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War Savings Bonds

See Financing, Government

November 23, 1942
9:45 a.m.

GROUP

Present: Mr. Bell
Mr. White
Mr. Buffington
Mr. Paul
Mr. Thompson
Mr. Blough
Mr. Haas
Mr. Schwarz
Mr. Gaston
Mr. Sullivan
Mr. Kuhn
Mr. Gamble
Mrs. Klotz

H.M.JR: What is this, "Political Bosses on the Wane"? (Referring to article in the "Sunday Star", dated November 22, 1942.) Am I a political boss?

MR. KUHN: It is a good story, Mr. Secretary.

H.M.JR: It is all right, is it?

MR. KUHN: In accounting for the weakness of the political machines in the last election, they gave you the credit for the way you administered the Internal Revenue laws.

H.M.JR: Who is doing blocked currencies in Spain?

MR. BELL: You mean our blocked currencies?

H.M.JR: It says: "to consider immediately the enlargement of the scope of our present economic arrangements with Spain prompts me to urge reconsideration of the decision of the Treasury Department concerning blocked dollar currency, held by Spain."

MR. WHITE: That is regular freezing.

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MR. BELL: Foreign Funds.

H.M.JR: I will appoint a committee of Bell, White, and Paul. This is from the President.

(Memorandum from the President, dated November 21, 1942, and attached telegrams dated November 17, signed by Hayes, handed to Mr. Bell.)

(The Secretary held a telephone conversation with General Strong.)

H.M.JR: Norman?

MR. THOMPSON: I have nothing this morning.

H.M.JR: Norman, did they report to you my conversation with Judge Rosenman?

MR. THOMPSON: Yes, Miss Chauncey showed me that. He just does not understand the situation.

H.M.JR: The Judge called me up in the country. This is very much in the room, here. He says, "I want to make a suggestion to you on public relations." He said, "The President is giving me all of these requests from departments for deferments, and I am holding them until further notice."

He said, "If I were you, I would cancel them all." So I said, "Well, Sam, if you don't mind, I think you just don't know what you are talking about. If I do anything on public relations, I will make them public - the letter - but I am not going to cancel them. Maybe I know more about it than you do."

I said, "Are you going to decide?" He said, "No, I am just accumulating them." I said, "I asked for eleven. I think the eleven should be deferred, and I am not going to do it." He said, "Well, you should."

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I said, "Did the President ask you to call me?" He said, "No. If I were doing it, the only one I would defer is the chemist."

MR. THOMPSON: That is the weakest of the eleven. Bill Heffelfinger is the strong one.

H.M.JR: I said, "I am not going to change a single one."

At Cabinet the President spoke about the Treasury and my letter, and how pleased he was. He said he thought it was fine. He as much as said he hoped the other departments would be as good.

Then they went into a big discussion, particularly Justice, and they had not read the President's order. They talked about the fact that he had told Army and Navy not to give anybody a commission during this interim stage, so that a Government employee could not go and get a commission.

MR. THOMPSON: I think the President's second memorandum indicated he wanted us to keep people who are essential.

H.M.JR: Well, anyway, you never know who is going to get his finger in the pie next. I told the Judge in no uncertain terms what I thought. I was annoyed. It is the worst kind of public relations. Everybody in town blames me for the order. Now, after the position which I have taken consistently - and there are many people who have honestly differed with me - then the President comes out and takes the same position that I did. Then I should go before the public and say that for the last six months I have been wrong, after the President has taken the same position that I have.

MR. THOMPSON: Your position is just perfect.

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H.M.JR: Right or wrong, it is the way I felt. Now he has taken the same position.

As I told Frank Knox, who called me up on it - I said, "The trouble, Frank, is that this is only a small piece of it, and the President has got to settle this manpower thing - the over-all." It is just because Knox puts pressure on him, and then he says to exempt the civilian people who are making torpedoes.

MR. SULLIVAN: And Navy Yard employees, too. It is a small piece of a big pattern.

