said, "how the British treat the Australians who are white and in a position to cry to the international press over their peril and their grievances. Then compare the Burmese who are merely colonial yellow men left to their fate."

Dr. Tsiang confessed to a feeling of bewilderment and bitterness over British and American delays and indifference towards the Burma front.

Traffic Through the Northwest

When Dr. Tsiang was asked if the Chinese were pressing preparations to increase freight haulage over the Northwest highway he said they were not. He said that it is not a question of raising traffic up to 3 or 5 thousand tons a month. If the Chinese could

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count upon 500 tons a month they would go after and carry back all the way into China all cargo set down at Alma Ata. Nothing, however, seems possible. Russia's transportation system is immensely complicated and has never been too good. Now the system is taxed beyond its capacity. Even the transport of small quantities of supplies by rail from the Black Sea or the Persian Gulf and the Caspian Sea to Alma Ata has been ruled out by the Russians themselves despite China's repeated and urgent requests.

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DR. H. H. K'UNG

Dr. H.H. K'ung, China's Minister of Finance, Governor of the Central Bank of China, and Vice Chairman of the Executive Yuan, is overworked. Early in 1942 his health broke badly. He is fast becoming an old man. Since 1941 he has lost weight, color, hair, and some of his celebrated bouyancy, but he appears to have lost none of his self-confidence. Indeed, his pride in China and in his part in China's war is conspicuous.

On April 22 Dr. K'ung talked at length about problems involved in the programs of the Institute of Pacific Relations and of United China Relief. It was typical of him to have given time to these matters, for he has taken the lead in supporting a wide variety of Sino-American intercultural projects.

Moving to questions of more general interest Dr. K'ung commented upon the American loan to China. The purposes for which the loan were intended are well known, he said. The Chinese appreciated the general philosophy which underlay its announcement. The Americans were not prescribing. They recognized that the Chinese best knew how to help themselves. The same could not be said of the British, he complained, who were at that moment trying to lay down conditions to govern their loan.

In greater heat Dr. K'ung maintained that the British still slumbered even after the disaster in Malaya and the catastrophe

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developing (April 22) in Burma. He pointed indignantly at Hong-kong and Shanghai where the British seem complacent over transfer of municipal authority into Japanese hands, even though the Japanese had recently been killing the cities' defenders. Dr. K'ung could not see that the British were putting up any serious defense of Burma. What was worse, they would not permit Chinese troops to make an all-out effort to stop the Japanese. Questioned as to what lay behind General Stilwell's assignment in China, Dr. K'ung replied that at the outbreak of the Pacific war President Roosevelt placed the China, Indo-China, Burma (sic), and India (sic) war theaters under the command of the Generalissimo. At the same time everyone knew that the United States had to take the lead in the Pacific war theater. President Roosevelt found a high ranking officer upon whom the Generalissimo could rely for help. When Stilwell arrived the Generalissimo appointed him as Chief of Staff in order to coordinate operations. Dr. K'ung would not elaborate upon the success of this formula.

Dr. K'ung attracted very hostile criticism for his activities as Minister of Finance. Even some of his closest colleagues described him last year as a "goody goody." The very close understanding and cooperation reached by Dr. K'ung and the late Mr. Manuel Fox appears to have contributed to a general re-appraisal in Chungking of Dr. K'ung's policies and work; and, to some extent, to repair the damages to his reputation. Therefore, Dr. K'ung's spontaneous discourse upon the tasks involved in being China's Minister of Finance proved interesting. It is a very complicated

business, he said, to run a treasury which has to feed and clothe an army of 4 million while building up the base of resistance in the rear. It is hard to retain public confidence in the currency while government budgets mount from year to year. Nevertheless China's foreign credit position has never been better. "I paid off," he boasted, "a loan we received from the United States in 3 years which you expected us to take 7 years to do, and that, during this war!"

It was evident that Dr. K'ung personally took credit for this performance. He said very pointedly that America's half billion dollar loan had been China's first real credit. Previous commodity loans had been promptly repaid in goods. China's foreign obligations had been regularly serviced throughout the war. These remarks, made didactically, revealed a mood of very great pride in his accomplishments as wartime China's Minister of Finance.

MR. K. P. CH'EN

On April 17, 1942 Mr. K.P. Ch'en, chairman of the Currency Stabilization Board, appeared much older and more fatigued than the year before when he confessed to his friends that his career was over. His associates in Chungking say he resists all new assignments, is without any ambition, and frequently reveals feelings of futility concerning the future. He has a wide circle of affectionate personal friends and admirers who swear by his personal integrity. His views on financial questions at present, are said to be in harmony with those of Dr. K'ung. No one in Chungking seems to regard him as a possible future Minister of Finance. He is an admirer of Dr. Soong, but is not considered a Soong man.

Mr. Ch'en expressed great concern over the American isolationists. He feels that they may be in hiding, but they are not yet impotent.

He was fearful of the possible development of a dangerous situation in India. He believes that if India goes, China's line of contact with Britain and the United States will be cut. Only the northwest route through Russia would remain. Apart from technical difficulties of increasing traffic on this road, political complications would arise from having to deal with the two Ma's, Shen Sheh-tsai (whom Mr. Ch'en described as "half-Soviet"), and the Soviets.

Mr. Ch'en was not disposed to make public figures on the currency situation. He mentioned 16 billion as the official

number of notes in circulation (April 1942). His oblique remarks indicated that monthly increments are not less than 1 billion. Mr. Ch'en said that the Currency Stabilization Board had ceased being an agency of any importance in China. The problem of foreign trade financing is academic. The arrangement embodied in the CSB is retained simply because the participating governments approve certain imponderable values in the international formula.

Intimations contained in American broadcasts and news stories that this will be a long war depress Mr. Ch'en. Prolongation, indefinitely, of hostilities must exact, he thinks, a frightful price in China. This reaction is very common amongst Chinese in Chungking.

DR. WANG CH'UNG-HUI

Dr. Wang Ch'ung-hui, formerly Foreign Minister, is now (April 1942) head of China's Supreme National Defense Council. While he does not appear to carry outstanding weight politically in Chungking Dr. Wang is said to be a veteran member of the increasingly important Cheng Hsueh Hsi (Political Science) group. His record abroad and at home is such that he would undoubtedly occupy an important position in the Chinese delegation to any peace conference.

China, he said, believes that America's counteroffensive against Japan should be based upon China and India. China's own principal military requirement is planes. There are at least one thousand trained Chinese pilots ready to use them.

The American Volunteer Group has done a good but limited job. The air strength placed at China's disposal will probably be devoted first to the defense of Burma through which China's life line still (April 14) passes. Indeed, as her supplies increase, China will begin to take the initiative in Burma with the aim of recapturing Rangoon and thereby obtaining a seaport.

China is not dissatisfied with America's allocation of military supplies. China knows that she will have all the supplies which can be hauled by existing transport facilities; and which will be carried on by newly developed facilities.

Dr. Wang said that China is self-sufficient in production of ammunition, light arms, and trench mortars; and that there are scattered arsenals in China amounting in number to over forty, three or four of which are in the Chungking area. These arsenals

draw upon Chinese raw materials. Copper is imported, but it is also produced in China. Before the Indo-China railway was out stores were accumulated. But China cannot produce--in this order of importance and of need--planes, heavy artillery, or tanks. China does not believe that America needs to send an expeditionary force to the Chinese mainland; only supplies. China has no objection to providing the manpower.

Dr. Wang believes that Japan may attack the U.S.S.R. at the moment when the Germans launch their summer counteroffensive in Europe. China then, he said, would launch a counterattack, possibly in the north but probably in Burma in order to take advantage of the weakening of the Japanese there, whereby China would assure her supply lines abroad.

At present, the Chinese are studying the possibility of enlarging traffic over the Northwest Highway. Trade now is slight. Should this route become China's only outlet, trucking over highways and the use of animal stage routes would be pushed.

Chinese have the impression that the British are "mathematical soldiers." They give up when the figures show their position difficult. In contrast Chinese prisoners are rarely taken, because Chinese soldiers fight to the death. Chinese are impressed by the large number of British prisoners taken in Hongkong (4,000) and Malaya (70,000) and now by the half-hearted resistance of the British in Burma.

The British did not refuse flatly Chinese offers of aid to Hongkong and Malaya, but they vacillated. Admiral Chan Chak in

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Hongkong, for example, was, after agreement with the British, assigned by the Chinese Government to organize Chinese volunteers. Seven thousand were mobilized at the moment the agreement was reached -- 2 weeks after December 8. But not until December 24 were these volunteers permitted to obtain arms. Hongkong surrendered before the arms were distributed.

Dr. Wang said that offers to organize Chinese volunteers had been made to the Hongkong and Malayan governments repeatedly before December 7. He intimated that the first serious offer of help was made shortly before the collapse of France in 1940. This offer related to Burma and was flatly rejected by the British who feared offending Japan. Subsequent offers were made to British authorities in Hongkong, Malaya, and Burma.

When the Japanese threat to Burma began to develop the Chinese offered to send troops to Burma. The British were, at first, indifferent; then consented to mobilization of the Chinese on the frontier but within Yunnan; then consented to movement into the northern Shan States; then permitted movement as far as Mandalay; and finally permitted their movement to the Goungoo front. Dr. Wang said that Chinese military leaders wished from the first, to use their troops in the defense of Rangoon itself. The British assured them that they had the situation in hand. Dr. Wang did not confirm a report that the British, even in the later stages of these delays, had consented to permit Chinese to enter Burma only where troops were unaccompanied by officers. Burmese fifth columnists are active against the British; less so against the Chinese

in Burma. Dr. Wang was vague about the actual date that the Chinese began moving in Burma. He said March 1 at one time; then implied that the movement had begun about February 15.

In commenting on the important Chinese minorities in Indo-China, Burma, Thailand, Malaya, the Netherlands East Indies, and the Philippines, and about what Chinese leaders believed should be the role of Chinese living in these areas in the post-war period, Dr. Wang said there are three future possibilities: (1) These areas may become part of China; (2) plebiscites may be held in these countries to determine whether each area "keeps its present rulers or accepts new ones"; and (3) the areas and their resources may be held in trust by an international governing body whose main task would be to industrialize the areas and allow all nations to have access to raw materials. Dr. Wang said Chinese preferred alternative (1) and (2).

Chinese favor radical disarmament at the end of the war. It will, of course, be necessary, Dr. Wang said, to have some sort of police force; Japan must be entirely disarmed while limited arms may be left in the hands of the victor powers, meaning Russia, United States, China, and Great Britain.

DR. CHANG CHIA-NGAO

When Dr. Chang Chia-ngao, Minister of Communications, was visited on April 17, 1942, he laid out a folio of maps upon which he traced the new routes through Burma being constructed by the Chinese Government. His remarks indicated that road building is (April 17) in a much more preliminary stage than skeptical observers in Calcutta had intimated. The two road-building projects now being pushed are the road from Ledo across to Fort Hertz, down the headwaters of the Irrawaddy to Myitkyina, then across to T'eng-yueh, then to Lung-ling, then into China; and second, a road across the Hukwang Valley connecting with the Myitkyina-Mandalay Railway. The former may be completed, Dr. Chang said, for use by jeeps before the beginning of the rainy season in July. Neither road will be ready for actual operations before autumn or the end of the year.

So far as air transport is concerned the run from Assam is still in its experimental stages. Some air transport is coming from Calcutta and environs to Burma.

It appears that the road situation is generally better known in Calcutta than in Chungking. But in Chungking definite information was available upon a considerable transfer of labor to northern Burma for road construction purposes, and it was learned that the Hsi-ch'ang to Chengtu highway is completed. A re-surfacing job is now being done on the highway which was completed in 18 months.

MR. C.C. CH'EN

On May 4, 1942 an interview was held with Mr. C.C. Ch'en, assistant director of the National Resources Commission of which Dr. Weng Wen-hao is the head. Mr. Ch'en, Mr. Y.C. Koo, and Mr. O.K. Yui are regarded as the ranking administrative assistants in the Ministries of Economic Affairs and Finance. They exercise strong influence on affairs and are considered outstanding among China's younger statesmen. Mr. Ch'en, in particular, has a philosophical turn of mind. His ideas have been embodied in the post-war plans of the National Resources Commission. At present, Mr. Ch'en maintains that transportation is the main obstacle to expansion of the current productive activity of government industry, that government enterprise is not less profitable than private enterprise, and that the quantity of new money but rather the purpose underlying its issue is the key to understanding the long-term effects of inflation. For details upon current industrial activity Dr. Ch'en referred the observer to Mr. C.C. Wu, secretary to Minister Weng Wen-hao, and to Dr. C. Sun, research director of the National Resources Commission.

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DR. C. SUN and MR. C.C. WU

In a long interview on May 6, 1942 Dr. C. Sun and Mr. C.C. Wu summarized aspects of the current program of the National Resources Commission. Much of what they said is common knowledge; some of it, however, can be found nowhere in print although it is the subject of confidential discussion in Chungking. Inbrief, they said:

The National Resources Commission

On behalf of the Chinese Government, the National Resources Commission is operating one hundred industrial, mining, and power units. In the field of heavy industry these units occupy a dominant position in Free China. Related enterprises are run by the Ordnance Department of the Ministry of War whose main concern is in arsenals and in the industrial raw materials, iron and coal. The Ministry of Communications operates machine shops producing automotive spare parts; and runs the workshops of China's government-owned railways.

No generalization can be made concerning the profitability of NRC enterprises as a whole. The only enterprise admitted to be entirely unprofitable is the mining of antimony produced for export purposes despite an adverse exchange rate and high transport costs. A few public utilities, in addition, have been penalized by maintaining fixed charges while coal prices rose. All other types of enterprise within the NRC scheme have proven profitable; although measurement of the degree of profitability is complicated by the general inflationary situation, differences

in accounting procedures, assessment of assets, and so forth.

Each unit of the NRC has a separate budget and operating management. The NRC provides, however, a central purchasing agency for all foreign imports. There is no central purchasing agency for acquiring raw materials locally accessible. Finished goods are sold at market prices to all except the Ministry of War and the Ministry of Communications which enjoy substantial discounts.

The Industry and Mining Adjustment Administration of the NRC assisted, initially, in the removal of private factories from coastal and Yangtze China to the interior. Having helped to re-establish these factories, it now helps to finance their operation. The Government has made available CNC\$20 million to cover the liabilities of this administrative agency. By recommending private industrial investment, this agency at present occupies a position of great influence as an intermediary between private industry and banking institutions.

The NRC industrial units are of the following classes: (a) Metallurgical, (b) machine, (c) electrical appliances, and (d) chemical.

Its mining units are of the following types: (a) Coal, (b) oil, (c), iron ore, (d) copper, (e) lead, (f) zinc, and (g) the export minerals of antimony, tin, tungsten, and mercury.

The NRC operates 20 power plants. The largest is located in Kunming and generates at maximum capacity 9 million kilowatt hours per year. The smallest is located at Hsi-ch'ang--70,000 kilowatt hours.

Mr. Wu and Dr. Sun sketched the main areas of distribution of China's industrial plant.

Chungking is China's most important center of private industry. Chungking and Kunming have received equal emphasis as centers of Government industry. In Chungking there are units of iron works, steel works, textile plants (entirely private), chemical plants (particularly paper), flour mills, production units of cement, ship building, electrolytic copper plating, tung oil distillation, and works for converting gasoline burning engines to tung oil burners.

Kunming, in Yunnan, contains machine shops, iron and steel production, cotton mills (entirely private), cement production, production of electrical equipment, a tin refinery, production of carbides and acids, soda plants, and tire repairing plants (now defunct).

Kweilin, in Kwangsi, contains a tin refinery, electrical plants, cotton mills, a blast furnace (10 ton daily capacity), and is near tin and coal mines.

Sian and Pao-chi, in Shensi, contain cotton and flour mills. Coal mines are near.

In the Lo-shan area of western Szechwan there is a production of salt, paper, soda, silk and woolen goods, and considerable coal mining.

Lanchow, in Kansu, contains machine shops, battery making plants, plants producing porcelain insulators, woolen textile plants, and is near coal mines.

Near Changsha and Heng-yang in western Hunan there are coal and iron mines and a concentration of machine shops.

Kan-hsien is the chief industrial center in Kiangsi Province.

In Kweichow the provincial Government and the NRC cooperate in the production of coal and in operation of power plants (10 provincial units) while provincial authorities sponsor printing works, distillation of tung oil, and glass production.

In Chengtu there are paper plants, copper wire plants, textile and flour mills, and printing shops.

Dr. Sun admitted this review was sketchy. It did offer, however, a general over-all picture of the areas of main activity. Turning from the question of geographical location to

comment upon types of enterprise Dr. Sun and Mr. Wu made the following observations:

Private production of iron and steel is larger than Government production. The Government will complete several additional plants by the end of 1942. China produces adequate pig iron, but possesses insufficient steel producing capacity. One plant does, however, have the capacity for producing 100 tons per day.

The problem of obtaining adequate electrolytic copper for China's arsenals and her electrical requirements is one of raw materials. Copper ore of a content of 3 percent is available in the mountains. Native labor is used to mine this ore. Mining and refining equipment is lacking. Chinese arsenals have imported a good deal of copper under Lend-Lease and stocks for some time are in the hands of the arsenals.

Inadequate refinery equipment for lead and zinc means that the limited possible production is entirely allocated to the arsenals. China suffers an absolute lack of resources and has been importing lead and zinc under Lend-Lease.

China mines ample tin, antimony, and ferrotungsten ores for her own needs. Adequate tin refineries exist in China. China is rich in these resources, but mining for a fairly stable foreign market is penalized by the artificially high exchange rate of the Chinese dollar. The Chinese dollar, exchanging at 15 to 1 against the American dollar, has risen 6 times since 1937 while domestic costs of labor and transportation have risen 40 times.

Machine shops, amongst the NRC industrial units, have been established which now produce prime movers, boilers, steam engines, turbines, generators, drilling machines, lathes, pumps, machine tools, spinning machines, gas engines, and armament parts. The largest steel rolling machine has a capacity of only 10 tons daily. Private electric furnaces use scrap steel and iron. The Government produces its own pig iron used in many Government electric furnaces to make steel.

The NRC electrical appliance units use imported materials, parts and raw materials, to manufacture entire radios. The NRC has four such factories producing electrical wire, vacuum tubes, light bulbs, telegraph and telephone apparatus, generators, transmitters, and battery cells. Vacuum tubes are manufactured in Chungking, Kunming, and Kweilin. Telegraph and telephone apparatus is manufactured under agreements enabling use of Siemens patents. The NRC has one separate factory manufacturing radios, loud-speakers, and hand driven generators exclusively for military use. Many plants are producing porcelain insulators whose weight makes it desirable to produce near areas of use. During 1941 the NRC produced 542 radios; the 1942 plan calls for 1500. Virtually the entirety of this production is assigned for military use. Registration of radios is now in process, the number will be less than half a million. All broadcasting is controlled by the Government, the outlets numbering less than twenty.

The original plans of the NRC contemplated leaving to private concerns production of hydrochloric acid, bleaching powder, and soda. At present the NRC is going into this field emphasizing particularly sulphuric acid and nitric acid. An important sulphuric acid plant is located in Kiangsi. NRC soda works are located in Kunming. Liquid fuels are being produced from tung oil, coal, and rapeseed. Diesel oil is being made from tung oil and lubricating oil from rapeseed. Fuel substitution in China has risen with about half of China's trucks burning gas substitutes. In 1941, 6 million gallons of industrial alcohol were produced. Since tung oil cannot now be exported, it is expected that refining plants can expand their annual capacity in 1942 to 5 million gallons. Before December 1941 experiments had been successfully carried on enabling cars to use unrefined tung oil by a change in carburetors and other parts in the motor. There are cars within China at present adjusted to operate on straight tung oil.

In 1941 the coal production of the NRC was one-half million tons. During the first quarter of 1942 NRC coal production was 200,000 tons. The expected production for 1942 was 1 million tons. This compared with total annual coal production for Free China of 6 million tons in 1941.

The NRC has begun to develop two fields of natural oil and one of natural gas. Seventy-five miles from Chungking natural gas is available in quantity, the limiting factors being transportation and cylindrical containers. The Kansu natural oil fields are in their initial stage of development. Refining equipment is inadequate.

quate, but during 1942 it is expected that production of gasoline will reach 2 million gallons. Simultaneous production of diesel oil and kerosene is expected. There is a small refinery now operating in Kansu. A new plant was en route to China when the Burma campaign reached its acute stage. The Chinese are attempting to make a refinery of their own, but no great optimism is felt concerning this prospect. With new equipment it is thought that there would be no real maximum for production. On the eve of the Pacific war the NRC, supported by the British Ambassador, attempted to purchase refinery equipment from Burma Shell. British authorities in Burma vacillated, were recalcitrant, and finally saw their refineries as a whole demolished by their army demolition gangs. The manager of the Kansu plant now operating has said that with three refinery units he could produce as much gasoline as China imported from abroad in 1936.

Using native methods the Chinese Communists are producing oil from a natural oil reserve at Yen-chang, near Yen-an. This reserve is not so promising, however, as the one in Kansu. Near the Lo-shan coal fields a plant, operated by the NRC, could produce in 1941 20 gallons per day of automobile fuel. Out of this experiment will come business production of an annual output of 50,000 gallons.

Geologists have regarded Szechwan as a promising area for oil, but have had no success so far in locating it.

China faces no problem so far as iron ore is concerned. There are many iron fields in Szechwan, Sikang, and Yunnan. In Szechwan furnace-produced pig iron amounted to about 10,000 tons in 1941;

pig iron produced by native methods, an estimate 50-60,000 tons.

Chinese copper ore has low copper content--about 3 percent. Less than 1,000 tons were produced in 1941. The NRC produced 150 tons of a total of only about 2,000 tons of lead in 1941.

A large private concern in Hunan produced 80 tons of zinc in 1941. This represented virtually the entirety of Chinese zinc production.

Industrial Investment in China

In an earlier conversation Dr. C.C. Ch'en had been asked what proportion of China's monetary expansion was assigned to investment in industrial productive capacity. The importance of this question lay in the fact that while such investment contributed, initially, to currency and price inflation it could operate to arrest that movement when enlarged industries began putting commodities, in quantity, on the market.

Dr. Sun and Mr. Wu made available the following data which are entirely inaccessible elsewhere:

In 1940, 1941, and 1942 the budget of the National Resources Commission amounted to 2 percent of the total Government budget; before 1940, 1 percent

Four Government Banks

Loans by the Joint Administration of the
Four Government Banks:

Total 1940 -- CNC\$ 700 million
1942 -- CNC\$ 1,500 million

For industry and mining 14-15%

Loans by the Individual Government Banks:

Total 1940 -- CNC\$10,045 million
1941 -- --

For industry and mining 2.6%

Twenty-six Private Banks -- 1940

	Loans CNC\$42 mn.	Investments CNC\$15 mn.
	of which:	of which:
1. Commerce	96.80%	26.30%
2. Industry and mining	.64	3.80
3. Public utilities	.33	1.10
4. Communications	.14	.29
5. Cultural	1.40	8.80
6. Government	.47	59.20

While regretting the conservative industrial investment policies of Chinese banking institutions Dr. Sun and Mr. Wu maintained that mere financial assistance, whatever its source, domestic or foreign, would solve none of their current problems. Reconquest of Burma, reopening of overland routes into China, and import of needed equipment and materials are the condition for significant improvement of Chinese industrial productivity.

The Chinese Industrial Cooperatives

Dr. Sun and Mr. Wu seemed to share the disdain for the Chinese Industrial Cooperative movement widely felt in Chinese banking circles. Their position might be summarized as follows: CIC has been absurdly oversold abroad. Political conflicts undermine the movement at headquarters, and poor organization frustrates its objectives in the field. Cooperative units inevitably must fall victim to general price inflation. In the long run they will become certainly non-competitive because units are small and in-

efficient. If federalization of units is achieved, small-scale Chinese industry will resemble its Japanese prototype where poor living conditions, sweated labor, and a general low standard of living are the rule. The charge of Communist influence was withheld, though they maintained that this influence had, at one time, been strong.

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MR. CH'EN LI-FU

The Chinese Minister of Education, Mr. Ch'en Li-fu, and his brother, Mr. Ch'en Kuo-fu, are known in China as the leaders of the so-called "CC" group -- a conservative faction. The "CC" group occupied a controlling position in the Kuomintang during the years when its political and economic power was based upon the Shanghai-Hangchow-Nanking triangle in the lower Yangtze Valley. Mr. Ch'en Kuo-fu, formerly General Secretary of the Kuomintang, is unwell, and within the Party his influence is surpassed at present by that of his brother, Mr. Ch'en Li-fu.

Mr. Ch'en Li-fu is an engineer who received graduate training at the University of Pittsburg. He is a social philosopher, philologist, and inventor, as well as a shrewd politician. Since 1927 he has taken the lead in Kuomintang anti-Communist activity. He is fairly inaccessible to foreign visitors. To those whom he sees he speaks very deliberate English. His hair is steely grey. His figure and manners are delicate, giving no hint of the power which he wields in conservative circles of China's political scene.

Mr. Ch'en Li-fu is close to the Generalissime from whom he seeks favors frequently at the expense of other confidants-- notably, Dr. H.H. K'ung. The "CC" group strenuously attempted to embarrass both Dr. and Madame K'ung after the outbreak of the Pacific war last December. An anti-K'ung drive was launched in the newspapers and in student circles. Students were susceptible to pressure partly because the entire educational system is

subjected to growing totalitarian controls mainly under the direction of Mr. Ch'en.

During the interview on May 9, Mr. Ch'en said that China's educational system, at present, follows American models. In the long run it will be made to operate in harmony with Dr. Sun Yat-sen's philosophy. That philosophy, he said, combines Chinese ideas with the best of the West. The San Min Chu I is composed of the best parts of foreign "isms." The Chinese character is broad and absorbent. The Chinese feel for example that the Germans, possessing many good points, have much to teach the Chinese. The Chinese will not, Mr. Ch'en emphasized, adopt anything "too liberal." China is not like the United States -- a "union" of separate states. China will set up a centralizing controlling general standard. The characters ta t'ung (大同) express the essence of this standard. They mean that details may differ, but the general principle applies everywhere. That is the real spirit of the San Min Chu I. Authority and control must come from the center. This will be seen to be the tendency in China's general development. Mr. Ch'en applied this principle to university curriculums by noting that out of twenty courses students must take eight compulsory, and can take twelve elective courses. This illustrates, he said, the spirit of ta t'ung.

In reply to the question as to what policy the Chinese Government pursued in regard to conscription of students, Mr. Ch'en said that the Chinese Government does not exempt students from military service. According to law, university students are

temporarily exempted from conscription, but they are drilled as military reserve officers. Military training is given in middle schools and during the first year of college. The Ministry of Education is now considering extension of drilling and military training through 4 years of college.

In the past, Mr. Ch'en said, the ratio of university students to the total population was 1 to 10,000. This infinitesimal proportion of students should be conserved and withheld from actual hostilities. China suffers no lack of soldiers. China does need officers, however, and men with middle school education are in demand for army service. The Central Military Academy accepts only men who have completed their middle school training. Middle school graduates rejected by the Academy receive reserve training in the colleges.

Within Free China, at present, there are only 700,000 middle school students and only 50,000 college students. The Ministry of Education wishes to conserve these numbers as an essential part of China's intelligentsia; and to train some of them as officers in the army. The general demand for trained personnel is so great that this year one mechanical engineer received eight offers upon graduation from his course.

"Resistance and Reconstruction" is the slogan of wartime China. The Ministry of Education carries a special responsibility in reconstructive work especially now that China is virtually isolated from outside contacts.

Mr. Ch'en devoted a great deal of time to an elaboration of his plans for developing educational institutions in thirteen

provinces of interior Free China. The interior of China, he said, is more backward than coastal China. Illiteracy is more prevalent. Capitalizing upon the emergency institutional adaptations necessitated by hostilities, the Ministry of Education hopes to establish a permanent structure which will survive inevitable post-war reorientation in Chinese society.

The elements of China's mass education program are evident in the pag. Mr. Ch'en said that classes in primary education are held for (1) children, (2) women, and (3) adults. Children attend for 6 years. Women and adults are given common sense instruction in child care, nursing, current affairs, citizenship duties, reading the 1,000 characters, and singing war songs.

Military instruction is the responsibility of the Reserve military corps, not the primary school teacher. However, in the primary school, lectures on the San Min Chu I are given. Adults are indifferent; children, more responsive. Success of political education, Mr. Ch'en said, depends upon the personality of the hsien magistrate. If training is enforced, results are accomplished. The citizenship training schools are only some 60 per cent successful; the rest are irregular. Irregularities arise from a variety of causes including departure of men for front line duty and the worry of women over their departed menfolk. The people in the interior, Mr. Ch'en said, are very backward. Moslem women still hide their faces in veils.

The most successful instrument for mass mobilization is, nevertheless, through schools, especially where the teacher is the

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pao ch'ang. The general difficulty in China is that the farmers take things easy, are interested only in their land, and are bored with politics. Village and city people are more political and more patriotic.

Within 5 years China will have a planned educational system. Each pao will have a 2 year primary course. Each hsiang cheng will have a complete 6 year primary course. Each hsien will have a junior middle school. Each district will have a complete 6 year middle school. Finally, each province will have a National University. The entire system will be developed and controlled by the Ministry of Education. This, Mr. Ch'en said, is a minimum program -- a start.

BRITISH MOST SECRET
U.S. SECRET

OPTCL No. 371.

Information received up to 7 A.M., 27th October, 1942.

1. NAVAL

CHATHAM dockyard was bombed yesterday. Only slight damage caused and few casualties.

2. MILITARY

EGYPT. Up to 6 p.m. 25th, 591 Germans and 864 Italians had been captured. During afternoon 25th, about 110 enemy tanks attacked our armoured forces. The engagement was indecisive, and the enemy withdrew, leaving behind some tanks. 26th. Australian brigade successfully attacked during the night 25th/26th, and captured an important position on the west fringe of TEL EL EISA, inflicting considerable German casualties. An Australian patrol had previously captured a marked map of the locality. Enemy resistance 6 miles west of TEL EL MAKH KHAD had not yet been overcome by early morning 26th, but other localities in this area were in our hands and our patrols were active. Southern Sector. During night 25th/26th, a successful attack was made on the DEIR EL MUNASIB feature by a brigade of 50th Division and enemy troops were harrassed by artillery fire. Mopping up continues. In EL HEMEIMAT area formations are reorganizing.

MADAGASCAR. Our leading troops were 35 miles north of FIANRANTSOA on evening 25th. Three miles south of AMBOHIMAHASOA, a large demolition has been met, which is unlikely to be cleared before 28th.

3. AIR OPERATIONS

WESTERN FRONT. 26th. 19 enemy aircraft crossed our coasts, 2 were destroyed and 3 damaged. A Beaufighter destroyed a JU 88 off the SCILLY ISLES. 26th/27th. 24 aircraft were sent mine-laying in the BAY OF BISCAY and off the Dutch Coasts. All returned safely.

MALTA. 26th. 55 Spitfire sorties were flown against 120 enemy sorties. 1 enemy fighters were destroyed and one probably destroyed.

EGYPT. 25th. Our aircraft flew 660 sorties. Bombers made 6 successful attacks on enemy M.T. in the northern sector and also bombed 2 enemy landing grounds. Our fighters, one of which is missing, destroyed 7 fighters and probably destroyed 4. Beaufighters intercepted 30 Junkers 52 between CRETE and CYRENAICA, destroying 4 and probably destroying 6. We lost one Beaufighter.

MEDITERRANEAN. 25th. Our aircraft attacked 2 ships and a destroyer off TOBRUK. One ship blew up and the other two vessels were set on fire. 4 escorting aircraft were shot down.

4. HOME SECURITY

26th. There were 23 fatal casualties from bombing, including 9 at EASTBOURNE and 7 at ASHFORD. No serious damage reported.

Regraded Unclassified

10-28-42

INTELLIGENCE REPORT

PERSONAL IDENTIFICATION WITH THE WAR

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

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THE REPORT IN BRIEF

Identification

The nation's full strength can be mobilized only if its citizens regard the war as their war. The extent to which they accept the war as their own may be measured by the degree of support they give to the war effort and the degree of concern they feel about the fighting.

Two-thirds of the people interviewed in a recent field study were judged to be vigorous supporters. Most of the rest gave the war some degree of support. Only three per cent were opposed to the national cause.

More than half of those interviewed were rated as being deeply concerned about the war. Only eight per cent appeared to be entirely unconcerned.

People who earn less than \$1800 a year and have less than a high school education are somewhat less likely to feel closely identified with the war effort than those who are more favorably situated. People whose contacts with others are relatively frequent were found to be more deeply identified than the comparatively isolated.

Among the mental attitudes which usually accompany a sense of identification four are conspicuous. Those who support the war and manifest anxiety about it tend to have definite convictions about the nature, course and objectives of the struggle. Frequently, they have concrete expectations about the post-war world, and feel confident that these can be achieved.

They are more likely than the relatively lukewarm supporters of the war to identify strongly with America's allies or to think in broad international terms. Finally, in many cases they have been stirred to real anger by the actions or attributes of the enemy.

Participation

As compared with the number of people who whole-heartedly support the war, relatively few feel that they are contributing importantly to winning it. War work is far more potent than anything else in arousing a feeling of participation.

People do not appear to be greatly interested in whether their participation in wartime programs is governed by voluntary or compulsory procedures. They ask two questions which cut across the voluntary versus compulsory controversy: Is any given program necessary? Is it so administered as to insure equality of sacrifice?

"Many individuals have made great sacrifices, but as a nation we are not yet more than ankle deep in the war." — Office of War Information, August 7.

PERSONAL IDENTIFICATION WITH THE WAR

Total war calls for the total enlistment of the American people — enlistment of their hearts and minds, as well as of their energies and skills. The degree to which Americans recognize and accept the war as their war is an index of their united strength.

This sort of self-identification with the war clearly involves more than assent to America's part in it. It involves real conviction as to the value of the goals for which we are fighting. This conviction characteristically expresses itself in zealous personal efforts to promote victory and in profound concern about the fighting.

The intuitive judgments of even the best informed individuals do not furnish a reliable appraisal of the extent to which Americans give this kind of support to the war effort. In response to requests from officials of OWI and other agencies, the Bureau of Intelligence conducted a field investigation in September to secure objective evidence on this score.

A small but carefully selected cross section of the entire population was interviewed. On the basis of extended conversations, these people were given ratings as to their support of the war effort and the degree of

concern they felt about the war. These two attitudes were regarded as the most trustworthy indications of identification with the national cause.

SUPPORT

The extent to which people support the war varies widely. At one extreme are the all-out supporters. These people are firmly persuaded of the justice of our cause and believe that the enemy must be defeated at all costs. Their support is emotionalized; it stems from the heart as well as from the head. The attitude of this group is typified by the outburst of a worker in a war industry, who has since enlisted in the armed forces:

"My God, nobody seems to realize this is war and that we all got to do our part... Of 60 Marines sent out from this base only eight are still alive. And yet people around here go on doing things the same old way...

"What are we giving up? Nothing! And yet many people complain about the war and what it's costing them... The only 'sacrifice' worthy of discussion is the sacrifice of life, and few people at home will be called upon to make that sacrifice."

At the other extreme is a small group of individuals who are hostile to this war and doubt the wisdom of our being in it. Some of the people in this group are conscientious objectors. But there are also a number of unregenerate, anti-administration America-Firsters. The bitterness with which they speak is illustrated by the fulmination of a retail merchant, who cites The Chicago Tribune as a source of much of his information:

"The Government is moving to totalitarianism. The war is just a disguise... They are doing everything they can to make things go wrong so they can go into totalitarianism... I feel it is my duty as a good old American citizen of an old line of American citizens to speak the truth and tell everybody I can about them."

Even allowing for the fact that some respondents may have concealed or toned down such viewpoints as this, it appears certain that no more than a very small percentage of the population is strongly opposed to America's participation in the war. The bulk of the public is behind the war effort with more or less intensity, ranging between the two extremes.

CONCERN

People were also rated on the degree of concern they manifested about the war. As might be expected, most of those who were rated high on support of the war effort were also rated high on concern.

There were occasional exceptions. Some people who fully support the war have such complete confidence in the way the Government is running it that they display little anxiety. Typically they feel that Uncle Sam and they themselves are doing all they can and that there is no use worrying.

Among those who support the war there are also some who are too preoccupied with their personal problems to give it much thought. Typical is a young Michigan farmer. He is an all-out supporter of the war and is considering enlisting in the Navy. But at the moment he is too harassed with the job of running his farm in the face of shortages of labor and equipment to keep up with war developments.

There are also some people who do not fully support the war but who are so situated that they do feel deep anxiety about it. Some mothers whose sons may be called, some men whose businesses are affected by the war, belong in this group.

Except in such situations, there was a high correspondence between the rating on support and the rating on concern.

The ratings on these two basic attitudes are shown in the chart opposite. On the basis of them, the entire sample was arbitrarily divided into two groups of equal size -- the "more identified" and the "less identified." The two groups were then compared from a number of points of view.

ATTITUDES ASSOCIATED WITH IDENTIFICATION

It was found that people who feel identified with the war may usually be distinguished from those who do not by the following attitudes:

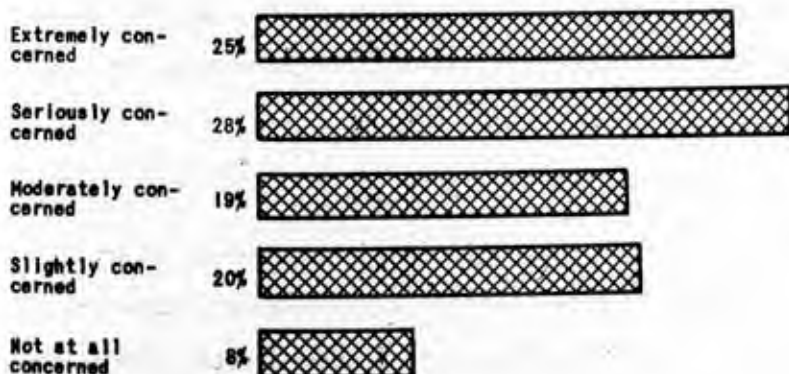
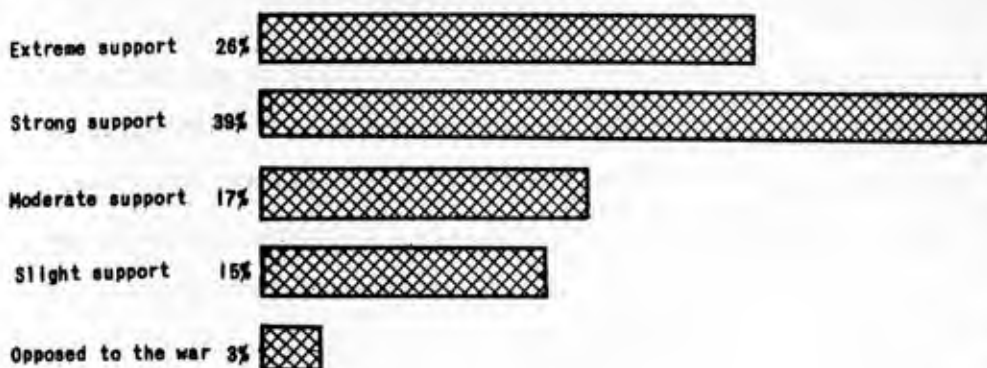
1. Definite convictions about the war
2. Hatred of the enemy, his leaders, or his ideology
3. International sympathies
4. Positive war purposes

No one of these attitudes furnishes an infallible clue to personal identification with the war. But each one is reasonably reliable. For example, seven respondents in ten of those who are "more identified" with the war manifest deep sympathy with America's allies and with people throughout the world. Only three in ten of those who are "less identified" express such sympathy.

1. Definite Convictions about the War

Those who are "more identified" tend to have definite convictions about the progress of the war and the effectiveness with which it is being waged. Within broad limits, it does not much matter what these convictions are. Some of the "more identified" people are optimistic, some pessimistic about

COMPONENTS OF IDENTIFICATION



the way the war is going. Some are confident that America will attain its war aims; some are skeptical. Some approve the way the Government is running the war; some are critical. But, usually, the people whose hearts are in the war effort have clear-cut convictions one way or the other. In contrast, the "less identified" people frequently have no opinion, at any rate none that they feel prepared to defend strongly.

Apathy was judged to be the most usual cause of failure to express definite opinions. A few individuals may have been afraid of confiding in an interviewer or may have lacked the verbal ability to express themselves. But most of those who were non-committal simply lacked the information or the interest to assess war issues. These are the people who are most prone to remain outside the war effort.

As one might expect in view of this finding, the people closely identified usually find the war a natural and exciting topic of conversation. In contrast, those "less identified" ordinarily do not talk much about the war. The chief reason for this difference, it may be assumed, is that those who feel strongly about the war seek opportunities to express and debate their viewpoints. Conversely, discussion promotes a sense of identification with the war, probably by facilitating the formulation of opinion.

2. Hatred of the Enemy, his Leaders, or his Ideology

A second attitude characteristic of identification with the war effort is a deep feeling of anger at the enemy. This does not ordinarily take the form of a hard, steady hatred of the German or Japanese people; more often

it stems from outraged recoil at specific actions of the enemy, such as atrocities or the attack on Pearl Harbor. In some cases it takes the form of hatred of enemy leaders or of indignant rejection of the ideology of the "New Order." Six in ten of those who are "more identified" with the war effort have a strong feeling against the enemy; only four in ten of those who are "less identified" are similarly wrought up.

When people are specifically asked what they dislike about Germany and Japan, however, all but a very few express some degree of hostility. Important differences are emerging in the way in which Americans feel about their two major enemies. The Japanese people and leaders are lumped together as objects of hatred. In the case of Germany, on the other hand, anger is frequently directed against Nazi leaders, against the totalitarian form of government, and against Nazi doctrine. All the evil things about the German system tend to be personified in Hitler.

3. International Sympathies

There appears to be a definite relationship between identification with the war effort and breadth of view. As pointed out above, those who support the war are far more prone than those who do not to feel closely linked with the United Nations and with people throughout the world. Conversely, they are far less likely to think primarily in terms of the selfish interests of their own class or group, or to be preoccupied with the impact of events upon their families or themselves.

Among all the people interviewed, three in ten seemed to be thinking internationally — generally in vague, humanitarian terms. Only one in ten

expressed close, specific identification with our allies.

Three persons in ten were primarily concerned with what is to the immediate self-interest of the United States. This attitude was shared about equally by the "more" and "less" identified.

The remaining 30 per cent were chiefly concerned with the way the war affected their class or group, their families or their own personal fortunes. It is clear that the United Nations' concept has not yet become the organizing focus of Americans' thinking about the war.

4. Positive War Purposes

Close relationship exists between identification with the war and people's expectations about the post-war world. Understandably, those who foresee a better society emerging from victory are more prone to support the war than those who have no clearly defined hopes for the future.

At present the people who think that peace can best be secured in the future by American military domination of other nations appear to have more confidence in their plan, and therefore to be more firmly identified with the war effort than those who are thinking in terms of idealistic but still vague hopes for international cooperation.

It is the latter group, however, which is most closely in accord with America's war aims as expressed in the Atlantic Charter and the Four Freedoms. Their identification with the struggle may be expected to strengthen as the idea of a post-war world based upon cooperation receives clearer formulation and as practicable plans are advanced for bringing it into being.

SOCIAL AND ECONOMIC FACTORS

People who earn less than \$1,800 a year, have less than a high school education, and little opportunity for group life, are somewhat less likely to feel closely identified with the war effort than the more favorably situated. Some members of submerged minority groups may regard the war as an enterprise of the dominant element in the population and fail to see how its outcome affects them.

Those who have relatively frequent opportunities for taking part in group life are more closely identified with the war than those who are comparatively isolated. Men have a somewhat higher degree of identification than women; persons in larger communities a higher degree of identification than those in small towns and rural areas.