H.M.JR: You were here at the time. It is a small piece. Well, anyway, that is that.

Bell?

(Mr. Bell exhibited a telegram, with attached notice, "From the Secretary for Immediate Attention.")

MR. BELL: I got it at eight forty-five this morning.

H.M.JR: I did not want you to get it at nine forty-five. Those are wonderful. Those are telegrams I send from the farm instead of phoning, to be delivered at eight-thirty Monday morning, with a copy to Mrs. Klotz.

MRS. KLOTZ: I get mine at seven.

H.M.JR: Did you?

MRS. KLOTZ: Not this morning, but generally.

MR. BELL: We have written - we did that last week - to every Federal Reserve bank on the war loan account, and each bank is going to circularize its banks in each district, asking them to give consideration to this.

On the other matter, we wired that press release to each Federal Reserve bank. It may be that they have

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already sent them, or are preparing letters. Did you want to duplicate it if it has been done?

H.M.JR: What I had in mind was, I just wonder how many of these smaller banks really get the thing.

MR. BELL: They all get it because they are all on some Federal Reserve bank mailing list. Every bank gets notice of the financing. It might be that we could have them send a special letter rather than have you do it.

H.M.JR: You make a note and do this for me - to the forty-eight States - I want to send out a thousand return postal cards to a thousand banks, to find out if they got this last release. Will you?

MR. BELL: Yes. Do you mean pick banks in each of the States?

H.M.JR: Yes, just pick out some.

I asked Harold Graves to have sent out a thousand postal cards for me to find out whether the people have been solicited on War Bonds. Those went out either two weeks ago today, or one week ago today, from Standard Statistics, and Moody's.

MR. HAAS: Sloan called me about it right after.

H.M.JR: George, it is a statistical job, and I would very much like to have the answer today if it is in.

MR. HAAS: I haven't heard anything about it. I will check up on it.

H.M.JR: Will you follow through on it?

MR. BELL: Moody's, I know, has finished theirs, because they asked me and I told them to send it to Sloan.

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H.M.JR: Get busy on the phone and find out where it is.

MR. SULLIVAN: Do we have any check on WPB on bonds? The reason I ask, Mr. Secretary, is Mrs. Sullivan has a friend who is working over there. She has been there five weeks. She inquired in ten places where she should make arrangements to have money held out for bonds. In the ten places she inquired, almost everybody there said they had no bonds and did not intend to get any.

H.M.JR: We have a man, this--

MR. BELL: In WPB?

MR. SULLIVAN: Yes.

MR. BELL: I think every department has got a man, now - designated in every agency.

MR. SULLIVAN: That didn't look like it.

H.M.JR: No.

MR. BELL: In the convention of the State Commissioners at Philadelphia last week, they passed a resolution offering to help you out on war finance. They also directed their Executive Committee to cooperate in working up some sort of a program of policies for supervisory agencies. We worked Friday evening on revising that statement that Eccles had submitted previously, and they met yesterday with the State bank commissioners' Executive Committee, and they approved that statement.

H.M.JR: Good.

MR. BELL: That is going to all of the supervisory agencies, now, not necessarily to be made public.

H.M.JR: Not to be made public?

MR. BELL: They didn't think so. It is part of that 1937 program of supervisory policies.

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H.M.JR: It will leak.

MR. BELL: I suppose so, but--

H.M.JR: They know about it. The reporters asked me about it.

MR. SCHWARZ: They know it is in the mill.

MR. BELL: There was an article in the Wall Street Journal on it a couple of days ago.

H.M.JR: I would make it public; they know about it.

MR. BELL: They also are going to ask the Treasury--

H.M.JR: Will you do that?

MR. BELL: I will follow it up.

They are also going to ask you to give some consideration to selling bills directly to small country banks, rather than making them bid for them. They say they do not know how to bid.

H.M.JR: I think that is good. Sell them at three-eighths.

MR. BELL: If they bid, they might be able to get them at less than three-eighths.

H.M.JR: I thought we were going to sell them at a straight three-eighths.

MR. BELL: We gave consideration to it, and also to the matter of selling into the Federal direct, and letting the Federal sell them at three-eighths.

In all of our press releases on this financing, we have overlooked the two hundred and thirty-two million maturing notes on December 15. I thought maybe at today's press conference you might want to give that out. (Note handed to the Secretary.)

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H.M.JR: Do you want to hang onto this for me, Chick? (Note handed to Mr. Schwarz.)

MR. SCHWARZ: Yes, sir. We talked about new money, so that would give us an out.

MR. BELL: You recall that the Library of Congress Trust Fund Board has special authority to deposit trust funds in the Treasury and get four percent interest on the fund up to four million dollars. The National Gallery would like to do the same thing up to five million.

H.M.JR: Can they do it?

MR. BELL: It takes legislation and we have to get a bill, but I just want to know if you would approve that bill.

H.M.JR: I don't see why I should.

MR. BELL: I think we should.

H.M.JR: You do?

MR. BELL: Yes. We have done it for some of the others and, while it is a subsidy in interest, I do not see any objection to a Governmental thing of that kind.

H.M.JR: Have I got any Art Gallery people around here?

MR. GASTON: What others besides the Library of Congress?

MR. BELL: We have the Library of Congress and we have some Indian funds that are still getting four percent on trusts.

MR. GASTON: The Smithsonian?

MR. BELL: I think we are paying six percent, and we are also paying six percent to the Printing House for the Blind. This is really a Governmental organization, and

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the trustees are going to donate five million dollars to take care of the expenses of the organization.

H.M.JR: I happen to have been in on a Mellon tax case which I didn't forget about.

I don't care - up to how much?

MR. BELL: Five million.

H.M.JR: Does anybody have any feeling?

MR. HAAS: I think I would rather have the subsidies direct, but I don't worry about it.

H.M.JR: Who approached you on this?

MR. BELL: Huntington Cairns brought in a bill. We discussed it at the last meeting, and the trustees have donated the five million to the Board and they are holding it pending this bill.

If the bill does not go through, then they will have to invest it in the two and a half's.

H.M.JR: It is a direct subsidy from the Government for an art gallery. How much does the Government control that art gallery?

MR. SULLIVAN: The trustees control it, don't they, and they appoint their own successors?

H.M.JR: It is not like the Library of Congress, which belongs to the people.

Does this belong to the people?

MR. BELL: I think it belongs to the Government of the United States.

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MR. SULLIVAN: The management is vested in the trustees - self-perpetuating.

H.M.JR: Who do the pictures belong to?

MR. BELL: I think they belong to the Government. I think title is in the Government. Congress has accepted the gift, and the only things we pay for down there, I think, are the guards and the heat and light.

The trust fund is supposed to pay for the rest.

MR. SULLIVAN: The only thing I think you ought to check is whether or not any of the compensation of the trustees would come out of the interest of this fund.

That is where you might get into trouble.

H.M.JR: They do not get compensated.

MR. SULLIVAN: I do not know.

MR. WHITE: How do you pay six percent interest when you--

H.M.JR: No, four percent.

MR. BELL: There is, as I recall, a six-percent case. It is the Printing House for the Blind. It has been going on for thirty years, I think.

MR. WHITE: Of course, if it is a Government practice--

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MR. GASTON: If it is a one-percent subsidy, it is about fifty thousand a year.

H.M.JR: I tell you what let's do, let's get the Chief Justice to do it the way he did last time. He will write a letter to me and the President. I want to be pushed a little bit. The last time the Chief Justice did, on putting up that money, then we had something to go by. He wrote a letter, you know - what was that?

MR. PAUL: That was the Philadelphia Widener Collection.

H.M.JR: He wrote a letter and we had something. The Chief Justice of the United States writes you a letter. He gives you something.

MR. BELL: Is he on the Board?

MR. KUHN: He is chairman of the Board.