PARTICIPATION

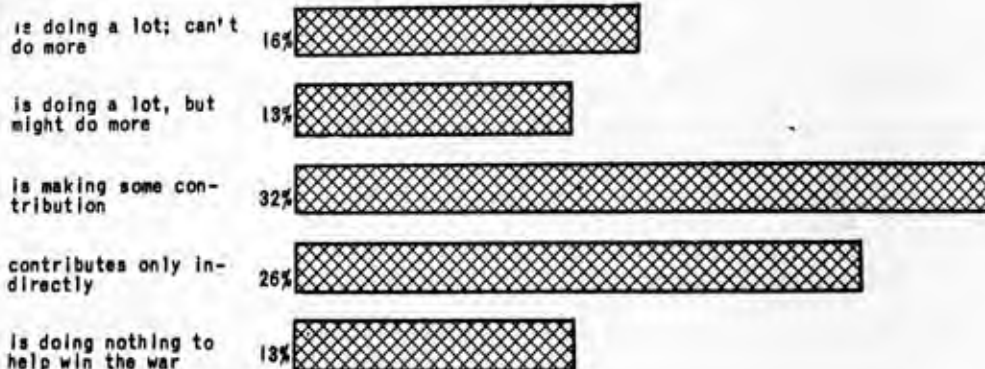
Opportunities to participate in the war effort have obvious value for those people deeply concerned about the progress of the war and eager to find some outlet for their mobilized energies. A companion study conducted last summer by the Bureau of Intelligence revealed a close relationship between identification with the war and participation in home-front war activities. The people who recognized and accepted the global nature of the war and displayed an offensive spirit were most prone to buy war bonds, to undertake civilian defense work, and to cooperate with various conservation programs. This relationship unquestionably existed not only because belief begets action, but also because action begets belief.

Evidently, however, there is now a lack of satisfying opportunities for participation. The number of people who feel that they are contributing importantly to the war effort is far fewer than the number who wholeheartedly support the war. The chart below groups respondents in accordance with the contribution they feel they are making to the war effort.



SENSE OF PARTICIPATION

Feels that he...



The war has brought marked changes into the lives of three-fourths of the population and, as might be expected, it is these people who are most prone to have some sense of participation in the struggle. In most cases, however, the changes have been insufficient to give people the feeling that they are making an important contribution.

A shift into war work, or some similar significant alteration in one's

life, is very likely to inspire this feeling. Bond buying is evidently no longer able to do so -- probably because it seems like a minimal contribution now that Americans are fighting and dying. In general, work appears to be far more potent than any other activity in arousing the feeling of participation. Thus the continuing conversion of the nation's economy to war production should automatically bring more people into the orbit of the war effort.

A small minority of respondents -- including some who now feel that they are contributing to the war effort as well as some who feel that they are not -- assert that they would welcome more opportunities for participation. These people, typically, are not self-starters. They want the government to tell them what to do.

Respondents were asked for suggestions as to what the Government might do to draw people more fully into the war effort. About three people in ten reacted, sometimes indignantly, with statements to the effect that people's hearts are already in the war or that the Government is already doing all it can. An equally large group had no suggestions.

The suggestions most frequently advanced were that there should be more programs requiring people to share alike and that steps should be taken to bring the war closer home to people; some people advanced the idea that "a few bombings might help." Perhaps eight per cent of the sample echoed the thought which has appeared in many newspapers that the Government "should set its own house in order." Another group mentioned that the Government should give the people more information -- including the bad news as well as the good.

COMPULSORY VS. VOLUNTARY PARTICIPATION

An effort was made to discover whether people preferred to participate in the war effort through voluntary or compulsory procedures. But it was found that people think very little in these terms. Their approval of any given program is based primarily on two other considerations:

1. The feeling that it is necessary.
2. The feeling that it is so administered as to insure equality of sacrifice.

If a program passes these tests, it is not likely to be regarded as compulsory, even if compliance with its provisions is, in fact, mandatory. In connection with war programs, "compulsory" tends to lose its dictionary meaning and to denote a program which is considered unnecessary or unfair. A program is looked upon as compulsory only when people question the need for it, or when some individuals actually or apparently benefit from it more than others.

When, on the other hand, programs are regarded as necessary and well administered, their compulsory aspect may actually be welcomed as a means of insuring equality of sacrifice. Many people feel, too, that only compulsory methods insure a full and effective use of the nation's resources.

As previous studies have revealed, people are more prone to accept compulsion in connection with programs already in operation than in connection with proposed programs. But so far as both existing and proposed programs are concerned, a large majority believes that participation should be on a compulsory, rather than a voluntary, basis. Only two per cent of those interviewed rejected compulsion on ideological grounds.

Favorable experience with present compulsory programs disposes people to accept compulsion in connection with proposed programs. For example, those whose experience with sugar rationing has been relatively satisfactory are more inclined than those with reservations about it to favor the compulsory rationing of electricity.

Any investigation in advance of the inauguration of a particular program is likely to understate people's readiness to accept compulsory provisions. But people's response to any given program is fundamentally determined by their views on how necessary it is and how fairly it is administered.

It is those who are most responsive to voluntary appeals who are most strongly in favor of the use of compulsory procedures. The people who respond to voluntary appeals are, by and large, individuals who appreciate the urgency of the war and are not disposed to question the usefulness of any reasonable proposal for winning it. The views of this group were well expressed by a foreign-born but thoroughly Americanized worker:

"The Government should do everything, everything, to make anything go quicker and evenner for everybody. You lose too much time asking people, 'Please,' and 'If you don't mind.'"

"In peacetime, that's democracy. In wartime, its murder — of the boys fighting, I mean. If the Government thinks it's necessary, order it done. The time for asking has passed."

CONCLUSIONS

Identification with the war effort is closely linked with a number of factors which may be significantly affected by Government informational policy.

1. There is a very close relationship, for example, between identification

and definite convictions about the war. The optimistic and pessimistic are both more identified with the war than the apathetic and the confused. Those who approve the Government's conduct of the war and those who criticize it are both more prone to feel that it is their war than those who have little interest in the way things are run.

Such facts as these underscore the importance of giving the people as much information as possible about the nature and progress of the war. They demonstrate again the desirability of releasing all news, bad as well as good, which security considerations do not make it imperative to withhold.

Because people need not only access to the facts but opportunities to formulate opinions about them, forums, town meetings and adult education have a high value in wartime. If, through discussion, people could develop a clearer understanding of just one subject, the kind of post-war world they want, and the way of achieving it, their sense of personal involvement would be greatly enhanced.

2. The findings also point to the value of sharpening emotional reactions to the combatants and the issues of the war. Men are aroused by sympathy for their allies and by anger at the hateful beliefs and practices of their enemies.

Continued efforts should be made to encourage regard for Russia, England, China and the other United Nations. Identification with the war effort may also be fostered by reminding Americans of such things as the treachery of Pearl Harbor and the brutality of Lidice.

3. People require more opportunities than they have been given thus far to become participants in the war effort. Such opportunities are important not simply because victory requires the strength and abilities of the entire population; they are also important because of the beneficial effect of participation upon those already aroused and those still apathetic.

People without outlets for their energies may remain outside the war effort and even develop strong feelings of frustration. There is a real danger that, instead of channelizing their energy into the common effort against the enemy, they may become embittered at the Government or at some element within the population.

4. The Government need not hesitate to employ compulsory methods whenever they are indicated. Speaking generally, the American people do not raise the question of voluntary versus compulsory participation. They ask: Is a given program necessary? Is it equitably administered?

A continuing task of Government informational policy must be to demonstrate the necessity and the equity of all programs in which citizens are asked to take part.

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1
Sent by Mr. Plumptre to Miss Kistler, October 28, 1942, 4:30 PM

Forecast of Canada's United States Dollar Position
October 1942

General Comments on the Forecast.

Notes on the October forecast as compared with
that made in July 1942.

Table I. Financing Canada's Needs for United
States Dollars.

Table II. Canada's Deficiency of United States
Dollars on Current Account Transactions
with the United States.

Table III. Capital Account Transactions with the
United States.

Table IV. Effect of Hyde Park Transactions, Gross.

Table V. United States Dollars Obtained from
Newfoundland and Other Non-Sterling
Area Countries.

Table VI. Canada's Liquid Reserves.

Footnotes to the Tables.

October Forecast of Canada's U.S. Dollar Position.

2

General Comments.

1. The present estimate forecasts a small (\$7 million) favourable balance with the United States in the last quarter of 1942 and a somewhat larger favourable balance (\$26 million) for the first quarter of 1943. This is a reduction in the favourable balance forecast last July for these two quarters. The reasons for this change in prospects are explained in the footnotes to the tables.
2. The actual result over the next six months may well be worse from the point of view of Canada's U.S. dollar position than that here forecast.
3. A further reduction in our net receipts of U.S. dollars may occur from -
 - (a) smaller gold exports than the \$50 million here forecast for the next six months (Table II, item 11). (It is difficult to forecast the effect of the Government's program for restricting gold mining as well as other non-war industries in step with war requirements);
 - (b) a smaller amount of foreign borrowing than the \$67 million here forecast for the next six months (Table I, item 13); (The movement of Canadian securities to the United States will probably diminish and may stop altogether);
 - (c) larger payments for war materials imported from the United States than here forecast (Table I, item 2). (See the footnote to Table II, item 1).
4. The only important source of additional U.S. dollars in the next two quarters is under Hyde Park arrangements by either one or both of -
 - (a) a reduction in the amount of "invoices rendered by War Supplies Ltd., but yet unpaid" (see Table IV, footnote on Hyde Park exports);
 - (b) an increase in sales of war materials to the United States.
5. As estimated here for the calendar year 1942, Canada's U.S. dollar position is being supported to a total of \$358 million by gold exports and foreign borrowing (\$185 million and \$173 million, respectively). The support from Hyde Park exports gross in 1942 is estimated to amount to \$415 million. Should gold exports and foreign borrowing fall off yet more sharply, our U.S. dollar position will suffer seriously unless Hyde Park receipts grow correspondingly.

3

Notes on the October Forecast as compared with that made in July 1942.

The actual change in our position in the third quarter of 1942 was exactly that predicted in July.

Excess of current account payments over receipts was below the July estimate (Table I, item 1) by.....\$23 million.
Bond maturities and other capital debts (I, 1) were below the July estimate by.....\$ 2 "
A reduction in our needs of U.S. dollars of.....\$25 "

Ways of meeting these needs were also down -
Hyde Park receipts, gross, were down (I,10) by.....\$27 "
Receipts from Newfoundland, etc., (I,12) down by.....\$ 4 "
Security Sales and other capital credits (I,13) were up by.....\$ 5 "
A reduction of our ways of meeting U.S.dollar needs of\$26 "
Errors and omissions in the estimate for this quarter.....\$ 1 "

For the fourth quarter of 1942 the July estimate has been changed -

- (a) by reducing current account payments (Table II, item 9) net.....\$12 "
by raising current account receipts (II,16) net...\$ 4 "
thus reducing our July forecast of the excess of payments over receipts on current account....\$16 "
- (b) by reducing estimated receipts under Hyde Park (I,10)...\$25 "
by increasing net receipts from Newfoundland, etc. (I,12).....\$ 1 "
by increasing estimated sales of securities and other credits on capital account (I,13).....\$ 5 "
thus reducing our forecast of these receipts by...\$19 "
- (c) by increasing estimated bond maturities.....\$ 1 "
- (d) by worsening our U.S. dollar prospects cf. our July forecast by.....\$ 4 "
thus changing a July forecasted acquisition of...\$11 "
to a present forecasted acquisition of.....\$ 7 "

For the first quarter of 1943 the July forecast has been changed-

- (a) by reducing estimated current account payments (II,9)by....\$ 9 "
by reducing " " " receipts (II,16).....\$ 6 "
thus increasing estimated current account excess of payments over receipts (II,17) by.....\$ 3 "
- (b) by reducing estimates sales of securities, etc. (I,13)...\$ 2 "
by reducing " receipts under Hyde Park(I,10)...\$26 "
thus reducing the July estimate of these receipts by...\$28 "
- (c) thus worsening our U.S. dollar prospects cf. the July estimate by.....\$25 "
thus changing a July forecasted acquisition of (I,14)...\$51 "
to a present forecasted acquisition of (I,14)...\$26 "

Table I. Financing Canada's Needs for United States Dollars

4

(In millions of U.S.dollars)

	Item No.	Calendar Years		Quarters of 1942				1943
		1941	1942	I	II	III	IV	I
<u>Canada's Needs for U.S. Dollars:</u>								
Excess of current payments over receipts (excluding Hyde Park transactions) Table II.....	1.	286	513	97	155	113	158	139
The chief items in this excess are (Table II)								
Imports for war production and military equipment....	2.	292	455	126	117	112	120	120
Other imports.....	3.	550	580	135	161	149	135	120
Total of all current payments.....	4.	1,191	1,436	319	399	361	367	326
Exports.....	5.	506	543	140	139	135	129	120
Total of all current receipts.....	6.	905	923	232	234	248	202	187
and maturities and other debits on capital account.....	7.	33	24	5	7	6	5	5
Exports of goods Lend-Leased to the U.K. and transferred to Canada under the Hyde Park agreement.....	8.	3	69	6	22	22	19	18
<u>Needs for United States Dollars (1 + 7 + 8).....</u>								
	9.	322	606	98	184	141	183	162
<u>Ways of meeting these needs:</u>								
Hyde Park transactions gross (Table IV).....	10.	61	415	61	107	115	132	148
which includes the U.S.dollar content of Hyde Park exports amounting to.....	11.	3	47	6	12	12	13	14
United States dollars obtained from Newfoundland and other non-sterling area countries outside the United States (Net) (Table V).....	12.	24	64	11	23	9	21	10
sales of securities and other credits on capital account (Table III).....	13.	94	173	52	52	32	37	30
loss (or gain +) in stocks of gold and U.S.dollars (Table VI).....	14.	142	179	142	114	116	117	126
Total (10 + 12 + 13 + 14).....	15.	321	573	82	168	140	183	162
<u>I. Errors and Omissions (9 of.15).....</u>								
	16.	1	16	16	1			

Notes
Item 1. This item is introduced in Section I of this Table because it is included in Section II, Item 10, and because in the absence of the Hyde Park agreement Canada would probably need United States dollars to cover the imports in this item. On the reliability of this estimate see the footnote to Table IV, item 6.

Item 14. For the first three quarters of 1942 the actual change in U.S.dollar position is shown. The forecast for the next two quarters is merely the residual item of the balance of payments, i.e., it is the estimated change in U.S.dollar position on the assumption that there are no errors and omissions in the forecasts of other items in the balance of payments for these two quarters.

Table II. Canada's Deficiency of United States Dollars on Current Account Transactions with the United States.

(In millions of U. S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943
		1941	1942	I	II	III	IV	I
<u>Payments by Canada to the U.S.</u>								
<u>Imports:</u>								
War production and military equipment (excl. Lend-Lease).....	1.	292	455	106	117	112	120	120
Other imports.....	2.	550	580	135	161	149	135	120
Total imports (1 + 2).....	3.	842	1,035	241	278	261	255	240
Freight payable in U.S. dollars.....	4.	86	128	21	35	39	33	25
Tourist and other travel in the United States....	5.	15	14	4	4	3	3	4
Interest.....	6.	85	88	19	24	20	25	20
Dividends and profits.....	7.	118	111	20	32	33	36	22
Miscellaneous.....	8.	45	60	14	16	15	15	15
Total payments (3+4+5+6+7+8).....	9.	1,191	1,436	319	389	361	367	326
<u>Receipts by Canada from the United States:</u>								
Exports of merchandise by Canada (excl. Hyde Park).....	10.	506	543	140	139	135	129	120
Exports of newly-mined gold.....	11.	185	156	44	42	40	30	20
Freight receipts in U.S. dollars.....	12.	54	70	15	18	19	17	16
Tourist and other travel by the U.S. in Canada....	13.	73	47	7	11	22	7	6
Interest dividends and profits from the U.S....	14.	47	47	12	10	14	11	9
Miscellaneous.....	15.	47	60	13	14	18	22	16
Total receipts (10+11+12+13+14+15).....	16.	905	923	232	224	246	208	187
Balance of Payments over Receipts (9/16).....	17.	286	513	87	165	115	159	139

Table III. Capital Account Transactions with the United States.

(In millions of U. S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943 I
	1941	1942	I	II	III	IV	
<u>Receipts by Canada:</u>							
Sales of U.S. and other foreign securities..... 1.	23	21	8	5	3	5	3
Sales of other U.S. assets..... 2.	17	23	11	3	6	3	3
Total (1 + 2)..... 3.	40	44	19	8	9	8	6
Sales of Canadian securities..... 4.	31	111	27	40	19	25	20
Sales of other Canadian assets..... 5.	23	18	6	4	4	4	4
Total (4 + 5)..... 6.	54	129	33	44	23	29	24
Total receipts (3 + 6)..... 7.	94	173	52	52	32	37	30
<u>Payments by Canada:</u>							
Payments of Canadian bonds held in the U.S..... 8.	26	20	4	6	5	5	4
Other debt payments..... 9.	7	4	1	1	1	1	1
Total payments (8 + 9)..... 10.	33	24	5	7	6	6	5
Excess of Capital Inflow from the U.S. (7 + 10)..... 11.	61	149	47	45	26	31	25

Table IV. Effect of Hyde Park Transactions, Gross.

(In millions of U.S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943 I
	1941	1942	I	II	III	IV	
Total Hyde Park Exports..... 1.	8	275	13	56	99	107	121
Deduct exports against prepayments..... 2.	-	27	2	5	7	13	16
Add prepayments and capital advances..... 3.	50	79	44	34	1	-	-
Total current yield of U.S. dollars from Hyde Park exports (1 - 2 + 3)..... 4.	58	336	55	85	93	105	115
Add petroleum products purchased by the U.S. on account of the U.K. for the British Commonwealth Air Training Plan..... 5.	-	8	-	-	-	8	15
Add imports of goods Lend- Leased to the United Kingdom and transferred to Canada under the Hyde Park agreement.. 6.	3	69	6	22	22	19	18
Total contribution of Hyde Park transactions gross(4 + 5 + 6).. 7.	61	415	61	107	115	132	148

Table V. United States Dollars Obtained Outside the United States.

(In millions of U. S. dollars)

Item No.	Calendar Years		Quarters of 1942				1943
	1941	1942	I	II	III	IV	I
<u>Receipts by Canada:</u>							
From Canadian exports to non-sterling area countries outside the U.S..... 1.	-	45	15	13	9	8	8
Of dividends from Canadian companies operating in Latin-America..... 2.	-	33	3	13	4	13	2
Total (1 + 2)..... 3.	88	78	18	26	13	21	11
<u>Payments by Canada:</u>							
For imports from non-sterling area countries outside the U.S..... 4.	79	47	14	13	12	8	8
Net Receipts (3 - 4)..... 5.	9	31	4	13	1	13	3
Net receipts of U.S. dollars from Newfoundland..... 6.	15	33	7	10	8	8	7
Total Net Receipts (5 + 6)..... 7.	24	64	11	23	9	21	10

TABLE VI. Canada's Liquid Reserves

(in millions of U. S. dollars)

	<u>Gold#</u>	<u>U.S. \$ Balances#</u>	<u>Total Official#</u>	<u>Private Balances##</u>	<u>Total</u>
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Actuals

a) Actual -

September 15, 1939...	205	56	261	130	391
December 31, 1940...	136	194	330	-	330
December 31, 1941...	136	52	188	-	188
March 31, 1942...	126	104	230	-	230
June 30, 1942...	125	119	244	-	244
September 30, 1942...	122	138	260	-	260

b) Estimated -

December 31, 1942...			267	-	267
March 31, 1943...			293	-	293

anges in amounts from
previous period -

Memo:

Estimated net
capital import

c) Actual -

September 15, 1939...	-	-	-	-	-	
December 31, 1940...	-69	£138	£69	-130	-61	
December 31, 1941...	-	-142	-142	-	-142	61
March 31, 1942...	-10	£52	£42	-	£42	47
June 30, 1942...	-1	£15	£14	-	£14	45
September 30, 1942...	-3	£13	£16	-	£15	26

d) Estimated -

December 31, 1942...			£7	-	£7	31
March 31, 1943...			£26	-	£26	25

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

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

Footnotes to the Tables

TABLE II. Footnotes

Item 1. Imports for war production and imports of military equipment.

As nearly as can be estimated by the Economics and Statistics Branch of the Department of Munitions and Supply, payments for war imports in the third quarter of 1942 amounted to \$112 million by contrast with the forecast of \$130 million made in July last. Such discrepancies arise, it is believed, from alterations in delivery schedules for products purchased in the U.S. and in the failure of U.S. deliveries to meet the existing schedules. At present no basis exists for forecasting some of these payments at all accurately. It is hoped that studies now under way may make it possible to find an improved basis for forecasting.

The value of goods purchased for delivery before Sept. 30th last exceeds actual payments made up to that time by well over \$50 million. When the contingent liability involved in such "purchases" may become actual by the delivery of the goods is impossible at the moment to say.

Item 2. Non-war imports.

For the past the amount of these imports is obtained by subtracting estimated war payments (Item 1) from total payments for imports (Item 3). The forecast however is a rough estimate.

Item 3. Total imports.

For the past, payments for total imports from the U.S. are found by adjusting Customs data to eliminate imports for which Canadians make no payment, such, for instance, as imports from the U.S. on account of the United Kingdom. The forecast is the total of the forecasts of Items 1 and 2.

Item 4. Freight payable in U.S. dollars.

This item includes inland freight on coal and other commodities imported from or through the U.S., ocean freight on imports which is payable in U.S. dollars to U.S. or other foreign agencies, and such part of the freight on Canadian exports to sterling area countries as is payable by Canada in U.S. dollars. Estimates on some of these payments, e.g., freight on coal imports, are based on up-to-date information; for other parts of the estimate the basic data is usually one quarter behind. As a record the estimates of the larger part of the freight payments are probably quite accurate.

Item 5. Tourist payments.

Based on Foreign Exchange Board data as to funds sold to tourists for travel in the United States.

Item 6. Interest payments.

Based upon Dominion Bureau of Statistics estimates of the holdings of Canadian bonds in the United States. The quarterly

distribution was made after studying the seasonal tendency in the sales by the F.E.C.B. of U.S. dollars for the servicing of Canadian banks.

Item 7. Dividends and profits payments.

Based on F.E.C.B. records of approvals for the remittance of dividends and profits to residents of the U.S. dollar area. The forecast has been made on the assumption that remittances will continue to be below earnings as they have been in the recent past and that there will be no tendency to remit to the U.S. the considerable volume of profits eligible for remittance under the regulations of the F.E.C.B. which have thus been built up.

Item 8. Miscellaneous.

This item includes mainly payments for services such, for instance, as payments to companies in the U.S. for management, engineering and similar professional services.

Item 10. Exports. (excluding Hyde Park exports).

Customs statistics adjusted to exclude exports for which no U.S. dollars are received. They have also been adjusted to exclude as far as possible the commodities which are covered by the data on payments received from Hyde Park exports, which are shown in Table IV. While a considerable amount of data is especially compiled to cover the exports of War Supplies Ltd., this compilation is not complete and has to be supplemented by the deduction of certain items in the trade statistics which are of a type exported almost exclusively by War Supplies Ltd.

The estimate for the third quarter of 1942 is an estimate made in the light of data for the months of July and August only. The forecast of total exports made here is most uncertain on account of changes which may be brought about by shortages of manpower and the transfers of workmen which will be made to cope with this situation. Newsprint, lumber and cattle exports are particularly difficult to forecast at the moment. The actual decline in total exports may turn out to be in excess of that here forecast.

Item 11. Exports of newly-mined gold.

The data are as compiled by the Bank of Canada. Forecasting our gold exports is particularly hazardous at the present moment because of manpower transfers now under way. The forecast is not to be interpreted as more than a guess.

Item 12. Freight receipts.

This item includes Canadian railway earnings on exports to the U.S.; U.S. payments to Canadian railways on freight in transit through Canada; and expenditures in Canada by U.S. railways, particularly those in southern Ontario. For the past an estimate is made on the basis of railway revenue and traffic statistics as these become available. The record is therefore subject to revision in future compilations. The forecast is made upon the basis of the

probable future traffic.

There is also included expenditures in Canada on account of U.S. and other foreign ships and some earnings of Canadian ships which are received in U.S. dollars.

Item 13. U.S. tourist travel in Canada.

This estimate is based on F.E.C.B. receipts of U.S. dollars which are believed to originate in the tourist trade. The Dominion Bureau of Statistics estimate is based on tourist traffic and includes Canadian dollar receipts which cannot be separated from the U.S. dollar receipts. However, the F.E.C.B. data appear to be in line with the estimates based on the figures for the tourist traffic to Canada.

Item 14. Interest, dividends and profits from the United States.

F.E.C.B. data, including income from other than U.S. securities. Dividends received from Canadian companies operating in Latin America are excluded as these appear in Table V, Item 2.

Item 15. Miscellaneous.

The income included here is mostly from services. It includes receipts originating in the activities of the U.S. Government in Canada, as for instance the Alaska highway.

TABLE III. Footnotes.

Item 1, 2, 4 and 5.

For the past the figures are those compiled by the F.E.C.B. The forecasts are very rough estimates of future sales. Items 1 and 2 are a breakdown of Item 1 of Table III in the July forecast; Items 4⁴ and 5⁵ are a breakdown of Item 2 of Table III in the July forecast.

Item 8.

The figures for the past record the amount of exchange purchased from the F.E.C.B. to meet maturities of Canadian bonds. The forecast is based on the estimated foreign holdings of maturing Canadian bonds.

Item 9.

F.E.C.B. data for the past. The forecast is for payments at the present level.

TABLE IV. Footnotes.

Items 1-4. Hyde Park Exports.

Item 4 which is the basic series here, is the recorded cash deposited by War Supplies Ltd. with the Dominion Government plus the estimated receipts by Canadian companies from sales of

aluminum, lead, mercury, cobalt and other metals to the Metals Reserve Corporation. The estimated receipts from metals exports are believed to be accurate. For the past three quarters they amount to \$4 million, \$8 million and \$9 million respectively. They are here forecast at \$9 million for the fourth quarter of 1942 and at \$13 million for the first quarter of 1943.

Receipts from War Supplies Ltd. which were forecast in July last at \$102 million for the third quarter of 1942 actually amounted to but \$85 million. This is in accord with previous experience which shows receipts to have been below estimates consistently. The Economics and Statistics Branch of the Department of Munitions and Supply now estimate probable receipts from War Supplies Ltd. at \$109 million for the fourth quarter of 1942 and at \$123 million for the first quarter of 1943. Their forecast includes estimated receipts arising from a reduction in the amount of "invoices rendered by War Supplies Ltd. but unpaid" as well as receipts from current sales. At the end of August 1942 the invoices rendered but remaining unpaid amounted to \$61 million. The Treasurer of War Supplies Ltd., in his report for August 28, 1942, estimated War Supplies Ltd. "cash receipts" at \$183 million for the fourth quarter of 1942 and \$113 million for the first quarter of 1943.

Taking into account the character of estimates made in the past, receipts from War Supplies Ltd. are forecast here at \$96 million for the fourth quarter of 1942 and at \$102 million for the first quarter of 1943.

Item 5. Petroleum Products.

The petroleum products to be purchased by the U.S. on behalf of the U.K. for the British Commonwealth Air Training Plan were forecast last July at \$10 million per quarter. Actually no U.S. dollars have been received by Canada under these arrangements. At the moment no one seems to know when payments will begin or on what scale. The forecast made here is based on a very slim basis of fact indeed.

TABLE V. Footnotes.

Item 1.

Customs returns adjusted to eliminate items producing no U.S. dollars. Wheat exports to neutral countries in Europe from U.S. ports are included.

Item 2.

Dividends transferred to Canada by Canadian companies operating in Latin America. The irregularities in the second and fourth quarters of 1942 are due mainly to the payment of dividends by International Petroleum Co.

Item 3.

This item is the equivalent of Item 1 of Table V of the July forecast. Items 1 and 2 of this table are a breakdown of the former Item 1.

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Item 4.

Customs figures adjusted to eliminate items for which no payments in U.S. dollars are required.

Item 6.

Net amount of exchange sold to the Foreign Exchange Control Board. A decline in this amount is forecast.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 29, 1942

CABINET MEETING

The President gave quite a background story of the fighting in the Solomons Island area. He said that up to about August nine, the Japs were taking approximately an island a day and it looked as though they would gradually take all of the islands down to the tip of Australia and be in a position to cut our supply lines. He said that a rather bold decision was made to see what could be done to stop this advance. On or about August seven the Navy took the big chance of stopping the Japs in their tracks by going into Guadalcanal, seizing the airport and also on the other side of the island, seizing Toluga. They did this whole job with a very few men, relatively speaking, and while it was not a great victory in itself, it had one definite advantage in our favor -- it stopped the Japs completely and has given us up to this time three months to strengthen our other island positions. He said that the papers have commented upon the battle now going on as a decisive battle. He does not think it is a decisive battle, whether we lose or win it, because the time factor involved since we took these places has given us the opportunity to strengthen our forces in Fiji and New Caledonia and other places which he did not want to mention, and he believes that those places are now so strong that the Japs can not take them.

He then discussed the situation in Australia and New Guinea. He said that when MacArthur went into Australia in March he cabled that he thought he could whip the Australian army of approximately 1/2 million men into a real fighting force within six months. He said he has been there now approximately six months and they are not yet a good fighting army. This is certainly not MacArthur's fault but is due to the character of the individuals who make up the Australian army -- mostly city-bred youngsters who were not of very large build and who have been more or less on their own all their lives and not subject to discipline. Furthermore, he said the leaders were old men, somewhat like



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the commanding Generals of our National Guards. He said that when the Australians were defending Port Moresby, the Japs were forcing them back day after day and they literally ran down the mountain sides from the Japs until they got within eighteen miles of Port Moresby before they stopped. General MacArthur, sensing the situation and the generally bad leadership of the Australians, dispatched by air, first a battalion and finally a regiment of American troops. The arrival of these troops was not announced but they merely allowed them to be infiltrated into the Australian lines. They began to push the Japs back, the Australians became surprised as to what was happening and finally decided there was no sense to their retreating either. The American troops were gradually and quietly withdrawn and dispatched to each side of the lines. They had taken old routes that were declared by the Australian Generals to be impassable and they got in back of the Japanese troops on the mountainside and were cross-firing on them and making them retreat, but the Australians were led to believe all the time by MacArthur that they were causing the retreat. This helped the morale of the Australian troops greatly until today the Jap troops are well over the mountain from Port Moresby. He said there was complete unity in the Southern Pacific, that the Army and Navy had coordinated all their plans before striking and General MacArthur was helping the whole Guadalcanal area by his bomber command.

Then the President went into the shipping losses of Japan. He said that when the war started, as nearly as they could estimate, Japan had approximately 6 million tons of shipping. They probably have built approximately 1/2 million tons since the war started and he doubts if they can build over 1/2 million tons a year. This 6 million includes approximately 1/2 million which they seized from invaded countries. Since the war was declared our submarines have destroyed approximately one million tons and he thinks that by next year they will have destroyed another million and the Chief of Staff thinks that if we can get the Japs down to 4 million tons it will be necessary for them to give up some of their present island possessions in order to maintain their supply lines.

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Secretary Knox spoke up and said that he had just gotten word before he left that one of our submarines got on the iron supply line from Kamchatka down to Japan within the last few days and destroyed 50,000 tons of shipping, approximately 10 ships at one time. He said also that this million tons of shipping that have been lost, as indicated by the President, have been carried out with a loss of only 5 submarines during the whole 11 months' period.

Mr. Hull had nothing to report.

The President then said that he would like for the State Department, Mr. Nelson, Mr. Wickard, and Mr. Wallace to look into the question of whether it is not about time to appoint a Food Administrator, such as Hoover was in 1919 and 1920. He does not believe that he ought to do more at this time than study and make preparation to handle the food problem of other nations after the war.

There was then quite a discussion of the problem and Mr. Wickard said that Mr. Stettinius had already set up an agency to study the matter and had asked for the full-time services of Under Secretary Appleby.

Mr. Wallace said that a Mr. McDougal, who was in some way connected with the Australian army, had given a good deal of thought to it and probably had a better grasp of the food situation than any one. The question was raised as to just when this unit might take over, because it was recognized that the Army would first be in charge and would have to handle the relief problem but that the Army should get out of the picture just as soon as the civilian organization was able to take over. The President said it was his idea that the man appointed to such a position would have a number of able assistants who should go into a country right after occupation and immediately take over the food problem.

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I gave the President the figures on the recent financing of two billion dollars of certificates. He asked me if he had approved it and I said no, he did not, because short-term certificates of less than a year did not require his approval. He seemed very pleased to learn that the subscriptions had exceeded the offering by approximately 50% and that approximately 30% of the security, even though a bank security, had gone outside of the banking system.

He then asked if I had received his memorandum on a man by the name of Cole, who was one of John Lewis' proteges from Illinois. He said that he understands a great deal of pressure is being brought to bear on the Treasury to keep it from putting this man in jail. I told him I had not received the memorandum but I supposed it was the same matter on which Senator Guffey had called last Saturday, about a case John Lewis was interested in. It sounded like the same matter. He asked me to call Grace Tully to see where the memorandum is.

Mr. Biddle gave the President the printed decision of the Supreme Court in the saboteur cases.

Secretary Knox said it was quite interesting to report that on Navy Day, the Brooklyn Navy Yard made an all-out effort to sell Savings Bonds. That day they took in \$250,000 in cash. The small Navy Yard at Portsmouth went over the top with 100% in subscriptions from their employees, with 10% of pay allotted.

He then said he had looked into the question of doctors for the Navy pursuant to the discussion that took place at the last Cabinet meeting. He said he talked to Admiral McIntyre about the matter and statistics show that the Navy is down to 6.3 doctors for each 100 men. They thought this was about as low as they could go. He said that he had an interesting piece of news about the Guadalcanal operation. They had succeeded in getting in a complete mobile hospital unit with 200 doctors and they are now flying the wounded out of Guadalcanal at the rate of about 100 a day.

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Mr. Stimson joined in and said he had also looked into the doctor situation and he understands the Army is on a basis of about 8 doctors to 100 men. This was high because they had so many places where they had just a few men, but even if there are only a few men, they must have a doctor.

The President then discussed the question of hospitalization of the soldiers after this war. He said we have not yet reached the peak of hospitalization for soldiers of the last war. That will probably come about 1946. He had talked with General Hines and a number of others a few days ago about the problem. This group said that they had held a number of meetings and they had decided to ask the Army and Navy to turn over to the Veterans' Administration after this war, all of the buildings which they have erected for war-time activities and which will not be needed after the war is over. The President said he thought this was a good idea. The Army, for instance, would certainly not need a place like Camp Jackson after the war is over, and the buildings there might accomodate as many as 30,000 soldiers for hospitalization purposes. The Navy had similar places that could be used for the purpose.

Secretary Ickes said that he had discussed with the British representative the matter of the poor oil stock position of the British Government. He told him of the decision to carry the oil pipe line through to New York and he was delighted with that decision. He thought it would relieve the British situation materially.

Secretary Knox said that in that connection the tanker position had become serious. They had just lost three more and in his study of the matter he had learned that 70% of the over-all weight of all supplies which were sent to our Army abroad was made up of oil. He thought it was time to study this whole matter with a view to re-arranging our shipping so that we can get more oil tankers because of the requirement for more oil than any other supply. He said he thought it might be well to consider at this time the appointment of a person who would look after the ship transportation end of our supplies so that the boats will not have to lie in harbor so long before being loaded and unloaded and waiting for convoy service.

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Secretary Wickard said that the Russian representatives had asked him to supply Russia with 10 million pounds of butter. He said he tried to sell them oleomargarine but they did not like the idea. He had to tell them that we just did not have 10 million pounds of butter at this time.

Secretary Jones had nothing to report.

Secretary Perkins reported an agreement between the Department of Labor and the War Labor Board on a matter of wage control administrative procedures.

Paul McNutt had nothing.

General Fleming had nothing.

Jim Landis discussed the publicity on the meat rationing program and said that he thought it was well handled and that we might follow the same procedure in other rationing matters.

Messrs. Blandford and Byrnes had nothing.

Donald Nelson said there were large amounts of rails lying in New York which had been there for some time and that finally the War Production Board requisitioned them for use. Mayor La Guardia kicked a great deal about the action of the Board and he told the President he no doubt would hear from the Mayor. He said the rails had been lying there for some time and he thought it was time the Board took action. He also told the President that the scrap drive had been a great success. The newspapers had done a wonderful job on it and the amount of scrap that had been gathered would probably enable the mills to operate close to top schedule during the entire winter.

The President then asked him to look into the question of whether the railroads are giving up all the scrap they can. He said that as he passed through

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New York and Chicago he was amazed to find the number of sidings where the rails had rusted, showing no use within recent months. He said these apparently were storage yards but it is certain that we will need no storage yards for some time to come.

swb

10/29 -

AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING
TO BE HELD OCTOBER 29, 1942 AT 10:00 A.M.
IN THE OFFICE OF THE VICE PRESIDENT
IN THE CAPITOL

1. Report on German-Japanese smuggling
2. Progress report on Swedish Trade (attached)

SECRET

TRADE POLICY TOWARD SWEDEN

A Summary of the Essential Facts
on Sweden's Relations with the
Enemy and with the Area outside
the Blockade

Office of Economic Warfare Analysis
Board of Economic Warfare

October 24, 1942

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TRADE POLICY TOWARD SWEDEN

A Summary of the Essential Facts on
Sweden's Relations with the Enemy and with the
Area Outside the Blockade*I. Sweden's Economic Position

Sweden is under a double blockade: In the Atlantic, Anglo-American supremacy controls access to overseas sources of supply while German supremacy determines her ability to trade with continental Europe. Because of her geographic position, Sweden lies almost entirely within Germany's economic orbit: her dependence upon continental sources for coal and other raw materials has made it possible for the Axis to obtain about 90 per cent of Sweden's current exports while supplying only about two-thirds of her imports.

However, Sweden has not become a complete economic province of the enemy. Over 22 per cent of Swedish national income is spent on armament production and the maintenance of armed forces. According to the American Legation at Stockholm, the Swedish Government and people continue to use the bargaining power at their disposal to resist Axis economic pressure.

II. Relations with the Enemy1. Trade

- a. The principle economic contribution made by Sweden to the Axis is the export of high grade iron ore (9.5 million tons in 1941), wood products (particularly pulp wood and rayon pulp), machinery, ball bearings and other specialty manufactures of the metallurgical industry, and food to Finland.
- b. Swedish exports to enemy territory of the particular commodities most urgently needed by the Axis far exceed pre-war shipments to Germany. Sweden's imports from the enemy area are currently almost 30 per cent less in value (adjusted) than her exports to Axis Europe.
- c. If exports of Swedish iron ore and wood products particularly could be eliminated, the enemy's war effort would be severely injured. In terms of iron content, the high grade Swedish ore delivered in 1941 amounted to 18 per cent of the total available to Germany, but actually the Swedish ore is even more important than this ratio indicates: the loss of the Swedish

*This summary is made with the following qualification: Although the United States and British Governments have sought to obtain complete trade information, precise data are not yet available on certain questions. The Swedish Government, however, has recently supplied more detailed statistics and has given assurance of its willingness to communicate fuller documentation.

supply would require the mining and transport additionally of 20 million tons of low-grade German and French ore, of 6 million tons of coal and 4 million tons of coke. Loss of the Swedish wood products would materially reduce the already restricted supply of textiles in Axis Europe and would tend further to reduce agricultural production (by the loss of paper binding twine) and mining output (by the loss of pit props).

2. Credits

Because the Axis has found difficulty in exporting to Sweden sufficient goods to pay for its imports, Germany and Finland have sought to obtain credits from the Swedish Government. Governmental credits have in fact been made and seem to be increasing. These credits, regarded by the British Ministry of Economic Warfare as unneutral, not only relieve Germany of the need to carry the full burden of export but also tend to help Finland remain in the war. Because Finland cannot repay Sweden for the goods needed, Sweden exports additional quantities of commodities to Denmark so as to compensate for Danish exports to Finland.

3. Military

Although the Swedish Government states that it has resisted German efforts to compromise her neutrality, certain concessions made to the enemy have directly assisted the Axis in the conduct of the war. A definite breach of Swedish neutrality was permitted in July, 1941, when a fully equipped German division was allowed to cross Sweden from Norway to Finland. This breach has not been repeated, but the Swedish Government continues to permit German troops and materials to pass across Sweden to and from Norway and Finland, between southern and northern Norway and between Norway and Finland. The troops, presumably on leave, cross in sealed cars and without uniforms. In 1941, 250,000 journeys in each direction were made across Swedish territory and 250,000 tons of war materials were carried in transit through Sweden to Norway and Finland. In 1942, this traffic has apparently increased and, in addition, Swedish territorial waters have been used for enemy military traffic convoyed by Swedish naval vessels.

4. Shipping

Swedish shipping within the Baltic (more than half of her total merchant marine) is at the disposal of the enemy and plays an important role, particularly in carrying iron ore to Axis Europe. The Swedish Government has refused to force these ships into Axis service, but permits them to be chartered by the enemy if a satisfactory rate can be agreed upon between the owner and the German Government.

III. Relations with the United Nations

1. Trade

2. The Anglo-Swedish War Trade Agreement, signed on December 7, 1939, and modified by a supplementary protocol of December, 1941, permits Sweden to import commodities from areas outside of the blockade in quantities established by quotas which are based generally on the

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amount of goods imported by Sweden in 1938. In exchange for these import facilities, Sweden has agreed to certain prohibitions and limitations on her exports which are intended to prevent the re-export of imported commodities and, beyond the 1938 level, of indigenous products. Both the import quotas and restrictions on exports are subject to change and reconsideration at any time.

- b. During the first six months of 1942, Sweden imported from outside the blockade area goods valued at about 230 million kronen (\$57,000,000), whereas she exported to areas outside the blockade goods valued at 110 million kronen (\$27,000,000). Sweden's exports through the blockade are subject to German permission in each case and are confined at the present time to Argentina and Chile because of a prohibition imposed by the enemy on Swedish exports to the United Nations. However, through blockade-running and the air service between Stockholm and Scotland, the United Kingdom has received during the eighteen months preceding July, 1942, certain metals and manufactures which are regarded by the British Government as being of great importance to their war effort.
- c. Exports permitted by Germany from Sweden to Argentina and Chile consist mainly of wood pulp, paper and iron and steel manufactures.
- d. The blockade quotas appear in several instances to permit excessive imports of certain commodities and in some cases directly enable Sweden to export goods to the enemy. However, actual imports through the blockade have been limited both by the difficulty Sweden has found in procuring commodities and also by the fact that the Gothenburg traffic (permitted by the United Nations and the Axis) is limited to five ships a month in each direction and one tanker each quarter.
- e. In general, although there are certain deficiencies in the list of prohibited exports, goods imported from outside the blockade may not be exported to the enemy. The petroleum products permitted to pass through the blockade to Sweden may only be used by the Swedish armed forces. There are, nevertheless, goods imported through the blockade which do in fact contribute to the enemy's war effort indirectly as components of manufactured goods or as supplies used to maintain the health and efficiency of the Swedish working population. Moreover, despite the apparent stipulations of the War Trade Agreement, exports to the enemy of indigenous commodities like iron ore and wood products have increased above the level of 1938 exports to Germany.

2. Shipping

Sweden contributes to the United Nations a sizeable fleet of merchant vessels which are, directly or indirectly, performing services for the United Nations. Some 400,000 tons of Swedish shipping outside the Baltic are either on charter to the United Nations or subject to our shipping directives, and negotiations are now under way to bring an additional 94,000 tons of shipping outside the Baltic under the direct control of the United Nations.

3. Military

Although the military authorities of the United States have not yet indicated whether the maintenance or strengthening of the Swedish armed forces is of strategic importance, the British Government appears to regard the Swedish army and navy as of positive value to the United Nations either as a deterrent to further Axis aggression in the Scandinavian region or as a defensive force which could, if engaged in battle, exact a heavy toll.