H.M.JR: I would like a little evidence.

MR. BELL: The War Department is suggesting that in the savings bonds you create a soldiers and sailors or a military bond for the purpose of selling to the military forces. They thought it might have a great appeal. Would you like to have us consider it?

H.M.JR: A different kind of bond?

MR. BELL: The same thing, series E bonds, but marking it military bonds.

H.M.JR: Can you give the sale of that to the Victory Fund Committee? (Laughter)

MR. BELL: No, I don't think so.

H.M.JR: I see, all right. I think they have got their hands full.

MR. BELL: Well--

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H.M.JR: We will think about it.

MR. BELL: These are the circulars.

H.M.JR: I thought you stayed home Saturday.

MR. BELL: I did.

H.M.JR: Initial or sign?

MR. BELL: Sign.

(Department circulars Nos. 701, 702, and 703 signed by the Secretary.)

H.M.JR: What else, Mr. Bell?

MR. BELL: We have got quite a problem in excess holdings of savings bonds. By moving to Chicago that put us back about three or four months. We have just completed the survey of the 1941 purchases, and there are about nine thousand cases of excess holdings, many of them caused by mistakes, such as the husband buying a bond and naming himself and his wife. Maybe they will go to a theater and get all pepped up with patriotism and buy another hundred dollar or five hundred dollar bond, or maybe somebody else will go out and buy them a Christmas present. It is just small things like that that causes these excesses. We carry on a long correspondence with these people to try to get them another bond, say, in the next year. In eight cases out of ten I think we make an enemy by this long correspondence.

I would like to suggest a procedure whereby we get rid of about eighty percent of the cases and relieve us of that work.

H.M.JR: How would you do that?

MR. BELL: Many of the mistakes are made because people read the regulations and they think they can

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invest five thousand dollars instead of thirty-seven fifty in the series E bond, so they are over by that sixteen hundred dollars. I would like to ignore all excesses up to five thousand dollars on the purchase price instead of the thirty-seven fifty, just like we do now on the fifty thousand. Then I would like to ignore all cases less than a thousand dollars on the series F and G.

H.M.JR: If the General Counsel says it is all right, it is all right with me.

MR. PAUL: How many cases are there of that?

MR. BELL: There are nine thousand cases in the '41 savings bond.

This has been initialed by Tietjens and Cunningham. They have been over it very carefully. What we would like to do is put a memorandum in the file as to this action, not make it public, and then say, "After the war we will amend the regulations to confirm the whole thing."

MR. PAUL: Why can't we amend them now?

MR. BELL: You can't amend them and make them public. Then you have the excesses over the sixty-five hundred. You keep on rolling up excesses.

MR. PAUL: I don't--

H.M.JR: Talk about it with Paul and see if you can convert him. It is all right with me. He has some doubts. Give him a chance to see it.

MR. BELL: The other problem we have is where a man buys a bond for himself, and his wife as a co-owner, and she buys one, and it is all mixed up.

H.M.JR: You settle those things. I am not interested.

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MR. BELL: These are the amendments.

H.M.JR: Tell me what to do and I will sign them.

MR. BELL: I have the amendments if you will sign them.

(Letter to Mr. Broughton and amendments signed by the Secretary.)

MR. BELL: I think this increases the sale of bonds, too, incidentally.

MR. PAUL: That relieves me of work.

H.M.JR: You most likely have got a couple of your lawyers on here.

MR. BELL: Yes, they are.

That is all, thank you.

H.M.JR: I again say that I have a good job for a couple of lawyers when I am out of the Treasury. One thing we could do is get an appropriation through Congress to defend me. (Laughter)

MR. PAUL: It is like the statute up in New York. Corporations may charge the fees that are paid to defend themselves. (Laughter)

H.M.JR: Seriously, when these suits begin to come in, will the Government defend - no, they would be suing me, wouldn't they - the Government will be, or won't they?

MR. SULLIVAN: What suits?