ANNEX A

ESTIMATE OF SWEDEN'S TRADE BALANCE, 1936 AND 1940-42
(in millions of kronen)

	1936	1940-41*	Adjusted**	1941-42*	Adjusted**
A. <u>Trade Outside the Blockade Area</u>					
a. Imports through the Blockade	755	330	220	310	200
b. Exports " " "	750	130	85	155	80
c. Surplus of Imports (✓) or Exports (-)	✓5	✓200	✓145	✓155	✓120
B. <u>Trade Inside the Blockade Area</u>					
a. Imports from Enemy Territory	880	1745	600	1250	425
b. Exports to " "	765	1015	685	1145	600
c. Surplus of Imports (✓) or Exports (-)	✓115	✓330	-85	✓105	-175
C. <u>Total Trade Balance</u>					
a. Imports	1635	1675	820	1560	625
b. Exports	1515	1145	770	1300	680
c. Surplus of Imports (✓) or Exports (-)	✓120	✓530	✓50	✓260	-55

*May 1 to April 30

**The figures for 1940-41 and 1941-42 are given in their adjusted form because of the radical price changes which have taken place during the war. In 1941 Sweden had to pay about 140 per cent more for her imported goods and obtained only 60 per cent more for her exports than in 1936. This difference was due not solely to German bargaining strength but also to the fact that import values include freights whereas exports do not. Baltic freight rates increased from an index of 100 in 1939 to 340 in 1941. In the case of trade outside the blockade area relatively slight adjustments have been made in import values.

ANNEX B

THE ANGLO-SWEDISH WAR TRADE AGREEMENT

The Anglo-Swedish War Trade Agreement, signed on December 7, 1939, has not only been modified since that time by a supplementary protocol of December 1941 but also by agreements made in the Joint Standing Commission established under the agreement. Events, too, have made their mark on the Agreement: after the occupation by Germany of Norway and Denmark, permission was obtained from the British Government for a limited shipping service to the port of Gothenburg of five ships and one tanker a quarter in each direction. Also, a quota system was established for Swedish imports from overseas, these quotas being based generally on the quantity of goods imported by Sweden in 1938.

At present, therefore, the War Trade Agreement consists essentially of the following series of regulations:

- A. Import quotas.
- B. A list of goods prohibited export to the enemy.
- C. A list of goods permitted export to the enemy if they contain less than 12 per cent by value of any of the commodities in the list mentioned above (B).
- D. A list of other goods which may be exported to the enemy in "normal" 1938 quantities.

These prohibitions and restrictions, however, may in some cases be set aside (according to the Protocol of December 1941) in order to permit Sweden to have goods processed in enemy territory and returned, these arrangements requiring approval in each case by the Joint Standing Commission. Also, the Joint Standing Commission has set aside these prohibitions and restrictions in certain cases where the Swedish Government desires to export to the enemy in exchange for war materials imported from the enemy.

Examination of the War Trade Agreement and the administrative practice thereunder leads not only to the conclusion that the above prohibitions leave loopholes permitting Sweden to contribute to the enemy's war effort with the aid of imported materials but also that the text of the agreement apparently has been interpreted in some cases so as to permit greater-than-normal exports to the enemy.

- A. Several of the existing import quotas appear to be excessive in view of present information on Swedish requirements. The following major changes seem to be required:

(Metric tons unless otherwise stated)			
Commodity	Present British Quarterly Quota	Suggested Basic Ration	Recommended Quota
Rice and rice groats	4,000	4,000	3,000
Maize and maize meal	33,000	33,000	15,000
Wheat, rye and their flours	22,500	22,500	10,000
Dried fruits	3,750	500	500-1,500
Sugar	5,000	5,000	2,000
		100	100

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Vegetable, animal and fish oils - edible only-	14,000a/	14,000a/	5,000
Hides, skins and leather	3,000	b/	1,500
Artificial textile fibres	186	150	nil
-yarns and piece goods-			
Cascia	175	175	nil
Silver	6	nil	nil

- B. The list of prohibited exports does not include all goods imported from overseas or all Swedish manufactures which are made in significant part from, are derived directly from, or are similar to goods imported from overseas. The principal loopholes in this list of prohibited exports seem to be as follows:

Bread and other food preparations
 Roasted coffee
 Textile fibres and manufactures, including artificial fibres and manufactures
 Animal hair
 Bristles and brush-making fibre, brushes, etc.
 Eggs
 Cheese
 Honey
 Fish and marine oil
 Cellulose fodder
 Iodine and iodides (medical)
 Borax
 Boric acid
 Tin plate and tin plate scrap
 Textile machinery and parts, etc.
 Automotive vehicles - parts and accessories
 Gum arabic, kama, kauri, etc.
 Explosives
 Ammunition, projectiles and fuses
 Detonators
 Firearms of war
 Paints, varnishes, etc., and paint components
 Colophony
 Tin oxide
 Plywood
 Chemicals for photography
 Fertilizers
 Tar oils
 Magnesite
 Lead alloys and ore
 Spark plugs
 Antimony, alloys and ore
 Mica and manufactures
 Silver metal, alloys and scrap
 Tartaric acid and lees
 Starches
 Dextrins
 Soap
 Furs and fur skins
 Talc
 Graphite and graphite products
 Cadmium and alloys
 Fruit juices
 Abrasives and manufactures
 Asbestos and manufactures
 Canned goods

a/ including inedible

b/ agreed schedule of purchases in Latin-America thru Ministry of Supply

- C. Certain quotas for imported materials which are components of Swedish manufactures permitted export to the enemy should be reconsidered and their import into Sweden so controlled as to reduce Swedish exports of important commodities to the enemy. The quotas falling within this category may be listed as follows:

Tung oil	Castor and rapeseed (except medicinal)
Oleic acid and other fatty acids	Plasticisers
Carnauba and other waxes	Solvents, including ethylene glycol
Boric acid (except for medicinal uses)	Cascein
Tartaric acid and wine lees	Carbon black
Borax	Prepared paints, varnishes, lacquers, etc.
Tin oxide	Rubber
Acetone	Bristles
Hides, skins and leather	Fishing nets
Cotton tire fabric	Phenol
Toluol	Abrasives
Cresol	Tinplate
Graphite crucibles	Gum kopal, damar, kauri
Gum shellac	
Synthetic resin and other gums and resins	

- D. Exports limited to the 1938 level have not in the case of several of the most important commodities in fact been restricted to 1938 exports from Sweden to Germany. This loophole may perhaps be due to an interpretation of the War Trade Agreement made by the Swedes which tends to benefit the enemy. The principal commodities which appear to be allowed export in excess of the 1938 level of exports to Germany are:

Iron ore	Plywood
Lumber	Paper
Rayon pulp	Chemical Pulpwood

Both the processing arrangements and the barter arrangements permitting export of otherwise prohibited commodities to the enemy for return or exchange may benefit the enemy unless full information is given and the approval of the United States and British Governments is obtained. Moreover, unless a time limit is placed upon the transaction abuses may occur. In fact, because of a lack of such information and of the time limit, it is virtually impossible to control such transactions.

Annex C

EXPORTS FROM SWEDEN TO ARGENTINA AND OTHER SOUTH AMERICAN REPUBLICS DURING THE FIRST SEVEN MONTHS OF 1942a/
(quantities in metric tons)

<u>Commodity</u>	<u>Total</u>	<u>To Argentina</u>
Woodpulp	55,500	21,600
Newsprint and newspaper	8,300	8,250
Other paper and cardboard	24,500	22,400
Timber and manufactures	1,370	790
Iron and steel	810	400
Ball bearings	1.3	1.3
Other iron and steel manufactures	3,000	1,950
Electrical machinery and apparatus	725	500
Other machinery	240	150
Auto and truck parts	14	12
Chemicals	380	460
Chalk	150	-
Accumulators	50	48
Insulating sheets	120	120
Furskins	2	2
Glassware	1	-
Wines and spirits	1	1
Other goods	9	9

a/ Source: Ministry of Economic Warfare

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ANNEX D

LIST OF MATERIALS SAFELY SHIPPED (a)
FROM SWEDEN TO THE UNITED KINGDOM (b)
FROM JANUARY 1, 1941, THROUGH JUNE 1942

Tubes and solids for ball bearings	7,166 tons
Finished ball bearings	1,220 "
Special rods and wire in carbon, stainless and high speed qualities	2,249 "
Cold rolled strip	874 "
Machinery	222 "
Special quality ingots and billets	1,981 "
Charcoal pig iron	10,267 "
Bar iron	2,661 "
Spare parts for marine engines	120 "
Ferrochrome	1,456 "
Sponge iron	<u>345 "</u>
Total	28,562

(a) In addition the following imports from Sweden were made by other British territories:

Australia (to March 1942)

Machinery	£ 53,000
Metals and manufactures	11,000
Scientific instruments	3,500

Canada (to April 1942)

Bearings	395,000
Cream separator	11,000

The above countries were the only recipients of Swedish imports in 1942: in 1941, the Union of South Africa and New Zealand obtained goods valued at 106,000 pounds and 21,500 pounds respectively. During the first six months of 1942, the United States received from Sweden through the blockade only 12 tons of machinery and 1 ton of furs.

(b) Source: Ministry of Economic Warfare

ANNEX E
 (PART OF THE REPORT ON THE
 IMPORTS OF GOODS BY AIR)

MATERIALS IMPORTED BY THE UNITED KINGDOM BY AIR FROM SWEDEN
DURING THE MONTH OF AUGUST 1942

<u>Material</u>	<u>Gross Weight</u> <u>Kilos</u>
Drilling Tools	15.--
Spare Parts for Oil Engines	2.23
-do-	.81
Antimagnetic Iron	7.40
Micrometers	85.--
Spring Washers	0.30
Micrometers	45.--
-do-	37.--
Valves	0.61
Grinders	59.90
Parts for Chipping Hammers	54.70
Valves	4.80
Spring Steel	23.--
Parts for Relays	14.--
-do-	15.50
Striking Mechanism	348.--
Spare parts	7.57
Springs for Drill Chucks	0.60
Taps	94.30
Magnet Steel Tape	170.30
Spring Steel	364.--
Anvils	0.45
Gudgeon Pin Brgs. (Haifa)	32.00
Spare Parts	198.695
-do-	130.75
Tools	234.70
Taps	118.50
Taps	25.--
Micrometers	12.--
Spring Steel	89.80
-do-	475.--
Parts for Mikrokators	0.175
	2,666.

+
KNOWN SWEDISH EXPORTS TO ENEMY DESTINATION
FIRST SIX MONTHS, 1942
(All figures in metric tons)

A. Commodities Imported Through the Blockade
or Similar Thereto

Commodities	Quantities Exported to Enemy Destina- tions. Jan-June 1942
Cereals and preparations (1)	13,075*
Potatoes and root crops	4,552
Sugars and syrups (2)	1,200
Food preparations	1,371
Fish	1,754
Meat and animals for meat (3)	1,085*
Fodder	196
Seeds for sowing	383*
Fats and oils	103
Wines and liquors	43
Chemicals and pharmaceutical products	11,677
Textile materials	615
Copper metal, alloys and scrap	715**
Lead metal and scrap	237**
Tin metal, alloys and scrap	175**
Artificial grinding wheels	47
Abrasive paper	88
Machinery	15,037
Electrical machinery and appliances	2,776
Explosives and matches (4)	1,031
Gums and resins	654
Rubber and manufactures (5)	10.5
Boots and shoes	14

- (1) About 9,998 tons represent exchanges made with the enemy and approved by the British. The remainder, an apparent violation of the Agreement is unexplained.
- (2) Exported to Norway in exchange for fish, fish oil, etc.
- (3) Includes 2,100 head of horses exported to Germany. Since this was in excess of normal trade, the British protested but no adequate explanation has been received.
- (4) Of this amount, 450 tons were matches, 250 tons powder to Switzerland and 300 tons powder to Finland.
- (5) In an oral explanation to the American attaché at Stockholm, the Swedish Foreign Office said that this was "largely rubber belting on an exchange basis with Denmark."

B. Commodities Not Imported Through the Blockade
or Similar Thereto

Commodities Quantities Exported to Enemy Destina-
tions, Jan-June 1942

Iron ore	2,761,537
Wood and manufactures (6)	436,302
Pulp, paper, etc.	437,181
Iron and steel, and manufactures (7)	99,053
Coal tar (8)	5,108
Stone and mineral manufactures	2,187
Pottery and glass	2,423
Chrome ore and ferrochrome	533
Manganese ore and ferromanganese	85
Molybdenum and ferromolybdenum	19.5
Ferrosilicon	2,477
Wolfram	10
Other metals and manufactures	865**
Railway cars and material	371
Automobiles and trucks	913
Instruments, etc.	191
Tanning materials	1,879

(6) Including an unexplained and unauthorized shipment of 18 tons of cork.

(7) Including 21,591 tons of charcoal pig iron against promised German exports of 77,000 tons of coke pig iron.

(8) Allegedly, partly made from German coal and partly coal tar sent to Norway to make impregnated sacks for calcium nitrate and electrodes imported by Sweden.

+ Complete statistics have not been given by the Swedish Government. It should also be noted that statistics for the first half of the year, especially in the case of iron ore, represent a seasonal low because of Baltic shipping conditions.

* Shipments permitted, partially or entirely, by the British Government as exceptions to the list of prohibited exports, by virtue of the Protocol of December 1941 or other special arrangements but not including the Processing Program.

** Shipments partially or entirely permitted by the British Government under the Processing Program or as a Swedish exchange against war materials from Germany.

PRINCIPAL SWEDISH EXPORTS TO GERMANY
AND OCCUPIED EUROPE, 1938 AS COMPARED WITH
1941 AND THE FIRST SIX MONTHS OF 1942

NOTE

The accompanying table dealing with Swedish exports to Germany and German-Occupied Europe is obviously incomplete, but most of the significant Swedish exports to the enemy are included, with the exception of ball bearings and machinery. Since 1939, Sweden has released only fragmentary trade statistics. The table has been constructed from the figures available from Sweden and from information derived from consular dispatches and Swedish technical publications.

However, this situation may soon be remedied as a request for full foreign trade statistics has been presented to Sweden, and the Swedes have evidenced their willingness to comply.

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PRINCIPAL SWEDISH EXPORTS TO GERMANY AND TO GERMANY AND OCCUPIED
EUROPE: 1938 AS COMPARED WITH 1941 AND THE FIRST SIX MONTHS
OF 1942

COMMODITY	1938	1941		1942 (6 months)
	Exports to Germany proper	Exports to Germany proper	Exports to Germany, Occupied Europe	Exports to Germany and Occupied Europe
Iron ore	8,945,088	9,549,044	N.R.	2,761,537
Lumber (thousands of bd. ft.)	100,188	514,800	850,800	N.R.
Rayon pulp	12,795	100,000	285,000	N.R.
Chemical pulpwood (Cubic meters)	1,085	1,000,000	N.R.	N.R.
Pit props (Cubic meters)	68,000	100,000 ^{a/}	N.R.	N.R.
Paper	2,700	120,000	N.R.	N.R.
Plywood	825	4,500 ^{b/}	N.R.	N.R.
Unmanufactured and semi- manufactured Iron and Steel	14,888	N.R.	38,000	99,053
Charcoal pig iron	17,537	N.R.	33,000	N.R.
Pyrites	12,598	N.R.	25,735	- -
Ferro-silicon	2,339 ^{c/}	N.R.	11,406	2,477
Ferro-chrome	2,650	N.R.	3,649	486
Copper	5,897	N.R.	2,986	715
Ferro-silicon-manganese	749	N.R.	945	10
Tin	- ^{d/}	N.R.	479	172
Chrome ore	- ^{e/}	N.R.	203	47
Lead	243	N.R.	239	237
Ferro-manganese	-		275	10

N.R. - Not reported

^{a/} 1940, figures for 1941 are not available

^{b/} Estimate

^{c/} In 1938 total exports to all destinations were only 10,870 including about 4,000 tons to Great Britain

Total exports of unprocessed tin were 9.7 tons, none to Germany

Regraded Unclassified

Annex H

SWEDISH IMPORTS FROM ENEMY TERRITORY

No complete statistics are available on imports to Sweden from Germany and occupied Europe. It is known, however, that in 1941 Germany delivered the following quantities of commodities to Sweden:

Coal and coke.....	4,700,000 tons
Iron.....	75,000,000 kronen
Textiles.....	144,000,000 kronen
Machinery.....	208,000,000 kronen

Sweden also has trade agreements with Denmark, Norway, Finland, Italy, Belgium, Bulgaria, France, Holland, Slovakia, Hungary and Roumania.

During the first six months of 1942, Denmark was to deliver sugar (20,000 tons), eggs (600 tons), condensed milk, fish, seeds, casein, insulin, cheese and certain industrial products. This agreement has been renewed for the second half of 1942, and Denmark is to provide, in addition to the above commodities, preserves, honey, coffee substitutes and ovalmaltine.

During the coming six months, also, Bulgaria is to deliver tobacco and fodder to Sweden.

Under the Swedish-Finnish agreement covering the period from May 1 to the end of 1942, the Finns only undertake to export to Sweden to the extent made possible by their supply position, whereas the Swedes guarantee deliveries of iron and steel and machinery. It is not known exactly what commodities Italy has undertaken to send to Sweden during the first half of 1942, but textiles appear to be among them. France will supply Sweden until the end of 1942 with wines, cork, chemicals, and various luxury articles. Belgium is to export to Sweden rayon, chloride of lime, leather goods, zinc plates, electrodes, chemicals and glass. Slovakia supplies 1,500 tons of lubricating oil as well as dried vegetables, honey, alcohol and poultry. Roumania is to furnish gasoline and other petroleum products and wheat to Sweden during 1942 in exchange for exports from Sweden of special steel, chromium, and tractors. Norway exports fish, nitrates of lime, sulphur and pyrites, molybdenum, zinc and aluminum to Sweden in exchange for Swedish exports.

On September 9, 1942, a new agreement was initialed between Sweden and Hungary whereby the latter was to supply foodstuffs, chemicals, petroleum products, bauxite, aluminum oxide, hemp products and electrical supplies.

**BLOCKADE QUOTAS AND PRINCIPAL COMMODITIES IMPORTED THRU THE
BLOCKADE BY SWEDEN DURING THE FIRST SIX MONTHS OF 1942 (a)**
(Quantities in metric tons)

<u>Commodity</u>	<u>Blockade Quota (6 months)</u>	<u>Total Imports thru Blockade</u>	<u>Imports from U. S.</u>
Wheat and other cereals	158,200	63,800	6,000
Meat	3,000 (b)	2,450	2,000
Dried fruits	7,500	3,730	3,700
Coffee	24,000	5,400	30
Cocoa	2,500	1,720	3
Spices (including pepper)	600	520	-
Oil cake and meal	60,000	28,700	-
Yodder	5,000	840	840
Oils and fats	28,000	27,400	150
Castor, tung, citicis and rapeseed oils	R.I.	360	10
Fatty acids	500	250	-
Carnauba wax	80 (c)	22	5
Rubber and manufactures	2,150	420	14
Hides, skins and leather	3,000 (d)	4,200	9
Raw wool and wool tops (clean basis)	3,430	3,520	77
Raw cotton	18,000	12,900	180
Wool manufactures	1,750	390	32
Cotton manufactures	4,000	1,460	630
Cotton waste	2,400	117	68
Wool	2,500	260	150
Coir fibre	R.I.	700	-
Binder twine	Nil	500	500
Apok	120 (e)	26	-
Brush-making fibres	290	300	123
Petroleum products (including aviation fuel)	30,000	74,400 (f)	74,400 (f)
Asphalt	11,400	750	750
Paraffin wax	500	100	100
Asbestos manufactures	360	11	11
Copper	R.I. (g)	50	-
Lead	8,000	203	203
Alcohol	1,000	114	114
Carbon black	100	73	73
Shellac	180	22	22
Casein	350	143	143

(. Referred item, shipments considered individually

a) Source: Ministry of Economic Warfare

b) This figure is not a regular quota but represents single shipment permitted by Great Britain.

Quarter	1941	1942
Q1	2,500	2,500
Q2	2,500	2,500
Q3	2,500	2,500
Q4	2,500	2,500

- (c) Quota includes other animal, vegetable and insect waxes.
- (d) First quarter only, second quarter under consideration.
- (e) Includes ramie.
- (f) Permission was given by the Blockade Committee in London enabling Sweden to take the entire annual quota during the first two-quarters, and also to receive a supplementary amount (14,400 tons) which remained from the 1941 quota.
- (g) Quota is now 2,500 tons per quarter. There was also a quota for 15 tons of copper manufactures per quarter.

Annex J

SWEDISH CREDIT CONTRIBUTIONS TO THE AXIS

There have been three kinds of Swedish credit contributions to the Axis: A clearing credit to Germany in 1941; Export credit guarantees granted by Sweden for exports to Germany and Finland; and loans to Finland to cover her purchases of food in Denmark.

1. The Clearing Credit. In 1941, Germany purchased one billion kronen worth of goods from Sweden and exported to Sweden goods valued at nine hundred million kronen. Sweden granted Germany a clearing credit to make up the difference of one hundred million kronen. It is understood that this credit has already been liquidated through the shipments by Germany of war material to the Swedes.
2. Export Credit Guarantees. The Swedish Government guarantees to its exporters who deal with Germany in certain commodities (wood and manufacturers, paper and cardboard, machinery, tools and ball bearings) payment of 25 per cent or 35 per cent, depending upon the commodity, of the invoice price. The maximum extent to which such export credits can be given is determined by the Swedish parliament which has set a ceiling on the sum that may be guaranteed by the Government financing agency. At the present time, the ceiling has been set at one hundred million kronen for the 1942-1944 fiscal years. But since it is expected that the present limit of one hundred million kronen will be exceeded by the end of this month, the Swedish Parliament is being pressed to increase the maximum credit to three hundred million kronen for the 1942-1944 period.

Sweden also permits Finland to defer payment for goods exported to Finland under the trade agreement between the two countries. The maximum credit to be granted for the period from May 1 to December 31, 1942, is 22,750,000 kronen.

3. Loans to Finland to Cover Food Purchased in Denmark. Sweden has on three occasions this year extended credits to Finland for the purchase of foodstuffs in Denmark. These credits total thirty-seven million Swedish kronen and are not based on any financial transfer but upon actual shipments from Sweden to Denmark to pay for Danish deliveries to Finland. Swedish exports to Denmark during the first half of 1942 were estimated to be not less than sixty-six million kronen of which at least twenty-eight million kronen covered Danish deliveries to Finland.

The Ministry of Economic Warfare concludes that "these Swedish loans to Finland are particularly reprehensible because they not only assist the Finns in getting supplies of foodstuffs but also aid the Danes in receiving supplies from Sweden". The Ministry of Economic Warfare also states that it is a violation of international law for a neutral government to assist a belligerent in receiving credit from the neutral's own citizens.

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October 29, 1942

Dear Perry:

Enclosed is copy of the proposed letter on Viscose in anticipation of your talk next week with Secretary Morgenthau.

After you have talked with him you will, of course, let me know and I will have the letter sent off. Also will you please return this copy to me for our files?

W. L. Harrison

Enclosure.

New York, N. Y., November , 1942

Hugh A. Fulton, Esq.,
Chief Counsel,
United States Senate Special Committee,
Investigating the National Defense Program,
Washington, D. C.

Dear Sir:

Supplementing our letters of October 13 and 14, 1942, respectively, and with further reference to your letters of October 8, 1942, we are glad to submit the following information regarding the American Viscose Corporation transaction.

(1) We enclose herewith a bound volume which we would appreciate having returned to Morgan Stanley & Co. as it is their only copy.

The bound volume contains copies of the following:

1. Registration Statement and Amendments
2. Prospectus
3. Newspaper Prospectus
4. Purchase Agreement and Underwriting
5. Corporate Proceedings
6. S.E.C. Proceedings
7. Treasury Department Proceedings
8. Specimen Certificates
9. Titles
10. Certificates and Letters in Support of Registration Statement.
11. Opinions of Counsel
12. Closing Papers
13. Miscellaneous Papers Examined in Connection with Opinions.

As you will note, most of these documents were filed with the Securities and Exchange Commission in May and June 1941 and since that time have been open for public inspection. The cover of the Prospectus contains a summary of the compensation received by the Banking Group, the Managers and the Underwriters hereinafter referred to. As required by law, over 50,000

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copies of the Prospectus were printed and distributed throughout the United States in connection with the sale. The whole transaction, including the principal points of the contracts, the purchase and selling prices and the compensation to the Banking Group and the Underwriters attracted considerable attention at the time and was widely commented on not only in the public press but in magazines and periodicals.

(2) While the information you request as to the compensation of the Banking Group is set forth in the Registration Statement (pages 23-32) and Prospectus (cover page and pages 16-23), we enclose herewith for your convenience, marked Exhibit A, a summary of the distribution of such compensation among the members of the Group in accordance with the terms of the contract of March 15, 1941. You will note that carrying charges, rent, salaries, interest on capital, overhead, etc., have not been deducted from the compensation of the banking firms. Exhibit B, showing detail of expenses as provided in the March 15, 1941 contract, is attached, in accordance with your request. Exhibit C is attached, showing the gross compensation to the Underwriters and dealers. These exhibits (prepared by Morgan Stanley & Co. from the books in their office) reflect the nature of the transaction which involved two separate operations, namely (a) the purchase of the old shares and the assumption of the obligations under the contract of March 15, 1941 with the British Treasury, and (b) the marketing of the reclassified shares. The first of these operations, which we outline more fully in paragraph (3), involved the purchase by a Banking Group of 17 firms (called Purchasers in the Contract) in March 1941 from the British Treasury of about 91% of the outstanding stock of the Corporation, and the carrying of such stock (involving the tying up of over \$36,000,000, the

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amount of the cash down payment made by the Banking Group) until the necessary investigations could be made, corporate proceedings for reclassification of the shares had, Securities Act requirements including registration with the Securities and Exchange Commission complied with and other steps requisite to a public offering completed. The second operation involved the marketing of the reclassified preferred and common shares which required the formation of an underwriting group of 152 Underwriters, (including the 17 members of the Banking Group) who bought the securities from the Banking Group and, together with 291 additional dealers in the case of the preferred stock and 442 additional dealers in the case of the common stock, sold the new securities to the investing public. Morgan Stanley & Co. Incorporated and Dillon, Read & Co. acted as joint managers for each of these groups, receiving compensation for their services, however, only from the Banking Group. This compensation amounted to 1/2 of 1% each of the resale price obtained by the Banking Group.

(3) Morgan Stanley & Co. Incorporated and Dillon, Read & Co. were first approached regarding this transaction on Wednesday, March 12, 1941, by Sir Edward L. Peacock and T. J. Carlyle Gifford representing His Majesty's Treasury and were told that His Majesty's Treasury had determined to make an outright sale of the stock of American Viscose Corporation and that it was desired that the transaction be consummated by the end of the week. Sir Edward Peacock and Mr. Gifford expressed the hope that a contract of sale could be executed with a Banking Group by Saturday, March 15, 1941, on a mutually satisfactory basis which would provide for a substantial down payment, with the right in the British Treasury to receive a substantial part of any additional sums which the Banking Group might obtain on the resale of the securities.

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Morgan Stanley & Co. Incorporated and Dillon, Read & Co. were asked if they would undertake to head such a transaction and replied that they would be glad to attempt to organize a Banking Group to enter into such a contract with His Majesty's Treasury on or before March 15, 1941. Morgan Stanley and Dillon Read immediately commenced a study of the situation and the preparation of a contract setting forth the proposed arrangement on terms mutually satisfactory to them and to the British Treasury and which could be submitted to the prospective Banking Group. Matters progressed sufficiently so that on Friday, March 14, 1941, fifteen additional investment banking houses (making seventeen purchasers in all) were invited by Morgan Stanley and Dillon Read to join in the Banking Group. These firms were selected primarily on the basis of their standing, capital, ability to take risks and to make prompt decisions and their general financial experience. It may be noted that at the request of the British Treasury the Banking Group was organized and the Contract (Item 4-a in the bound volume) calling for a down payment of over \$30,000,000 was prepared and executed within four days, although (a) the Banking Group did not know how or when (but not sooner in any event than two months) or at what price the securities could be resold, (b) world conditions and the securities markets were extremely unstable, (c) the securities and financial position of the Corporation were unknown to the American investing public, and (d) no time was available to make any but a superficial investigation. Among the matters necessarily left open for consideration by the Banking Group after the purchase were the type of new capital structure, the prices and terms of marketing and the machinery and problems in connection therewith, a thorough investigation of the Corporation, its management, its competitive

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position in the industry, the quality of its product, the condition of its plants and the effect of rising taxes, labor and other costs.

(4) In reply to your inquiry with regard to the request by the Treasury Department, Secretary Morgenthau, when the Bankers had endeavored to keep fully advised of the developments in the transaction, made a suggestion at a meeting called by him with representatives of Morgan Stanley and Dillon Read on June 5, 1941, that, in view of the successful sale of the issue to the public, the Banking Group might wish to consider remitting a portion of the cost to the British Treasury. He said this was only a suggestion and not a request and, when asked what amount he had in mind, mentioned \$1,000,000. The Bankers reminded Mr. Morgenthau that the Banking Group had previously voluntarily reduced from 10% to 5% the additional share due them under the contract of March 15, 1941 with His Majesty's Treasury (by letter agreement dated May 21, 1941 - Index No. 4-c to bound volume) and that this had resulted in His Majesty's Treasury receiving approximately \$1,000,000 more than the original contractual arrangement provided. The March 15th contract was prepared and executed in the light of obvious uncertainties and risks during a period, the length of which could not be foreseen, between the purchase and the time the new securities could be offered in the market. By the middle of May 1941, however, it appeared to the Bankers that it might be possible to market the securities fairly promptly and that certain eventualities and developments that might well have occurred had not in fact happened, and thus it was deemed appropriate voluntarily to halve their participation in any additional payments received. However, Morgan Stanley and Dillon Read told the Secretary that they would report his suggestion to the other members of the Banking Group. This was done and a divergence of views developed on the part of members of the Group as to whether the Secretary's suggestion should be adopted. Morgan

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Stanley and Millen Read reported the situation to the Secretary, who advised them it was not necessary to pursue the matter further with the Banking Group. Subsequently, reference to this suggestion was given some publicity in the press but later the same day the broad tape quoted the Treasury Department as stating that the matter was closed. Sir Edward Peacock was also quoted in the press as saying that no such suggestion had emanated from him and that the British Treasury was entirely satisfied with the transaction.

(5) We are answering by separate letters the fifth paragraph of your communications of October 8, 1942.

Very truly yours,

(Morgan Stanley & Co.)

(Millen, Read & Co.)

EXHIBIT A

GROSS COMPENSATION TO BANKING GROUP
 (before carrying charges, rent, salaries,
 interest on capital, overhead, etc.)

Banking Group

Blyth & Co., Inc.	\$ 111,281.45
Clark, Dodge & Co.	74,167.03
Willon, Read & Co.	302,491.62
Dominick & Dominick	74,167.03
The First Boston Corporation	146,375.28
Goldman, Sachs & Co.	74,167.03
Harriman, Ripley & Co., Incorporated	146,375.28
Hemphill, Hayes & Co.	74,167.03
Kidder, Peabody & Co.	111,281.45
Kuhn, Loeb & Co.	302,491.62
Lehman Brothers	222,500.00
Mellon Securities Corporation	302,491.62
Morgan Stanley & Co. Incorporated	302,491.62
Shields & Company	74,167.03
Smith, Barney & Co.	146,375.28
Union Securities Corporation	222,500.00
White, Weld & Co.	74,167.03
	\$2,769,471.23

Compensation to Joint Managers (1/2 of 1% each
 of the resale price received by the Banking
 Group - as set forth on cover of the prospectus
 dated May 26, 1941):

Morgan Stanley & Co. Incorporated
 Willon, Read & Co.

total

\$ 297,974.74
 74,167.03
 372,141.77

Note: The 206,480 shares of Preferred Stock and 1,543,000 shares of Common
 Stock were sold by the Banking group for \$58,195,946.71 to 152 under-
 writers (including the 17 members of the Banking Group).

EXHIBIT BDETAIL OF EXPENSES AS PROVIDED IN
CONTRACT OF MARCH 15, 1941

Legal fees (including disbursements of \$1,682.57)	\$116,642.57
Accountants	25,666.67
Engineers (Arthur D. Little, Inc.)	11,483.10
Stock transfer taxes	54,359.38
Advertising (including disbursements of \$414.80)	70,569.67
Printing registration statement and prospectus	41,522.52
Printing underwriting agreements, letters, etc.	5,213.76
Shipping prospectuses	3,391.04
Registration filing fee (Securities and Exchange Commission)	8,001.28
Blue Sky qualifying fees (including disbursements of \$473.04)	6,445.79
Telegrams and messenger service	2,234.98
Telephone charges	1,234.10
Postage	587.47
Miscellaneous	5,892.73
Reserved for contingent expenses not yet determined	<u>46,379.92</u>

Total Expenses

\$337,655.68

GROSS COMPENSATION TO UNDERWRITERS AND DEALERS

<u>Underwriters</u>	<u>Address</u>	<u>Gross Selling Concessions*</u>	<u>Gross Underwriting Compensation*</u>	<u>Total*</u>
A.C. Allyn and Company, Incorporated	Chicago, Ill.	\$14,250.00	\$ 7,471.61	\$21,721.61
Alstedt Brothers	Louisville, Ky.	2,775.00	1,818.53	4,593.53
Ass, Emerich & Co., Inc.	Chicago, Ill.	5,850.00	2,623.77	8,473.77
Automatic, Parker & Redpath	Washington, D.C.	13,770.00	5,247.56	25,017.56
Bacon, Whipple & Co.	Chicago, Ill.	12,000.00	2,623.77	14,623.77
Baker, Watts & Co.	Baltimore, Md.	7,125.00	3,735.80	10,860.80
Baker, Weeks & Hardin	New York, N. Y.	12,375.00	3,784.20	16,159.20
Ball, Coons & Company	Cleveland, Ohio	3,825.00	1,852.41	5,677.41
BankOhio Securities Company	Columbus, Ohio	5,025.00	1,866.93	6,891.93
BankAmerica Company	San Francisco, Cal.	14,250.00	5,247.56	19,497.56
Bateman, Michler & Co.	Los Angeles, Cal.	6,900.00	1,866.93	8,766.93
Beal, Stearns & Co.	New York, N. Y.	12,000.00	5,247.56	17,247.56
B. G. Becker & Co., Incorporated	Chicago, Ill.	21,000.00	7,568.41	28,568.41
Biddle, Whelan & Co.	Philadelphia, Pa.	4,275.00	1,866.93	6,141.93
Blair & Co., Inc.	New York, N. Y.	12,000.00	10,107.90	22,107.90
Blyth & Co., Inc.	New York, N. Y.	92,175.00	27,569.22	119,744.22
Bell & Co., Inc.	Providence, R.I.	16,500.00	10,253.10	26,753.10
Bennett & Co.	Philadelphia, Pa.	6,000.00	1,866.93	7,866.93
Bentcher and Company	Denver, Colo.	4,275.00	1,866.93	6,141.93
George D. B. Bonbright & Co.	Rochester, N.Y.	5,025.00	1,866.93	6,891.93
Bowditch, Chanute, Loughridge & Company	Denver, Colo.	2,775.00	1,818.53	4,593.53
Alex. Brown & Sons	Baltimore, Md.	14,100.00	7,466.77	21,566.77
Brush, Slocumb & Co.	San Francisco, Cal.	9,300.00	2,623.77	11,923.77
B.W. Byllesby and Company, Incorporated	New York, N. Y.	9,000.00	5,150.76	14,150.76
Frank B. Cahn & Co.	Baltimore, Md.	6,000.00	2,623.77	8,623.77
Childress and Company	Jacksonville, Fla.	3,900.00	1,854.83	5,754.83
C. V. Clark & Co.	Philadelphia, Pa.	5,025.00	1,866.93	6,891.93
Clark, Dodge & Co.	New York, N. Y.	56,137.50	13,769.47	69,906.97
Richard A. Clarke & Co., Incorporated	New York, N. Y.	7,875.00	1,866.93	9,741.93
Cooley & Company	Hartford, Conn.	4,275.00	1,866.93	6,141.93
Courts & Co.	Atlanta, Ga.	11,250.00	2,623.77	13,873.77
Curtiss, House & Company	Cleveland, Ohio	9,150.00	1,866.93	11,016.93
J. M. Dain & Company	Minneapolis, Minn.	4,275.00	1,866.93	6,141.93
Davenport & Co.	Richmond, Va.	3,225.00	1,833.05	5,058.05
Paul H. Davis & Co.	Chicago, Ill.	11,250.00	5,223.36	16,473.36
Dick & Merle-Smith	New York, N. Y.	12,000.00	5,247.56	17,247.56
D. S. Dickson & Company, Incorporated	Charlotte, N.C.	24,750.00	12,949.48	37,699.48
Dillon, Read & Co.	New York, N. Y.	36,363.00	53,440.91	89,803.91
Dixon & Company	Philadelphia, Pa.	6,750.00	1,866.93	8,616.93
Domick & Dominick	New York, N. Y.	40,387.50	13,769.47	54,156.97
Exel & Co.	Philadelphia, Pa.	15,000.00	14,507.61	29,507.61
Francis I. duPont & Co.	New York, N. Y.	17,250.00	7,568.41	24,818.41
Eastman, Dillon & Co.	New York, N. Y.	41,250.00	18,620.95	59,870.95
Elkins, Morris & Co.	Philadelphia, Pa.	5,025.00	1,866.93	6,891.93

<u>Underwriters</u>	<u>Address</u>	<u>Gross Selling Concessions*</u>	<u>Gross Underwriting Compensation*</u>	<u>Total*</u>
Alworthy & Co.	San Francisco Calif.	6,000.00	2,623.77	8,623.77
Amiable Securities Corporation	New York, N. Y.	12,000.00	5,247.56	17,247.56
Clément A. Evans & Co. Incorporated	Atlanta, Ga.	5,475.00	1,866.93	7,341.93
Evans, Stillman & Co.	New York, N. Y.	8,400.00	1,866.93	10,266.93
Hayes, Clark & Co.	Cleveland, Ohio	4,275.00	1,866.93	6,141.93
Harwell, Channan & Co.	Chicago, Ill.	5,775.00	1,866.93	7,641.93
Jenner & Beane	New York, N. Y.	16,500.00	5,247.56	21,747.56
Jarris & Hargrove	Seattle, Wash.	10,375.00	3,735.20	14,110.20
Jarris Amicos & Co. Incorporated	Washington, D.C.	4,275.00	1,866.93	6,141.93
Jeld, Richards & Co.	Cleveland, Ohio	7,500.00	2,623.77	10,123.77
The First Boston Corporation	New York, N. Y.	45,675.00	27,015.04	72,690.04
First of Michigan Corporation	Detroit, Mich.	2,475.00	1,866.85	4,341.85
Oliger, Nolan & Co., Inc.	Washington, D.C.	3,525.00	1,842.73	5,367.73
Robert Garrett & Sons	Baltimore, Md.	7,125.00	3,735.80	10,860.80
Soldman, Sachs & Co.	New York, N. Y.	13,200.00	13,149.09	26,349.09
Robins, Parsons & Co.	Philadelphia, Pa.	24,500.00	13,070.48	41,570.48
Ranberry, Harce & Lord	New York, N. Y.	3,525.00	1,842.73	5,367.73
Reen, Ellis & Anderson	New York, N. Y.	15,000.00	5,247.56	20,247.56
Robbs, Scott and Company	Pittsburgh, Pa.	3,825.00	1,852.41	5,677.41
Walgarten & Co.	New York, N. Y.	10,200.00	5,189.48	15,389.48
Warriman, Bixley & Co., Incorporated	New York, N. Y.	51,000.00	27,112.04	78,112.04
(Is. Hall & Company, Incorporated)	Chicago, Ill.	1,500.00	4,906.76	6,406.76
Wiley, Shepard & Company	Cleveland, Ohio	6,000.00	2,623.77	8,623.77
Whehill, Hayes & Co.	New York, N. Y.	44,587.50	13,769.87	58,357.37
Will & Co.	Cincinnati, Ohio	3,525.00	1,842.73	5,367.73
Will, Richards & Co.	Los Angeles, Calif.	5,775.00	1,866.93	7,641.93
W. S. Willard & Son	Louisville, Ky.	4,875.00	3,663.20	8,538.20
Wmblower & Sons	New York, N. Y.	42,000.00	15,136.61	57,136.61
W. Hutton & Co.	New York, N. Y.	19,500.00	10,124.10	29,624.10
Wickson & Curtis	Boston, Mass.	15,750.00	7,520.01	23,270.01
Wiley & Co.	Philadelphia, Pa.	5,000.00	2,623.77	7,623.77
Wmson, Lane, Spence and Co., Inc.	Savannah, Ga.	3,375.00	3,784.20	7,159.20
Wmson, Lemon & Co.	Washington, D.C.	5,775.00	1,866.93	7,641.93
Wmson & Company, Inc.	St. Paul, Minn.	11,500.00	3,784.20	15,284.20
Wmson, Penbody & Co.	New York, N. Y.	78,600.00	27,569.22	106,169.22
Wmson, Pettis Company	Omaha, Neb.	4,275.00	1,866.93	6,141.93
Wmson, Dickinson & Co.	Chicago, Ill.	6,000.00	2,623.77	8,623.77
Wmson, Lora & Co.	New York, N. Y.	30,730.50	53,164.14	83,894.64
Wmson, Maseell & Needs	Wilmington, Del.	2,400.00	2,442.13	4,842.13
Wmson, Mendenhall & Co.	Baltimore, Md.	7,125.00	3,735.80	10,860.80
Wmson, Mendenhall & Co.	New York, N. Y.	24,850.00	26,332.84	51,182.84
Wmson, Mendenhall & Co.	New York, N. Y.	42,600.00	34,521.83	77,121.83
Wmson, Mendenhall & Co.	New York, N. Y.	10,500.00	2,623.77	13,123.77
Wmson, Mendenhall & Co.	Louisville, Ky.	3,225.00	1,333.05	4,558.05
Wmson, Mendenhall & Co.	Baltimore, Md.	4,275.00	1,866.93	6,141.93
Wmson, Mendenhall & Co.	New York, N. Y.	17,250.00	7,565.41	24,815.41
Wmson, Mendenhall & Co.	Richmond, Va.	5,250.00	2,599.57	7,849.57
Wmson, Mendenhall & Co.	Pittsburgh, Pa.	6,825.00	1,866.93	8,691.93
Wmson, Mendenhall & Co.	New York, N. Y.	7,650.00	2,623.77	10,273.77
Wmson, Mendenhall & Co.	Cleveland, Ohio	24,805.00	9,435.33	34,240.33
Wmson, Mendenhall & Co.	Pittsburgh, Pa.	53,250.00	54,120.63	107,370.63

Underwriters	Address	Gross Selling Concessions*	Gross Underwriting Compensation*	Total*
Wells-Fargo Company	Minneapolis, Minn.	5,025.00	1,866.93	6,891.93
Wells-Fargo Co.	New York, N. Y.	9,000.00	5,150.76	14,150.76
Wells-Fargo Co.	New York, N. Y.	35,437.50	13,769.47	49,206.97
Wells-Fargo Co.	Milwaukee, Wis.	19,500.00	10,340.90	29,840.90
Wells-Fargo Co.	San Francisco, Calif.	89,250.00	32,705.22	121,955.22
Wells-Fargo Co.	Minneapolis, Minn.	7,350.00	3,623.77	10,973.77
Wells-Fargo Co.	Philadelphia, Pa.	5,250.00	2,520.57	7,770.57
Wells-Fargo Co. Underwriters		121,395.77	41,146.85	162,542.62
Wells-Fargo Co. Underwriters		454,665.00	---	454,665.00
Wells-Fargo Co. Underwriters		1,179,300.00	1,150.00	1,180,450.00

These figures are calculated on the basis of all shares having been sold by the Underwriters and dealers at the respective public offering prices. Certain shares may have been sold at other than the public offering prices; the Joint Underwriters have no information as to this except that, to approximately 1% of the total shares sold by the Underwriters and dealers, they were advised that such shares were sold to other dealers, presumably at a concession of 1/2 cents per share.