H.M.JR: This kind of stuff. (Laughter)

MR. PAUL: The Government would be the plaintiff in those suits - the Comptroller General or somebody.

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H.M.JR: Well, I will wait. (Laughter)

MR. PAUL: You saw the suit the Government brought against the estate of the man who went down in Puget Sound with a lot of Government money, - an Indian agent.

H.M.JR: Recently?

MR. PAUL: That is kind of a Government we work for.

H.M.JR: You gave me that. You said it was all right for General Clark.

MR. PAUL: Yes, because that suit was dismissed, but the fact that the United States Government brought the suit shows what kind of a government the people were working for in those days.

MR. SULLIVAN: No, it just shows what kind of a mind the particular fellow had who passed on that particular problem.

MR. SCHWARZ: What agency?

H.M.JR: Listen, all the lawyers in the room will be arguing this.

MR. GASTON: That is everybody. (Laughter)

H.M.JR: Well, pass the ammunition. (Laughter)

Are you through, Dan?

MR. BELL: Yes, sir.

H.M.JR: Harry?

MR. WHITE: There are several points that have come up in regard to the Stabilization Board that we are going to have a meeting on to prepare memoranda that you may wish to send. One is on the suggestion that the Ruml plan be the basis of any

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good flexible fiscal legislation, and Roy Blough is preparing a draft which we will go over.

The second is a letter from Eccles to the Board which contains one or two points that we will talk over this morning to see whether we think a memorandum ought to be prepared.

The third is the subsidy memorandum which they have asked for in the past.

And the fourth is a suggestion by Hansen.

H.M.JR: I saw that.

MR. WHITE: It is from Hansen to Cohen, which some of us do not think much of at all, and I think we may prepare a memorandum which you might want to send. In other words, we think that anything that comes before the Board which bears on fiscal problems we ought not to ignore if we think there is something wrong with. Merely as a general practice we ought to submit memoranda indicating their short-comings.

H.M.JR: Showing that we are alive.

MR. WHITE: That is right.

We had a meeting on silver with the WPB last Friday. They wanted us to reallocate the silver which has been allocated for certain concerns, chiefly Handy and Harman. They want us to reallocate it on the grounds that Handy and Harman is not taking it up.

We said it would make the Government look foolish because Handy and Harman were not taking it up, because there is a lot more silver on the market than they said there would be. They insisted--

MR. BELL: In other words, there was not a shortage.

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MR. WHITE: There was not a shortage, and they kept hounding us, that there was a tremendous shortage. They wanted that letter answered which they sent to us. I said, "All right, we will answer the letter, but in our answer to the letter we will give the whole history of the case and indicate that the WPB has taken certain positions which are no longer apparently in accord with the facts." At that they wanted to think it over, and they are going back and discuss it, and they are going to let us know. They are supposed to let us know today.

H.M.JR: Since when are you so worried about the Government not looking foolish? (Laughter)

MR. BELL: Just the Treasury.

MR. WHITE: The Treasury is part of the Government. We would make it clear that it was the WPB's error, not ours. We may get a request for that today.

H.M.JR: I just want to put everybody on notice, so they will know. I will be here today and tomorrow, depending upon the weather. Wednesday I expect to leave - Mrs. Morgenthau and I - to go out and spend Thanksgiving with Henry. So I am not going to make any appointments for Wednesday because they might say, the way they did Saturday, that I had to leave at eight o'clock. So don't leave anything for Wednesday. If the weather is all right I will not leave until after lunch, but I might get notice that I had to leave in the morning.

Everybody is on notice, then try and see me. (Laughter)

MR. SULLIVAN: Try and see us. (Laughter)

MR. WHITE: There is a cable that came in from Clark, for Eisenhower. It is for the Treasury and the State Department. It is the first cable to come

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in about the North African currency situation.

H.M.JR: I would like to see it.

MR. WHITE: We are going to have a meeting this morning on the matter.

H.M.JR: Can I have that?

MR. WHITE: Yes.

H.M.JR: Or will you need that for your meeting?

MR. WHITE: I don't think there is a carbon of this.

H.M.JR: Make a copy and see that it goes up to the house tonight. I will read it at the house.

MR. BELL: Feis called me on it and said they were having a meeting and would like to meet with us after they had had their meeting.

MR. WHITE: This raises the question of a permanent dollar-franc relationship, so you will have to be in on it. If you are going to be away Wednesday I wonder whether you might not want to glance at it - or you can do it tomorrow, if you will leave some time tomorrow.

H.M.JR: I am in good shape tomorrow.

MR. BELL: I think the Secretary should see it.

H.M.JR: Do you men want to see me tomorrow?

MR. BELL: This brings something to light that we did not know before.

H.M.JR: Ten o'clock.

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MR. PAUL: That ties in with that plan of sending somebody over from the Treasury on this group. Have you heard about that?

H.M.JR: On the what business?

MR. PAUL: This has not come through yet.

MR. BELL: It came to me Friday, and I intended to tell you.

MR. PAUL: There is a plan to send a group of people over to North Africa, and the plan has been backfiring in the State Department, with all the factions that are fighting with each other there. I think it has been cleared now because Dean Acheson told me yesterday that he expected to be in touch with us about it. Part of the plan will involve sending one or more Treasury men over in that group. There will be State Department men, and I think BEW.

H.M.JR: Tell them after the first of January I will be ready. (Laughter)

MR. PAUL: This is a thing that has to be done right away. We will have to nominate somebody to go.

H.M.JR: In uniform or out of uniform?

MR. PAUL: Out of uniform.

MR. BELL: Feis called me Friday, Mr. Secretary, and he said that the President had turned over to the State Department this whole matter of working up a government for the occupied areas.

H.M.JR: The President was on the war path Friday, over this whole business. Somebody had certainly gotten into his hair, and he was sick and tired of the whole thing, and the thing was going to be handled by the State Department.

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MR. PAUL: That is cleared?

MR. BELL: Yes.

H.M.JR: I thought he was directing it at Wallace because Wallace looked pretty sick all through Cabinet. Has he been fighting that?

MR. PAUL: There has been a fight between BEW and State. State has won that. Now there is another fight within State. There are four factions there. (Laughter) It is a very bad situation.

MR. WHITE: It was supposed to have been settled Friday.

H.M.JR: Anyway, as far as I am concerned there would not be time enough tomorrow morning.

Who is coming tomorrow morning - Bell, White and Paul?

MR. WHITE: Somebody from the legal division and one of my boys.

H.M.JR: What is the matter with Paul?

MR. WHITE: I didn't know he was going to be here tomorrow.

H.M.JR: Tomorrow is his off day; he is not speaking. (Laughter)

MR. WHITE: If he picks himself--

H.M.JR: All right, he picks himself.

MR. WHITE: Here is a note of some interest. As a result of the North African activities, the discount on the dollar has been cut in half in Portugal. In other words, they are apparently

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betting on an Allied victory.

There is a note here from Klaus--

H.M.JR: You mean the dollar?

MR. WHITE: The discount was about thirty cents. It has been cut in half. It is now fourteen or fifteen, in terms of escudos. The old dollars, you remember, were at a discount.

H.M.JR: If they have become worthless, why is that--

MR. WHITE: No, they will be worth more. That is the discount that has been cut in half.

Here is something from Klaus which he got from the OSS.

H.M.JR: Klaus?

MR. WHITE: Which contains information that the Germans--

H.M.JR: Klaus? (Laughter)

MR. WHITE: This came from Klaus.

H.M.JR: Is he still in the picture?

MR. WHITE: Very much, unless somebody is signing his name. (Laughter)

H.M.JR: What is he doing now?

MR. WHITE: I guess he gets these from OSS, Office of Strategic Services.

H.M.JR: Why is he getting stuff from OSS? Isn't he supposed to be working for Internal Revenue?

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MR. SULLIVAN: He is working over there.