Gross Underwriting Compensation is calculated after net Underwriting expenses of \$133,629.11 as follows:

Stock transfer taxes	\$23,750.00
Net loss in purchase and sale accounts	109,879.11
	\$133,629.11

C O P Y

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HEL

PLAIN

London

Dated October 29, 1942

Rec'd 8:10 p.m.

Secretary of State,

Washington.

6044, October 29.

COPY TREASURY

The Treasury here expects to release this afternoon following press statement concerning unfreezing of sterling balances of American motion picture companies in United Kingdom.

"The Treasury announces that as a result of conversations which have recently taken place in Washington it has been agreed with the American film companies concerned that the whole of the sterling balances accumulated by them at October 24, 1942 as a result of the special restrictions imposed under the film agreements of the previous three years will now be released. The amounts to be transferred in dollars in respect 1942/43 revenues have however been left over for further discussion. In the meanwhile all of the provisions of the 1941/42 agreement will remain in force.

As in former years corresponding treatment to that accorded to the companies which are parties to the agreement will be given to the other concerns in the industry".

WINANT

CSB

Copy:bj:11-2-42

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTCL No. 374

Information received up to 7 A.M. 29th October, 1942.

1. NAVAL

One of H.M. Submarines on patrol in the AEGEAN sank a 2,000 ton ship, two schooners and a tug.

On 23rd Russian light craft probably sank a tanker west of SEVASTOPOL and on 25th sank a tug and two landing craft off ANAPA. Russian aircraft sank an E-boat and a schooner off ANAPA on 24th.

ATTACKS ON SHIPPING. From 24th to 27th October inclusive four British ships were reported attacked by submarines. One ship was torpedoed in the AZORES area but is proceeding to port, one was torpedoed in S.W. Approaches, one was sunk in the CARIBBEAN or TRINIDAD area and another was torpedoed off East London. In addition a British ship was bombed by aircraft and set on fire in the RED SEA. A British ship which was reported sunk by a submarine on 11th October in the INDIAN OCEAN has arrived safely at DURBAN.

2. MILITARY

EGYPT. Report to 12 noon 28th. During 27th a counter attack against the Australians in the Northern sector was easily repulsed. Enemy armour was heavily bombed while forming up opposite one armoured division but counter attacked in late afternoon. Enemy losses were considerable, ours very light. Only at one point did the enemy succeed in capturing one of our forward positions. At midnight 27th/28th the enemy again attacked part of the Australians sector but was beaten off. Our forces along the whole front carried out reorganisation.

RUSSIA. The Russians continue their attempts to cross the Western bank of the DON and in particular to extend their bridgehead in the YELANSK Area. The German attack on the northern part of STALINGRAD continues to make slow progress. Russian attacks against the German northern flank between the DON and the VOLGA appear to have abated somewhat but the Russians have increased their pressure south of STALINGRAD. In the TEREK sector of CAUCASIA German satellite forces have made a slight advance southwards while northeast of TUAPSE Russian counter attacks are hampering German progress.

3. AIR OPERATIONS

WESTERN FRONT. 28th/29th. Nine aircraft were sent sea-mining. One is missing.

- 2 -

EGYPT. 27th. About 80 tons of H.E. were dropped by escorted day bombers during ten attacks on enemy forces. Other aircraft bombed landing grounds and the docks at MERSA MATRUH. Eighteen enemy aircraft were destroyed, eight (?) probably destroyed and five damaged. We lost six.

CRETE. 27th/28th. Heavy bombers attacked MALEME aerodrome starting twelve good fires. One Liberator missing.

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U.S. SECRETOPTEL No. 380

Following is supplementary resume of operational events covering the period 22nd to 29th October, 1942.

1. NAVAL

MEDITERRANEAN. Our submarines reported sinking one 6,000 ton tanker, a 4,000 ton ship, 2 schooners, a tug and a possible hit on a destroyer. Activity of Italian Fleet remains confined to convoy escort duties by destroyers and light craft.

Russians in BLACK SEA claim 2 more medium sized ships sunk by submarines and a tanker and small craft sunk by motor torpedo boats.

SUBMARINE WARFARE. U-boats still active in North Atlantic. 2 convoys attacked each for several days. Week ending 28th October one promising attack by Naval aircraft on U-boats, 2 by aircraft. Provisional figures week ending 25th October, 5 ships sunk by U-boat, 4 in Atlantic.

TRADE. Since JAPAN entered the war 8 Axis ships totalling 50,500 tons have reached BISCAY ports from FAR EAST. Between September 1941 and May 1942, 6 German ships totalling over 41,000 tons have almost certainly left for FAR EAST. Between May and August 1942 no sailings, but since August 10th, 7 ships aggregating 53,000 tons have succeeded in leaving BISCAY ports in spite of repeated attacks by our aircraft.

Imports in convoy into U.K. for week ending 24th October - 607,000 including 151,000 tons oil.

2. MILITARY

EGYPT. Operations fully reported daily OPTELS.

FAR EAST. BURMA. Limited operations by Japanese and hostile Burmese have begun, but still little indication major offensive against INDIA.

NEW GUINEA. During week Allied troops made slight advance and now reported to have taken KOKODA. On 22nd enveloping movement engaged Japanese patrol 9 miles south WAIROPI BRIDGE. Enemy forced withdraw 6 miles. Japanese strength BUNA-KOKODA area approximately 3,000.

3. AIR OPERATIONS

WESTERN FRONT. 4 heavy and successful raids, 3 by night and one by day were made by Bomber Command against industries in NORTHERN ITALY. A total of 245 tons H.E. and 327 tons incendiaries dropped. 393 sorties involved. 11 aircraft lost and 3 crashed. 214 sorties anti U-boat plus 45 sorties on BISCAY patrols. Spitfires and Mustangs in attacks on coastal shipping damaged several enemy small craft.

MEDITERRANEAN. Allied aircraft flew 4,842 sorties from EGYPT, the majority in close support of the 8th Army attack. Air support is reported to have been excellent, our aircraft having found good bombing objectives, especially in the Northern Sector. There has been little interference with our land forces from enemy aircraft.

MALTA. Enemy attacks by fighters and fighter bombers less than previous week, formations usually intercepted well north of the Island and only small proportion of attackers crossed coast. Our airfields still the objective, material damage slight, more successful attacks on Axis shipping on AFRICA supply route, especially against tankers, by Wellingtons and Beaufighters.

RUSSIA. Russian Baltic Fleet Air Force reported sinking collier, a patrol boat and 2 transports totalling 12,000 tons, in GULF OF FINLAND. 20 German bombers destroyed in 3 low level attacks on a German airfield in Northern sector. German main STALINGRAD effort directed against communications and supply depots, also occasionally on Russian artillery on VOLGA ISLANDS and east of River.

CHINA. Raid by U.S. bombers 21st on Kailan Coal Mines involved a round flight of 2,000 miles.

Regraded Unclassified

- 2 -

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

September 8th/9th. I.G. FARBEN CHEMICAL WORKS had 5 buildings destroyed, 2 of them large laboratories.

LE CREUSOT. Serious damage to locomotive machine shop and other buildings in processing plant, 3 direct hits on BRUILL Steelworks, severe damage to buildings in LE CREUSOT Steelworks. Reported most successful raid and complete stoppage resulted.

U.S. Raids. - LORIENT. Considerable concentration of bombs directly on objective bursts among submarine shelters and upon adjacent buildings. Many bursts near a 750 ton U-boat and among 3 floating docks, 2 of which apparently hit.

LILLE. At least 3 direct hits on main boiler works and several others among important sections of the plant. Much severe roof damage.

RAILWAY ATTACKS. Reports that end of July 7 locomotive disabled at station near DIXMUDE. Repairs likely to take several weeks.

SEA MINING. Sept. 20th. U-boat and large ship sunk DANZIG BAY. Large ship sunk off SWINDMUDE same day. Mid-October U-boat struck magnetic mine off LORIENT and sank immediately.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British and Allied</u>		<u>Enemy</u>			
	<u>In the Air</u>		<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	22	Bombers	3	3	4
Fighters	5	Fighters	-	-	5
Coastal	3	Miscellaneous	-	1	-
Total	30	Total	3	4	9

1 pilot is safe.

MIDDLE EAST (Incl. MALTA)

<u>British and Allied</u>			<u>Enemy</u>			
	<u>In the Air</u>	<u>On the Ground</u>		<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	19	1	Bombers	10	4	15
Inc. 3 U.S.			Fighters	75	36	50
Fighters	41	1	Miscellaneous	4	-	4
Others	1	-	(Incl. 2 by U.S.)			
Total	61	2	Total	89	40	69
3 fighter pilots and 3 of a bomber crew are safe.			Enemy fighters includes			
			U.S. claims of	15	5	7
			and A.A. claims of	6	2	Nil

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

6. HOME SECURITY

No concentrated bombing or damage of national importance. Estimated civilian casualties week ending 28th - Killed 96, Missing 13, Seriously wounded 131.

1
NUMBER 55

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

October 22-29, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

OCTOBER 22-29, 1942

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Office of Strategic Services

THE WAR THIS WEEK

As the sanguinary struggle for Stalingrad continues without decision, observers point out that the Russians have already achieved two important objectives: they have prevented the Germans from reaching Astrakhan and striking at Russian sea-borne supplies on the northern Caspian before the ice sets in; they have forced the Nazis to continue the struggle into November when snows and gales of great severity are normal in this whole area.

Meanwhile in Egypt the British have struck a heavy blow against the Axis in what appears to be the beginning of a large scale drive. Although the British have won some initial advantages, observers predict that another week may pass before a significant break-through can be expected. With heavy attacks on his rear bases in north Italy and on his Mediterranean shipping, Rommel's supply position is critical.

In the course of a continuing battle in the Solomons, in which losses have been heavy on both sides, the Japanese have succeeded in landing additional troops on Guadalcanal Island and apparently have hemmed in our forces on three sides. Although details of the battle are comprehensibly scarce, the enemy obviously occupies a position in that area which offers notable advantages.

Stalingrad: The Defense of the Northern Suburbs

In the northern suburbs of Stalingrad the Germans have been unable to repeat this week their successes of mid-October. Fanning out from their wedge driven to the Volga in the Rykov suburb last week, the attackers have captured part

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of the Red October Metallurgical Factory to the south, and the Spartanka suburb to the north. In these two areas fierce fighting has been raging at close quarters, and the defenders appear to be clinging tenaciously to several of the extensive Red October buildings, and to be successfully resisting from street to street in the Spartanka area. The Germans have capitalized on their new positions by shelling Soviet batteries on the Volga islands opposite Stalingrad itself. For their part, the Russians have partially relieved the defenders of the suburbs by counterattacking from the northwest. Admiral Standley, American Ambassador to Russia and now in this country for consultation, has expressed his conviction that Stalingrad will be held.

The accompanying map represents an effort to bring some order out of the confused and conflicting reports on the situation in Stalingrad. Much of the material is admittedly based on inference. In the southern suburbs, about which official communiqués of both sides have been most vague, the defenders probably hold large areas and, according to press reports, have driven the Germans back north of the Tsaritsa River. In the center, the attackers apparently control much of the area inside the railroad loop, including the two main stations and a corridor to the Volga. To the north, the possession of the Tractor Plant and a large part of the Rykov suburb has enabled the Germans to split the Russian defenders. In general, the Soviet forces in Stalingrad appear to be divided into at least three main groups, with communication between them possible only by way of the Volga River and the large islands opposite the northern suburbs.

Fruits of Stalingrad's Resistance

The fate of Stalingrad is still in doubt. But it is very probable that its defenders have already accomplished one major part of their mission. According to Russian observers

BATTLE OF STALINGRAD

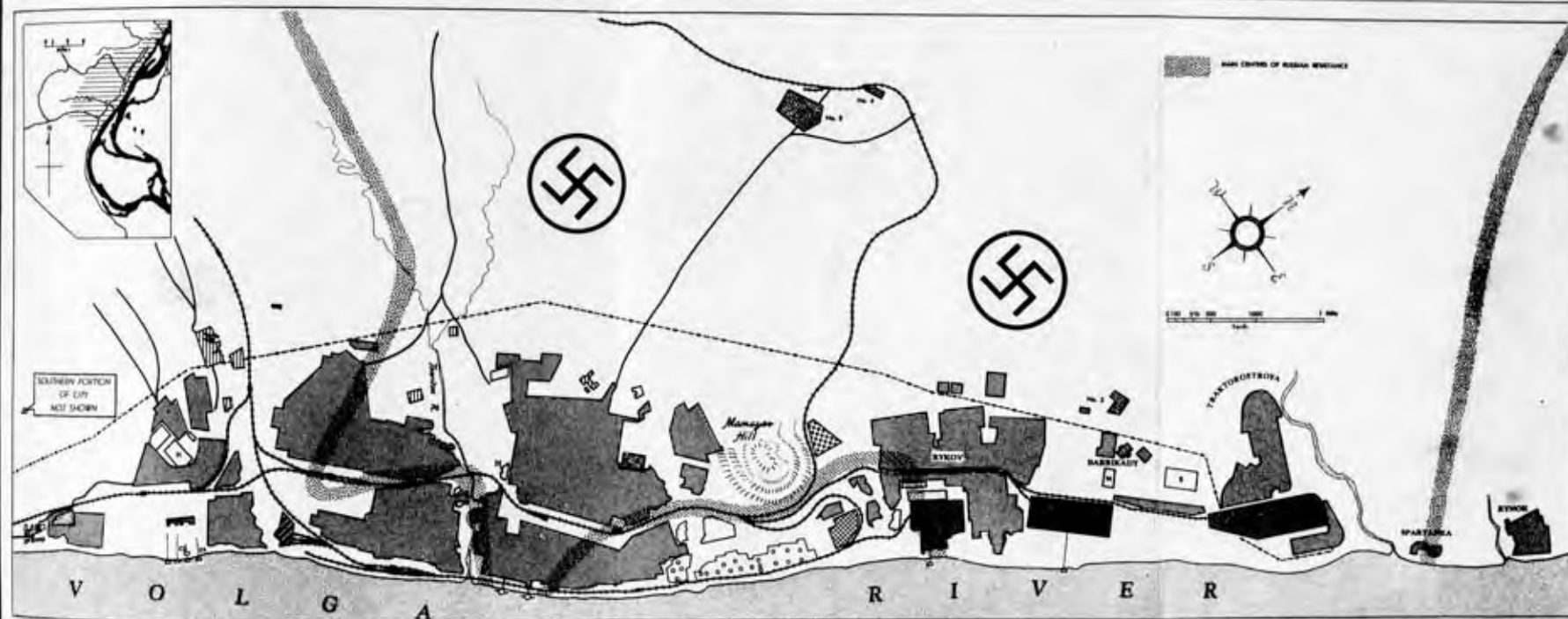
TRANSPORTATION FACILITIES



INDUSTRIAL FACILITIES



OTHERS



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in this country, the Soviet command expected that the invaders, after capturing Stalingrad, would almost immediately start a new drive along the Volga toward Astrakhan. It was the Russians' objective to prevent the Germans' reaching the Caspian before November. That objective they have already attained.

Between about the tenth and the twenty-fifth of November the Volga and the northern Caspian Sea freeze over. In other words, the Russian resistance at Stalingrad has held back the invaders from Astrakhan during the season when water transport below Stalingrad is still possible. Should the Germans reach the Caspian next month, they would not be able to interfere with Soviet water-borne transport until next spring. Furthermore, the Caspian shore railroad from Kizlyar to Astrakhan is for all practical purposes closed to traffic, according to advices from Tabriz. For the rest of the winter, then, transport between the Caucasus, Iran, and the bulk of the Soviet Union will go over the Caspian and the Central Asian railways, substantially free from the menace of German attack.

Moreover, around Stalingrad itself, the coming months will probably be unfavorable for offensive operations. The current spell of "Indian summer," described as favoring the attackers, can not last long. Normally the months of November and December are characterized by terrific winds and snow storms that sweep across the open steppes of the lower Volga. The average temperature is lower than that on the Gulf of Finland. During the civil war in 1918-1920 the storms of this area seriously hampered the conduct of military operations in winter.

If the Germans should take Stalingrad next month, it seems unlikely that they would drive immediately for the Caspian. More probably they would try to establish a firm winter line. According to Czech informants, however, a third possibility

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would be an offensive from the Orel-Voronezh area toward Tambov and Morshansk. Such a drive would aim to cut the direct rail communications between Moscow and the Middle Volga industrial centers of Kuibyshev and Saratov.

Lull to the North and South

Outside of Stalingrad, activity on the Russian front has been indecisive. For the past week, the Russians report the destruction of 114 German planes, to 51 of their own admitted as lost. These figures indicate about the same level of air activity as during the previous week—and fully as low a level as during the 1942 winter lull. East of the Volga, however, the Germans have continued their air attacks on Russian communications.

In the north and center, rain and snow have again limited the operations of both armies. On the Black Sea coast, where the Germans have again made no substantial progress, the attackers have blamed their lack of success on torrential rains, strong Soviet defenses, and the difficulty of fighting in dense woods. In the Grozny sector, the arrival of the SS Viking Division apparently enabled the Germans to drive a wedge into the Russian lines about a week ago. The defenders, however, seemed to have restored the situation, and a lull ensued. Late press reports now suggest that the Germans have resumed the attack in the direction of Nalchik.

Allied Offensive in Egypt

The Allies this week fired the opening gun of what may be a major offensive directed at driving the Axis out of North Africa. The British attacked all along the line to which the battered Eighth Army retreated last June, concentrating their major effort in the northern sector. Here strong British infantry units supported by artillery and tanks pushed

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through enemy minefields to establish themselves six miles to the west. Armored units and infantry followed through the gaps, despite stiff resistance. A small gain was also made in the central sector, but to the south heavy Axis fire prevented a penetration. The British are obviously trying to keep Rommel's armored strength divided between north and south. Casualties have been heavy, and the situation remains fluid. Neither side has yet employed the full weight of its armored forces. Observers expect perhaps a fortnight of intense fighting with movement strictly limited by the narrow desert front, before any break-through is achieved.

The general superiority which the Allies are believed to enjoy is especially marked in the air. United States and RAF planes have actively supported ground units and steadily attacked gun emplacements, motor transport, and tanks. Enemy air operations were largely limited to the defensive, although reports indicate that reinforcements may be available in Crete, Greece, and Sicily.

For this period of positional warfare the Allies enjoy advantages of supply, especially in fuel, that may be of the first importance. With planes and submarines taking a high percentage of his cargo ships, Rommel's supply position is critical. The British raids on Genoa, Turin, and Milan were also apparently intended to disrupt rear bases from which supplies flow both to Rommel and to Tripolitania.

If Rommel is forced back from his present positions, military observers expect that he will take up a defensive line running from Matruh to the Qattara depression, and, if driven from that, a line based on Halfaya Pass.

Uneasiness in Northwest Africa

Reports from Northwest Africa continue to reflect apprehension. Darlan has just made an inspection tour of Dakar, Casablanca, Rabat, and Fez. Except for the demonstrations

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of a few youth organizations, the public reaction in Morocco was generally apathetic. At the same time the shipment of military supplies to Dakar persists.

In Spain there have been some renewed expressions of Spanish annexationist designs in Morocco. The combination of a press article, comments made by Foreign Minister Jordana to American representatives, and a speech by Garcia Figueras, a minor official, suggested to one well-placed observer that Berlin might again be encouraging Spanish claims to force France to a defensive agreement with Germany covering French Africa.

French Shipping

The question of the transfer of Vichy-controlled merchant tonnage has again been opened. British sources report that Vichy is about to deliver to the Germans 140,000 tons of shipping, which it is believed the Nazis intend to use as naval auxiliaries in the Black Sea.

Food and Finance in Iran

The wheat problem continues to be the center of a highly unstable internal situation in Iran. Obsessed by fears of famine and inflation, the legislature is reluctant to allow any currency increases. Although the Premier, Qavam, understands the problems facing the Allies, he apparently shares the cumulative resentment over the treatment of Iran by the United Nations. He may shortly be forced either to dissolve the legislature or to resign with his Cabinet. Unchecked profiteering and hoarding, and inadequate control over the provinces have added to the Government's difficulties; but efforts are now being made to establish joint boards of control for food, transport, and finance.

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Battle Throes on Guadalcanal

The Japanese on October 25 launched a combined and long-awaited air, sea, and land offensive in the lower Solomons. Using both tanks and heavy artillery fire, the Japanese attacked our ground forces on Guadalcanal from the west on the night of October 24-25, and again during the morning. These attacks were repulsed. On the following night, an attack from the south succeeded in penetrating our lines defending the airfield, but this assault also was thrown back. The Japanese are known to hold positions east of the airfield; hence our forces appear to be hemmed in on three sides along a narrow strip extending no more than 30 to 35 miles along the northern coast.

Fresh landings preceded the Japanese attack. Prior to the arrival of these additional troops, Japanese forces on the island numbered about 15,000. The Japanese may now have superiority both in men and weapons. In the air, the Japanese appear also to have been able to concentrate enough land- and carrier-based aircraft to obtain quantitative superiority in the immediate Solomons battle area, but our qualitative superiority persists. Grumman Wildcats based on the island continue to out-fight the enemy, and on October 26 our bombers were still able to use the air-field.

The Battle at Sea

On the sea, where the ultimate fate of our forces on Guadalcanal must be decided, the situation necessarily remains obscure. The Japanese apparently have fairly free naval access to Guadalcanal itself, and have supported their ground forces there with naval artillery fire.

One hundred miles northeast of Guadalcanal, a Pacific task force on October 26 exchanged air blows with a "strong" Japanese naval force. We damaged one enemy carrier badly and received severe damage to one of our own. A second

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Japanese carrier was hit in this action, and during the night of October 26-27, a Navy Catalina loosed a torpedo at a carrier 400 miles northeast of Guadalcanal, but results were not observed. The Japanese may have as many as three regular and two converted carriers available in the South Pacific for current operations. We on the other hand announced this week the loss of the *Wasp*, one of the newest of our carriers (but also one of the smallest).

In the week's fighting—including air action against the enemy's main base at Rabaul—we are believed to have sunk two cruisers, three destroyers, a seaplane tender, two gunboats and four merchant vessels. We have announced the loss of one destroyer and a tugboat.

The Issue Remains in Doubt

The Japanese admittedly have large naval forces at their disposal, and may, despite their highly disproportionate air losses, turn to a naval war of attrition. They would then seek to make our airfield untenable for transports and bombers, at the same time gradually strangling our supply line (which must provide the Grumman Wildcats with fuel). Under these conditions, they would have little to fear from our land-based air strength in the Solomons.

Such a picture, however, assumes that the benefits of a naval war of attrition reside with the enemy. If not, the Japanese may try as rapidly as possible to smother our air and coastal defenses and set up their own air base. In either case, the troops on Guadalcanal—their backs to the sea—are clearly our first-offered pawns in a type of war which is new to Americans. The psychological repercussions of defeat, if defeat comes, are likely therefore to be relatively more severe than they would be after the loss of an equal number of troops in continental warfare.

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War Begins Again on the Burma-India Front

In India and Burma, where the water-logged ground left by the monsoon now is becoming dry enough to support operations, the Japanese have struck at our airfields near Chittagong and Sadiya, and their troops have begun to move. A small force of Japanese has advanced northward from Myitkyina, evidently aiming at Fort Hertz, from whence enemy planes might more successfully interrupt our air transport route to China. In the first raid on our bases in northeastern Assam, with about 60 bombers and fighters, the Japanese destroyed several transport planes grounded for repair. It is evident that the enemy, even in this long-awaited attack, achieved some measure of surprise.

Japanese troops also have advanced northward 50 miles from Akyab (at the southern extremity of the Burma-India line), occupying the towns of Buthidaung and Maungdaw. While no more than a battalion of Japanese troops may actually have carried out the movement, it is aimed at a tense sector of the United Nations' front—Bengal and Assam.

The Foundations of a Settlement in India

"What about India?" is the question which has become almost a symbol all through Asia," Mr. Willkie has declared, in reporting on his recent trip to Russia, the Middle East, and China. As if in answer to this question, Rajagopalachariar, formerly Congress Premier of Madras, and now, after his resignation from the Congress, a leader in negotiations for a settlement, has outlined the conditions which he feels must precede any satisfactory compromise. The present policy of repression, he declares, may succeed—but only if the Japanese refrain from invading India. In the event of such invasion, however, sabotage and interference with communications would seriously hamper Allied operations. Nor

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would India cooperate in a reconquest of Burma, he continues, unless the British made it clear that they were not intending to reestablish imperial rule over India's neighbor to the east.

Furthermore, Rajagopalachariar, like Mr. Willkie, urges the United States to intervene with the British on the Indian issue. But he has no illusions that our country will do anything that might threaten the unity of the Anglo-Saxon powers. Moreover, he realizes that negotiations with the British would be futile, unless the Indian leaders themselves could compromise their differences. He is convinced, however, that the Congress chiefs will make concessions to the Moslem League, if they know that a national government will result from such a compromise. Unless some such settlement emerges from the present crisis, he concludes, hatred of the British will continue to increase, especially in Bengal and southern Assam, where many are coming to regard the Japanese as no greater an evil than the British.

An important British official agrees with many of these statements. On the surface, he declares, disaffection is under control. The threatened longshoremen's strike at Calcutta, for example, has not materialized, and labor at the Tata Steel Plant is now working normally. At Ahmedabad, however, both the textile mill owners and their employees, after more than two months of a combination strike and lock-out, still refuse to return to work; here the Government has apparently decided to refrain from decisive action until November 9, the last day of an important Hindu festival. And in certain areas like the Midnapore district of Bengal, popular discontent remains serious. Our informant concludes that the undercurrent of tension in the civilian population of Bengal and Assam might be released at any time by a Japanese air attack on India's industrial centers.

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American Bombers Range Over China

Bombers of the United States Army Air Force in China carried the air war to within a few miles of the Great Wall and Manchuria when they raided the Lin-hai (Hopei) installations of the Kailan Mining Administration on October 21. According to General Stilwell's communiqué, the raid was most successful; many direct hits were observed in the target area, and all American planes returned to their bases.

The Kailan coal mines are an important objective. Operated since 1912 by British interests, the mines escaped damage on the outbreak of the Sino-Japanese war in 1937, and since Pearl Harbor they have continued, without noticeable dislocation, to produce coal under Japanese supervision. With an average annual output of four to five million tons the Kailan fields make a considerable contribution to the Japanese war economy, particularly since Kailan coal is of excellent coking quality and thus of high value for the production of steel.

A few days after the Kailan raid, the American air force struck at Hongkong and Canton. On October 25, American bombers attacked docks and shipping in the Hongkong-Kowloon area, destroyed 10 of the Japanese fighters which tried to intercept, and probably destroyed 5 more. The next day, October 26, American planes again raided Hongkong, scoring hits on the important North Point power station. And later that day the American air force attacked the Japanese-held White Cloud airdrome at Canton.

People's Political Council Meets in Chungking

Meanwhile, the third People's Political Council has begun its sessions in Chungking. Established by order of the Kuomintang Party Congress in 1938, the People's Political Council has power to deliberate on all measures of domestic

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and foreign policy, and to submit recommendations to the Government on the basis of its deliberations. It has the right to request reports from the various Ministries and to interpellate the officers of state. Members of the Council are appointed, rather than elected, and the Kuomintang has the final decision upon all nominations. Nevertheless, the membership of the Council has consistently been both representative and distinguished, and the Council has served as an effective sounding board for the expression of public opinion.

Rumors of New Political Appointments in China

The possibility of a new position for T. V. Soong, Chinese Foreign Minister, who arrived in Chungking from Washington on October 25, has been the subject of political speculation in the Chinese capital for the past few days, according to an authoritative observer. There are rumors, as yet unconfirmed, that Soong will take over the posts of Finance Minister and Vice-President of the Executive Yuan now held by H. H. Kung, with Wellington Koo, Chinese Ambassador to London who is also in Chungking, becoming Foreign Minister. H. H. Kung, according to these rumors, will make a good-will tour of England and the United States and eventually will become the Generalissimo's representative in Washington.

Such changes would constitute an important political development. The man who holds the combined posts of Finance Minister and Vice-President of the Executive Yuan is, under the Chinese system, the chief civil administrator, second in power only to the Generalissimo. H. H. Kung is respected for his political views and his personal integrity, and he has been invaluable as an effective peacemaker between factions and personalities. He has not, however, been noted for rigorous administration or for an eagerness to eliminate in-

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competent assistants and hangers-on. Soong has served as Finance Minister before, and is regarded as an able financier and conscientious administrator. He is conspicuous for his failure to build up a clique and his penchant for the use of able men. His appointment might well bring some improvement in the handling of the pressing financial and economic problems with which China is faced.

Aftermath of a Raid

Six months after Brigadier General Doolittle's flight of bombers peppered the Tokyo area, the Japanese have renewed their attempts to make propaganda capital of the raid. Announcing that American fliers forced down on that April 18 raid have now been tried before a military court, convicted, and punished, the enemy has wrung from our War Department the admission that eight of our airmen are, indeed, missing.

General Doolittle's statement at the War Department on May 19 had led American journalists to believe that "Not one American plane was lost in the raid,"¹ and this view was passed on to the world. The American admission, according to FCC radio analysts, has furnished Tokyo propagandists with excellent grist for their efforts to undermine world confidence in American news sources.

Aware of this danger, the Office of War Information has endeavored to explain the discrepancy. In a special statement last week, the OWI declared that "secrecy surrounding certain planes which participated in the Tokyo raid was highly desirable in the hope of saving the lives and securing the freedom of certain crew members who crash-landed in areas controlled by the enemy." Whether that policy has been successful or not, there seems little question that its cost

¹ *New York Times*, May 20, 1942.

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in terms of public trust of our news releases will be appreciable. The Doolittle raid itself, however, was a military success, as a confidential account recently compiled by our air forces makes plain (see Appendix I).

Chile Moves Toward a Decision

Mass meetings and great crowds demonstrating in the streets put dramatic emphasis this week on a widening split between the Chilean cabinet and the Chilean people over the country's foreign policy. With the pro-democratic majority clamoring for a break with the Axis, a reconstruction of the Cabinet followed, and the notorious Barros Jarpa was dismissed from his post as Foreign Minister. At the same time President Ríos was given a free hand to form a new and presumably anti-fascist Government. The men whom Ríos has appointed as replacements, however, have been anything but reassuring to the public.

Barros Jarpa's successor, for example, turned out to be Joaquín Fernández, who did his best to sabotage hemispheric solidarity in Montevideo when he served there as Chilean Ambassador. Fernández' ambiguous remarks following his new appointment, and his cordial greeting in Buenos Aires of Ruiz Guinazú, Argentinian opponent of the United States, give little hope, moreover, that he has changed his politics. Whether the Chilean Congress will stomach this kind of "reform" of the Cabinet remains to be seen when it assembles in extraordinary session on November 15.

If Ríos fails to secure parliamentary support, he can either surrender to Congress or resort to dictatorship. His unusual appointment of General Froilán Arriagada as Minister of Economy and Commerce suggests that he may be seeking the support of the Army, whose attitude has not yet been determined. One thing at least has become clear: by his open assumption of personal responsibility for Chile's foreign

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policy, Ríos has lost the buffer which Barros Jarpa represented. The Chilean President now stands face to face with the demands of the Chilean people.

Peru's Communists Emerge

President Prado of Peru, harassed by Congressional attacks upon grafting cabinet members, by a national rice-shortage, and by the machinations of his popular rival, General Ureta, is now involved in a desperate search for mass support. His latest maneuver is directed toward winning over the urban labor movement through virtual legalization of the Communist Party, which, from "underground," has maintained important contacts with the workers. The suppressed Communist weekly *Democracia y Trabajo* has been allowed to reappear, and the Party itself has been permitted to hold a National Congress.

Prado undoubtedly hopes that the Communists in turn can win over a substantial portion of the liberal *Apra* movement from its present anti-Prado leadership. If he should succeed in these imaginative tactics, the new alignment of political forces will have significance far beyond Prado's personal fortunes, for it will mean a definite coalescing of Peru's pro-United Nations forces.

Dollar Diplomacy

The alleged refusal of three foreign-owned meat-packing plants in Brazil to cooperate in relieving Rio de Janeiro's growing shortage of fresh meat has led the Minister of Justice to cite them before the new State's Tribunal of National Security. The companies—Armour's subsidiary in Brazil, the Wilson Company, and Frigorifico Anglo—had apparently rejected urgent demands that they supply freshly-slaughtered meat to the Municipal Food Commission.

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The attitude of these firms, unfortunately, seems to have strengthened the belief of many Latin Americans that British and American corporations operating in their countries have heard of neither the "Good Neighbor" policy, nor even of the United Nations. In Argentina, they recall, a reputable British trade journal published an editorial only last spring urging support of the Castillo policy of "neutrality." In Uruguay, moreover, the Swift & Company subsidiary is reported to have vetoed a plan of the Federation of Meat Workers to have employees donate a day's pay for Allied war relief. The company official, when interviewed by union representatives, was quoted as saying that his company had never helped the United States and England, and did not care to begin now.

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APPENDIX I THE TOKYO RAID¹

The raid of April 18, 1942, which saw 16 American Army bombers strike at the industrial heart of Japan, had multiple objectives: aside from such specific material damage as was planned, it was hoped that the foray would (a) induce the Japanese to recall for home defense combat equipment then in areas under pressure; (b) instill an "anxiety complex" among the Japanese people themselves; (c) encourage our Allies; and (d) favorably impress our own public.

Preparation

That these objectives should have the optimum chance of attainment, long and arduous preparation was made for the flight. A minimum range of 2,400 miles and a bomb-load of 2,000 pounds were considered essential; the plane chosen as best adapted to these and other requirements was the B-25. Two types of bombs, with fuses that could be set for extreme low-level release, were selected to obtain the proper effect: a 500-pound demolition bomb and a 500-pound cluster of incendiaries.

Targets in the Tokyo region were designated according to a plan of spreading the flight over a 50-mile front in order not merely to provide the greatest coverage, but also to create an impression of a larger force than existed and to dilute the ground fire. Non-military targets—particularly the Emperor's palace—were to be strictly avoided.

For nearly three months, the crews (ground maintenance men and armorers as well as the actual flyers) were trained together to achieve as nearly perfect coordination as possible. Pilots and navigators were subjected to intensive practice in cross-country flying, night flying, and flying over the water to accustom them to operation without radio references or landmarks. Particular attention was placed on low altitude approaches, rapid bombing, and evasive action.

Mechanical changes in the B-25's were many and ingenious, with every effort being made to conserve weight and space. Two wooden 50-caliber guns were installed in the plane's tail, obviating the need for carrying an extra gunner and his heavy armament but retaining the appearance of protection (as it turned out, no ship in the flight was attacked from the rear). Liaison radio sets were removed, and because of the fire hazard rather than of the weight, no pyrotechnics other than a couple of landing-flares were carried.

A desire to increase the plane's range, however, led to the installation of two metal leakproof tanks and one collapsible rubber tank. Since low-level bombing was planned, the Norden sight was replaced by a simplified sight which, at 1,500 feet, showed a greater degree of accuracy.

Reports From the Flyers

Brigadier General James H. Doolittle: On its approach to Japan, General Doolittle's craft passed over a camouflaged naval vessel and saw a multi-motored

¹ Based on a report issued by the Director of Intelligence Service, Headquarters, Army Air Forces.

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land plane; but, as was the case with the other planes in the flight, there were no later indications that these outlying enemy boats or aircraft raised the alarm. Arriving north of Tokyo, the General's plane turned south, flying over airfields from which many small biplanes—apparently trainers—had arisen. But both these craft and nine fighters which Doolittle encountered nearer Tokyo failed to close in. Over the target area, the American bomber dropped four incendiary clusters, then lowered to the house-tops and slid over the western outskirts of the city into a low haze. Anti-aircraft fire was reported as heavy and of some elevation, but of the wrong deflection.

Lieutenant E. E. McElroy: Encountering heavy but not too accurate ground-fire, Lieutenant McElroy's plane arrived over its target, the Hokusaku Navy Yard, and released one incendiary and three demolition bombs from 1,300 feet, destroying everything on the main dock, enveloping a partially completed boat in flames, and blowing up a large crane. Thirty miles away, huge billows of black smoke could still be seen rising from the target.

Captain C. R. Greening: Unable to reach its primary target of Yokohama, Captain Greening's ship made its bombing run over a large oil refinery near Sakura, east of Tokyo. On the approach, four enemy fighters appeared and gave combat; two were shot down. Four incendiaries, dropped "in train" from 600 feet, caused successive explosions that were clearly felt by the crew. Fifty miles away from the target, a large column of smoke was still visible.

Lieutenant R. O. Joyce: Lieutenant Joyce's crew ran into strong anti-aircraft fire and nine Zero fighters, which they evaded by stepping up the plane's speed to 330 mph, in a dive. Over Tokyo, they dropped two demolition bombs on the Japanese Steel Company, one of them falling in the center of the plant and one between two buildings. A third bomb was released over a thick industrial area in Shiba Ward, and an incendiary fell in the residential section near the steel plant.

Lieutenant T. Lawson: Six Japanese pursuits came in sight of the Lawson plane, but failed to attack. Anti-aircraft fire, which was intense over the target, appeared to be light flak, with black bursts about the size of weather balloons. Three demolition bombs were dropped on factories in the Tokyo area, one hit producing smoke and flying debris. The plane's incendiary bomb was released over the densely populated sector near the Palace.

Lieutenant D. G. Smith: While still far from the Japanese coast, Lieutenant Smith's crew picked up an enemy radio program. It continued its normal musical offerings for over an hour, and then suddenly ceased. An alarm rang for forty-five seconds, followed by a voice which shouted three words. This occurred about ten times before the station finally went off the air. Lieutenant Smith's plane proceeded to Kobe, where four incendiary clusters were dropped along the water-front, straddling the principal targets. Anti-aircraft fire was light, and the only two planes encountered—97's—were soon outdistanced.

Lieutenant R. M. Gray: This plane not only bombed Tokyo but strafed it as well, machine-gunning a military barracks and its men. Lieutenant Gray's bombs struck a gas works and a chemical plant.

Lieutenant W. N. Bower: Several enemy pursuits tailed Lieutenant Bower's plane but made no attempt to close. Anti-aircraft fire was intense but a bit late. Since a balloon barrage protected the primary target of the Yokohama Dock Yards, Lieutenant Bower's bomber released its explosives on the Ogura Refinery

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and nearby factories and warehouses, dropped incendiaries on another factory area, and shot up a power-house with machine-gun fire.

Lieutenant E. W. Holstrom: Several Japanese pursuits approached Lieutenant Holstrom's plane when his guns were not operating. Two of these enemy fighters attacked while Holstrom was still off the coast, and tracer bullets streaked over the pilot's compartment. Later, two more pursuits cut across the bow and appeared ready to "peel off" for an attack. At this point, Holstrom's plane salvaged its bombs from 75 feet, and turned down the coast.

Captain D. M. Jones: Primary targets were not attacked by this plane, since the approach had not been made as expected. However, flying up Tokyo Bay, Captain Jones' craft dropped one demolition bomb on an oil tank south of the Palace, another on a power-plant or foundry, and a third on a large factory about two blocks long, with a saw-toothed roof. Intense anti-aircraft fire followed the release of the first bomb.

Lieutenant T. Hoover: Trailing Doolittle's plane into Tokyo, Lieutenant Hoover's ship dropped three demolition bombs and one incendiary from a height of only 900 feet on the Japanese Army Arsenal, debris flying higher than the plane.

Major J. A. Hilger: Flying not toward Tokyo but toward Nagoya, Major Hilger's plane scored hits on all targets, spreading incendiary clusters over the barracks adjacent to Nagoya Castle, the Matsuhigecho Oil Storage Depot, the Atsuta Factory (reported capable of producing 500 planes a year), and the Mitsubishi Aircraft Works (which builds the "Zero" fighter). A column of smoke was seen by the retreating plane when a good 20 miles away. Anti-aircraft fire was quite heavy, but its aim was poor. Only one hostile plane was sighted.

Lieutenant H. F. Watson: On the way in, Lieutenant Watson's crew observed about 20 two-engined bombers dispersed on an airfield, and 15 to 20 pursuits warming up on a ramp. One pursuit attacked from below, but made only one pass. Despite intensive ground-fire, Lieutenant Watson's plane delivered its cargo of demolition and incendiary bombs upon the Tokyo Gas and Electric Company.

The Missing

From three planes which took part in the flight, no reliable "action" reports have come. Captain E. J. York's plane is known to have been forced to proceed to Siberia, due to unexpectedly high fuel consumption; the crew were interned. Lieutenant D. E. Hallmark's bomber was last seen by one of the other crews over Tokyo Bay. No report has ever been obtained from Lieutenant W. D. Farrow's crew, nor were they, apparently, seen over the target area by the rest of the flight.

Enemy Resistance

Nearly every plane, on its approach to Japan, has reported the sighting of naval and merchant vessels, innumerable small fishing craft, and a number of patrol planes. Yet the Japanese apparently were entirely unprepared for the attack. Either their dissemination of information was faulty, or the communication system had broken down completely.

As our planes passed over the countryside, farmers in the field looked up and went back to work, undisturbed; villagers waved from the streets; a baseball game continued its play; and in the distance, training planes took off and landed, apparently unaware of any danger present.

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About 20 two-engined bombers and an equal number of fighters were seen on a field, but few planes attempted interception, and those that did were not inclined to press home the attack. The pilots appeared inexperienced and their gun fire inaccurate.

The anti-aircraft defense has been reported as consisting of either 37 mm. or 40 mm., although the description of the bursts and the absence of tracers would indicate that larger caliber guns were in action. This supposition is supported by the fact that no A. A. fire was reported below 1,500 feet. The altitude was accurate but the bursts were generally behind—possibly because the gunners did not realize the speed of the B-25's. There were a few barrage balloons in the Tokyo area in clusters of five or six, and in one case they diverted an attacking plane to its secondary target. Ineffective camouflage was observed.

The over-all picture is one of inadequate defense. The warning system did not appear to function; interception by fighters was definitely cautious; and anti-aircraft fire, responding slowly, did not reach the intensity one would expect for so important a city as Tokyo.

Conclusions

Sixteen B-25's made the flight to Japan. From the pilots or crew members of thirteen of these planes have come reports from which a reasonable estimation of the execution and success of the mission may be made.

The preparation was thorough. The flight was well executed and, in most cases, primary targets were reached; hits were made at low altitudes; and explosions, followed by smoke and fires, were observed by several ships as they passed over the area. Had it been known beforehand how complete was going to be the surprise and how weak the resistance, it would have been possible to concentrate all planes on such a target as the Mitsubishi Aircraft Factory.

The magnitude of the destruction and the effect on Japanese morale can not be evaluated from the few rumors that have come out of the enemy's country. The reaction on our Allies and the American public was essentially favorable. Any encouragement, however, accruing to the Chinese must have been tempered by the fact that immediately following the raid the Japanese initiated a severe attack on those areas in China which they suspected had been used in the project.

APPENDIX II

THE NEW ORDER IN THE PHILIPPINES¹

The most detailed information we possess on the actual functioning of the Japanese government of the Philippines has just been made available to us—by the Japanese themselves. Sparing us even the inconvenience of translation, the enemy has published his *Official Journal of the Japanese Military Administration* in clumsy but intelligible English. The *Journal* covers the period from January 2 through May 31, 1942.

¹ Based on a report by the Far Eastern Section of the Office of Strategic Services.

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Administration

Interest in the administrative arrangements set up by the enemy in the Islands centers not so much on any original features as on the faithfulness with which earlier precedents are followed. Martial law was, of course, announced by the Japanese Commander-in-Chief, Lieutenant General Homma, as soon as Manila and surrounding districts were occupied. Four days later, on January 7, 1942, the first steps were taken for the installation of a Japanese-controlled government.