MR. WHITE: This note says this agency - I presume it refers to the Office of Strategic Services - has received information from a secret source in France that the Germans are buying a lot of pesetas and are paying any price they can in France. What significance that may have I don't know.

H.M.JR: What is Sammy doing in that field again?

MR. GASTON: He is still doing the same thing as he was.

MR. WHITE: He just passed this on. I suppose he got it. He didn't get the information, he got the note.

MR. SULLIVAN: Now wait a minute - however Sammy came across it, he did what he should with it. He had information that he thought was important, and he sent it over.

H.M.JR: But if the OSS office still thinks that Sammy is their contact with the Treasury--

MR. SULLIVAN: That should be corrected.

H.M.JR: That is the point.

MR. SULLIVAN: I agree with you.

H.M.JR: Who is looking after Sammy these days?

MR. SULLIVAN: That is a syndicate. (Laughter)

MR. GASTON: He works for Randolph still so far as I know.

MR. WHITE: Maybe it wasn't from Klaus. Let me see. (Laughter)

- 23 -

H.M.JR: Who would talk to him? Is he still contacting J. Edgar Hoover, and is he still contacting Colonel Donovan and all the rest of that stuff?

MR. PAUL: He is contacting Justice, FBI, and Colonel Donovan. He is following along the same work that he has always been doing; and if you can find out what he does, you are a better man than I am. All we can do is - he gives us the information when he gets it.

H.M.JR: Somebody have a talk with him, will you?

MR. PAUL: Yes, I will have a talk with him.

H.M.JR: Have another talk; just find out.

Is that all, Harry?

MR. WHITE: Also the French franc is rather sharply dropping, which bears on the problem that we will discuss tomorrow.

H.M.JR: What else?

MR. WHITE: That is all.

H.M.JR: Schwarz?

MR. SCHWARZ: I have nothing.

H.M.JR: George?

MR. HAAS: Nothing.

H.M.JR: Blough?

MR. BLOUGH: Nothing.

MR. KUHN: The Disney film on the education of Nazi children is ready. It will be ready so you can see a preview of it today. Disney himself wired me last week end that he was anxious that you see a preview of it.

- 24 -

MR. WHITE: If you want somebody to hold your hat, I will volunteer. (Laughter)

H.M.JR: Have you seen it? Why not say right now that we will show it at four-thirty?

MR. KUHN: It is not exactly the film that you approved last spring, but it is pretty close to it.

H.M.JR: Why not say four-thirty? No, I will have to wait until I hear from Mr. Hull.

MR. KUHN: I have only one thing more. Harold Thomas is here. There are certain things that he needs to get settled. One is the new name for this loan, and for the securities, and it is quite important to get that out to the people in the field quickly.

H.M.JR: Can't that be settled at three o'clock?

MR. KUHN: I was only going to suggest that it would be better if it could be settled earlier, because there is a lot of work to be done when those things have been settled.

The second thing is to make it perfectly clear to the War Bond people and the Victory Fund people what you said the other day, and that will be done.

The third was to arrange some kind of a springboard in place of these dinners which have now been postponed.

H.M.JR: I spoke - have you seen Thomas this morning?

MR. KUHN: Yes, sir.

H.M.JR: I told Buffington if he would come in with some plan at three, I would give him all the time necessary. I don't see why he can't wait until three o'clock.

MR. KUHN: Well, we will work on it until three. If we have something settled before lunch, may I call you?

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H.M.JR: Yes. I understood it was to be at three.

MR. BUFFINGTON: We wanted a little time to talk to him and to Lemmon.

MR. GAMBLE: The railroads, all of them - some hundred and forty - elected to hold this national drive, Mr. Secretary - I thought you would be interested in knowing that - to get their ten percent before the end of this year. The steel industry has likewise started a drive, and they hope to end it by December 7. The trucking industry - something over two million people, is conducting its drives as a result of these meetings, one of which you attended.

I thought you also would be interested to know that "Information Please" is going to put on a tour for the Treasury - war bonds.