The local candidate, in this case, was Mr. Jorge B. Vargas, former secretary to President Manuel Quezon.

Some two weeks later, Mr. Vargas, following an outline laid down by General Homma, announced the "Articles of Organization of the Philippine Council of State". Last any notions of independence disturb the minds of the Councillors, the Commander-in-Chief dispatched an order to Mr. Vargas "concerning basic principles in exercising legislative, executive, and judicial powers". This order stated that two rules should be observed:

(a) "Activities of the administrative organs and judicial courts in the Philippines shall be based upon the existing statutes, orders, ordinances, and customs until further orders—provided that they are not inconsistent with the present circumstances under the Japanese Military Administration."²

(b) "The Executive Commission of the Philippines may enact new statutes and ordinances subject to the approval of the Commander-in-Chief."

Education

From a study of the *Journal*, it becomes clear that the Japanese have been particularly keen on what they describe as "the renovation of education" in the Philippines. In the course of this program they intend, in the language of Major General Hayashi, "to make the people understand the position of the Philippines as a member of the East Asia Co-Prosperity Sphere; to eradicate the old idea of the reliance upon the Western nations, especially upon the U. S. A. and Great Britain; and to foster a New Filipino culture based on the self-consciousness of the people as Orientals."

A somewhat more sombre note is struck by Major General Hayashi's further declaration that the program will endeavor "to elevate the morale of the people, giving up overemphasis on materialism;" and will "inspire the people with the spirit to love labor." Naturally, the Japanese will also "strive for the diffusion of the Japanese language in the Philippines and to terminate the use of English."

Agriculture

The *Journal* furnishes additional indication of what the Japanese intend for Philippine agriculture. According, again, to Major General Hayashi, "too much importance has been attached to the production of crops for export to the United States." Instead, Hayashi intimates, more importance must be attached by the Filipinos to producing for Japan. "It is my conviction," he told the assembled native provincial governors, city mayors, and treasurers, "that in order to eradicate the dependence upon the American market and to make an adjustment of the excess agricultural products, it is the wisest way to divert the existing major agricultural industries into the planting of cotton crops."

² All quoted passages remain in the enemy's version of English, though the italics are our own.

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Hayashi apparently foresees some difficulties in store for this policy. "It seems," he declared, "that the majority of the Filipino farmers are ignorant of the potentialities of this country for cotton growing, and, therefore, it will be up to your future efforts that the planting of their (sic) product will be appreciated and encouraged among the farmers."

Propaganda

The propaganda technique of the Japanese in the Philippines has followed essentially the same line as in other areas they have conquered. The Greater East Asia Co-Prosperity Sphere is proclaimed, and the natives are instructed as to the part they are expected to play. "Self-seeking materialism" is excoriated, and the moral beauties of hard labor are extolled. However, in the Philippines, specific effort is being made to destroy all bonds of loyalty to the United States, and the theme of "Yankee imperialism" is constantly hammered in one speech and proclamation after another.

Typical were the remarks of the Japanese Chief of Staff on February 2, 1942: "As to the Philippine Islands, the war was meant to establish the Philippines for Filipinos as a member in the so-called Greater East Asia Co-Prosperity Sphere, making a clean sweep of all the exploitations, outrages, insults, and degenerations caused by the Americans during the last forty years."

Later on in the same speech, he said: "The course which the Philippines should follow in the future will be the course to escape from her former position as a captive of the capitalism and imperialism of the United States, to liquidate the unnatural culture borrowed from a faraway country and the industrial organization as a colony of a foreign power, to return to the original features of an oriental people, shaking off vanity and the dependent mentality, to reform the national life into simplicity, and to reorganize industries which will make possible the cooperation of this country with its neighbors. We believe that a nation which indulges in pretty dresses, nice food, physical enjoyment, and expensive fashions can never succeed in establishing a strong nation."

Resistance

The New Order in the Philippines is not apparently enjoying entirely smooth sailing. On February 2, the Chief of Staff of the Japanese Forces complained:

"We know that there are still some people who spread malicious and entirely groundless rumors in this country, and there are still some people who act as spies or intend to cause disturbance; and, furthermore, communists still indulge in subversive activities in some regions. These people are doing more harm to the Filipinos and to the future of the Philippines than to the Japanese forces; and they should be described as traitors or enemies of mankind."

"Particularly, the rumor of the resurrection of the American forces in this country is too absurd to be denied, so we shall laughingly disregard it."

A laughing disregard of actual Filipino resistance, however, does not seem to be Japanese policy. Executions and sentences are noted four times in the *Journal*. On February 11, Domingo Diesta and two others are reported as executed for inflicting injuries upon a Japanese soldier, and another, Manuel Ninalga, was shot for setting fires. Twenty-seven others are announced as having received severe punishment for stealing from buildings seized by the Japanese Army. On

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February 15 the *Journal* records that three Britishers were executed for disrupting the peace of the internment camp and trying to escape. Nearly three months later the execution of 13 Filipinos for cutting down communication lines is noted, and the Commander-in-Chief is quoted as saying that "twenty of about 50 Chinese leaders were executed in accordance with the sentence of a military court martial, which found them guilty of anti-Japanism."

ERRATUM: In the legend of the map on the "India-Burma Borderland," published in *The War This Week*, October 15-22, the words "pack trail" and "foot path" were transposed. The dashed red line should have indicated "foot path" and the dotted red line, "pack trail." In the text, p. 26, under "Alternative Routes, (b)," "foot trail" should read "pack trail."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1942

TO Secretary Morgenthau

FROM

You may be interested to know what has been done during your absence (1) to make the public conscious of the war financing problem, (2) to emphasize the need for greater tax revenues and greater individual thrift, and (3) to promote the idea of a spendings tax.

I - Speeches:

1. Dan Bell made a major speech to the Investment Bankers Association in New York on October 19th, showing the vastness of our war financing job, restating the ideas behind the spendings tax proposals, and outlining the Treasury's financing policy. In particular he made a strong and definite statement of policy on the 2% interest rate and the reasons why low interest is important for the banks and for the country.
2. Randolph Paul has made a series of speeches, notably to the National Tax Association in Cincinnati on October 22nd and to the Iowa Bankers Association at Des Moines on October 27th. Each of these speeches has shown the inadequacy of the new tax bill and the urgent need of a spendings tax.
3. Harold Graves went to Chicago to outline the war financing problem to the General Federation of Women's Clubs on October 16th, and emphasized particularly the need of more tax revenues and less spending.
4. John Sullivan spoke to the Savings Banks Association of the State of New York on October 27th, pointing out especially the fact that individual taxes have not yet risen as much as individual incomes.

5. At the War Bond Conference at Kansas City, Mrs. Morgenthau spoke of the need of cutting down spending. Mr. Graves said the Treasury's problem was to supplement present tax revenues and War Bond sales without jeopardizing the vast volume of savings now accumulated in outstanding bonds and savings accounts.
6. Mabel Newcomer has been making a series of speeches on the inadequacy of the present tax bill and the need for a spending tax.

II - Writers:

1. Harry Scherman has been here getting material for an article on inflation which he hopes will appear in the Saturday Evening Post.
2. Stuart Chase has been here and has shown much interest in supporting the Treasury's general position with a magazine article, possibly to be published in the Reader's Digest.
3. Harold Mager, whose articles in the Nation and the New Republic you may remember, has been working here, not only helping with the writing of Treasury speeches but also preparing articles of his own for the Nation or New Republic on Treasury matters.

III - Motion Pictures:

1. Lowell Mellett has finally agreed to let us have \$20,000 with which to remake the Disney film of last year, "The New Spirit". The new portion of the film will emphasize the need of saving to pay taxes; the last three minutes of last year's film will be kept and used again. We have authorized Disney to go ahead with this project and to submit a script and sketches as soon as possible. In addition, Lowell Mellett's office is willing to make two two-minute short subjects dealing with taxes, although we were not permitted to use Disney because of the expense involved.

IV - Folders:

1. A new "Know Your Taxes" folder is now in its final stages before printing. This will not only contain the usual tables of taxes due on March 15th, but will contain a brief appeal for saving and a brief outline of the Tax Savings Notes.
2. The booklet for Treasury employees, which you suggested some time ago, is now ready in manuscript form for your approval.

V - Tax Savings Notes:

1. A folder on the Series A Notes is now being prepared by the Advertising Council, with the Treasury's help, with a deadline of November 20th so that it can be included with the 7,200,000 income tax notices that will be mailed on December 15th.
2. The Advertising Council has prepared advertisements on the Series C Notes and is supplying the Victory Fund Committees with material for reaching corporations throughout the country.

Copies of the various speeches made during your absence are attached herewith.

Analysis of Exposure to Payroll Savings Plans

October 24, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
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Part A - Summary by Number of Organizations Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	488	491	99
(2) Firms with 500 to 4,999 employees.....	5,534	5,878	94
(3) Firms with 100 to 499 employees.....	<u>24,321</u>	<u>28,322</u>	<u>86</u>
(4) Subtotal - large firms.....	30,343	34,691	87
(5) Firms with less than 100 employees.....	<u>122,762</u>	*	*
(6) Total business organizations.....	153,105	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>153,105</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,877,131	*	*
(2) Firms with 500 to 4,999 employees.....	7,300,722	*	*
(3) Firms with 100 to 499 employees.....	<u>5,543,409</u>	<u>*</u>	<u>*</u>
(4) Subtotal - large firms.....	20,721,262	*	*
(5) Firms with less than 100 employees.....	<u>3,034,818</u>	<u>*</u>	<u>*</u>
(6) Total business organizations.....	23,756,080	32,400,000 1/	73
II. Governmental organizations			
(1) Federal Government.....	2,181,131	2,600,000 1/	84
(2) State and local governments.....	<u>1,395,423</u>	<u>2,700,000</u>	<u>52</u>
(3) Total governmental organizations.....	<u>3,576,554</u>	<u>5,300,000</u>	<u>67</u>
III. Grand total.....	<u>27,332,634</u>	<u>37,700,000 1/</u>	<u>73</u>

Treasury Department

October 30, 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 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 17	Oct. 24		Apr. 18	Oct. 17	Oct. 24
Alabama.....	41	65	65	70	59	93	93
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17	17	94	100	100
Northern California.....	122	141	142	175	70	81	81
Southern California.....	121	147	149	149	81	99	100
Colorado.....	25	31	31*	31	81	100	100
Connecticut.....	114	151	152	167	68	90	91
Delaware.....	15	18	18	18	83	100	100
District of Columbia.....	32	45	45	47	68	96	96
Florida.....	28	43	43	47	60	91	91
Georgia.....	86	123	123	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	473	481	559	70	85	86
Indiana.....	88	141	141	165	53	85	85
Iowa.....	22	29	31	44	50	66	70
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	48	49	49	78	98	100
Louisiana.....	29	49	51	51	57	96	100
Maine.....	48	58	58	58	83	100	100
Maryland.....	84	109	109	109	77	100	100
Massachusetts.....	237	314	315	338	70	93	93
Michigan.....	265	284	284	284	93	100	100
Minnesota.....	79	81	81*	81	98	100	100
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	131	131	142	73	92	92
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	26	27	29	79	90	93
Nevada.....	4	4	4	4	100	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	190	190	191	74	99	99
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	892	898	954	80	94	94
North Carolina.....	103	136	136	140	74	97	97
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	463	483	512	80	90	94
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	611	614	634	87	96	97
Rhode Island.....	61	76	77	82	74	93	94
South Carolina.....	84	98	98	99	85	99	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	83	85	92	54	90	92
Texas.....	63	113	116	117	64	97	99
Utah.....	8	10	10	10	80	100	100
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	109	110	110	85	99	100
Washington.....	49	73	73	73	67	100	100
West Virginia.....	36	75	75	75	48	100	100
Wisconsin.....	127	146	147	154	82	95	95
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	4,864	5,966	6,022	6,369	76	94	95

October 30, 1942

Treasury Department

* Data are for October 17, inasmuch as no October 24 report was received.

Regraded Unclassified

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 17	Oct. 24		Apr. 18	Oct. 17	Oct. 24
Alabama.....	149	250	251	285	52	88	88
Arizona.....	43	68	68	68	63	100	100
Arkansas.....	44	55	56	117	38	47	48
Northern California.....	512	702	707	707	72	99	100
Southern California.....	756	1,029	1,036	1,178	64	87	88
Colorado.....	113	136	136*	140	81	97	97
Connecticut.....	277	530	540	722	38	73	75
Delaware.....	21	58	58	87	24	67	67
District of Columbia.....	52	149	152	199	26	75	76
Florida.....	147	209	211	211	70	99	100
Georgia.....	133	391	391	416	32	94	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	1,922	1,969	2,253	58	85	87
Indiana.....	415	660	663	663	63	99	100
Iowa.....	165	204	207	305	54	67	68
Kansas.....	276	286	287	287	96	99	100
Kentucky.....	136	206	210	285	48	72	74
Louisiana.....	179	275	277	323	55	85	86
Maine.....	60	173	189	189	32	92	92
Maryland.....	177	330	336	405	44	81	83
Massachusetts.....	639	1,085	1,102	1,532	42	71	72
Michigan.....	689	980	985	1,030	67	95	96
Minnesota.....	376	440	440*	441	85	99	99
Mississippi.....	59	81	86	102	58	79	84
Missouri.....	472	674	676	676	70	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	125	129	137	75	91	94
Nevada.....	14	20	20	28	50	71	71
New Hampshire.....	89	140	141	145	61	97	97
New Jersey.....	463	960	965	965	48	99	100
New Mexico.....	33	39	41	42	79	93	98
New York.....	2,060	3,765	3,793	4,257	48	88	89
North Carolina.....	282	462	471	561	50	82	84
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,624	1,698	2,195	51	74	77
Oklahoma.....	166	295	298	349	48	85	85
Oregon.....	211	288	293	293	72	98	100
Pennsylvania.....	1,682	2,210	2,224	2,224	76	99	100
Rhode Island.....	154	265	270	340	45	78	79
South Carolina.....	71	154	155	178	40	87	87
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	386	400	518	38	75	77
Texas.....	326	648	654	1,378	24	47	47
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	67	67	74	80	91	91
Virginia.....	281	400	400	428	66	93	93
Washington.....	234	352	352	352	66	100	100
West Virginia.....	134	214	215	309	43	69	70
Wisconsin.....	278	469	473	680	41	69	70
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,365	24,021	24,321	28,322	54	85	86

Treasury Department

October 30, 1942

* Data are for October 17, inasmuch as no October 24 report was received.

Regraded Unclassified

MEMORANDUM FOR THE SECRETARY.

October 30, 1942.

Mail Report

Although mail receipts covering two weeks are abstracted in the attached pages, there has been practically no change in subject matter, and only a slight shift in emphasis, particularly along the line of taxation comment.

Since the tax bill has become an actuality, definite inquiries about liability and suggestions on collection are greatly increasing. On the whole, the bill has been unfavorably received. There have been 11 unfavorable letters to 1 favorable, and 6 of comment without special bias. This ratio does not include the many letters which, without specific reference to the bill itself, oppose higher personal tax. There have been 17 of these to 4 which recognize the need for such taxes.

The abusive, anonymous mail is definitely up, and almost all these cards and letters base their attacks on the Secretary's advocacy of higher taxes.

The Victory Tax elicited 10 letters of opposition, an occasional word of approval, and 20 suggestions for collecting the tax. Conscientious objectors were quick to ask for a tax equal in amount but different in name and purpose. A number of New England correspondents have forwarded copies of a full page article, "A Dishonest and Disastrous Tax Bill", which appeared Oct. 19 in the Standard Times of New Bedford, Mass. There were 13 endorsements of the Ruml Plan, but the Sales Tax slipped into the background - the few letters commenting on it being about equally divided in opinion. There were the usual suggestions for exemptions and for additional sources of taxation.

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Memorandum for the Secretary.

October 30, 1942.

The Bond mail has somewhat lagged. There has been scattered comment on Christmas sales efforts; on compulsory savings; and the unwarranted cashing of Bonds. An unusually large number of inquiries dealt with the taxability of the Bonds, and there were more suggestions than ever before dealing with the use of Bonds as collateral. Other suggestions included: simplifying procedures for redeeming; reducing the cost of redeeming; issuing \$7.50 Bonds as Christmas gifts; and encouraging the payment of interest, dividends, etc., in Bonds. During the past two weeks complaints totalled 65, all but 14 relating to delay or redemption. About one-third of the complaints came from employees of the War and Navy Departments. Otherwise, there were few complaints from Government employees.

In the miscellaneous mail there was one complaint against the Secretary's trip abroad, two about Mrs. Roosevelt, and two about Wendell Willkie. There are continued requests that we deny the rumor that bank accounts will be frozen or seized. Opposition to Labor has been less pronounced, but pressure for Government economy is definitely increasing. Mail relating to wage stabilization is also gaining in volume. Silver again has appeared in the mail, largely as a result of the article, "Twelve Men Against the Nation", in the November Reader's Digest.

G. G. Forbush

General Comments

J. F. Bruns, Rutherford, N.J. * * * In 1937, when the Social Security law went into effect, I was an officer in a small corporation. In 1938 I took over the concern for my interest. I contributed to the Social Security for 18 months. Then when I became an employer of two people, I was not allowed to continue. On Sept. 4 I became 65 years of age, and I visited the Social Security office at 42 Broadway, New York City, and was informed that I could not get my money back because I had not paid in for 33 months, or 11 units. The lady advised me that the law was strictly a tax on wages. If such is the case, the law is misnamed and is a swindle, as far as I am concerned. It was printed in the newspapers that every person would at least get their money back which they had paid in. * * * The law passed and signed by the President, paying pensions to Congressmen and high political officers, gave full benefit after one payment was made. Although the part referring to the Congress was repealed, it is my understanding that the political officers are already in benefit. * * * In my case, I was first compelled to contribute, then by law, I was prohibited from contributing. Therefore, I feel that I have the right to receive the money that was paid in on my name.

F. C. Pratley, Chicago, Ill. * * * The talk all over the middle-west is the size of the salaries that are paid to Government men. * * * In the past week, two of them that we know, went to Alaska as assistant mechanics at the rate of \$450 per month. Both of them were earning \$50 per week here at the Continental Baking Company. They would have been happy to have gone for \$350 -- that is just a tiny example. A man went to Newfoundland for \$450 as morale officer -- we never heard him laugh or tell a joke, let alone make anyone happy or feel better. It was a very odd selection. A kid in this hotel, doing inspection work, makes a salary of \$130 per week, plus overtime. * * * You are asking for more money -- here is a chance to make half a billion a year, by cutting 15% off those Government salaries. It is sickening to us back here, who must pay these payrollers.

Emil Hirsch, Forest Park, Ill. This week I had an experience which was very surprising to me. I applied for a position at the Personnel Department of the U. S. Treasury Department, at Room 634, Merchandise Mart, Chicago, Ill. The position involved was a very simple one, in my opinion, sorting cards from 12 midnight until 8 a.m. I had an interview with a young lady there. Apparently I answered all questions satisfactorily and possessed all qualifications for that position. Finally she told me that there was an age limit of 35 years, applying to this job. I am 58 years of age, considered mentally active, and I feel that my past experience in office procedure should warrant my qualifying for this position. Now it seems to me that at present times, with the shortage of manpower, the Government should set an example by hiring men over 50 years of age, provided such men are active and qualified. * * *

W. Yeoman, Klamath Falls, Oregon. Last winter I received a certificate from you, making me a Minute Man, and you know, Mr. Secretary, it made me feel pretty good. I did not know the Secretary of the United States Treasury knew such a person as Jack Yeoman existed. I soon began speaking over the radio for Bonds, wrote articles for the paper for which I received some nice compliments, and spoke before all the A. F. of L. locals in Southern Oregon, and Northern California, but Mr. Secretary, I have lost a lot of my enthusiasm. * * * I worked on a Jap camp - it was cost plus, but the contractors did an honest job, and you had to work or get fired, that was swell - this was an Army job. * * * There were miles of 12-inch iron pipe used for water mains. Out here we make wooden pipe that is very good. I know one city that has water pipe mains that have been in use for 17 years, and are still giving satisfactory service. In the mess halls for these Japs, they put in galvanized sinks with double galvanized drain boards and legs, dish-up tables covered with zinc, besides mammoth refrigerators, and three Army ranges, when one hotel range of proper size would have done just as well. * * * Then when they began bringing the Japs in, when American workers were being told by the New Deal to be patriotic and walk wherever possible, these damn yellow Japs were hauled in in Army trucks, and cars were borrowed from nearby cities to haul the

better class to the Camp. Mr. Secretary, I saw a picture of the Americans that were captured at Corregidor and Bataan, and they sure as hell weren't being hauled - they were escorted by the grinning, yellow Jackals with fixed bayonets. * * * I then went to work on a Navy job, which I quit a short time ago. * * * I am going to work in the near future for a contractor that I know is trying to do an honest job, and is doing an honest job. (Describes waste and lack of planning on Navy construction job.) * * * Mr. Secretary, nobody is dumb enough not to know better than do things like this. On payday, instead of sending the check out, they had pay trucks they would drive onto a unit during work hours, blow their horn, and everybody quit work and lined up. The last payday I was there, I was in line 1 hour and 15 minutes, which made a dollar and seventy-five cents that I got paid, to get paid. * * * I have heard men that were buying Bonds say, "Damned if they were going to buy any more Bonds and see their money wasted before their eyes". You go into a bunch of working people today, most any place, and mention the present Government in Washington, and you will hear a lot of swearing and it is not complimentary. The people are fed up. * * * They want to see someone put in power that has a little practical common sense, call it horse sense if you want to, and an end of these damned commissions. They want to see something done. It wasn't so bad when it was just costing us money, but now it is costing us the lives of our sons. * * * I am not writing this letter to just blow off steam, I know that we have to buy Bonds, and should buy them, and dig up all the scrap iron in the country, and really, Mr. Secretary, there is more than enough, but the American people have got to have leadership they can trust. At the present time, they don't think they have it. * * * It seems strange that with industry running wild and making profits that in some instances are criminal, that the farmer should be Black-Jacked in any such manner. The next stunt of course is going to freeze labor on its job, and when you do, watch production per man go down. * * * Give us leaders that we can trust, and know what it is all about, and we will do the job. Mr. Secretary, if the Government of the United States does not trust its people, then very definitely there is no reason why the people should trust it.

Ben. J. Lambert, Burlington, Okla. When you were Governor of the Farm Credit Administration, I was compelled to call upon you for assistance in securing a Federal Loan to save my property. This favor you granted me, and I was able to refinance my indebtedness through the Federal Land Bank and save my property. Since that I have kept up all payments and at present, I have on hand about 800 hogs and 75 head of cattle. I have 300 brood sows which I had intended to breed, providing my only single boy could remain at home. * * * It would take five men to take care of the work he is now doing to help in the production of food so vital in the War effort. We milk about 20 cows and feed out 50 to 60 steers each year, also have 600 hens. I am now a man of 77 years of age, with a wife who has been sick in bed for the past 4 years, so you can see how absolutely impossible it will be for me to continue those operations when my boy leaves me on the 22nd of October for the Army. * * * I feel you will not think I am unpatriotic by humbly asking your assistance in securing a deferment for him because of his War effort. He is 44 years old now and has been my and his mother's only support in our farming and stock raising for the past 20 years. * * *

Lester A. Crandall, R.F.D. #1, Dallas, Iowa. Enclosed find draft drawn upon The First National Bank of Chicago for \$262.50, which is the full amount I received on my AAA payment. Please accept this amount as a donation to help our War effort. In exercising your own judgment in the expenditure of this, I sincerely trust it will not be wasted. My personal Bond quota is for \$800, of which I wish to pay in cash instead of accepting Bonds. I will send the balance of my quota in the near future.

Charles H. Bartow, Glendale, Calif. The writer has been a Democrat for 50 years, our boys are in the Army overseas, we have been digging down for funds to buy Bonds until it hurts, but we have changed our minds now. * * * I have a friend who was an officer in the last War, who went over to Santa Anita where the Government had let contracts for building quarters for the Japs interned there. He asked for a job and a workman sent him over

to a saloon. There he talked with the man in charge of Union affairs, who told him to go down the street to a certain place, and see a certain party, and pay him \$10, and give him a note for \$50 to be paid \$10 from each pay check. My friend had no \$10, and he didn't see why he should buy a job from a bootlegger anyway, so he didn't go. Next month we will see just what that kind of a program has done to our Party. New York and California will go Republican, and no doubt several others. Right now there are several ships waiting for crews and there are 2,500 men at Los Angeles and Long Beach Hotels who are waiting for uniforms. Our big bottleneck is right in Washington, and the people realize it. Please don't send me any more literature on Bonds until things change.

H. S. Stewart, President, Merchants National Bank of Bangor, Bangor, Maine. The promiscuous use in public, press and radio of the words, "forced savings" and "compulsory savings", by members of your staff and others, is encouraging hoarding and causing shrinkage in savings deposits, especially in country banks located in areas not benefited by war industries. Too many people, especially savings depositors in banks outside of metropolitan districts, feel the word, "savings" has only one meaning -- a savings account in a banking institution; and when public officials or financial leaders refer to "compulsory savings" or "forced savings", these depositors, fearing confiscation of their life savings, withdraw them from their bank. * * * The Board of Governors of the Federal Reserve System recently deemed it necessary to deny a report that "Federal Reserve officials are contemplating some form of control of savings accounts", and a day or two after that announcement, there was a press release, quoting someone from your Department, stating that, "Some form of compulsory savings will be necessary unless. . . ." Is it any wonder our depositors are confused? May I respectfully suggest that, through your good office, public officials and others using the press and radio be advised to use in place of "compulsory savings", such expressions as "compulsory lending", or "compulsory investing." * * *

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Mrs. Elizabeth W. Gillen, Germantown, Pa. The American people would like to know who is paying the expenses of Mrs. Roosevelt's trip abroad. Some of the more intelligent of us would also be interested in an explanation of the reasons for this trip at this time, PROVIDED THE TAXPAYERS ARE PAYING FOR IT. We understand the English do not like the idea of their soldiers not being paid as much as our soldiers. Perhaps the message could be passed on to Mrs. Roosevelt to restrain her big-heartedness and not to promote more of the American people's money to make up for this deficit! This letter is not written by a "crack-pot", but by someone who is completely fed up with "hand-outs" at the expense of the people in the lower income brackets!

George Wall, West Hartford, Conn. I don't care about what they tax the British. As a matter of fact, I hope the Devil will take them. Let us here in America think of the Americans and be Americans. Sometimes, Mr. Secretary, I do not understand you. Maybe you think you are doing right, but it looks bad to me. Shall we pay the bill again, as in the last War? Shall we give all we have to the others and then what? Stay home and do for us!

Favorable Comments on Bonds

George F. Howell, Pasadena California. The Friends of Orange Grove Meeting in Pasadena, California, wish to express to you their appreciation of the recognition given by the Treasury Department to the position of those who cannot conscientiously support war. As far as we know, the arrangement for acceptance of participation in the regular issue Government offering in place of subscription to War Bonds is without precedent in United States history. In this support of the principles of toleration, at a time when pressure toward conformity to one opinion is the general demand, we believe you have achieved a very real victory in the struggle for human freedom. * * *

A. J. Guerrettaz, Cashier, Du Quoin State Bank, Du Quoin, Ill. * * * There seems to be a developing tendency among some of our customers to cash their Bonds in order to get some quick cash for immediate needs. I would say that nine out of ten would be glad to keep their Bonds if they could "hock" them with the bank to tide them over the emergency. If you think well of the banking fraternity, you could likely trust them to not discount the Bonds, and accept them only as collateral and have it a regulation that the bank could not collect any accrued interest whatsoever, in case they had to realize on the Bonds through default of the note, it might work out to the good. * * * I do not like to see the Bonds turned in where the Bond holder could keep them by floating a short loan which could be repaid and Bond retained. * * * If you have confidence in the banking fraternity and think they are worthy of your confidence, I am quite sure that they could be depended on to handle the matter on a high plane and help keep the Bonds in the hands of the original purchaser. * * *

Albert Perling, Birmingham, Ala., sends copy of letter to TIME, answering one urging that Bonds be made negotiable. * * * In a Liberty Loan drive in 1917, we "subscribed" for a Bond, meaning, we deposited with our banker 10 to 20%, signed a note and the banker kept the Bond as collateral. Hardly had we paid out for one Bond when a

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drive started for another. * * * In 1919, I needed money. I went to my banker to withdraw my equity in the Liberty and Victory Bonds. I got back about 85% of what I had paid in. The banker said that "Money in Wall Street is worth 12%, while Government Bonds pay only 3½%. I accepted his "explanation" and disposed of my Bonds. * * * Now, in this War, me, the Missus and the children each buy Bonds, once or twice a month, and we pay CASH MONEY for them. True, they are of small denominations, but WE have them and no banker is holding them for collateral. Often, we take 'em out, see how many \$25 and \$50 Bonds we have. One loves to look at things one owns, whether it's a flock of chickens or a stock of Bonds. Believe it or not, I bought a lot of Liberty and Victory Bonds during the last war, and never knew what they looked like. All I saw was the dotted line on the back for endorsement. I am a small retailer, come in personal contact with working men and farmers, most of them having War Bonds. I know too well how so many people would like to "trade in" their War Bonds for a down payment on furniture or for a suit and overcoat. Yes, they can take their Bond to the Post Office in due time, get a check from the Government, but to do that, they feel that they'd be doing the wrong thing, and the more they think about it, the less they're inclined to go to the Post Office. * * * Interest of 3½% means nothing to the vast majority of people, but in today's War Bonds, they actually see a \$25 Bond for only \$18.75.

Samuel Goldman, Philadelphia, Pa. * * * What appears to me to be an unusually large and unwarranted number of redemptions of U. S. War Bonds and Stamps has prompted me to write this letter to your Department. I am a Post Office Clerk, selling Bonds and Stamps at the Nicetown Station in Philadelphia. The number of people bringing Bonds and Stamps in to this particular station for redemption seems to be out of proportion to the number of Bonds and Stamps sold. * * * I have no facts or figures as to the number of these Bonds that are being prematurely redeemed either in the City, the State, or Nationally, and my complaints may not at all be justified. From my conversations with the people who redeem the Bonds and Stamps, I would divide them into those who realize they are doing an injustice to the Government, and those who don't. * * * Those who deserve to be reprimanded are

the workers who, voluntarily or involuntarily, have 10% taken directly from their salaries toward the purchase of Bonds, and who hasten to redeem them at the earliest possible moment. It is truly sickening to see them, smiling, coming into the Post Office on the exact sixtieth day after the issuance of the Bond to have it certified for redemption. It is with the people who do not realize that they are doing the wrong thing, that I am more concerned. * * * They buy and sell and buy and sell freely and spontaneously, and think no more of selling a Bond than they do of buying one. * * * A woman presented a filled 25¢ Stamp album valued at \$18.75. When I asked her if she would like to have a Bond - "Oh no, I can't afford to tie this money up in a Bond -- I need it. But I guess I did give the Government some help while I had them." * * * A man joyously presented several Bonds for certification and said, "You'd better get used to seeing me quite often now. You see, I'm doing my banking this way now. Instead of putting my money into the bank, I buy Bonds and redeem them as I need the money. I make sure that the Bonds never get old enough to pay any interest because I want to help the Government as much as possible". Now this man and woman were trying to help. They did not, however, realize that the cost of printing and distributing the Stamps and Bonds, and the administrative expenses incurred by the Government, were far in excess of the monetary value gained by the Government in the very brief time that it had use of their money. * * * I should like to offer a constructive suggestion. I am not in favor of the curtailment of the right of redemption since the Bonds and Stamps were originally offered with this sales feature. Neither am I in favor of making redemption embarrassing or difficult. I do suggest, however, that the publicity given the purchase of Bonds and Stamps be modified and explained. Instead of simply "Buy Bonds and Stamps", the public should understand that the purpose and goal of buying Stamps is to buy a Bond, and that they must sacrifice and strain to keep their Bonds once they have purchased them.

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Local #212, UAW-CIO, Sam Costin, Chairman; Jack Ulkowski, Secretary; Steve Strzalkowski, Treasurer. * * * The Vernor Plant of the Briggs Manufacturing Company has been operating on a five-day week since May 1, 1942. This was the first Briggs Plant to receive the Minute Man Flag, and also on September 27 received the first bull's eye flag for 100% participation in the purchase of U. S. Defense Bonds. Sometime later, we were awarded the "A" rating by the U. S. Army. Most defense plants in the Detroit area are operating on a six and seven-day week. * * * This plant is losing approximately 2,000 man hours per week because of the five-day week. And furthermore, it has three idle floors. * * * We have repeatedly appealed to the Briggs Manufacturing Company for more time without success. We would feel like a bunch of slackers if we were compelled to curtail or lessen our current purchases of Defense Bonds. Now we respectfully appeal to you, Mr. Morgenthau, to use your influence with this War Production Board to obtain enough work to put this plant on a six-day week. * * *

Unfavorable Comments on Bonds

Roy Campbell, Butler, Penna. I have refrained from writing the Department on this subject because I felt the matter was under consideration, but I cannot longer restrain my desire to ask the Treasury to take some action to enable holders of Series E Bonds to redeem them at a reasonable, uniform cost. * * * It seems to me the Treasury withholds information when it does not mention that it may cost the investor 25¢ to \$1.25, maybe more, to redeem his \$25 Bond. Those buying on the payroll plan may have accumulated a dozen or more Bonds when Victory stops production, and work ceases until the industries readjust themselves. When the worker cashes his Bonds to live, it doesn't seem fair to have all interest earned in four or more years absorbed by cost of redemption. * * *

A. D. Sproat, Chillicothe, Ohio. Since 1938 I have bought \$55,000 U. S. Treasury Savings Bonds and Defense Bonds, most of which I have registered in my own name, and the name of my sister, as co-owner, on the understanding that, upon my death, these would automatically belong to my sister, and, therefore, there would be no inheritance tax to be paid on their value. * * * Department Circular 530 (Fifth Revision) Bureau of Public Debt, June 1, 1942, says: CO-OWNERSHIP FORM. "If either co-owner dies without having presented and surrendered the Bond for payment, the surviving co-owner will be recognized as the sole and absolute owner of the Bond". Also, - "Questions and Answers about Savings Bonds and Stamps", page 5 says: Q. "If a co-owner dies, does his interest in a Defense Savings Bond pass to his heirs? A. "Under the terms of the Bonds and the regulations, the Bond will be paid only to the surviving co-owner upon his request, without reference to the estate of the deceased co-owner." In spite of the above statements, I am advised that Federal Government inheritance taxes must be paid upon such Bonds, unless the surviving co-owner can prove that it was his money alone which purchased the Bond. If this is true, I consider the U. S. Treasury statements to be plain misrepresentations and

I would be willing to wager that 90% of the people buying these Bonds in two names as co-owners did so in the belief that the surviving co-owner would have to pay no inheritance tax on them. * * *

Wavery Jones, Hot Springs National Park, Ark. I recently tendered my Railroad Retirement check to the local Post Office for a War Bond. Check refused unless I paid 10% for cashing the check. Peculiar you should want pay for cashing your own check. Is there a hookup somewhere with the banking interests? As you know, this is one pension that does not cost Uncle Sam one penny. Not even the cost of administration. If you can arrange that I purchase War Bonds with this check without being penalized, I will be at the Bond window once a month. * * *

Anonymous - Postmarked, Chicago, Ill. * * * At the Union Colliery Mine at Dowell, Ill., an effort was made to make it 100% a 10% War Bond mine. The mine officials were getting along fine until they neared the 100% mark, and then they had trouble. But they finally put it over until the only men who had not signed up were the officials of the miners' union, and they had trouble forcing them in. The information I have is that word was sent from the United Mine Workers headquarters to interfere with this 100% program at as many mines as possible, and that the word to do this came from the office of John L. Lewis in Washington, D. C. * * * No indication should be given that you have a letter giving you this information, but you can very easily check with the officers of the Union Colliery Company in St. Louis and put them under an oath in reporting how tough the job was that they had to do, and the reason for it.

Lela F. Gay, In Charge of War Bond Drive, State Department of Insurance, San Francisco, California. Because certain employees of this office invest 10% of their salaries in War Bonds, they have requested me to furnish them with "Ten Percent Buttons". Upon making inquiry of the Treasury Department here, I learned that no buttons could be distributed unless all employees in the group were entitled

to them. Obviously, this is unfair. Persons who are willing to forego pleasures and deprive themselves of necessities in order to buy War Bonds, should be given every encouragement. These buttons would be good advertising, and might be an incentive to others to earn one. Radio programs and printed advertising constantly petition us to "wear your ten percent button with pride".

Mrs. C. L. Knowlton, San Francisco, Calif. I am just one of the many persons holding a modest amount of U. S. Treasury Bonds. Recently, as the current coupons became due, I took them to our local bank for deposit, and was informed that, under a new ruling, a charge of 5% would be collected and retained by the bank for postage and handling the coupons. May I inquire if this "new ruling charge" for postage and handling the coupons is universal, and one sanctioned by our Government at this time? * * *

E. David Boyd, Treasurer, Holland Furniture Company, Holland, Mich. On June 26, 1942, we advised the Michigan War Bond Committee at Detroit, Mich., that we have over 90% of our employees subscribing to the payroll allotment plan, and were entitled to receive a Minute Man Flag. * * * The local committee gave us our certificate of award, and told us we could secure a Flag from the Detroit Flag Company, 518 West Jefferson Ave., Detroit. Our order was sent to this firm the early part of July, and up to this time we have not been able to secure the Flag, nor have we been able to get any reply from them. Our employees were sold on the idea of flying this Flag over our factory, and it is very embarrassing to the management not to be able to do this. Therefore, would you please advise us where we can get one of these Flags at once as the local committee does not seem to be able to help us out. * * *

Mrs. Helen Mayer, Los Angeles, Calif. * * * As a call has come out of Washington for every one to bring out hoarded pennies and put them into circulation, I at once

gathered up my son's banks and found some one hundred and eighty pennies, along with eighty cents in nickles and dimes, so I took the money to one of the branch Post Offices and presented the teller with the pennies and stated just how many there were and how much change I had, and that I wished to buy the equivalent in War Stamps. She said, "I will take the change and you can add twenty pennies, and I will give you a dollar's worth of War Stamps, but I am not interested in counting the other pennies, as they should be packaged" -- and that is the only way she would accept the pennies. She also stated that even though she was anxious to sell Defense Stamps, yet it was not one of her duties to count pennies. What is wrong with Government employees when they work with such an attitude? She would have had to count them had I purchased postage stamps in an equivalent amount. * * *

Harry L. Becker, Hartford, Conn. On August 19, on behalf of Joseph Farra, Hartford, Conn., employed at Colts Manufacturing Company, who had been and still is purchasing War Bonds through the Credit Union, I notified the Federal Reserve Bank at Boston, Mass., that five Bonds had been lost by my client. The Federal Reserve Bank advised me that there were contacts being made with the Treasury Department at Washington for the purpose of having caveats entered against each of these Bonds. Since August 19, I have written as many as 10 letters to both the Federal Reserve Bank and to the Treasury Department in Washington. I have received no reply from Washington as to whether or not a caveat had been entered against each of the Bonds. On October 9, I again wrote to the Treasury Department and stated that in my opinion I was entitled to an answer as to whether or not action had been taken. * * * I would consider it a favor if you, through your office, would contact the Treasury Department and ascertain when my office will be advised that the caveats had been entered as requested and how soon thereafter I may expect to have issued duplicated Bonds.

Favorable Comments on Taxation

R. H. Whitterspoon, Atlanta, Ga. * * * The commentators and newspapers have made quite a lot of fuss about what hardships it is going to make on us to meet the present tax conditions. I wish to disagree with them and will explain why. Since the U.S. Treasury Department has brought out the "Tax Bond", I can pretty well estimate what part of my income monthly will go for tax. I invest this much in a "Tax Bond", which is the rent I owe my Uncle Sam for living in a safe, wonderful, Democratic and free country, which I consider very small for what I get. After deducting this amount, I arrange to live on what is left. A great many people will smoke two packs of cigarettes and have five cold drinks every day in the year, which amounts to \$222.65 per year. The same person will think it is terrible to pay \$150.00 per year for "Life, Liberty and the Pursuit of Happiness", (Income Tax).

- 16. -

Unfavorable Comments on Taxation

R. E. Rinard, Elk Lumber Company, Charleston, W.Va. This is a copy of the letter which I sent to Senators Vandenberg and George: "I am delighted to see your stand on stopping the increase on Social Security rates for 1942. I have worked hard all my life with my hands and brains to be able to manage my business and employ men. Otherwise, I am just an American citizen like the men I employ. Yet the Social Security law requires me to pay as much tax as all of my men combined, that they may have a pension when they reach the age of 65 years. But, if I attain the age of 65 years and am old and decrepit, bankrupt and helpless, I am assured I am to have nothing for all of my money and labor making up Social Security reports under penalty. We business men hope that some day we will have a more sane administration in Washington that will repeal these radical class legislations, and give business the relief it needs. You can easily see these laws are no social gains for us, but a penalty for our integrity and thrift."

Arthur K. Burditt, Elizabeth, N.J. * * * We have just read, with great interest, an article in Nation's Business for September, 1942, entitled, "Red Ink Won't Make Munitions". We wish most earnestly to recommend this article for your consideration. It describes the plight of the Farm Corporation of Rhode Island, and it happens that the picture fits our own situation with a remarkable similarity. * * * We spent during the year, 1941, more money on capital improvements in order to increase our efficiency and expand our volume in the War effort than the gross profits, as shown on the income tax returns. As a result of this expansion and its ensuing capital investment, we have been paying 1941 income taxes out of 1942 earnings, and face the necessity of continuing on this very unsound basis. Next year the tax situation seems bound to catch up with us and force us into bankruptcy. Since our company is engaged wholly in tool work, perhaps the most crucial bottleneck in the whole armament program, it seems to us this situation is certainly not desirable to our Government. Unless our tax burden is eased, we shall be

faced with the necessity of curtailing operations, which would necessarily decrease our efficiency. * * * At the same time, due to the curtailed operations, we would have made no taxable profit. This, as we see it at this time, is the most direct solution to our problem. However, we are certain that this is not the solution our Government wants us to seek. * * * We would greatly appreciate the Department's consideration of our situation, and trust that you will be able to give us some suggestions as to what we may be able to do to keep our company solvent.

Anita Pike, Dumont, N.J. I think this new "no-limit tax bill" is an outrage and a terrible burden on the average income people of this country. I am in favor to make sacrifices, but not the way Washington is running it. * * * If you expect the people to pay these taxes, why not REDUCE the living costs. Also, stop these WILKIE tours around the world on the taxpayers' money. We have Ambassadors on the Continent to take care of this, and besides, Military Heads on the war fronts. * * *

M. E. Alison, Philadelphia, Penna. The Senate Tax Bill is a failure; not only because it does not raise enough money, but because of the appalling high taxes on corporations, and we small income groups. Business will be ruined after the war. There will be nothing to build on. The only people who will have money will be the Labor Unions, whose funds are untaxed.

J. K. Beach, Dallas, Texas. * * * I have written a number of letters directed to you and feel quite positive that none of them have ever reached your hands. I have had some very nice communications with several of your understudies. * * * I have bought a \$100 Bond every month, and have made a few birthday presents of Bonds, which have kept my total to over 10% of my salary since the very day the original Defense Bond was put on the market. Likewise, my little organization down here in Texas went on a voluntary payroll deduction plan in September, 1941,

and later increased the amount to a point where our combined total is running approximately 15% of the payroll. We have done everything we know in every way possible to accelerate the war effort, and we have cooperated with your Treasury Department, despite the fact that we feel the Bond drive has been retarded by your own stand on a Sales Tax, to a greater degree than any other instrumentality we know of. * * * The way you have insisted on these terrific income taxes makes me very doubtful that I can pay my 1943 income tax and still buy Bonds. My own salary is no more than it was three or four years ago when living expenses were much less, and in my humble opinion, inflation will not be brought about by the so-called middle class who are earning possibly less than heretofore, but will be brought about by the formerly low-salaried men who are now making fabulous wages. They are the only ones who can afford to buy merchandise of various kinds and would pay a Sales Tax, and probably not miss it. * * * My wife and myself have discontinued all forms of spending in an effort to continue our month-to-month Bonds, but the next step will be to find a way to get enough money to pay the income tax, and we will probably be forced to cut down the size of the monthly Bond. I cannot see, Mr. Morgenthau, how you can put your own opinion on a Sales Tax against the overwhelming majority of people in these United States. Perhaps you have some reason which has yet not been disclosed; if so, I would appreciate hearing from you that I and all the other people are wrong, and that there is some deep underlying reason.



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

OCT 30 1942

GC:P:ERC
370786
371175
360989
370719

In re: Warner Brothers Pictures, Inc., et al.
Twentieth Century-Fox Film Corporation
Loew's, Inc., et al.
R. K. O. Corporations, et al.

MEMORANDUM FOR THE SECRETARY:

The companies named above were among those that paid money to George Browne and William Bioff, tried and convicted last year in New York City under the Federal anti-racketeering law on charges of extortion, to forestall threatened labor troubles in the movie industry. The sums of money thus paid were either deducted or capitalized by the companies as business expenses on their respective books and records. Inasmuch as the true nature of these improper deductions was concealed on the books and in the income tax returns of the named companies, the examining special agents recommended that criminal proceedings be instituted against them, certain of their respective subsidiaries and corporate officers and employees, on charges of willful attempted tax evasion for the year 1936 in some instances and for the years 1936 and 1937 in others.

In a memorandum dated October 13, 1942, (herewith transmitted for your consideration) Mr. Wenchel, Chief Counsel, Mr. Mooney, Deputy Commissioner, and Mr. Woolf, Acting Chief of the Intelligence Unit,

jointly recommended to me that no recommendation be made to the Department of Justice for instituting criminal proceedings involving the above-named companies for the years 1936 and 1937. The reasons given in that memorandum for such a recommendation are summarized below:

In the case of Warner Brothers, Inc. there are offsetting technical adjustments in favor of the taxpayer which eliminate any deficiency resulting from disallowed deductions. Also, in the case of Stanley Company of America, a subsidiary of Warner Brothers, Inc., there are sufficient adjustments in favor of the taxpayer resulting in a substantial overassessment. Although Vitagraph, Inc., likewise a subsidiary of Warner Brothers, Inc., may be liable for a possible deficiency of approximately \$7,000 for the year 1937, it is entitled to a refund for 1938 of approximately \$2,000 because of technical adjustments.

During the years 1936 and 1937 Twentieth Century-Fox Film Corporation made extortion payments of nearly \$63,000, which, if disallowed, would result in additional tax of slightly more than \$20,000. The company, however, paid over \$2,000,000 in taxes for those two years. Furthermore, the extortion payments were actually arranged for and handled by Sidney Kent, former president, who is now deceased. The small amount of deficiency, in comparison to the amount of tax paid, and the death of the principal actor on the part of the company, combined to make successful criminal prosecution in this case dubious.

Loew's, Inc. has sufficient technical adjustments in its favor to result in overassessments. A small subsidiary, Marcus Loew, may be liable for a deficiency of \$31,000 for the years 1936 and 1937, but this company is only a small unit of the large Loew group. A similar situation exists in the case of M.G.M. Distributing Corporation.

Extortion payments made by the R.K.O. group were spread among fourteen underlying corporations; consequently, the amount of additional tax due from each of the underlying companies is inconsequential when compared with the tax reported and paid by those companies on their original returns.

I concur in the joint recommendation of Messrs. Wenchel, Mooney and Woolf and add my personal recommendation that no criminal proceedings be instituted against the above-named taxpayers for the years 1936 and 1937.

Investigations for later years are not yet completed, but it is believed that the picture with regard to extortion payments is not basically different from that for the years 1936 and 1937. Consideration is being given as to whether civil fraud penalties should be asserted against all or part of the companies named for the years as to which deductions were wrongfully taken for extortion payments.

Paul H. Bremer
Commissioner

APPROVED:

H. M. ...
Secretary of the Treasury

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

October 30, 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 October 21, 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.

(Init.) E. M. B.

imo:10/31/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

October 29, 1942

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

I am enclosing our compilation for the week ended October 21, 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:imc:10/31/42

Week Ended October 21, 1942 Strictly
Confidential

million
million

*For monthly breakdown see tabulations prior to April 23, 1941
 **For monthly breakdown see tabulations prior to October 8, 1941.
 ***For monthly breakdown see tabulations prior to October 14, 1942.
 (See Attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes \$12.0 million transferred from Commonwealth Bank of Australia account here.
\$ 2.8 million deposited by British Ministry of Supply.

Strictly
Confidential

(c) For monthly breakdown see tabulations prior to April 23, 1941.
 **For monthly breakdown see tabulations prior to October 8, 1941.
 ***For monthly breakdown see tabulations prior to October 14, 1942.
 (a) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (b) Does not reflect U. S. Treasury bill transactions.
 (c) Includes \$9.6 million representing proceeds of U. S. Government checks deposited

October 30, 1942

MEMORANDUM FOR THE FILES

E. W. Bernstein

Subject: Mexican Security Registration

On October 21, 1942, Mr. Bell called me to his office. He had with him Senor Suarez, Minister of Finance of Mexico, Senor Gomez of the Bank of Mexico, and several other gentlemen representing the Mexican Government. When we left Mr. Bell's office the Minister said he knew the work we were doing in connection with the registration of Mexican securities, and he was glad we were cooperating in it. He asked us to continue the discussion with Senor Gomez, Senor Alva-Cejudo, and two lawyers, Mr. Hess and Mr. Raishap. We adjourned to Mr. White's office where we were joined by Mr. Luxford and Mr. Mains of the General Counsel's Office.

The Treasury's connection with the registration of Mexican securities began September 14th. On that day Senor Alva-Cejudo called on me to show me the decree calling for the registration of Mexican securities and to seek the advice of the Treasury on the best manner of handling the registration. I asked Mr. Luxford to join us in these discussions. As a result of these conferences, the Treasury undertook the preparation of application forms for the registration of Mexican securities by their holders. A comparatively simple form was prepared for registrants in the United States, Mexico, and the British Empire. A more detailed form was prepared for use by registrants in Continental Europe. In Latin America the simple form was to be used if the number of registrants did not seem abnormally large. The more detailed form was to be used if there were indications that European holdings of Mexican securities had been sent in large number to Argentina or other Latin American countries. Mr. Rains prepared the forms in consultation with other members of the General Counsel's Office and the Division of Monetary Research.

At the meeting in Mr. White's office the Mexican representatives told us that the Treasury forms were satisfactory and that they were prepared to use them with some minor modifications. There were several questions, however, that required further discussion. The Mexican representatives informed us that they would postpone the closing date of registration set by the decree to offer more time to undertake the task. They had decided not to attempt to register coupons or warrants that were outstanding. The certificates attached to the coupons would take care of the coupons or warrants with them. Some brief discussion was held on the type of certificate that would be appropriate for attachment. It was agreed that distinctive certificates would be used for registrants of different countries.

I raised the problem of the registration of Mexican securities in blocked accounts in this country. I pointed out to the Mexican representatives that the Treasury, as the administrator of blocked property, has some interest in these securities. While we were not disposed to prevent

Mexico from attaching any type of certificate it wished to such securities, the Treasury would want to reserve its rights. Any conflict of interest in connection with blocked securities could be the subject of further discussion. Mr. Luxford emphasized that this was part of the broad question of dual interest in the property of enemy countries or blocked countries and that a satisfactory agreement could be left for the future.

We discussed at some length the difficulty of preventing securities from being transferred by enemy bondholders to neutral countries during the period of registration. As a minor problem, there was the sale of securities now in blocked account which could be done under our General Licenses. The tentative solution of the Mexican representatives was to attach no certificates until after the registration period was closed. While this might help, it would probably be inadequate. Fundamentally, it would appear that the Mexican representatives feel the problem will be solved by making little or no real distinction between enemy and neutral countries of the Continent. In this country, the Mexicans would like to halt trading in Mexican securities in blocked accounts during the period of registration. The General Counsel's Office will look into this question. An examination of our TFR-300 reports shows only slightly more than 1 million of Mexican securities in blocked accounts.

The Mexican representatives then left to return in the afternoon.

During the interval between meetings, the Mexican representatives were in conference with the Finance Minister on various questions. The Finance Minister asked the Mexican representatives to express his thanks to us for the help we had given in the registration.

At the afternoon meeting the Mexican representatives revealed for the first time that they had been in consultation with the Bondholders' Committee in New York, and the Mexican Government now wished to undertake the registration of these securities simultaneously with the presentation of its modified offer for the assent of the bondholders.

There was some discussion of whether every security presented for registration would be permitted to assent to the new agreement. Whichever device is used, the Mexican Government did not intend to make payments under the new agreement to security holders in Continental Europe. The plan of the Mexican Government was to vest unregistered securities and perhaps to apply similar treatment to the securities owned by the enemy or even the neutral countries on the continent. The treatment of blocked securities in this country remained open for further discussion.

The Mexican representatives left for New York to consider further the question and will return to Washington this coming week to resume discussions with the Treasury. Before a new decree is issued covering the registration and the proposed resumption of payment, President Camacho of Mexico will have to approve of the plan.

- 3 -

Division of Monetary
Research

In view of the disclosure to us in confidence of the prospective agreement for resuming payments, Mr. Luxford and I decided that it was necessary to inform Mr. Bell. We called upon him to explain the issue and to suggest that at some stage the State Department would have to be told fully what we planned to do. Mr. Bell agreed that we would do this when the Secretary and Mr. White return.

We later learned that the State Department had been informed of the proposed resumption by the Mexican Minister of Finance. Mr. Meltzer of the State Department joined Messrs. Pehle, Luxford, Rains and me in a conference and discussed the question. We then heard that there was a fund of \$7 million in trust for bondholders, and that the Mexican Government hoped to retrieve for itself the part of this fund that would otherwise go to Continental bondholders and perhaps holders of blocked securities in custody in this country. There was some discussion of the legal difficulty of doing this and the position of this Government in permitting it. In the meantime, the Treasury lawyers are attempting a draft of the kind of decree Mexico would have to issue if they are to retrieve part of the fund. They are also looking into the type of action that the Treasury might take to aid the Mexicans.

The entire question will have to be considered by responsible officials of the Treasury. We have already told the Mexican representatives that Mr. White will receive them at the next meeting. The General Counsel's Office is preparing a memorandum on the legal problems.

TREASURY DEPARTMENT

235

INTER OFFICE COMMUNICATION

DATE Oct. 30, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes and Tanks to the U. S. S. R.

1. During the period October 11-20, 1942, 93 planes were shipped to the Soviet Union from the United States. Of these, 68 were Curtiss P-39 and P-40 fighters, and 25 were Douglas A-20 Boston light bombers.

2. During the same period, 74 military tanks were sent to the Russians. Twelve of these were light tanks (under 20 tons) and 62 were medium (20-40 tons).

Table A

Shipment of Planes and Tanks from the
United States to the U.S.S.R. *

	Shipments during <u>October 11-20, 1942</u>	Cumulative Total January 1, 1942 <u>to October 20, 1942</u>
<u>Planes</u>		
Fighters	68	1,001
Bombers	<u>25</u>	<u>824</u>
Total	93	1,825
 <u>Tanks</u>		
Light	12	1,492
Medium	<u>62</u>	<u>1,427</u>
Total	74	2,919

* Based on export declarations received.

Table B

Shipments of Planes and Tanks to the
U.S.S.R. by Months *

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light Tanks</u>	<u>Medium Tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
March	68	170	238	159	258	417
April	120	54	174	287	216	503
May	52	42	94	94	45	139
June	127	104	231	143	206	349
July	123	134	257	151	157	308
August	202	126	328	299	261	560
September	62	50	112	155	162	317
October 1 - 20 **	<u>68</u>	<u>25</u>	<u>93</u>	<u>12</u>	<u>62</u>	<u>74</u>
Total 1942 to October 20	1,001	824	1,825	1,492	1,427	2,919

* Based on export declarations received.

** No export declarations received for these items during the period
October 1 - 10, 1942.

CORRECTED COPY

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

Chungking via Karachi
Dated October 30, 1942
Rec'd 10:34 a.m., 31st

Secretary of State,
Washington.

IMMEDIATE

1242, October 30, 9 a.m. (SECTION ONE)

FOR SECRETARY OF THE TREASURY FROM ADLER:

TF-66 SECTION THREE

(B) China's dollar in payments 1942.

One. United States Army expenditures for China,
\$5,000,000 to \$10,000,000. These are expected to be
considerably larger in 1943.

Two. United States remittances for relief, charity,
education, et cetera, \$7,000.

Three. United States remittances for missionary
activities, \$5,000 to \$6,000.

Four. Personal remittances from the United States
\$8,000 to \$10,000. Remittances to the end of August
\$4,000,000, but big seasonal increase expected in last
third of year. (exact figures for personal remittances
obtainable from reports on form TFR-132 to foreign
funds control).

-2- #1242, October 30, 9 a.m. (SECTION ONE) from Chungking
via Karachi

funds control).

Five. United States Embassy, other United States Government agencies and miscellaneous private expenditures, one million dollars.

Six. Exports to the United States--data most fragmentary. China's total exports for January to May according to customs return about 1.9 million dollars, of which more than half went to Burma for reshipment abroad; of this amount it may be assumed at least one-half and probably more was destined for United States. From late May to late September about dollars 4.3 million of goods were purchased from Chinese Government for shipment to the United States, and United States purchases are anticipated to run at rate of \$1,500,000 per month in last quarter. Therefore a reasonable guesstimate of Chinese exports to the United States for 1942 would be about dollars ten million.

All exports to the United States are on Chinese Government account, and except for dollars 2.3 million of bristles payment for which was made in cash are in payment of American loans to China against delivery of strategic materials. (Board of Economic Warfare, Washington, should have more complete data).

GAUSS

WSB

NOT TO BE RE-TRANSMITTEDCOPY NO. 15BRITISH MOST SECRET
U.S. SECRETOPTED No. 375

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

1. NAVAL

Air reconnaissance yesterday located TIRPITZ at TRONDHEIM. Last night, 4 of our light craft north of CHERBOURG sighted enemy forces which opened fire on each other. Two R-boats and a trawler were engaged by our motor gun boats and ceased fire after being repeatedly hit. One motor gun boat and one motor torpedo boat were damaged but we had no casualties. A reinforcement of 29 Spitfires was flown off from a carrier and arrived at MALTA yesterday. On 23rd one of H.M. Submarines torpedoed a ship which was grounded off ROME (L) as a result of air attack. On 9th, one of H.M. Submarines torpedoed a northbound ship and possibly torpedoed an escorting Destroyer 30 miles northwest of CRETE.

2. MILITARY

EGYPT. To 12 noon 29th. During the afternoon 28th there was a heavy concentration of enemy including German Armoured Divisions west of KIDNEY RIDGE. They made a careful reconnaissance but were heavily bombed and the expected attack did not develop. At 10 p.m. 9th Australian Division supported by tanks attacked with two Brigades northwards from west of TEL EL EISA. The left brigade reached their objective at 11 p.m. and advanced some 2500 yards, but on the right stiff opposition was met and early on the 29th an enemy counter attack on the north east of our salient was driven off by artillery fire.

MADAGASCAR. 28th. Our columns progressed southwards towards ALAKAMISY though the one on the main road was delayed by accurate machine gun and mortar fire and by road blocks. An enemy position had to be reduced with the help of air support.

3. AIR OPERATIONS

WESTERN FRONT. 29th. 3 Wellingtons out of 6 sent to the RUHR are missing.

EGYPT. 28th. Enemy landing grounds were bombed, light bombers attacked enemy forces concentrating in the northern sector making many direct hits. Enemy air activity was mainly defensive. Preliminary reports give 8 enemy aircraft destroyed, 3 probably destroyed and 6 damaged. Three of ours are missing.

MEDITERRANEAN. 28th. U.S. Liberators hit a ship in NAVARINO BAY (GREECE). 28th/29th. Wellingtons torpedoed a ship in convoy off the Greek coast and hit a tanker amidships setting it on fire.

INDIA. 28th. Japanese aircraft again bombed CHABUA aerodrome, ASSAM.

4. FRENCH WEST AFRICA

A convoy of 5 French ships escorted by 3 submarines and 4 minesweepers left CASABLANCA on 26th for DAKAR. One ship is reported to carry 40 tanks, 15,000 rifles, etc., and all the others contained ammunition from FRANCE.

5. Reconnaissance of Sicilian ports on 28th showed no change in the disposition of Italian Naval units except for one light cruiser which has moved from MESSINA to PALERMO since the 18th. Sardinian ports on 25th contained only submarines which is normal.

10-30-42

INTELLIGENCE REPORT 47

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau Jr.

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EDITORIAL ATTITUDES

INFORMATION

Editorial ire at Government information policy, simmering throughout the past fortnight, has now reached a boiling point. Commentators are openly skeptical about the news granted to them of the Pacific fighting.

The Chicago Tribune, placing the worst construction upon the Government's release of information, gibes: "The circumstances suggest that there is a budget of bad news piling up in the Solomons and that the censorship is being used to keep it from the people until after the election." But newspapers friendlier to the Administration are almost as caustic. The Washington Post observes, for example, "Unless we are very much mistaken, the announced sinking of the carrier Wasp means that we have suffered the loss of still another carrier, as yet unannounced... It should not surprise anyone if the carrier reported severely damaged is actually sunk."

Editorial irritation was given especial impetus by the War Department's belated admission that some of our Tokyo raiders are, in fact, prisoners of the Japanese. The Daily Oklahoman had this to say about the matter in a fairly representative comment: "Twice in recent months the American people have found Japanese reports more reliable than the reports of our own Government. They found that to be true in the case of the Japanese claim that some of our cruisers had been sunk among the Solomon Islands. Now they find that to be true in the case of the raiders who bombed Tokyo. And never since the tragedy of Pearl Harbor has a realization so humiliating come to the American people."

OWI endorsement of the War Department's handling of news about the Tokyo raid mollified some commentators. According to the New York Herald-Tribune "It at once establishes a complete public confidence in the correctness of the policy followed..." The press, in general, takes the view that OWI is free from blame for the concealment practiced by Army and Navy brass hats and that it merits all credit for whatever candor they may exhibit.

COMBAT

Press and radio continue to watch news from the Solomons anxiously and unhappily -- and to interpret it with caution. Most commentators are plainly pessimistic. And many of them suggest, at least obliquely, that the situation in the south Pacific is a product of naval ineptitude.

The replacement of Admiral Ghorale by Admiral Halsey strengthened suspicions that the strategy at Guadalcanal had been blundering. Some attributed the fault directly to an alleged lack of unified command in the South Pacific. The St. Louis Post Dispatch expressed this point of view in a declaration that "The old Army-Navy rivalry is not only outmoded in this war, but is acutely dangerous." Other critics suggested that the difficulty lay in an inability among tradition-steeped admirals and generals to understand contemporary warfare -- especially in a failure to appreciate the tremendous power of aviation.

The defense of Stalingrad continued to afford counterbalancing encouragement. And the inauguration of a British offensive in Africa was treated with restrained optimism. Commentators found consolation for their disheartenment over the Solomons in the fact that American forces are playing

some part in the drive against Rommel. They placed a good deal of stress on the United Nations character of the allied attack.

PROHIBITION

The defeat of Senator Josh Lee's attempt to tack a prohibition rider on the new Selective Service bill met with almost unanimous approval in the press and on the radio. The prevailing view was expressed by the Cleveland Plain Dealer, which stated that "Lee's proposal was a brazen attempt to impose prohibition, with its attendant evils of bootlegging and corruption, upon the large civilian populations which reside in the vicinity of army camps and naval stations, under the hypocritical pretext of protecting the men in the armed services from the evils of Demon Rum."

Senator O'Daniel's amendment requiring a year's training for 18-19-year olds also came in for general, though less vigorous, condemnation. A typical expression of opinion was the Milwaukee Journal injunction, "Don't hamstring the Army again."

WILLKIE

Wendell Willkie's radio address over the four major networks on Monday evening had an estimated audience of 48 per cent of all radio families throughout the United States. This compared not unfavorably with the 59 per cent rating estimated for the President's fireside talk on Columbus Day.

The press gave enthusiastic praise to Mr. Willkie's report. Even the Scripps-Howard papers, which criticised him vehemently throughout his

tour, admitted that "Willkie spoke wisely and well last night. Occasionally he was less than fair to the President's conduct of the war, and to the British position. But, on the whole, his criticism was just and constructive."

The relatively liberal New York Post indulged in a panegyric. It found Mr. Willkie's words "the common earthy talk of men around the world, which has at long last found its way into the council-chamber, rapped for order, and has said its say." There was equal applause, naturally, from newspapers which had supported Mr. Willkie in the last election campaign. Apparently he has found a formula for opposition to Mr. Roosevelt which can be adhered to by those who have been consistently opposed to the Administration in domestic affairs, yet sympathetic to its foreign policy.



POPULAR REACTIONS

CONSUMER CUTS

Half the people in the United States believe that they have reduced their buying habits since last year.

Early in October, the Bureau of Intelligence asked a national sample: "Considering everything you are buying now, does it seem this year that you and your family are buying more things than you bought last year or fewer things?" The answers divided as follows:

More things	12%
Same amount	37
Fewer things	50
Don't know	1

Clothing was the item on which the largest number of people said that

they were economizing; 34 per cent of the whole sample declared that they were buying less clothing than last year.

The following table shows the various types of economy observed by the people who said that they were buying fewer things this year:*

Clothing	34%
Food	19
Home improvements	10
Luxuries and entertainment	8
General living	7
Gas, tires, car	6
Business improvements	1
Miscellaneous	3
Not ascertainable	1

*Multiple answers were permissible. Persons answering "buying fewer things" amounted to 50 per cent of the sample.

In the face of increased incomes, the statements of so many people that they are buying fewer things may reflect both a belief that they are getting less for their money and an awareness of scarcity. Taxation appears to be only subordinately responsible so far. Three-fourths of the public have not felt their incomes seriously pinched by taxes during the last year. The same sample was asked: "Has it been a real hardship for you to pay the total amount of taxes you have had to pay over the past year or not?" Opinion divided as follows:

Yes	22%
No	73
Don't know	3
Didn't pay taxes	2

CHISELING

Studies conducted by the Bureau of Intelligence have repeatedly confirmed the thesis that public endorsement of any program involving economic

restriction depends, in very large measure, upon a conviction that it is equitably administered. Americans have insisted overwhelmingly that all phases of the anti-inflation program be imposed in like fashion upon groups and interests throughout the country.

Apparently, however, despite overwhelming approval of the principle of rationing, there exists a widespread doubt as to the fairness and efficiency with which rationing programs are being administered. Only about half of the sample interviewed in October indicated a belief that rationing in general was affecting all people alike.

The Bureau asked: "At the present time, do you think a lot of people are getting more than their share of the things that are rationed?"

38% said "Yes"
52% said "No"
10% didn't know

There is, moreover, a great deal of skepticism about the application of rationing programs which may be undertaken in the future. Half the public thinks that some people will get more than their fair share of the scarce articles.

"If we ration a lot more things, do you think there will be much chiseling -- that is, people getting more than their share of these things?"

Yes, chiseling	49%
No	43
Don't know	8

PROHIBITION SENTIMENT

The congressional vote on Senator Lee's proposed amendment to the bill extending Selective Service to 18- and 19-year olds afforded a test of

prohibition strength in the United States. The issue, bedecked with special moral considerations in connection with the welfare of young draftees, may have had a rather widespread appeal. But all available indices to public opinion support the belief that national prohibition is desired by only a minority in the United States today.

A Gallup poll, conducted in September on the issue of prohibition in general, reported 38 per cent in favor and 62 per cent opposed. Reports received from 48 nationally distributed correspondents of the Bureau of Intelligence support the Gallup findings.

The Bureau's correspondents reported on sentiment in their districts respecting the Lee amendment. Everywhere it was interpreted as an attempt to resurrect prohibition. Its connection with military problems was generally regarded as incidental. Many, even among those sympathetic to prohibition, resented the treatment of the issue as a mere rider to a draft bill. With the possible exception of the "Bible belt," majority support for the proposal was found in no portion of the country.

Knowledge about the Lee amendment was confined to a minority of the American people. And even among these people, the division of opinion was estimated at roughly six to four against the proposal. Prohibitionist efforts to mobilize group support for the measure were only partially successful. A number of Baptist and Methodist officials gave it their endorsement. So, naturally, did the WCTU and some Parent-Teacher Associations. Businessmen's groups, on the other hand, were almost solidly opposed. Among church influences, the Roman Catholics were also against the measure.

Sentiment in favor of the Lee amendment was found largely among farmers, but most industrial workers were opposed. People living in small rural communities, particularly in the South and Southwest, were the strongest supporters. The most vigorous opposition was drawn from larger cities, particularly along the East and West coasts.

The prohibition issue has important informational implications because it is potentially disruptive of national unity. Concentration on the war effort may be impaired and serious domestic cleavages may develop if the nation becomes embroiled in a bitter struggle over a subject so unrelated to the war as liquor.



DEVELOPING SITUATIONS

MANPOWER

Reports from field offices of the Bureau of Public Inquiry indicate nationwide dissatisfaction with the handling of the manpower problem. The country is said to be bewildered by contradictory and acrimonious discussions of the subject on the part of public officials.

The widely proclaimed shortage of farm labor has been relieved by the recent War Manpower Commission "freezing" of necessary workers on the nation's cattle, poultry and dairy farms. But if some similar action is not taken with respect to other types of farming, farm publications and leaders believe that agricultural production will be sharply lower in 1943. Some city newspapers are alarmed enough to predict a serious food shortage. One influential group of papers is agitating for the appointment

of a food administrator. Without the assurance of an adequate labor supply for next year, many farmers will tend to curtail production to an amount they are sure they can handle.

Scattered reports from many points suggest the acuteness of the situation. In Utah, it is feared that the 1943 wool-clip may drop as much as 40 per cent, in large part because of the shortage of shepherders. Wisconsin agricultural leaders predict a cut of as much as 25 or 30 per cent in that state's farm production. Farm auctions are being held daily and many dairy herds are being liquidated. In Indiana, a survey made by a farm publication revealed labor shortages in 67 of the state's 92 counties. In New England, farm operators as well as farm laborers are being attracted to nearby cities in large numbers by the high wages paid in war plants.

The tight labor situation is by no means confined to rural areas. Mining, and in some areas war work, are reported to be falling behind because of shortages of skilled workers. Innumerable small businessmen complain that it is difficult to find help and voice resentment at the "outrageously high" wages paid by war plants.

The tightness of the labor situation has given rise to a growing realization that Selective Service is set up to meet the needs of the armed services, rather than to give attention to the nation's total manpower problem. Local boards give first consideration to the needs of the army. Moreover, in small communities, where everyone knows everyone else, workers are often reluctant to ask for deferment because of the fear of being regarded as draft dodgers.

The labor situation makes people even more critical than they might otherwise be about the lack of clear-cut and consistent Selective Service policies governing the order in which people will be called. Numerous complaints have been made about the uncertain status of married men. The transfer of men from non-war to war employment is frequently impeded by their doubts as to whether they will be in civilian life long enough to make it worthwhile to switch jobs. Employers hesitate to hire men whose draft status is uncertain, knowing that if they are soon called up their training will have to be written off as a loss.

Dissatisfaction with the chaotic manpower situation has created a widespread public demand for an over-all manpower authority, charged with coordinating the requirements of the armed services, war industries and agriculture. Many newspapers and magazines also demand a labor draft. Only workers and the labor press appear to be lukewarm to proposals of stricter Governmental control of manpower.

Workers believe that compulsory means of solving the manpower problem are certain to bear down on them more heavily than on any one else. They are afraid that their rights as workers and citizens may not be protected when they are shifted around from job to job, and that the privileges they renounce now may not be restored after the war. There is some disposition, also, to question the need for Government allocation of manpower at this time. They ask, "Why not close down on all non-essential industry first?" "Why not use all the Negro labor available?" "Why not take up the unemployment slack in New York and other recession areas?"

A panel of correspondents of the Bureau of Intelligence made up largely

of labor editors and social workers, together with some members of the clergy and businessmen, agree that the following conditions must be met if American workers are to be reconciled to manpower control:

1. Equality of sacrifice -- limitation of high incomes and regulation of management, as well as labor, in the interest of efficiency.
2. An administrator in whom labor can trust -- Ernest Bevin is frequently offered as a standard.
3. Labor representation in the administering agency.
4. AFL and CIO endorsement of the manpower measure.
5. Protection of seniority rights, wage standards and working conditions.
6. Assurance that the control is temporary.
7. Flexibility to permit adjustment of individual problems.

As in all situations involving governmental regulation, the basic prerequisites to popular cooperation are, first, an understanding of the genuine need for action and, second, confidence that the action will be taken fairly, firmly and efficiently.

The correspondents of the Bureau of Intelligence agree that, despite doubts and fears, labor will acquiesce in manpower control -- provided Government information satisfies it on these counts.

HEALTH

Serious health problems are arising in many parts of the country as a result of the draining of doctors from civilian life. Increases in communicable diseases have already been noted in a few places. In crowded communities, including important war production centers, it is feared that

epidemics may be experienced this winter.

Field offices of the Bureau of Public Inquiry report that in numerous communities throughout the country it is now difficult to secure medical care. Alabama, for example, has only one doctor for every 2,900 people -- half the low wartime national average. Many counties in Colorado have no doctors, while others have too few. A recent survey in Indiana shows that 84 of the state's 92 counties cannot safely spare another physician. Rural areas, in general, according to a report of the Senate subcommittee on manpower, have been almost stripped of their doctors.

A shortage of hospital facilities is also reported in many places. Philadelphia hospitals are badly over-crowded. Hospital facilities around Madison, Wisconsin, an important medical center, are badly over-taxed. Kansas City's large Municipal Hospital has been unable to admit all the patients who have applied to it. In addition, the sanitation and public health facilities of some war production centers are wholly inadequate to swollen populations.

The shortage of doctors is one of the more disturbing aspects of the general manpower problem. There is widespread criticism that the methods used to obtain doctors for the armed forces disregard the needs of civilian life. The uncertainty which surrounds the induction of doctors is also criticized. Resentment is occasionally voiced that skilled physicians are placed in purely administrative jobs. And there is suspicion that medical commissions are granted on the basis of "pull," rather than on skill and reputation. Present conditions in many areas jeopardize the success of the war effort.

In addition to cooperating with state and local authorities and the medical profession in the improvement of those conditions, the Government might profitably put increased informational emphasis on the special wartime importance of safeguarding health through common-sense home precautions.

Clearly, civilian needs must be taken into account in the selection of doctors and nurses for the armed forces. Closer federal regulation, as a part of general manpower allocation, may be necessary to secure effective distribution of available medical facilities. Above all, in this, as in other comparable situations, the public needs to be assured of the necessity, equity and efficiency of whatever restrictions may be imposed.

FUEL OIL

Inadequate information in regard to the rationing of fuel oil has placed a weapon in the hands of bitter opponents of the Administration. They have sought, in an atmosphere of public ignorance about the facts, to report the fuel rationing program as needless, unfair, incompetent and dictatorial.

Correspondence received by the Bureau of Intelligence from Middle Western states indicates that the ground there is fertile for the spread of righteous indignation. Led by the Chicago Tribune, critics of the Government have persuaded many people in this area that restrictions on their consumption of fuel oil result from bureaucratic bungling.

According to the Tribune, "rationing has been fastened on Chicago by a crowd of New Dealers who like to order people around for the pure pleasure of exerting authority. No doubt the demands of Mayor La Guardia and other easterners that their own discomforts be inflicted needlessly on others have been a factor. These fakars in Washington are going to continue their bungling and their infliction of needless

hardships until the people send representatives to the capital who will insist on a restoration of sanity."

People in Chicago, aware that the city receives its oil supply through pipe lines delivering to refineries in the metropolitan area, fail to understand the need for applying fuel oil rationing to them. They have not been adequately informed of the fact that other areas in the Middle West -- Wisconsin, Iowa, Minnesota and the Dakotas -- must secure their supplies of fuel oil from Chicago as a distribution point. The Tribune has distorted the situation by telling them that the scarcity of tank cars can have no relation to their fuel oil problem.

Rationing of this particular commodity requires the most careful informational background. In the absence of comprehensive explanations, the application of fuel oil restrictions is peculiarly susceptible to charges, not only of regional injustice, but also of individual inequities. Tenants in multiple housing units may be especially bitter; those whose landlords failed to convert their furnaces to coal may become innocent sufferers. Some private home owners who tried to convert but found the cost beyond their means, or discovered that there were priorities on grates, may feel victimized. The small number of home owners who heeded OPA warnings and converted to coal at considerable cost during the summer are liable to be resentful, on the other hand, if they fare no better than those who let the warning go unobserved.

As temperatures drop and oil supplies dwindle, there is likely to be a rising fever of resentment against fuel oil rationing, especially among mid-Westerners. Divisionist influences can be counted upon to aggravate

this fever. It can be counteracted only by vigorous informational measures designed to make people aware of the realities behind the hardships they may be called upon to endure.

RUBBER

An OWI release concerning the Idle Tire Purchasing Plan carried the concluding statement: "To motorists OPA offers the assurance that if the nation's 27,000,000 car-owners join promptly in the plan and other factors work out as scheduled, it is believed there will be 'Tires for All' who drive on essential business under a democratic, share-and-share-alike ration system."

While this statement had special reference to existing tires and therefore did not specifically involve new rubber, it is noteworthy that rubber in its chlorinated, crude, latex, reclaimed and synthetic forms is classified by the Conservation Division of WPB among "materials of which the supplies are inadequate for war and most essential uses."

Since the word "essential" means all things to all men and has no definition other than that given to it by administrative action in WPB, this statement led Mr. Jeffers to emphasize that "Under any set of foreseeable circumstances rigid conservation of rubber by every car driver is an absolute and vital necessity."

Such occasions might be avoided by a uniform rule requiring all statements of supply to be in the form, "All non-essentials must be cut out," instead of, "There is enough for all essentials."



ENEMY PROPAGANDA

DEVALUATION OF AMERICA

Last week the Nazis gave the United States increased attention in their short-wave broadcasts. This week

America is in the spotlight of German domestic propaganda. Evidently, to relieve apprehension among the German people over increasing American participation in the war, the Nazis are making an all-out effort to disparage America's strength.

To reassure Germans that the United States is weak militarily, exaggerated claims are made about America's losses of men and ships in the Solomon Islands. General Eisenhower is alleged to have confirmed the sinking of three American troop transports bound for Britain. American merchant shipping disasters are presented to the German people as enormous. Elmer Davis' warning that the United States may experience shattering defeats is quoted out of context.

The United States is pictured as being in bitter conflict with Britain over such issues as India, Africa, war debts, and relative contributions to the war. Mrs. Roosevelt's visit to England is interpreted as an attempt to reduce Anglo-American tension.

In his weekly political review, Fritz Thiel uses Mr. Roosevelt's change of quota figures to prove that American production goals cannot be met, and adds the claim that American armaments are of poor quality. Thiel contrasts "American failures" with the achievements and quality of European armament production. Washington is pictured as full of inefficient officials and competing agencies.

BRITAIN

Nazi propaganda is also concerned with reassuring the German people about Germany's strength vis-a-vis England. Goebbels makes a strenuous attempt to turn England's "Time is on our side" theme against her. In three years of war, he argues, Britain has "lost strength and vitality," while Germany has conquered valuable territory whose exploitation can spell victory.

Germany continues to fume about Anglo-American atrocities. This campaign probably has a number of objectives. Goebbels wants to bolster his argument that if the Germans lose the war, they will be destroyed. He may be under the necessity of deflecting popular resentment about the successful air raids on Germany from the Nazi Government to the British and the Americans. Finally, he may be paving the way for some retaliatory move.

SHORT-WAVE BROADCASTS

Germany's foreign propaganda this past week attempts to correct the slip Goering made when he talked about Germany's priority on Europe's food supply. The line taken is that German economic reorganization has not only strengthened Germany but has materially benefitted all of Europe. Germany's strength and benevolence are stressed.

Two themes dominate Rome's short-wave broadcasts: (1) denials of an Italian-German rift and of weak Italian morale; and (2) denunciation of the "barbarism" of the British air raiders.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 31, 1942.

TO THE SECRETARY:

I thought possibly you might not come to Washington until Tuesday, so I am taking advantage of Mrs. Morgenthau's offer to carry this information to you.

Present estimates indicate that we will need about \$3 billion of new cash in November and about \$3 billion in December. It looks as though we are going out of October with about \$3,400 million in balances and out of November with about \$3,300 million and out of December with about \$3 billion - rather healthy balances. The tax notes are going very well. It looks as though we may get as much as \$800 million this month and it is estimated that we will get \$600 million in November and \$500 million in December.

As you know, we offered on last Monday \$2 billion of 1-year 7/8 percent Treasury Certificates for cash. We received \$3,102 million in subscriptions, of which \$731 million were allotted in full. Of this allotment in full, the reports indicate that \$667 million went outside of the banking system, which was an excellent showing. However, I have subsequently learned that the dealers' subscriptions were in this latter figure which probably amounted to more than \$100 million. Even with these out I think it is an excellent showing when between 25 and 30 percent of a strictly banking issue is taken outside of the banking system. The balance of the subscriptions were allotted on the basis of 55 percent, which gave us about \$2,040 million.

You will recall that before you left you had received a letter from Chairman Byrnes of the Economic Stabilization Board asking for a report on compulsory



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savings and ration of spending. We have put in a great deal of work on this and I enclose a draft herewith which you may have time to read. It represents the work of the three research divisions and it has been gone over by Jake Viner and Walter Stewart, who have also approved it. I believe it is now in very good shape. Before you sign it it should, of course, be gone over by Harry White and Randolph Paul, the latter having been away also during most of this drafting.

sub

P.S. Haas is working on a financing memorandum which will not be ready until late this afternoon or possibly tomorrow. If you do not come to Washington until Tuesday you may want us to mail this up tomorrow evening.

E.

Oct 24 1942
DRAFT

My dear Mr. Byrnes:

We in the Treasury have been investigating a great variety of measures intended to accomplish the objective mentioned in your letter of October 9, 1942, to control inflation through the restriction of civilian spending. We have been particularly interested in measures which combine effective inflation control with a substantial contribution to the financing of the war. We welcome the opportunity to give you some of our thoughts on these questions. We shall be glad to submit more extended studies at your request, and also to discuss them with you at your convenience. Such discussions should be helpful to cooperation in the related fields of economic stabilization and fiscal policy.

We have come to the conclusion, in the course of our own investigations, that an effective and equitable solution of the problem of inflation will require measures more fundamental than any yet adopted. We are convinced that wage and price ceilings alone cannot control inflation. Our estimates indicate that, at present price levels, next year will see a surplus of purchasing power of about \$40 billion over and above the supply of consumers' goods available during the year. It seems certain that unless all of this excess of \$40 billion of purchasing power is withdrawn, or is withheld from spending, price ceilings will be broken through on a broad front, causing empty shelves, large-scale black markets, widespread evasion and dealer favoritism, and illegitimate profits. In such a situation, distribution of the necessities of life will be inequitable and wasteful, and competition to buy the means of living will be reduced to a time-consuming and disorderly scramble. Severe hardships will be suffered, especially by families in the low income groups.

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We find that on the basis of the most optimistic estimate possible, not more than \$70 billion, at present prices, of consumers' goods and services will be available for purchase in the calendar year 1943. Income received by consumers in the same period will be about \$125 billion. Not more than \$15 billion of this consumer income will be taken away by Federal, State and local taxes paid directly by individuals, including the new Federal taxes levied in the revenue act just passed. Therefore individuals will have left, to spend or to save, about \$110 billion. If we are to prevent irresistible pressure of excess demand for an insufficient supply of goods, consumers must be induced — through additional taxation or otherwise — to refrain from spending some \$40 billion, or \$4 out of every \$11 of the income they have remaining after present taxes.

It is true that voluntary savings are now being made at an unprecedented rate. It has been estimated that individual savings during the second quarter of this calendar year were at the annual rate of \$24 billion, which was approximately double the rate for the same quarter of the preceding year. This acceleration of savings is far greater than can be accounted for by the large increase in individual incomes. It is without doubt due in part to inability to buy automobiles and certain other durable consumer goods and to the promulgation of the general maximum price regulation. It has undoubtedly also been strongly influenced by the campaign for saving carried on in connection with the sale of war savings bonds, of which more than \$7 billion have been purchased by individuals so far in the present calendar year. It is doubtful, however, that this rate of voluntary saving can be substantially

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increased or even maintained during the coming calendar year in the face of substantially increased taxes and somewhat higher living costs, unless strong incentives are provided by some new governmental action.

This governmental action must immobilize an additional \$16 billion of consumer income in 1943 over and above the current rate of saving, if we are to reduce consumer spendings to the value of supplies available at present prices. Moreover, after 1943, the level of supplies will shrink still more, involving a drastic reduction in our standard of living during the further course of the war. We must distribute this reduction in such a way as to protect a basic minimum standard necessary to maintain health and efficiency.

To induce consumers to make gross savings of \$40 billion out of their next year's incomes is not sufficient. These consumer savings must be net, i.e., after account has been taken of the fact that some people have eaten into their savings. If some individuals next year consume their capital to the extent of \$10 billion, other individuals will have to save \$50 billion to give us net individual saving, for the economy as a whole, of \$40 billion.

We have outstanding about \$13 billions of United States Savings Bonds, all of which could be presented for redemption in a short period. Individuals hold billions of dollars of other securities, which they might sell to other individuals, to business firms, and to banks. Individuals hold billions of dollars of bank deposits and currency in excess of any previous year's holdings. Billions of dollars could be borrowed on insurance policies. If price stability is to be maintained, we must see to it that these capital assets are not used to increase consumption expenditures to a level in excess of the available supply of goods at present prices. It will do us

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no good merely to shift from a voluntary to an enforced status savings already being made, nor will it do us any good to require lending to the government that will come out of accumulated savings represented by liquid assets in the hands of individuals. If, with taxation on the basis provided by existing law, we fail to add at least \$40 billion to our accumulated individual savings next year, prices will rise — in an open or a concealed way.

There are many reasons why our first recourse should be to additional taxation. The total tax liabilities of individuals to the Federal, State and local governments on the basis of present law will be about 12 percent of their aggregate individual incomes and less than a third of the increase in individual incomes in three years. In the light of these figures it would seem the very opposite of fiscal prudence to permit the public debt to accumulate at the rate it will accumulate in the absence of substantial tax additions.

The advantages of withdrawing as much excess purchasing power as possible through taxation are the following:

- (a) Each dollar of taxes avoids the accumulation of a dollar of public debt. Therefore increased taxation reduces the interest burden and gives the Government greater fiscal freedom to meet whatever conditions may arise in the post-war period.
- (b) Taxation minimizes the necessity for extensive and administratively costly war-time controls on what people may do with money that remains in their possession.
- (c) Taxation reduces the danger of post-war inflation as a result of the spending of war-time accumulations by individuals.

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Notwithstanding the advantages of taxation, it would be highly unrealistic to contemplate revenue taxation along traditional lines on the scale requisite to absorb enough purchasing power to bring the level of spending down to the level of goods available for purchase at current prices. Even a doubling of the present \$15 billion of personal taxes would not suffice, for the level of voluntary savings would certainly not remain at \$24 billion if anything like \$15 billion of new personal taxes were enacted. In fact, it is likely that any effort to do the whole job by absorbing purchasing power through taxation along traditional lines would involve the levying of new personal taxes well in excess of \$20 billion and reliance on voluntary personal savings of considerably less than this figure. The tax method may however be usefully employed not only to absorb excess purchasing power and to gain substantial additional revenue, but also to induce saving on the scale necessary to close the inflationary gap.

Specific commodity rationing and price control already help to enlarge the volume of individual saving, but they alone are insufficient. To extend specific rationing sufficiently to cover the bulk of consumer spending would be costly and irksome although extensive specific rationing may have to be adopted eventually. Therefore, we believe that other measures should be considered in order to limit spending to the necessary extent.

We have particularly examined four general measures, any of which could contribute substantially to price stability and to an equitable distribution of scarce supplies. Each would also give substantial direct or indirect assistance to financing the war. These four measures are Compulsory Lending, Compulsory Saving, Expenditure Rationing, and Expenditure Taxation. Two of these types of control are mentioned explicitly in your letter of October 9.

We have chosen to discuss the other two at the same time because they are such closely related methods of dealing with the same question.

1. Compulsory Lending Compulsory lending is the legal obligation to lend to the Government an amount equal to a specified fraction of income, expenditure or some other base.

Compulsory lending may have exemptions and graduation. It may therefore be quite progressive in its incidence. It would contribute to the control of inflation in the same general way as taxation, namely, by withdrawing money from the hands of consumers. If individuals had to lend some of their funds to the Government—and if they did not normally save anything, if they did not have capital, and if they could not obtain credit—they would be compelled to reduce their spending by an amount corresponding to their lending. In general it is the lowest income groups who save little, have few assets and little credit; therefore a dollar withdrawn by compulsory lending from a man in the lowest income groups might cause almost a dollar's reduction in spending. At the top of the income scale, a dollar withdrawn in compulsory lending might cause no reduction at all in spending; the compulsory lending obligation would be met out of saving out of current income which would have been done anyway or out of accumulated assets. The effect for most individuals would lie somewhere between these two extremes, so that for them part of the funds lent would come out of a reduction of consumption and part out of the accumulated savings or out of new savings which they would have made in any case.

To insure that individuals who have control over corporations did not avoid their liabilities for compulsory lending at nominal or zero rates of interest by keeping their money as undistributed profits rather than distributing it as dividends, it might be necessary to require compulsory lending by corporations as well as by individuals.

The following advantages are claimed for compulsory lending:

- (a) It would permit a greater restriction of the consumption of the lower income groups than would be tolerable if this restriction were effected by outright taxation;
- (b) It would make larger levies on all income groups politically acceptable;
- (c) It would not reduce the incentive for individuals to undertake harder and longer work for additional pay as much as would additional taxes of corresponding amount;
- (d) It would create a reserve of individual purchasing power for the post-war period;
- (e) It would provide a means of raising money to finance Government expenditures with no war-time obligation to redeem or to pay interest.

However, any given amount of compulsory lending would be less effective in reducing spending than the same amount of taxes. Because the amount turned over to the Government would be a loan to be returned after the war, there would be less inducement to save in other forms, and individuals with accumulated assets would be more willing to sell assets or borrow on them to meet the lending requirement than to meet a tax obligation. Persons who were already saving as much as the current lending obligation or who had a large amount of accumulated wealth might find no need to reduce their spending at all. Therefore any compulsory lending schedule would in practice be less progressive in its incidence on consumption than it would appear to be on paper. The dollar yield of any system of compulsory lending would be much greater than the dollar value of the reduction in consumption which it would accomplish.

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These considerations suggest that, if use is made of compulsory lending at all, it should be recognized that its anti-inflationary effect will be largely restricted to the lower income levels and supplementary devices would have to be adopted to restrict adequately spending in the higher levels of income.

2. Compulsory Saving In the forms in which it has been publicly discussed, there would be permitted, as offsets against compulsory lending to the Government, various forms of voluntary saving such as the payment of insurance premiums, the repayment of debt, and the voluntary purchase of war bonds. Such offsets are steps in the direction of converting compulsory lending into compulsory saving.

By compulsory saving is meant a legal requirement that every family or single individual save a specified fraction of income. Compulsory saving differs from compulsory lending. Compulsory saving necessarily contributes to the control of inflation, compulsory lending need not. An individual might lend to the Government and yet not save, simply by lending out of previously accumulated assets. An individual might save and yet lend nothing to the Government. What is primarily significant for inflation control is the reduction in spending.

In principle, compulsory saving could provide a completely effective solution to the inflation problem. The total amount allotted for expenditures on consumers' goods by all individuals and families could be fixed at the level of available supplies by requiring that the difference between total income and total available supplies be saved in one form or another.

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A progressive system of compulsory saving would have exemptions and graduation, just as would a progressive system of compulsory lending. For instance, a married person with no dependants might not be required to make any saving at all out of the first \$1,000 of income. Out of the next \$500 of income he might be required to save 20 percent, out of the next \$500, 30 percent, and so on to a point where the spending of further increments of income for consumer goods and services would be prohibited.

If it were desired to make allowances for extraordinary expenses of various kinds, such expenses could be treated as credits against compulsory saving liabilities. Credits might be allowed also for personal taxes, rents, medical expenses, tuition and all forms of saving.

For instance, a single individual receiving income at the rate of \$2,500 during a given year might be required to save \$1,500 for that year. If he had to pay \$450 in personal taxes, \$400 for rent, \$50 for medical expenses, and \$100 for insurance premiums, these items would account for \$1,000 of his compulsory saving requirement, leaving \$500 that he would have to plan to save in other forms — war bonds, cash, bank deposits, etc. It should be noted that the saving requirement would be for the same year as that in which he received the income and would not represent an amount he would be required to turn over to the Government in a subsequent year.

This plan would solve one of the difficulties of simple compulsory lending plans, that is, the substitution by individuals of the new compulsory saving for voluntary saving which they would otherwise have made. It would also make it impossible for individuals to show fictitious "saving" merely through changing the form of previously accumulated capital. This plan would fix total individual savings: it would be irrelevant whether the individual

- 10 -

saved in one form or another, so long as he did not divert into current consumption funds he was required to save. The Government might borrow his funds directly, indirectly, or not at all (if he hoarded them). In any case, his dollars would not be on the market for goods. The Government might spend an amount equal to his saving without fear that its expenditures would exercise any inflationary pressure.

Compulsory saving would simplify the problem of raising funds for financing the war since individuals who were compelled to save would probably invest a large part of their saving in war bonds. To secure the fiscal advantages of compulsory lending discussed above, it could be required that a stated proportion of amounts saved be lent to the Government for the period of the war -- perhaps at zero interest. If such a compulsory lending requirement were added to compulsory saving, the requirement could be implemented through collection at the source.

It is absolutely crucial to this plan that a complete report be secured of the net change in any individual's capital position during the period in which he was obligated to save. In calculating the residual savings requirement of any individual, any purchase of assets or any savings credits would have to be offset against sales of assets, declines in deposits, etc. Only in this way could the compulsory saving plan be protected against being vitiated by the use of existing balances and credit.

Compulsory saving involves serious administrative difficulties. To help individuals keep their saving up to the level required by the law, it would probably be necessary to have quarterly returns. Whether an individual had complied with his compulsory saving requirement could not, however, be

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finally determined until the end of the period to which the requirement related, since neither his income nor his savings would be known accurately until then. An individual might unwittingly spend more than his allotment because of unanticipated fluctuations in income or expenditure needs, and in any case he could not know that he had complied with the saving requirement until after the event.

The required amount of saving could be insured by issuing licenses to purchase to all consumers only to the extent of the expenditures to which they were entitled; in this case compulsory saving would become Expenditure Rationing. Alternatively consumers might be required to pay a regular schedule of penalties for spendings above their exempt minimum; in this case compulsory saving would become a type of Expenditure Taxation. Further alternative sanctions for excess spending are criminal penalties, fines adjusted to the individual circumstances, or punitive compulsory lending requirements. None of these last three sanctions could be administered without considerable costs and hardships.

3. Expenditure Rationing Expenditure Rationing is the limitation of total consumer expenditures by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. In principle, rationed goods should include all consumers' goods that have any current cost in labor, materials, or facilities. The following classes of consumption goods and services, however, might well be excluded from Expenditure Rationing, each for separate reasons: rents, tuition, medical care, and possibly several other classes. Under expenditure rationing consumers' goods other than these could be bought only with one's ration

- 12 -

allowance, but the consumer would be free to spend his ration allowance on any commodities or services that he pleased. Furthermore, no limitation would be imposed on the use of income in non-consumption transactions, such as making gifts, paying taxes, paying insurance, buying real estate or securities, or saving in other ways. Business expenditures would, of course, be excluded from expenditure rationing.

Under expenditure rationing, the total amount allowed to be spent on rationed goods for the whole economy during any period would be set at a level equal to the estimated value of the supply of rationed goods to be available during that period. In making this computation, supplies would be valued at the price level which it was desired to maintain. Changes in the total expenditure ration would be made as the expected supply position changed. Since total purchasing power would be fixed at a level equal to the value of supplies available for purchase, average prices would remain relatively stable.

Expenditure rationing would yield no revenue directly. However, by limiting consumers' expenditures, it would force them to save in one form or another. Therefore, individuals would be likely to buy larger amounts of Government securities directly or to place their savings with institutions who could in turn buy larger amounts of Government securities. In any event, the Government would be free to borrow from individuals or banks an amount equal to individual saving without fear that such borrowing would be inflationary.

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The impact of any expenditure rationing program upon the various income groups would depend upon the bases adopted for allocating expenditures. If variations of income as well as size of family were factors in determining the permissible amount of expending allowed each individual, there would be inequality in permissible expenditures as between income groups. However, the expenditure rationing system could greatly reduce the inequalities in spending that prevail now. For example, a family of four with an income of \$1,500 might be allowed to spend the entire \$1,500 while a family with an income of \$50,000 might be permitted to spend no more than (say) \$10,000. It would be easier to reduce inequalities by limiting spending directly than by limiting it through taking away a part of income. On the other hand, remaining inequalities might be resented more deeply, because of their having direct government sanction.

Expenditure rationing would attack the problem of excessive consumer purchasing power directly, and would determine the ration allowance from an item (current income) that is in most cases readily ascertainable. For both of these reasons, the distribution of expenditure among individuals or income classes would be subject to more effective control than under a program of taxation or compulsory lending.

It would still be necessary to have specific rationing for some basic necessities that were disproportionately scarce. However, in the measure that people with large incomes would be able to spend less on scarce commodities under expenditure rationing, the need for specific rationing would be reduced. The administrative costs and the inconveniences of specific rationing would be kept at a minimum.

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An effective rationing system would require the use of a license to purchase, in coupon or other form. It might be possible to solve this problem without the use of both money and a coupon in every purchase. Such a solution has been explored in the Treasury, and we should be pleased to discuss it with you if you wish to go further into the administration of Expenditure Rationing.

The distribution of ration coupons or allowances could be integrated very closely with the present system of payment of incomes:

- (a) Persons employed for wages or salaries would file statements with their employers showing their marital and dependency status. On the basis of these returns, the employers would distribute to them the correct amount of ration allowances;
- (b) Persons receiving income other than wages or salaries would report the amount of their income as well as their marital and dependency status to a bank, post office, or local rationing board. The institution to which this information was reported would be authorized to provide individuals with ration allowances in accordance with the expenditure rationing schedule;
- (c) Persons with irregular incomes, seasonal incomes, or living by depleting capital, would require special consideration in the determination of their ration allowances.

A partial check on the accuracy of ration allowances would be obtained by requiring individuals to reconcile the income declared for the purpose of obtaining ration allowances with the income declared for income tax purposes.

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For consumers, such a system would have an internal self-endorsing element, since the exaggeration of income would lead to additional tax liabilities, while the under-statement of income would diminish the size of the ration allowance.

The above description of expenditure rationing touches only on its most salient features. We have gone into expenditure rationing in the Treasury in great detail and shall be glad to give you a more extended study of this subject, should you be interested in exploring it further.

4. Expenditure Taxation Expenditure taxation has already been the subject of some public discussion in connection with the recent proposal for a spendings tax submitted by the Treasury to the Senate Finance Committee during consideration of the Revenue Act of 1942. We are not concerned in this letter with the details of that proposal but rather with the general question of the way in which a progressive spendings tax would bring about the limitation of consumer expenditure necessary to avoid inflation.

The spendings tax would be a tax on consumption rather than on income. It would provide for exemptions and for graduated rates. It would impose a penalty on all spending above the minimum subsistence level, a penalty that would become increasingly severe and even prohibitive as spending increased. Through graduation, it would be made to bear primarily on comforts and luxuries rather than on necessities.

For example, under a spendings tax a married person with no dependents might be allowed an exemption of \$1,000 a year. If he spent less than \$1,000 on goods and services he would pay no tax. A 10 percent tax might be levied on the first \$500 of consumption expenditure in excess of \$1,000, a 20 percent tax on the next \$500 and successively steeper taxes on additional

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increments of spending. The tax might ultimately reach rates of 100 percent or more. This would mean that an individual spending large sums on luxuries might be required to pay the Government as much as \$1.00 or more for every additional dollar he spent on consumers' goods.

All forms of savings would be exempt from the spendings tax. The more important non-taxable uses of income would be as savings for the purchase of war bonds and other capital assets, repayment of debt, life insurance premiums, as gifts and contributions, and as tax payments. In addition, it might be desirable to exempt from the spendings tax certain special types of expenditure, such as tuition fees, extraordinary expenses for medical care and perhaps rent and other items.

The spendings tax would reduce spending on consumers' goods and services in two ways: first, the amount paid in tax would be withdrawn from income and could not be used to purchase goods and services; second, by penalizing spending the tax would provide a powerful incentive to save rather than to spend. Although the savings induced by the spendings tax would not necessarily be paid over to the Treasury, they nonetheless would be removed from the spending stream and be added to the pool of savings available, directly or indirectly, for financing the war.

A sufficiently severe spendings tax could reduce total consumer expenditures by any desired amount, and at the same time contribute to a more equitable distribution of the scarce supply of consumers' goods than would prevail without the tax. The exemption provision would enable persons with small incomes to obtain basic subsistence needs free of tax, while the steeply graduated tax rates would operate to bring about a greater proportionate reduction in spending by those persons whose large expenditures

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would subject them to the higher penalty rates. Individuals would be given a reward for saving in a way which is not possible with a conventional income tax. By reducing their spending individuals and families would reduce their tax liability and thereby increase the funds available to them for expenditure without penalty after the war or when economic conditions become such as to permit abandonment of the tax.

In addition to controlling the total volume of expenditure and its distribution among individuals the spendings tax would provide some revenue to the Treasury to finance the war and, by reducing expenditures for consumption, it would undoubtedly increase the voluntary purchase of war bonds. It would also encourage the repayment of debt and other forms of savings, since these too would be free of tax.

The successful administration of a spendings tax would not require that individuals keep a detailed record of all their expenditures. All that would be necessary in addition to the information already required for the income tax would be information to determine changes in capital position of the same kind as would be needed under compulsory saving. The total taxable expenditures of an individual are equivalent to his net income, minus or plus the net change in his assets during the year. His taxable spendings could be determined, therefore, from his net income and from the assets he held at the beginning of the year and the assets he held at the end of the year.

The final determination of liability under the spendings tax would be made when the income tax return for the corresponding year was filed. A combined form could be used for the two taxes. However, collection of the tax would not have to be delayed until the tax liability was finally determined. Two methods could be used:

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- (1) The first bracket of the spendings tax could be collected at the source from all income paid in the form of wages and salaries, bond interest and dividends. Collection at source based on income instead of spending would involve no great hardship. The only persons who pay too much would be those who save part of their income and hence do not need for current consumption—although they may need for outstanding savings commitments—the extra amount withheld. Final adjustment of tax liability would be made with the filing of the return after the close of the year.
- (2) Individuals with expenditures subject to tax rates above the first bracket would be required at short intervals, say quarterly, to pay a tentative tax based on the approximate amount of their spending. A final adjustment of their tax liability would be made with the filing of a return after the close of the year.

This statement of the spendings tax is intended to be only a general exposition of its principal features. To bring out more fully its affect in restricting expenditure on consumption at every income level, it would be necessary to present a longer memorandum including a detailed schedule of tax rates, their probable yield, and their effect in inducing savings. We shall be glad to present such a study at a later time should you be interested in going into the possibilities of the spendings tax in greater detail.

.....

Each of the four general types of control over consumers' expenditures that are discussed above has some merit, but their merit is by no means equal. Compulsory lending might be the easiest to enact and administer, but it is uncertain in its effects on expenditure and dubious in its incidence. Any plan which makes possible substantial Treasury borrowing at zero interest, even for a few years, has a strong argument in its favor. Compulsory saving could in principle be both effective and equitable, but it has great administrative difficulties. Expenditure rationing could be effective, equitable, and administratively practical but (a) it would involve considerable administrative costs and (b) though it is capable of controlling expenditures and diminishing inequalities of consumption in a precise way, it might arouse considerable opposition by giving precisely defined inequality a legal sanction. Expenditure taxation is less certain in its results than expenditure rationing, but (a) it is easier to administer, (b) it yields some direct tax revenue, and (c) it permits greater freedom of choice to the individual both as to savings and spending.

For these reasons it is the Treasury's position that expenditure taxation should be first on the agenda for immediate consideration.

In September, the Treasury urged that a spendings tax be enacted. This does not mean that the Treasury regards the choice from among the methods discussed above as a closed issue, nor does the Treasury feel that we must necessarily adopt one of them to the complete exclusion of the others. Indeed, the spendings tax proposal submitted by the Treasury to the Senate Finance Committee also incorporated compulsory lending at zero interest. The Treasury

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has also given considerable study to expenditure rationing and submitted a memorandum embodying the results of its studies to the President through Judge Rosenman on July 30, 1942.

We would be glad to discuss these questions with you further at your convenience, and a more extended analysis of each of the alternatives may be considered at that time.

We are restricting this letter to the discussion of the control of consumer expenditures. We shall submit our views on the use of subsidies at a later time.

October 31, 1942.

Dear Allans:

In the absence of the Secretary I acknowledge receipt of your letter of October 29, 1942, enclosing a memorandum from the executive officers of the principal member banks in New York City, setting out their views on certain aspects of the Treasury's financing problems.

I am glad to have this and I am sure the Secretary will be interested in reading it upon his return.

Sincerely yours,

S/DAN

Mr. Allan Spraul
President
Federal Reserve Bank
New York, N. Y.

DWB:ew

**FEDERAL RESERVE BANK
OF NEW YORK**

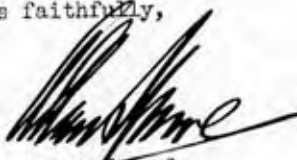
October 29, 1942.

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

Dear Secretary Morgenthau:

I have been asked to place before you the enclosed memorandum, subscribed to by executive officers of the principal member banks in New York City, giving you their views on certain aspects of the Treasury's financing problems. As in the case of the similar communications which I presented or sent to you in April or May of this year, I commend this memorandum to you for your earnest consideration. I share entirely the views which it expresses.

Yours faithfully,



Allen Sprout,
President.

Enc.

New York, N. Y.,
October 29, 1942.

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

Dear Secretary Morgenthau:

The principal member banks in New York City, having in mind their communication to you last April, in which they gave expression to their desire to assist, wherever they could be helpful, in meeting the problems of government financing, have continued to give these problems their earnest attention.

The matter of greatest concern, and with respect to which we are in full agreement with the position consistently taken by the Treasury, is the need for marketing increased amounts of government securities outside the banks. A secondary problem is to spread bank purchases of government securities throughout the country, thus avoiding undue reliance on purchases in the principal money centers.

Since last spring, substantial progress has been made in selling government securities to others than banks, through the medium of the payroll deduction plan, the increased sales of Series E, F and G War Savings Bonds through other channels, the sale of the so-called tap issue of 2 1/2 per cent bonds, the sale of tax savings notes, and the sale of market issues to non-bank investors. At the same time, the organization for these sales has been enlarged and strengthened.

On the other hand, the amount of money to be borrowed has been increased as the war program has further expanded, and the amount of money to be borrowed from the banks appears likely to be even larger than the estimates of last spring, unless further and more vigorous steps are taken for the sale of government securities outside the banks. If the banks double their holdings of government securities between July 1, 1942 and June 30, 1943, which would mean the purchase by them of \$24 billion of such securities during this fiscal year, the aggregate amount of government securities to be sold outside the banks, including sales of War Savings Bonds, would be \$36 billion.

It is our belief that any such sum cannot be sold outside the banking system unless there is a more intensive organization of the selling effort and some modification of marketing technique. In broad outline, the next steps in the development of such a program seem to us to be as follows:

1. Appointment by the Secretary of the Treasury of a person especially qualified by reputation, sales ability, and energy to unify the command of the whole selling campaign, including War Savings Bonds, other non-market issues, and market issues. Such a person should devote his entire time to the direction of the sales program and be directly responsible to the Secretary and the Under Secretary of the Treasury.
2. An expansion and coordination of the present sales organizations so that they can effectively reach every possible buyer in every city, town and village of the country.

3. A further national program of education to make clear to the banks, the large investors and the small investors their part in the war financing program.
4. A lengthening of the period during which subscription books for Treasury offerings are open, except in the case of such securities as Treasury bills, Treasury certificates, or similar offerings the amount and character of which make this unnecessary. It is our view that other offerings should be made less frequently and for larger amounts, the terms to be announced sufficiently in advance of the offering to permit a national sales campaign to be organized, and the selling period to be adequate for the completion of a national drive outside and inside the banking system.
5. The further development of a security designed for sale to non-bank investors in unlimited amounts. For example, a long-term 2 1/2 per cent bond, available to others than banks in unlimited amounts, with provision for its purchase on an installment basis, direct from the Treasury or with the aid of installment loans to the purchasers by financial institutions.

This statement of views has been considered by the executive officers of the principal member banks of New York City whose names appear below, and is given to you with their unanimous endorsement and with a renewed expression of their desire to cooperate in an active and aggressive campaign of distribution of government securities.

Winthrop W. Aldrich
J. Stewart Baker
John E. Bierwirth
W. Randolph Burgess
Charles D. Dickey
Leon Fraser
E. Chester Gersten
Frank K. Houston
Herbert P. Howell
Dunham B. Sherer
H. S. Tenney
B. A. Tompkins
J. C. Traphagen
Henry P. Turnbull
R. C. Von Elm
Harry E. Ward

Chairman
Chairman
President
Vice Chairman
Vice President
President
President
President
Chairman
Chairman
Vice President
Vice President
President
Vice President
Vice Chairman
Chairman

Chase National Bank
Bank of the Manhattan Company
New York Trust Company
National City Bank of New York
J. P. Morgan & Co., Incorporated
First National Bank
Public National Bank and Trust Company
Chemical Bank and Trust Company
Commercial National Bank and Trust Company
Corn Exchange Bank Trust Company
Marine Midland Trust Company
Bankers Trust Company
Bank of New York
Central Hanover Bank and Trust Company
Manufacturers Trust Company
Irving Trust Company

William C. Potter, Chairman.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Column A shows Federal Reserve operations in millions of dollars as follows:

Market purchases 1/.....	+
Market sales 1/.....	-
Direct purchases from Treasury.....	+d
Maturities.....	-

Column B shows price changes in 32nds, except for certificates which are true decimals.

STRICTLY CONFIDENTIAL

[illegible]

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

Reviewed.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Column A shows Federal Reserve operations in millions of dollars as follows:

Market purchases 1/.....	+
Market sales 1/.....	-
Direct purchases from Treasury.....	+d
Maturities.....	-d

Column B shows price changes in 32nds, except for certificates which are true decimals.

STRICTLY CONFIDENTIAL

Last Week														Full Week		Index	Description	This Week									
Oct. 19		20		21		22		23		24		Full Week		Oct. 26				27		28		29		30		31	
A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B			A	B	A	B	A	B	A	B	A	B
														III. Tax-exempt securities													
														Treasury notes													
														1-3/4% 0 - 12-15 42													
														1-1/8% A - 6-15 43													
														1 0 - 9-15 43													
														1-1/8% B - 12-15 43													
														1 B - 3-15 44													
														3/4 A - 6-15 44													
														1 0 - 9-15 44													
														3/4 A - 3-15 45													
														Treasury bonds													
														3-3/4% 6 - 6-15 43-47													
														3-1/4% - 10-15 43-45													
														3-1/4% - 4-15 44-46													
														5 - 12-15 44-46													
														2-3/4% - 9-15 45-47													
														2-1/2% - 12-15 45													
														3-3/4% - 3-15 46-46													
														3 - 6-15 46-48													
														3-1/4% - 6-15 46-49													
														6-1/4% - 10-15 47-52													
														2 - 12-15 47													
														2-3/4% - 3-15 48-51													
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														2 - 12-15 48-50													
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														2-1/2% - 9-15 50-52													
														2-3/4% - 6-15 51-54													
														3 - 9-15 51-55													
														2-1/4% - 12-15 51-53													
														2 - 6-15 53-55													
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														2-7/8% - 3-15 56-60													
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														2-3/4% - 6-15 56-63													
														2-3/4% - 12-15 60-65													
														Guaranteed securities													
														GO 3/4% F - 5-1 47													
														UNDA 1-3/8% - 2-1 46													
														FVND 3 - 3-15 44-49													
														FVND 3-1/4 - 3-15 44-64													
														HSLC 3 A - 5-1 44-52													
														HSLC 1-1/2% B - 5-1 45-47													
														All tax-exempt securities													
														Market purchases													
														Market sales													
														Direct purchases from Treasury													
														Maturities													
														Total net increase or decrease(-)													

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

r Revised.

* Less than \$50,000.

✓ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

Regraded Unclassified

October 31, 1942

My dear Mr. President:

I have the honor to transmit herewith a report showing the status of funds provided by the Congress in the Emergency Relief Appropriation Act of 1935 (Public No. 11, 74th Congress); the Emergency Relief Appropriation Act of 1936 (Public No. 739, 74th Congress); the Emergency Relief Appropriation Act of 1937 (Public No. 47, 75th Congress); the Emergency Relief Appropriation Act of 1938 (Public No. 122, 75th Congress); the Emergency Relief Appropriation Act of 1939 (Public No. 24, 76th Congress); the Emergency Relief Appropriation Act, fiscal year 1941 (Public No. 89, 76th Congress); and the Emergency Relief Appropriation Act, fiscal year 1942 (Public No. 143, 77th Congress).

The report covers the period from April 8, 1935, the date of the approval of the Emergency Relief Appropriation Act of 1935, to the close of the fiscal year 1942.

Because of the reduction in the work-relief program, and in view of the demand for trained Treasury accountants by the Army, Navy, and other agencies engaged in the prosecution of the war, the Treasury Department has discontinued the handling of the accounting for emergency work-relief appropriations, effective July 1, 1942. Accordingly, this is the final report compiled by the Treasury Department under Executive Order No. 7034, of May 6, 1935, as amended and extended.

Faithfully yours,

(Signed) Henry Morgenthau, Jr.

The President,

The White House.

Original letter taken to
Mr. Bartelt's office 10/10/42

Copy in Diary.

EDWARD ARNOLD

October 31st, 1942.

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

My dear Mr Morgenthau:-

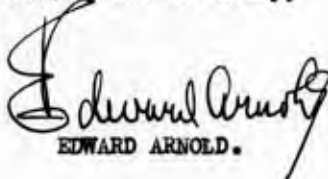
This is the first opportunity I have had to thank you personally for your fine gesture in sending me an autographed photo of yourself. It is duly framed and hangs in a very prominent place in my office next to my Treasury Department citation which I received from the Tennessee War Savings Staff.

I also wish to acknowledge the nice letter of appreciation you wrote me. We in Hollywood all feel very proud of the fine showing we made during the month of September on the War Bond Sales tours.

Off the record, I understand we are to take part in another drive in January, 1943. Please count me in on this, because nothing would give me a greater thrill and I do hope my commitments will not interfere with my participation in this next drive.

With all good wishes to you and Mrs Morgenthau, believe me to be,

Respectfully and cordially,


EDWARD ARNOLD.

EA/b

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 31, 1942

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of May 1942.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each
for the month of May 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A table was prepared on estimated yields and probable premiums on possible new Treasury issues, in regard to the 1½ percent Treasury note due December 15, 1946, and was transmitted to the Secretary on May 20. - Mr. Haas, Mr. Lindow, Mr. Conrad
2. Weekly memoranda were prepared on recent changes in prices and yields of Government securities. Five memoranda, each with two tables and a chart, were prepared, and were transmitted to the Secretary on May 1, 8, 15, 22, and 29. - Mr. Haas, Mr. Lindow, Mr. Brown, Mr. Sandelin, Mr. Conrad, Mr. Kroll
3. A maturity calendar was prepared as of May 1, for each issue of direct and guaranteed bonds, notes, and certificates of the United States. - Miss Lagos
4. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table and a weekly table with comparative data for earlier periods were prepared summarizing this information. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since

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1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Moody, Miss McCoy, Mr. Kroll

5. In response to the request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mrs. Barnes, Mr. D. J. Leahy, Miss Westerman, Mrs. Cambron, Mrs. Merkin, Miss Wood
- (a) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of 100 tables, showing the information as of April 30, received from banks and insurance companies. The tables were completed on May 27, and were transmitted according to instruction by the Secretary. - Mr. Tickton, Mr. Leahy, Mrs. Cambron, Mrs. Merkin, Miss Westerman, Mrs. Barnes, Miss Wood
 - (b) Tabulations were prepared, and were transmitted on May 16, to the Federal Reserve Banks of New York and Philadelphia, showing holdings of each issue of Government security in their respective districts, as of March 31. - Mr. Tickton, Mr. Leahy
 - (c) A tabulation was prepared, and was transmitted on May 16, to the Board of Governors of the Federal Reserve System, showing Government securities owned on March 31 by the banks covered in the survey. - Mr. Tickton, Mr. Leahy
 - (d) Monthly tables and charts were prepared, showing as of March 31, changes since June 30, 1941, in holdings of Government securities for the major classes of investors by type of security. - Mr. Robbins
 - (e) An analysis was prepared, showing the absorption of the public marketable debt in April. - Mr. Robbins
 - (f) A table was completed on May 12, showing ownership of privately-held marketable Government securities included in the survey, as of March 31. - Mr. Robbins

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- (g) A memorandum was prepared on May 12, on the effect of the Treasury's offering of a long-term issue for continuous sale upon life insurance companies' holdings of certificates of indebtedness. - Mr. Robbins
- (h) At the request of Mr. Upham on May 18, a tabulation was made to show the holdings of 492 mutual savings banks, by States, of direct and guaranteed United States securities, on December 31, 1941. The table was transmitted to Mr. Upham under cover of a letter on May 25. - Mrs. Barnes, Mr. Leahy
- (i) A dummy set of tables was made on May 19, from the survey, and was transmitted to the National Bureau of Economic Research under cover of a letter on May 27. - Mr. Tickton, Mr. Leahy
- (j) New letters were sent out to the banks and insurance companies on May 29, requesting comparable data as of May 29. - Mr. Tickton

6. At the request of the Secretary on May 12, 1941, arrangements were made to prepare current statistical reports on the sales of United States savings bonds, series E, F, and G, and Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during May were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. Reagh, Mr. Brown, Mr. D. J. Leahy, Mr. Kroll, Miss Schmidt

- (a) Daily tables were prepared, showing the dollar volume of bonds sold in May, by series, with cumulative totals. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (b) Daily tables were prepared, comparing cumulative sales of bonds, by series, in April and May. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (c) Daily tables were prepared comparing bond sales with the May quota, taking into account the daily trend within the week. - Mr. Reagh, Mr. Brown, Mr. Kroll

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- (d) Daily tables were prepared, beginning May 19, comparing daily bond sales with the May quota, taking into account the daily and monthly trends. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (e) A table was completed on May 2, showing sales of bonds, by series, by months, from May 1941 through April. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (f) A table was completed on May 18, showing sales of bonds, series E, and percent of volume, by denomination and by months, from May 1941 through March. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (g) Supervision was given in the preparation by the Statistical Unit of the Division of Loans and Currency of monthly tables, completed on May 22, showing sales of bonds, series E, for the month of April, in dollar volume, by Federal Reserve districts, States, cities, and counties, classified by sales agent and denomination. - Mr. Tickton, Mr. Leahy, Miss Schmidt
- (h) A table was completed on May 11, showing sales of bonds, series E, by States, by months, from May 1941 through March. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (i) Supervision was given the Statistical Unit of the Division of Loans and Currency in the preparation of a table completed on May 18, showing per capita sales of bonds, series E, from May 1941 through March, by States. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (j) A table was completed on May 12, showing the relative sales of bonds, series E, by States, and by months, January through March, 1942. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (k) Supervision was given the Statistical Unit of the Division of Loans and Currency in the preparation of a table completed on May 14, showing total sales in dollar volume of savings stamps, by States, from May 1941 through April. - Mr. Reagh, Mr. Brown, Mr. Kroll
- (l) A table was prepared on May 14, showing estimated total value of savings stamps, and the number of units sold, by denomination, by months, from May 1941 through April. - Mr. Reagh, Mr. Brown, Mr. Kroll

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7. In further response to the request of Mr. Graves on February 10, for the tabulation of pledges for the purchase of savings bonds, series E, and savings stamps, in Oregon, supervision is being given in the tabulation by the Statistical Unit of the Division of Loans and Currency now in progress. - Mr. Reagh, Mr. Kroll
8. In further response to the request of the Secretary on December 31, weekly tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type of agent and Federal Reserve district, for May 5, 12, 20, and 27. One copy of each report was transmitted to Under Secretary Bell, and 12 copies of each to Mr. Mills, on May 12, 19, 27, and 30. - Mr. Tickton, Mr. Kelenson
9. At the request of Mr. Graves on April 1, quotas were worked out for each county in the country separately for savings bonds, series E, and combined for series F and G, for May, June, and July. On May 12, tabulations of June quotas were made, and were mailed by the War Savings Staff to the State Administrators for comment. State totals were released to the press on May 25. - Mr. Reagh, Mr. Brown, Mr. Kroll, Mrs. Grossman
10. In response to the request of the Secretary on December 15, arrangements have been made to obtain monthly reports from corporations on the progress of the payroll savings plan for savings bonds, series E. The information received is edited and prepared as a basis for the analyses listed below. - Mr. Haas, Mr. Tickton, Mr. Keats, Mr. Kelenson, Miss Westerman
 - (a) Supervision was given the Statistical Unit of the Division of Loans and Currency in preparing the basic information as of April 30, received from approximately 22,000 corporations. - Mr. Tickton, Mrs. Barnes, Mrs. Cambron, Mrs. Merkin, Mr. Seligman
 - (b) A memorandum and table were prepared from reports received in response to our letter of April 28, from 12,295 companies participating in the payroll savings plan during March. The table showed the companies classified by size group, by degree of

employee participation, and payrolls. The report was transmitted to the Secretary on May 25. - Mr. Tickton, Mr. Kelenson, Mr. Seligman

- (c) Tables were prepared showing the number of corporations acting as issuing agents for bonds purchased by their employees under the payroll savings plan, and the progress of the Federal Reserve Banks in appointing corporations with 500 or more employees as issuing agents. The tables were prepared as of May 2, 9, 16, and 23, and were transmitted to the Secretary on May 5, 12, 20, and 27, respectively. Copies were given to Under Secretary Bell, Mr. Graves, Mr. Batchelder, and Mr. Mills. - Mr. Tickton, Mr. Kelenson, Mr. Keats

11. At the request of the Secretary on April 24, a table was prepared, showing as of April 18, corporations participating in the payroll savings plan, having 500 to 5,000 employees, by States. The table was transmitted to the Secretary on May 1. Two copies were given to Mr. Graves, three to Mr. Mills, and one each to Mr. Gamble, Mr. Englesman, Mr. Houghteling, and Mr. O'Malley. - Mr. Tickton, Mr. Keats, Mr. Kelenson, Mr. D. J. Leahy, Mr. Parsons, Miss Schmidt
12. At the request of Mr. Graves on May 2, a list was transmitted to him on the same date, of names and addresses of the presidents of companies having 5,000 or more employees. - Mr. Parsons
13. At the request of the Secretary on May 2, data were prepared, and were transmitted to Mr. Gamble on the same date, showing degree of participation in the payroll savings plan in certain companies in Pittsburgh and Baltimore. - Mr. Tickton
14. At the request of the Secretary on May 5, data were prepared, and were transmitted to Mr. Gamble on May 6, showing degree of participation in the payroll savings plan in certain companies in New York, St. Louis, and Los Angeles. - Mr. Tickton
15. At the request of Mr. Gamble on May 14, certain figures on the payroll savings plan for April were transmitted to him on May 15, for use in a speech on May 18. - Mr. Tickton, Mrs. Cambron, Mr. Kelenson

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16. At the request of Under Secretary Bell on April 9, the Division was further represented in a conference on May 1, regarding the Treasury Department payroll allotment campaign for the purchase of savings bonds. Twelve minutemen were appointed on May 12 to canvass the Division and instructions were given them in a meeting on May 28. - Mr. Reagh, Mr. Kroll
17. At the request of Mr. Masters on May 1, a tabulation was prepared, and seven copies were transmitted to him on May 5, showing a geographic classification of issuing agents of series E bonds, excluding commercial and industrial corporations. - Mr. Leahy, Miss Schmidt
18. At the request of Mr. Olney on May 2, a classification of sales agents for savings bonds, series E, by counties, was prepared, and was transmitted to him on May 6. Supervision of the Statistical Unit of the Division of Loans and Currency was involved. - Mr. Leahy
19. At the request of Mr. Graves on May 9, cards on airplane and shipbuilding companies were transmitted to Mr. Mills on May 9, in connection with qualifying them as issuing agents of series E bonds. - Mr. Keats
20. Meetings to discuss issuing agents and sales of war savings bonds were attended on May 1, 4, and 5. - Mr. Tickton
21. At the request of Mr. Masters on May 8, figures on sales of savings bonds, E, F, and G, and on savings stamps for Illinois since May 1, 1941, were prepared, and were transmitted to him on the same date. - Mrs. Wolkind
22. At the request of Mr. Heffelfinger on May 12, figures on sales of savings bonds in Missouri were prepared, and were transmitted to him in St. Louis on the same date. - Mrs. Wolkind
23. At the request of Mrs. Betts of the War Savings Staff, on May 12, information on sales of savings bonds, series E, in March, and F and G in January and February, was prepared, and was transmitted to her on the same date. - Mrs. Wolkind

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24. A report was prepared on May 13 of a trip made to New York on May 7 and 8, to determine statistical information available in the office of the New York Savings Staff and the usefulness of the statistics of the Division to them. - Mr. Leahy
25. At the request of Mr. Gamble on May 14, a meeting on statistics of sales of savings bonds was attended at the Federal Reserve Bank of New York on May 18. April sales figures were transmitted to Mr. Ford of that Bank on May 20. - Mr. Tickton
26. At the request of Mr. Graves on May 25, arrangements were made to have preliminary figures on sales of savings bonds, E, F, and G, available by the seventh day after the close of each month. - Mr. Leahy, Mr. Keats
27. At the request of Mr. Bergelin of the Board of Governors of the Federal Reserve System on May 26, figures on March sales of savings bonds in the twelfth Federal Reserve district and for the United States in April were transmitted to him on May 27, for use of the Federal Reserve Bank of San Francisco. - Mrs. Wolkind
28. At the request of Mr. Graves, on May 26, the Office of Facts and Figures was requested to make a sample of public opinion on making war savings stamps non-redeemable for cash. This survey was discussed with OFF on May 29, and the results were given to Mr. Kuhn. A memorandum of these conversations was prepared on May 30. - Mr. Lindow, Mr. Tickton
29. At the request of the Secretary on May 20, beginning on May 22, 36 charts were transmitted to him, comparing the volume of bonds sold daily since the beginning of the month with the quota for May, by Federal Reserve districts. - Mr. Tickton, Mrs. Wolkind
30. At the request of Admiral Conard and Captain Eubank on May 28, analyses of reports on the operation of payroll savings plans in Government departments will be supplied them as prepared. - Mr. Tickton

31. In further response to the request of the Secretary on April 27, concerning the time taken for a selected group to obtain delivery of savings bonds purchased by mail or under the payroll savings plan, the suggested procedure that the information be obtained through the Federal Reserve Banks was approved. Letters requesting the Federal Reserve Banks to secure this information were mailed on May 7. Tables summarizing the data received as of May 15 and 22 were transmitted to the Secretary on May 25 and 28, respectively. - Mr. Tickton, Miss Westerman
32. In further response to the request of the Secretary on April 27, additional progress was made in the arrangements being made to prepare a room for the Secretary's use containing charts showing the status of the savings bond campaign. There will be about 600 charts showing daily, weekly, and monthly data on the operation of the payroll savings plan in firms throughout the country. The first of these charts were completed in May. - Mr. Tickton
33. At the request of Miss Crook of the War Savings Staff on May 9, information on the average interest rate paid by savings banks, was transmitted to her on May 11. - Mr. Wagner
34. At the request of Miss Crook, a review was made of a manuscript on bonds which was to be circulated among women's clubs for discussion of aspects of war financing. Criticism of the manuscript was given in a conference with Miss Crook on May 5. - Mr. Wagner
35. In further response to the request of the Secretary on July 28, 1941, tables were prepared, summarizing sales from August 1941 through April, of Treasury notes, Tax Series A and Tax Series B, by series, type of purchaser, and denomination. The tables were transmitted to the Secretary on May 14. Copies were given to Under Secretary Bell, Assistant Secretary Sullivan, Mr. Buffington, and Mr. Kilby. - Mr. Tickton, Mr. Kelenson
36. Further progress was made in the study requested by the Secretary on December 6 of the sources of funds for Government borrowing. The reports and tables prepared during May were transmitted in accordance with instructions by the Secretary. - Mr. Haas, Mr. Daggit, Mr. Lindow, Mr. Breithut, Mr. Weintraub, Mr. Mayo

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- (a) A memorandum and table were completed on May 1, embodying the reconciliation of the February 4th and the April 14 editions of Table 1 of the disequilibrium analysis. - Mr. Mayo
- (b) A revision was completed on May 13, of the basic, analytical table on the gross national product, showing the disequilibrium implicit in the estimated flow of goods and services, and the estimated application of income to various uses, for the fiscal year 1943. - Mr. Lindow, Mr. Breithut, Mr. Mayo
- (c) Further revision was made of the table showing estimated sources of funds to finance the budgetary deficit for the fiscal year 1943, and was completed on May 13. - Mr. Lindow, Mr. Breithut, Mr. Mayo
- (d) An appendix to the table listed under (c) was completed on May 13, containing a detailed analysis of personal savings, business savings, and other corporate savings and accumulations for the fiscal year 1943. - Mr. Lindow, Mr. Breithut, Mr. Mayo
- (e) A memorandum was completed on May 14, on business tax reserves for fiscal 1943. - Mr. Mayo
- (f) A memorandum, with table, was completed on May 15, analyzing the estimates of Federal revenue for fiscal 1943. - Mr. Mayo
- (g) A memorandum was completed on May 16, on the increase in monetary stock forecast for fiscal 1943. - Mr. Mayo
- (h) A table was completed on May 21, comparing the maturities of the public debt, as of June 30, 1942 and 1943. - Mr. Lindow, Mr. Robbins, Mr. Mayo
- (i) An estimate is being prepared of the distribution of ownership of the public debt, as of June 30, 1942 and 1943. - Mr. Mayo, Mr. Robbins
- (j) A memorandum was completed on May 27, on the volume of excess reserves of banks necessary to absorb bank purchases of Federal securities during fiscal 1943. - Mr. Lindow, Mr. Mayo

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- (k) The chart being developed to present the disequilibrium analysis temporarily is in abeyance. - Mr. Lindow, Mr. Breithut, Mr. Mayo
 - (l) A revision was completed on May 15, in connection with the estimate of the gross national product to incorporate the May 1942 revision of the national income. - Mr. Daggit, Miss Smith, Miss Spiegel
 - (m) Further study was made of the curtailment in output of consumers' goods. - Mr. Weintraub
37. At the request of Under Secretary Bell, agenda, memoranda, and minutes were prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financing policy. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mrs. Miller
- (a) A memorandum, with two tables, was completed on May 12, on the excess reserves under the present and proposed classification of member banks. - Mr. Lindow
 - (b) At the request of Under Secretary Bell on May 19, pricing estimates were prepared for a discussion on refunding financing which took place on May 20 in the Secretary's office, and was followed by an afternoon meeting with representatives of the Federal Reserve System. - Mr. Lindow
 - (c) A memorandum was completed on May 21, on excess reserves under the present classification and two plans for reclassification of member banks. - Mr. Lindow, Mrs. Miller
 - (d) At the request of Under Secretary Bell on May 26, a table was prepared, and was transmitted to him on May 28, on the estimated effect of the purchase of additional amounts of Government securities upon the reserve position of member banks. - Mr. Conrad, Miss Parker
 - (e) At the request of the Secretary on May 27, a memorandum was prepared outlining a proposed increase in the bill program and reviewing the situation with respect to excess reserves. The memorandum was delivered to the Secretary on May 28. - Mr. Lindow

- (f) A memorandum and two tables were prepared, which were completed on May 29 on the factors of change in reserve balances of member banks in the New York Federal Reserve District. - Mr. Weintraub
 - (g) In further reponse to the request of Under Secretary Bell on February 20, a study is being made of a special security for short-term funds. - Mr. Murphy, Mr. Lindow
 - (h) In further response to the request of Under Secretary Bell on February 20, a study is being made of a special security for long-term funds. - Mr. Murphy, Mr. Lindow
 - (i) At the request of Mr. Broughton on April 30, a review is being made of the revised, proposed circular for short-term non-market securities. - Mr. Murphy, Mr. Foy
 - (j) Minutes are being prepared of three meetings held on April 29, with the Advisory Committee of Bankers. - Mr. Murphy
38. At the request of Mr. Kamarek, two tables were prepared, and were transmitted to him on May 14, analyzing the production of airframes from January through March 1942. - Mr. Tickton, Mr. Leahy
39. At the request of the Secretary on November 3, arrangements have been made to obtain certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps. - Mr. Haas, Mr. Lindow, Mr. Wagner
- (a) A chart is being prepared to show appropriations, allocations, obligations, and disbursements, for Lend-Lease purchases, through May 31.
 - (b) A chart is being prepared to show appropriations, contracts awarded, and disbursements of the Maritime Commission through May 31.
 - (c) A chart is being prepared to show appropriations, contracts awarded, and disbursements, under the Army Air Corps, through May 31.

40. Three conferences in the Under Secretary's and Mr. Haas' offices were attended on May 18, 22, and 23, to discuss financing problems. - Mr. Lindow
41. In further response to the request of Mr. Buffington on April 6, a memorandum and tables were prepared on prospective new capital issues, and were transmitted to him on May 19. - Mrs. Miller, Miss Parker
42. At the request of Under Secretary Bell on May 11, a letter was prepared addressed to the Federal Housing Administration containing a recommendation for the interest rate for the new ten-year FHA debentures. The letter was transmitted to the Under Secretary on May 28. - Mr. Lindow, Mr. Wagner, Mr. Mayo
43. Three tables were prepared on May 19, showing ownership of the maturing Treasury, RFC, and HOLC note issues, including the amount owned by the 25 largest holders of each issue. - Mr. Tickton, Mrs. Wolkind, Mrs. Merkin
44. A memorandum was prepared, and was completed on May 28, analyzing subscriptions to certificates of indebtedness. - Mr. Robbins
45. A memorandum was prepared, and was completed on May 25, on the bond market decline in March-April 1937. - Mr. Wagner
46. At the request of Mr. Buffington on May 6, a table was prepared, and was transmitted to him on that date, on the general features of the 2½ percent Treasury bonds of 1962-67 compared with savings bonds, series G. - Mrs. Miller, Miss Parker
47. At the request of Under Secretary Bell on March 30, a study was completed of replies to the circular letter of March 20 from the Secretary to 7,500 owners of series F and G savings bonds. The findings were discussed with the Secretary at several meetings. - Mr. Haas, Mr. Murphy
48. At the request of the Division of Tax Research on May 6, a memorandum was prepared, and was transmitted to Mr. Ecker-Racz on May 8, transmitting two tables on the maturity schedule of and schedule of interest payments on privately-owned wholly tax-exempt securities of the United States and of Federal instrumentalities outstanding on February 28, 1942. - Mr. Conrad, Mrs. Miller, Miss Parker

49. At the request of Mr. Blough on May 26, a table was prepared, and was transmitted to him on May 28, comparing various features of Treasury securities currently offered to the public. - Mr. Lindow, Mr. Sandelin, Mrs. Miller
50. A memorandum was prepared on May 6, in connection with a question raised by Mr. Buffington on the reported sale of a utility to the City of Cleveland whereby tax-exempt bonds would be issued. - Mr. Lindow, Mr. Conrad
51. At the request of Under Secretary Bell on May 1, a reply was prepared for signature of the Secretary in response to a letter from Mr. Alfred B. Sloan, concerning a special type of merchandise bond. The letter was transmitted to the Under Secretary on May 6. - Mr. Lindow, Miss Parker
52. At the request of Mr. Bartelt on May 4, a memorandum was prepared, and was transmitted to him on May 5, with regard to suggestions for the "Handbook for Minute Men". - Mr. Lindow, Mr. Foy
53. A memorandum was completed on May 12, regarding proposals to change the basis of levying assessments for deposit insurance. - Mr. Lindow, Mr. Sandelin
54. At the request of the Office of the General Counsel on April 11, a memorandum was prepared on H.R. 6886, a bill to provide for tolls with respect to the use for commercial navigation of the improved inland waterways of the United States, for the purpose of reimbursing the United States for expenditures made in improving such waterways. The memorandum was transmitted to the Legal Division on May 12. - Mr. Lindow
55. At the request of Under Secretary Bell on April 20, a review was made, and a revision was prepared of a proposed report for signature of the Secretary to Representative Patman, with respect to H.R. 6391, a bill to provide for issuance of non-negotiable United States bonds to Federal Reserve Banks and terminating the authority of the Treasury to issue other interest-bearing obligations of the United States to commercial banks, and for other purposes. A memorandum concerning the report was transmitted to Under Secretary Bell on May 8. - Mr. Murphy

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56. At the request of Mr. Reeves of the Legal Division on May 14, a review was made of a letter on S. 2508, and a memorandum was prepared analyzing section 5 of the bill, and was transmitted to Mr. Reeves on May 16. - Mr. Tickton, Mrs. Wolkind, Mr. Robbins

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Murphy
2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad
3. A memorandum is being prepared on a negotiable security for continuous sale. - Mr. Murphy
4. A study is being made of developments in the reserve position of the banks. - Mrs. Miller
5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. - Mr. Conrad
6. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Sandelin
7. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad
8. At the request of Mr. Surrey on January 1, a study is being made of the amortization of bond premium and discount. - Mr. Murphy
9. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by war loan drives. - Mr. Murphy
10. At the request of Assistant Secretary Gaston on January 20, a review is being made of "A Memorandum on Financing the War", by Mr. Robert L. Owen. - Mr. Murphy
11. A study is being made of the post-war effects of a large volume of demand debt. - Mr. Murphy, Mr. Lindow

12. A study is being made of the sources of funds available for borrowing by the British Government comparable to the study in progress for this country, as described in Financial Analysis, I, item 36. - Mr. Weintraub
13. In further response to the request of the Division of Tax Research on March 30, cooperation is being given in preparing a report on tax-exempt securities. - Mr. Murphy, Mr. Lindow, Mr. Conrad
14. At the request of Mr. George F. Milton, Consultant, War Savings Staff, on March 23, a complete file of tables is being prepared giving the history of sales of savings bonds, E, F, and G. - Mr. Reagh
15. At the request of Mr. Buffington on April 10, a memorandum is being prepared on new capital issues used to refund bank loans. - Mr. Murphy
16. A memorandum is being prepared on the relationship of selective control of bank credit and of new capital issues. - Mr. Murphy
17. At the request of Under Secretary Bell on April 21, a study is being made of currency in circulation. - Mr. Weintraub, Mr. Wagner
18. At the request of Mr. Bartelt on April 13, a memorandum is being prepared on revisions of the Daily Treasury Statement, Annual Report, and Public Debt Statement. - Mr. Murphy, Mr. Lindow, Miss Eyre
19. At the request of Mr. Buffington on April 15, a memorandum is being prepared on the implications for Treasury financing of the enforcement by the Securities and Exchange Commission of the Public Utility Act of 1935. - Mr. Murphy
20. At the request of Mr. Sloan on April 18, a table is being prepared showing expenditure patterns of specified family incomes and the relation of sales of war savings bonds to living costs. - Mr. Wagner
21. Comments are being prepared on a proposal by Mr. Alexander Sachs on May 12, for issuance of a 12-year bond. - Mr. Reagh

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22. A plan for issuance of annuity certificates and bonds in exchange for matured war bonds is being worked out in detail. - Mr. Reagh
23. At the request of Under Secretary Bell on May 29, a report is being prepared on a bill to be introduced in Congress "to amend sections 12(a) and 19 of the Federal Reserve Act". - Mr. Lindow
24. At the request of Under Secretary Bell on May 31, 1940, replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125, 76th Congress, 3rd Session. - Mr. Haas, Mr. Murphy
25. At the request of Under Secretary Bell on June 16, 1941, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal budget in times of peace. A proposed reply was sent to the Under Secretary on June 18, 1941. - Mr. Murphy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period May-June 1942, and fiscal 1943. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher
2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in April 1942 on the daily Treasury statement basis. - Mr. Delcher
3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in April 1942, based on the collections classification. - Mr. Delcher

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4. Analysis was completed on May 28, of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith
5. A review was made of revenue estimates made in April from 14 taxes included in miscellaneous internal revenue taxes, excluding capital stock, estate, and gift taxes, on which changes in rates have been proposed by the Treasury, and certain revisions were made. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith
6. In connection with the proposed revenue bill of 1942, a number of revenue estimates, listed below, were prepared at the request of Mr. Paul, Mr. Tarleau, and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Jorgensen, Mr. Lusk
 - (a) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on May 1, of the revenue yield and number of individuals affected by the proposal to limit net income after taxes to a maximum of \$25,000. - Mr. Smith
 - (b) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on May 1, in considerable analytic detail on the proposal listed in item (a) above. - Mr. Smith
 - (c) Estimates were completed, and were transmitted in two memoranda to Mr. Blough on May 1, of revenue yield from the tax on capital gains and losses assuming certain modifications. - Mr. Smith, Mr. Leahey
 - (d) An estimate was prepared, and was transmitted in a memorandum to Mr. Tarleau on May 6, of the flat percentage rate on long-distance telephone calls necessary to yield the revenue which would be raised under the bracket rates proposed by the Treasury to include only certain toll messages. - Mr. Kelly
 - (e) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on May 8, of the effects of specified reductions of personal exemptions and dependent credits. - Mr. Smith

- (f) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on May 12, of the revenue effect of specified reductions of personal exemptions and dependent credits, on the bases of two surtax rate schedules, respectively. - Mr. Smith, Mr. Kelly
- (g) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on May 12, of the yield from the Treasury proposed surtax schedule adjusted for the corporation tax proposals of the Committee on Ways and Means. - Mr. Smith
- (h) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on May 14, of the combined yield from the individual income tax on five assumptions. - Mr. Kelly
- (i) Estimates were prepared, and were transmitted in two tables to Mr. Paul and to Mr. Blough, on May 14, of returns and yields from the individual income tax on three bases; and of yields from corporation and individual income taxes under various proposed changes in the law. - Mr. Kelly, Mr. Smith
- (j) Estimates were prepared of the yield from various proposals for changes in the corporation and individual income taxes, and were transmitted in a table to Mr. Paul and to Mr. Blough on May 15. - Mr. Kelly, Mr. Smith
- (k) A revision was made of the estimate of April 15, and was transmitted in a memorandum to Mr. Blough on May 16, of the revenue effect of amending the tax treatment of individual capital gains and losses proposed by the Treasury. - Mr. Smith
- (l) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on May 19, of the revenue effect of a withholding tax at a specified percentage and on a specified basis, by net income classes. - Mr. Smith, Mr. Kelly

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- (m) An estimate was completed, and was transmitted in a memorandum to Mr. Blough on May 20, of the number of taxpayers under sales taxes comparable with Treasury estimates of sales tax revenue yields. - Mr. Smith, Mr. Jorgensen
- (n) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on May 26, of the revenue from the Federal estate tax. - Mr. Lusk, Mr. Smith
- (o) Estimates were prepared, and were transmitted in a table to Mr. Blough on May 26, of the revenue effect of changes in excise taxes proposed by the Treasury Department. - Mr. Kelly, Mr. Jorgensen
- (p) An estimate was completed, and was transmitted in a memorandum to Mr. Blough on May 27, of the revenue from a specified modification of treatment of capital gains and losses. - Mr. Kelly, Mr. Smith
- (q) The following material was prepared, for reproduction in the confidential Committee print, of data on the proposed revenue bill of 1942, submitted to the Committee on Ways and Means of the House of Representatives: Exhibit 60, Part 6, p. 151; Exhibit 71, Part 7, l. 163; Exhibit 72, Part 7, p. 164; Exhibit 80, Part 9, pp. 202-203; Exhibit 81, Part 9, pp. 204-205; Exhibit 84, Part 10, pp. 210-211; Exhibit 85, Part 11, pp. 213-215; Exhibit 86, Part 11, p. 216; Exhibit 87, Part 11, pp. 217-219; Exhibit 89, Part 12, p. 226; Exhibit 91, Table 6, Part 12, pp. 235-237; Exhibit 95, Part 13, p. 247; Exhibit 98, Part 14, p. 252; Exhibit 99, Part 14, p. 253; Exhibit 108, Part 15, p. 271; Exhibit 110, Part 16, pp. 273-275; Exhibit 114, Part 17, pp. 283-285; Exhibit 123, Part 17, p. 293; and Exhibit 137, Part 19, p. 324. - Mr. Leahy, Mr. Kelly, Mr. Smith
- (r) The estimate which was being made of the revenue if mutual non-life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable as stock non-life insurance companies taxable under Section 204, and the exemption under Section 101(11) were restricted to local mutual companies of the assessment type, has been superseded by Committee action taken on the estimate submitted to Mr. Blough on March 2.

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- (s) The breakdown which was being made of the income and tax figures before and after the proposed change in the excess-profits tax credit has been made obsolete by Committee action.
- (t) The estimate which was being made of percentage depletion was made unnecessary by the estimate submitted to Mr. Blough on April 6.

II. Projects or studies under way

1. Further progress has been made on the analysis of each component of the April revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Mr. Golclough
2. In connection with the proposed revenue bill of 1942, a number of revenue estimates, listed below, are being prepared at the request of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Lusk, Mr. Delcher
 - (a) An estimate is being made of the revenue which would result if the Canadian corporate tax system were substituted for the present system in this country. - Mr. Lusk
 - (b) An estimate is being made of the total revenue and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure. - Mr. Lusk
 - (c) An estimate is being prepared of the increase in revenue under the present and the proposed rates from adoption of (1) the Wood Plan and (2) mandatory joint returns. - Mr. Kelly, Mr. Smith
 - (d) Estimates are being prepared of the yield from a specified withholding tax; a compulsory savings tax; and a specified war consumption tax. - Mr. Kelly, Mr. Smith

- (e) An estimate is being prepared of the revenue effect of the proposed formula for taxing corporations with fiscal years ending on dates other than December 31. - Mr. Leahey
 - (f) An estimate is being prepared of the revenue effect of limiting the deduction for bequests to 50 percent of the net estate before deduction of specific exemption and charitable bequests. - Mr. Smith, Mr. Lusk
 - (g) An estimate is being prepared of the revenue yield of a retail sales tax with detail for components and subject to specified exemptions. - Mr. Smith, Mr. Jorgensen
 - (h) A review is being made of specified estimates of revenue from the individual income tax and from the proposed withholding tax. - Mr. Jorgensen
- 3. Studies are in process for estimating revenues from proposed taxes on soft drinks, candy, and chewing gum. - Mr. Daggit, Miss Spiegel, Miss Smith
 - 4. A study is in process for revising and improving methods of estimating revenues from the taxes on transportation of persons, and on small cigarettes. - Mr. Daggit, Miss Spiegel, Miss Smith

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

- 1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on May 4, 11, 18, and 25. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special study:

Controlled and uncontrolled components of BLS index of wholesale prices of 28 basic commodities. (Chart in memorandum of May 25.) - Mr. Daggit, Miss Washabaugh

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2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests, giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the memorandum on the business situation. - Miss Washabaugh, Miss McLachlan
3. Memoranda on employment under the Work Projects Administration were prepared on May 4, 11, 18, and 25. - Miss Washabaugh, Miss McLachlan
4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, and exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevroaux
5. In further response to the request of Mr. Leon Henderson of July 19, 1941, copies of charts on commodity prices were transmitted to him, as indicated below. - Mr. Daggit

The movements of the BLS index of 28 basic commodities compared with the BLS wholesale price index of 889 commodities were shown from 1936 to date. Four charts, as of May 2, 9, 16, and 23, were transmitted on May 5, 12, 19, and 26, respectively.

Four charts showed the movements of the indexes of 12 foodstuffs and 16 industrial raw materials, and percentage changes for each commodity from August 1939 and from December 6, to current dates. These charts, as of May 1, 8, 15, and 22, were transmitted on May 5, 12, 19, and 26, respectively.

6. In further response to the request of the Secretary on January 28, memoranda and charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, as of May 1, 8, 15, and 22, and were transmitted to him on May 7, 13, 20, and 27, respectively. Copies were given to Mr. Kamarok in further response to his request of December 4. - Mr. Daggit

7. At the request of the Secretary, a memorandum with exhibits was prepared, and was transmitted to him on May 7, on steps taken to curb inflation. - Mr. Daggit, Miss Spiegel
8. At the request of Mr. Kuhn on May 5, a memorandum was prepared, and was transmitted to him on May 8, giving data on anti-inflationary actions taken by the Administration since the Secretary's speech at Boston in September 1941, for use in replying to a letter from the editor of Think Magazine. - Mr. Daggit
9. A summary was prepared, and was transmitted to the Secretary on May 7, of the telegrams received from Mr. John A. Hartford, President, the Great Atlantic & Pacific Tea Company, received in the preceding week on the response of the Company's customers to the announcement by the OPA of the general maximum price regulation. - Mr. Daggit
10. A memorandum was prepared, and was transmitted to the Secretary on May 15, containing an analysis of the March issue of the Bureau of Agricultural Economics "Farm-Retail Price Spreads". - Mr. Daggit
11. At the request of the Secretary on May 7, new charts were prepared, showing from January 1940 to date retail food prices and selected basic food prices; wholesale food prices and selected foods; and wholesale food prices and retail prices. - Mr. Daggit, Miss Smith, Miss Washabaugh, Mr. Colclough, Miss Spiegel
12. At the request of the Secretary on May 15, a memorandum and table were prepared, and were transmitted to him on May 20, on price trends for commodities not subject to the general ceiling order. A new chart showing price movements of selected commodities weekly accompanied the memorandum. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith
13. At the request of the Secretary on May 15, a memorandum was prepared, and was transmitted to him on May 22, on retail prices in Washington grocery stores. Two tables accompanied this memorandum. - Mr. Daggit, Miss Spiegel, Miss Smith

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14. At the request of the Secretary on May 26, a table and eight charts on prices of eight uncontrolled basic commodities were prepared, and were transmitted to him on May 27. - Mr. Daggit, Miss Spiegel, Miss Smith
15. In pursuance of a request by the Secretary, a meeting was held with an economist from a New York department store, concerning the inflation problem, the pattern of consumer expenditures, and prospective shortages of goods. - Mr. Haas, Mr. Daggit, Mr. Lindow
16. At the request of the Secretary on May 27, a memorandum was prepared, and was transmitted to him on May 28, on the inventory situation. Four tables and a chart accompanied the memorandum. - Mr. Daggit, Miss Spiegel
17. At the request of Mr. Randolph Paul on May 15, data were given him by telephone on salaries and wages, and factory weekly earnings. - Mr. Daggit
18. At the request of Mr. Stewart A. Rice, Bureau of the Budget, on May 11, a conference was attended on May 12, relative to changes in reporting intervals for BLS wholesale price data. A memorandum reporting the meeting was prepared on May 13. - Mr. Daggit
19. At the request of the Secretary on May 8, a memorandum was prepared, and was transmitted to him on that date, giving an analysis of BLS preliminary data on consumer expenditures and savings. - Mr. Daggit
20. A memorandum was prepared, and was completed on May 15, reporting the developments which occurred at the inter-departmental meeting on consumer expenditure surveys of the BLS and the Department of Agriculture. - Mr. Daggit
21. A progress report dated May 16, was prepared concerning a telephone conversation with Miss Brady, Bureau of Home Economics, about the consumer expenditure survey being made by the Department of Agriculture. - Mr. Daggit

Actuarial Problems

I. Projects or studies completed

1. The Chief Counsel's office of the Bureau of Internal Revenue requested a member of the Government Actuary's office to appear in Dallas, Texas, on May 4, at a hearing before the United States Board of Tax Appeals, to testify as to whether the Austin Mutual Life Insurance Company of Austin, Texas, can qualify as a life insurance company for tax purposes. A member of the staff assisted in preparing the testimony. - Mr. Brown

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement Law. Under the law, such a valuation must be prepared as of July 1, 1940. The valuation is well under way. - Mr. Reagh, Mr. Brown
2. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active. Considerable work has been done, but the committee is in disagreement. - Mr. Reagh, Mr. Brown
3. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. The basic work for the valuation has been completed, and a preliminary report was submitted to the Commissioners of the District of Columbia on May 26. - Mr. Reagh, Mrs. Grossman

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4. At the request of the Division of Tax Research, several conferences have been attended with members of the Division of Tax Research, the Legal Staff of the Bureau of Internal Revenue and the Legislative Counsel regarding proposed changes in the tax laws relating to pension trusts and the taxation of insurance companies. - Mr. Reagh

Other projects or studies

1. Publications

- (a) All the material submitted for the May issue of the Treasury Bulletin was reviewed and edited. - Mr. Lindow, Mr. Lynch, Miss Eyre

The following tables were prepared for the May issue:

1. Six tables on ownership of Government securities summarizing data from the monthly survey. - Mr. Tickton, Mr. Leahy, Miss Westerman
 2. Sales of United States savings bonds since May 1941. - Mr. Brown, Mr. Kroll
 3. Sales of Postal savings stamps since May 1941. - Mr. Brown, Mr. Kroll
 4. Over-the-counter closing quotations of public marketable securities issued by the United States Government and by Federal agencies. - Mr. Brown, Mr. Kroll
- (b) For the publication Prices and Yields of Public Marketable Securities issued by the United States Government and by Federal agencies, computations were made and copy was prepared for the issue covering the month of April. - Mr. Brown, Mr. Kroll
- (c) Letters are being prepared to Treasury Department chiefs on the subject of reducing the length of their annual reports to conserve paper. - Mr. Tickton

2. At the request of Mr. Thompson on May 1, for use in replying to a letter to the Secretary from Senator Tydings dated April 27, answers were prepared to two questionnaires on photographic and duplicating equipment, in further connection with Senate Resolution Number 223. The completed questionnaires were transmitted on May 27 to Mr. Lynch, Division of Public Relations, in accordance with Mr. Thompson's request. - Miss Michener, Mr. Banyas, Mr. Weir

3. At the request of Mr. Schoeneman on May 12, a review is being made of a report prepared by the Bureau of the Budget comparing the costs of microfilming and storage. - Mr. Brown, Mr. Kroll

4. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Mr. Foy, Miss Ziegler, and other members of the staff in appropriate fields of work.

During May 570 letters were received in the Division and 605 were handled as required.

5. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of May is attached.

Work Completed in the Graphic Section, Division of
Research and Statistics, during May 1942

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New Charts:</u>			
Total charts completed	41	19	60
Bond book charts completed	58	-	58
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 times	-	26(t)
All other charts brought up to date	781	23	804
<u>Miscellaneous:</u>			
Total jobs	16	11	27
<u>Graphic:</u>			
<u>Photographs:</u>			
Total jobs	108	27	111
Number of-			
Negatives	293	35	262
Contact prints	380	123	503
Enlargements	422	14	436
<u>Photostats:</u>			
Total jobs	229	51	280
Number of-			
Lettersize copies	12,507	535	13,042
All other copies	3,281	297	3,578
<u>Multilith:</u>			
Total jobs	22	5	27
Number of-			
Zinc and paper plates	135	9	144
<u>Miscellaneous:</u>			
Total jobs	23	13	36

Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months.
Beginning January 1942

Type of work	Jan.	Feb.	Mar.	April	May	June	Total
A. Graphic:							
New charts completed	81	73	67	73	60		
Charts brought up to date	764	719	748	698	804		
Bond book charts completed	2	1	-	67	58		
3 bond books brought up to date	26 (t)	24 (t)	26 (t)	26 (t)	26 (t)		
Miscellaneous	19	30	24	39	27		
B. Photographic:							
<u>Photographs:</u>							
Total jobs	116	121	138	111	111		
Number of-							
Negatives	409	512	373	262	262		
Contact prints	837	758	745	685	503		
Enlargements	376	434	454	195	436		
<u>Photostats:</u>							
Total jobs	297	312	279	242	280		
Number of-							
Lettersize copies	9,074	11,623	8,573	6,999	13,042		
All other copies	3,400	3,298	4,927	5,036	3,578		
<u>Multilith:</u>							
Total jobs	17	16	31	29	27		
Number of-							
Zinc plates	144	163	331	128	144		
<u>Miscellaneous:</u>							
Total jobs	31	18	19	44	36		

October 31, 1942

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during July-September, 1942.

Attachment

L. L. Eckerly
for Roy Blough

Report on projects in the
Division of Tax Research

July-September 1942

During July-September the staff of the Division of Tax Research continued to cooperate with the Senate Finance Committee and the Joint Committee on Internal Revenue Taxation on the pending tax bill. In addition, the following specific projects were worked on in the Division during these months.

I. Individual income tax

A. Collection at source

1. A memorandum analyzing the withholding provisions under the Victory tax and under the House Bill was prepared and various procedures for integrating these provisions were outlined. (Messrs. Friedman, Heller, and Atlas)*
2. An analysis was prepared of the Ruml "pay-as-you-go" plan for the individual income tax. (Messrs. Friedman and Heller)
3. Plans for placing the individual income tax on a substantially current basis were prepared. (Messrs. Friedman and Vickrey)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

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4. Memoranda on various phases of collection at source including procedures and analyses of the field investigations into employers' problems in introducing collection at source were prepared. (Mr. Friedman and staff)

B. Spending tax

A number of memoranda were prepared in connection with the development of the spending tax proposed to the Senate Finance Committee. These memoranda related to the scope, structure, administration and general economic features of the tax. (Messrs. Poole, Vickrey and staff)

C. Compulsory saving

1. Memoranda were prepared on various phases of compulsory lending including procedures, administrative problems, and methods used in foreign countries. (Messrs. Harriess and Slitor and staff)
2. A memorandum was prepared analyzing possible income tax modifications to promote savings and war bond purchases. (Mr. Shultz)

D. Capital gains and losses

Certain capital gains tax revisions suggested at the Senate Finance Committee Hearings were analyzed. (Miss Coyle)

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E. Nonresident citizens

1. The treatment of American citizens residing in possessions of the United States was analyzed. (Messrs. Atlas and Brown)
2. A memorandum analyzing the treatment of income from sources without the United States derived by American citizens living abroad was prepared. (Messrs. Atlas and Brown)

F. Nonresident aliens

A memorandum analyzing the treatment of non-resident alien individuals was prepared.
(Mr. Atlas)

G. Medical expenses

A memorandum recommending the allowance of extraordinary medical expenses as a deduction under the income tax was prepared. (Mr. Atlas)

H. Credit for dependents

An analysis of the proposal to raise the age limit of dependents for income tax purposes from 18 to 21 years was prepared. (Miss Coyle)

I. Mandatory joint returns

Various memoranda relating to joint returns including alternative procedures were prepared.
(Mr. Vickrey)

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J. Tax relief

A memorandum was prepared relating to income tax relief for individuals with fixed commitments. (Messrs. Ecker-R. and Harriss)

K. Tax-exempt securities

The preparation of an economic brief on the Port of New York Authority case is in process. (Messrs. Seltzer and Gordon)

L. Individual excess profits tax

An analysis of proposals to levy an excess profits tax on individual incomes was prepared. (Mr. Hellborn)

II. Corporation and business taxesA. Relief provisions

1. Memoranda were prepared relating to relief for taxpayers employing last-in first-out method of inventory valuation in the event of forced inventory liquidation. (Messrs. Brown and Butters)
2. Memoranda on corporate debt relief were prepared. (Messrs. Keith, Butters, and Brown)

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3. An analysis of the need for tax relief for corporations with direct Government loans on war contracts was prepared. (Messrs. Keith and Zolot)
4. A memorandum relating to relief for instalment basis taxpayers was prepared. (Mr. Keith)
5. A memorandum relating to tax relief for corporations with maturing bank loans was prepared. (Messrs. Keith and Hart)
6. A memorandum relating to tax relief for accelerated production by mines and other depletable assets was prepared. (Messrs. Keith and Zolot)

B. Depletion

1. A plan for eliminating double deduction of intangible development costs was prepared. (Mr. Campbell)
2. Hearings of the Subcommittee of the Committee on Silver were attended and reported on. (Mr. Campbell)
3. Memoranda on various phases of depletion including the treatment of fluorspar and rock asphalt were prepared. (Messrs. Keith and Gordon)

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C. Reserves

1. A memorandum analyzing a proposal to permit a reserve for the carryback of losses was prepared. (Mr. Butters)
2. Memoranda relating to inventory reserves were prepared. (Mr. Butters)

D. Fiscal year corporations

A memorandum analyzing the change in treatment of fiscal year taxpayers under Section 129 of H.R. 7378 was prepared. (Mr. Butters)

E. Insurance companies

A proposal to tax stock accident and health insurance companies in the same way as mutual companies other than life was analyzed.
(Messrs. Friedman and Vickrey)

F. Pension trusts

Memoranda on various phases of the treatment of pension trusts were prepared. (Messrs. Harriess and Friedman)

G. Maintenance deduction for railroads

Memoranda were prepared relating to the proposal for a deferment of maintenance deductions for railroads. (Messrs. Keith and Hellborn)

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H. Renegotiation of contracts

Conferences were held with Army, Navy, Maritime Commission, W.P.B. and O.P.A. representatives on the contract renegotiation system. A suggested formula for revising the procedure was prepared. (Messrs. Keith, Hellborn and Brown)

I. Post-war credits

Various proposals for post-war credits were studied. (Mr. Keith)

J. American corporations doing business abroad

The treatment of corporations deriving all of their income from outside the United States was analyzed with particular reference to the proposal that such corporations should be subject only to a franchise tax. (Messrs. Keith, Brown and Atlas)

K. Definition of borrowed capital

The problems involved in including advance payments on Government contracts as borrowed capital under the excess profits tax were studied. (Messrs. Keith and Zolot)

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L. Partnerships and proprietorships

A memorandum analyzing the problems relating to the taxation of excess profits of proprietorships and partnerships was prepared. (Mr. Brown)

III. Estate and gift taxes

Memoranda were prepared on various phases of estate and gift taxation including rates, exemptions and the treatment of powers of appointment. (Mr. Harriss)

IV. Sales and excise taxes

A. General sales tax

Memoranda were prepared on various phases of general sales taxation including rates, base, exemptions, and administration. (Mr. Farioletti and staff)

B. Selected excises

Several proposals for selected excises including taxes on imported bitters, punch boards, freight and express charges, billboards, and soft drinks were analyzed. (Mr. Farioletti and staff)

V. Miscellaneous

A. Addresses

1. "Taxation in War Time," for use by Mr. Paul.
(Mr. Heller)

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2. "Controversies over Methods of War Taxation," for use by Mr. Paul. (Mr. Atlas)

B. Tax comparisons

1. Main provisions of law under the existing act, the House Bill and the Senate Bill.
(Miss Coyle and staff)
2. Amendments of present law made by House and Senate Bills together with the Treasury position thereon prepared for use by Mr. Paul. (Miss Coyle and staff)
3. Canadian and United States taxes.
(Miss Wells, and Messrs. Hirsch and Atlas)

C. State and local data

1. Data on Federal, estimated State and local general Government receipts and expenditures for fiscal years ending in 1941 were prepared. (Miss Wells)
2. Data on proposal providing for the Federal Government to reimburse the States for loss in gasoline tax revenue resulting from gasoline rationing were prepared.
(Miss Wells)
3. A memorandum relating to relief for refunding issues of State and local securities was prepared. (Miss Wells)

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D. Reviews

1. Treasury statements contained in the Hearings before the Senate Finance Committee were reviewed. (Miss Coyle)
2. Testimony presented before the Senate Finance Committee was reviewed. (Staff)
3. Reviews of forthcoming Treasury and other publications were prepared. (Staff)
4. A special tabulation of income tax data relating to the Public Salary Tax Act of 1939 was reviewed. (Miss Wells)

E. Correspondence

Correspondence relating to tax matters were handled. (Staff)

Treasury Department,
Division of Tax Research

October 31, 1942

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Treasury Department
Division of Monetary Research

Date 10/31/42 19

To: Miss Chauncey

From: Mr. White

The tables for transmittal
to the Secretary of State differ
from those being sent to the
President in that certain military
figures are not broken down.

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Treasury Department
Division of Monetary Research

Date. 10/31/42 19

To: Secretary Morgenthau

From: Mr. White

Original of this report
appended to prepared letter to
President.

October 31, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending October 20, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending October 20, 1942 amount to \$55,083,000 as compared with \$14,564,000 during the previous ten-day period. Among the military equipment exported were 74 tanks, 25 light bombers and 68 fighter planes. (See Appendix C).

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to only \$30,000 of which all was military equipment.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Sweden amounting to \$281,000 and \$117,000, respectively.

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APPENDIX A

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations received
During the Period Indicated 1/**

(In thousands of dollars)

	<u>10-day Period ended Oct. 20, 1942</u>	<u>10-day Period ended Oct. 10, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Oct. 20, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U.S.S.R.	\$ 55,083	\$ 14,564	\$320,154	\$742,941
Free China	30	1,885	6,933	97,720
Czechoslovakia	2	3/	396	2,858
Switzerland	281	237	1,525	11,537
Sweden	117	3/	2,625	18,056
Portugal	22	2	585	9,743
French North Africa 2/	—	—	2,088	6,305

Treasury Department, Division of Monetary Research

October 30, 1942

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.
- 2/ Includes Morocco, Algeria and Tunisia.
- 3/ Less than \$500

MVF/grs
10/30/42

Regraded Unclassified

SECRET

APPENDIX B

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Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - October 20, 1942 1/
(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942 1942	\$ 32,758	\$ 98,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 1/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
TOTAL	\$ 107,256	\$1,063,915

- 1/ These figures are in part taken from copies of shipping manifests.
2/ Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3/ 8-day period.
4/ 11-day period.
5/ Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

October 30, 1942

LF/grs
10/30/42

SECRET

Regraded Unclassified

APPENDIX C

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

TOTAL EXPORTS		Value (Thousands of Dollars)	
Principal Items:		\$ 55,083	
Aircraft			
Light bombers (2-engine A-20)	No.	25	9,150
Fighters (1-engine P-39, P-40)	No.	68	
Ammunition			
.30 caliber balls	Round	21,422,300	8,468
.30 caliber tracers	Round	5,951,500	
.30 caliber armor	Round	8,731,460	
.30 caliber incendiary	Round	2,204,600	
.45 caliber balls	Round	12,998,000	
.50 caliber balls	Round	270,000	
.50 caliber tracers	Round	1,803,900	
.50 caliber armor piercing	Round	3,347,250	
.50 caliber explosive	Round	600,000	
.50 caliber incendiary	Round	1,665,490	
81 mm. mortar shells	No.	7,056	
81 mm. chemical shells	No.	7,056	
37 mm. tank and anti-tank armor piercing shells	No.	10,000	
37 mm. tank and anti-tank armor piercing shot	No.	146,950	
37 mm. tank and anti-tank high explosive shells	No.	84,506	
75 mm. gun armor piercing shot	No.	65,019	
75 mm. gun, high explosive shells	No.	65,220	
37 mm. gun, high explosive shells	Round	18,000	
90 mm. anti-aircraft gun, high explosive shells	No.	6,812	
20 mm. Hispano Swisss gun, tracers	Round	3,600	
37 mm. aircraft gun, armor piercing shells	Round	30,000	
37 mm. aircraft gun, high ex- plosive shells	Round	17,309	
20 mm. Oerlikon gun, tracers	Round	17,400	
20 mm. Oerlikon gun, high ex- plosive shells	Round	240,800	
Motor trucks, auto replacement parts, motorcycles			
		-	5,656

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APPENDIX C (Con't)

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	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
Military tanks			\$ 3,259
Light	No.	12	
Medium (M-4)	No.	22	
Medium (M-4 A-2)	No.	20	
Medium n.e.s.	No.	20	
Iron and steel manufactures and semimanufactures	-	-	4,686
Meat products	lb.	10,309,060	3,349
Brass, bronze, nickel, zinc, copper manufactures and semimanufactures	-	-	3,226
Aircraft parts and accessories	-	-	3,066
Explosives	-	-	1,749
Ordnance Combat vehicles			1,467
Scout cars	No.	801	
Armored cars, light	No.	51	
Armored cars, medium	No.	20	
Ordnance combat vehicles, n.e.s.	No.	2	
Electrical and industrial machinery and apparatus			1,301
Leather and manufactures	-	-	942
145 caliber sub-machine guns (Thompson)	No.	7,846	785
Relief supplies	-	-	663
90 mm. anti aircraft guns	No.	8	571
20 mm. Oerlikon anti aircraft guns	No.	70	519
Parts and accessories for tanks	-	-	493
Cotton and wool manufactures	-	-	476
Petroleum and products	-	-	476
Aluminum and aluminum alloys	lb.	2,390,751	457

APPENDIX C (Con't)

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	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Ordnance combat vehicles parts and accessories	-	-	\$ 397
Dried egg products	lb.	397,257	397
Rubber and manufactures	-	-	387
Links and belts for small arms ammunition	No.	15,151,000	293
Parts and accessories for automatic arms	-	-	275
.50 caliber aircraft machine guns	No.	202	66
Infantry support guns	No.	60	36
Military equipment n.e.s.	-	-	7

BRITISH MOST SECRET
U.S. SECRET

OPTEL 376

Information received up to 7 A.M. 31st
October.

1. NAVAL

Two large ships carrying service personnel from Cape to U.K. were torpedoed and sunk by U boats yesterday.

2. MILITARY

EGYPT. To 12 noon 30th. At 1230 A.M. and 4.17 A.M. 30th the enemy launched attacks against both flanks of the Northern part of our Salient North West of Tel El Eisa. Both were repelled without difficulty. Up to noon 29th 32 abandoned German and Italian tanks had been blown up by R.E. Prisoners of war evacuated 1264 German and 1873 Italian.

MADAGASCAR. Our forces occupied Alakamisy at two A.M. on 29th and Tianarantsoa by four P.M. By the evening the road was cleared six miles South of the latter town. We captured 355 natives and 85 Europeans including the last two battalion commanders in the Island. Our casualties were light.

3. AIR OPERATIONS

WESTERN FRONT. 30th. Two spitfires and six mosquitos operating singly attacked a good train near Ostend shipping off the Dutch Coast and a factory and aerodrome in Holland. One mosquito is missing. 30/31st. Four Wellingtons laid sea mines.

EGYPT. On the 28th and 29th our aircraft attacked enemy mechanical transport and landing grounds, many vehicles were destroyed or damaged four enemy aircraft were destroyed on the ground and four in the air. We lost three aircraft.

CRETE. 29th/30th. Allied heavy bombers successfully attacked JU 52 at Maleme aerodrome.

RUSSIA. 29th. Russian aircraft successfully raided a concentration of enemy troops and artillery near Voronezh.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 31, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Japanese and United States Pacific Naval Losses

1. U.S. Naval Communiques dated October 23-30, 1942, reveal the following additional Japanese and U.S. naval losses in the Pacific:

A. Japanese

- (1) Solomons. Sunk - 2 destroyers; damaged - one battleship, 3 aircraft carriers, 8 cruisers, 3 destroyers, 4 other combat vessels, one unidentified ship.
- (2) Rabaul. Sunk - one gunboat; probably sunk - one cruiser, one destroyer, one seaplane tender, 2 cargo ships; damaged - one combat vessel, 10 cargo ships.
- (3) Gilbert and Ellice Islands. Sunk - 2 patrol ships; damaged - one destroyer, one merchant ship.

B. United States

Solomons. Sunk - one aircraft carrier, one destroyer, one patrol boat, one tug; damaged - one aircraft carrier.

2. The score in the Solomons now stands as follows (according to U.S. communiques):

- A. Japanese losses. Sunk - 15; probably sunk - 3; damaged - 69; total - 87.
- B. United States losses. Sunk - 17; damaged - 6; total - 23.

The Japanese have lost fewer heavy combat vessels than we have, but they have had many more naval craft damaged.
(See Table III attached)

Table I

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Total Japanese Vessels, Sunk and Damaged
to October 30, 1942

Combatant Vessels

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	7	7
Aircraft Carriers	6	1	7	14
Cruisers	13	4	43 *	60
Destroyers	32	13	22	67
Submarines	6	1	7	14
Tenders	1	2	5	8
Others	<u>16</u>	<u>2</u>	<u>15</u>	<u>33</u>
Totals	74	23	106	203

Non-Combatant Vessels

Fleet Tankers	11	0	7	18
Transports	27	7	21 *	55
Cargo and Supply	50 *	9	32	91
Miscellaneous	<u>14</u>	<u>2</u>	<u>17</u>	<u>33</u>
Totals	102	18	77	197

Total All Types	176	41	183	400
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* Also several additional vessels.

Table II

American Naval Vessels Sunk and Damaged to
October 30, 1942

<u>Type</u>	<u>Lost</u>	<u>Demolished to Prevent Capture</u>	<u>Damaged</u>	<u>Total</u>
Battleships	1	0	1	2
Aircraft Carriers	3	0	1	4
Cruisers	4	0	2	6
Destroyers	15	1	6	22
Submarines	3	1	0	4
Motor Torpedo Boats	2	1	0	3
Submarine Tender	0	1	0	1
Aux. Seaplane Tender	1	0	1	2
Mine Craft	5	2	0	7
Gunboats	3	1	0	4
Tankers	3	0	0	3
Tugs	1	1	0	2
Transports	4	0	2	6
Target Ship	1	0	0	1
Patrol Boat	1	0	0	1
Floating Drydock	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total	47	9	13	69

Table III

Japanese and American Vessels Sunk and Damaged
in the Solomon Islands (Aug. 7-Oct. 30, 1942)

Japanese Losses

Type	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	3	3
Aircraft Carriers	0	0	5	5
Cruisers	1	0	26 *	27
Destroyers	7	2	9	18
Submarines	1	0	0	1
Tenders	0	0	2	2
Tankers	0	0	1	1
Transports	2	1	6 *	9
Cargo and Supply	0	0	6	6
Miscellaneous	<u>4 *</u>	<u>0</u>	<u>11 *</u>	<u>15</u>
Total	15	3	69	87

American Losses

Aircraft Carriers	1	1	2
Cruisers	4	2	6
Destroyers	6	2	8
Patrol Boats	1	0	1
Tugs	1	0	1
Transports	<u>4</u>	<u>1</u>	<u>5</u>
Total	17	6	23

* Also several additional vessels.

Table IV

Japanese Vessels Sunk and Damaged
in the Aleutian Islands
(June 15 - Oct. 30, 1942) *

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Cruisers	1	0	5	6
Destroyers	6	4	3	13
Submarines	0	1	5	6
Transports	2	1	6	9
Cargo and Supply	4	1	7	12
Minesweepers	2	0	0	2
Miscellaneous	<u>1</u>	<u>0</u>	<u>1 **</u>	<u>2</u>
Total	16	7	27	50

* No American vessels have been reported lost and damaged in this area to date.

** Also several additional vessels.