MR. KUHN: They are going to charge admission and try to raise millions of dollars by means of this tour.

H.M.JR: Fine.

MRS. KLOTZ: Wonderful.

H.M.JR: Buffington?

MR. BUFFINGTON: Nothing.

MR. PAUL: Nothing.

MR. SULLIVAN: I gave you a memorandum on the distribution of that "Know Your Taxes" booklet. Did you see it?

H.M.JR: Yes, it looked very good.

MR. SULLIVAN: Can we go right ahead?

H.M.JR: Yes.

MR. SULLIVAN: There is a tax of ten cents a pound on colored oleomargarine, which we have always thought

- 26 -

was a very bad tax. It is taxing the people who can't afford to buy butter, and much less afford to pay a tax. Saturday when I saw that forty percent of all the butter stocks had been frozen, I called the Bureau and asked them to get some memoranda for me, and I am going to talk to Randolph. If you approve it, I think this is the time to wipe that tax off the books.

H.M.JR: You know what you go up against.

MR. SULLIVAN: Sure, but I think this particular time they will have difficulty.

H.M.JR: It is all right with me, if you go up against one of the strongest lobbies in the country.

MR. SULLIVAN: That is right, but one which--

H.M.JR: This is the strongest.

MR. SULLIVAN: I understand, but I think this is the time when we can do some business, because the oleo people have done some pretty fine work for the service. They now have a butter that will not melt at less than a hundred and twenty-five degrees that our boys in the tropics can use. I have had it, and it is just as good as butter.

H.M.JR: While you are at it, you might as well let them make the color at the factories instead of a special--

MR. GASTON: That does not apply when it is an extra pellet. It would apply if they color it at the factory.

MR. SULLIVAN: A quarter of a cent a pound when it is uncolored.

H.M.JR: I would be curious - if the Army, for instance, wanted to buy oleo with the color mixed in at the factory, couldn't they do that?

- 26 -

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MR. SULLIVAN: Yes, we changed it. We gave them a ruling, at the War Department's request, some months ago, allowing them to buy oleo tax-free to be sent to our troops outside continental America. Then when they were on maneuvers in the south this summer, they just could not have any butter. They would open it, put it on the table, and away it would run, so we changed the ruling so that the Army can buy it tax-free there.

H.M.JR: They had a great discussion on oleo. Miss Perkins said she didn't see why everybody couldn't eat oleo. The President said that he didn't like it. He said, "I like butter; I don't want to eat oleo."

MR. WHITE: There is a poem by A. A. Milne in which all the king asked for was a little butter for the royal slice of bread. (Laughter) Send it to the President. It is a very funny poem.

MR. SULLIVAN: That is all I have, sir.

H.M.JR: Herbert?

MR. GASTON: I haven't anything.

H.M.JR: I would like to see Gaston and Kuhn, please.

Nov. 30 28

Here is a supplemental report on
the replies received to the Moody
and Standard & Poor questionnaire.

MFF

9830 - Grant -

REPORT ON SURVEY CONDUCTED FOR THE TREASURY DEPARTMENT BY
MOODY'S

Number of Answers as of November 23 - 13 days after 1,000 cards were put in the mail to a sampling of their subscription list taking in all parts of the country - 422.

REPLIES -

No - 298

Yes - 124

A breakdown of the replies to the question "Which type of issue?" shows that:

2 - didn't remember
 14 $\frac{1}{2}$ * - said TAX NOTES
 45 - didn't answer the question
 32 $\frac{1}{2}$ - mentioned various government issues
 17-3/4 - said E bonds
 20-1/4 - said F or G bonds

*Note: fractions indicate cases where more than one answer to the question was given. Thus in scoring "Tax Notes and E bonds" we gave 1/2 to each.

Note: In the "Yes" group were a number who said "By Mail" or "Payroll Savings Plan". These were counted as "No".

REPORT ON SURVEY CONDUCTED FOR THE TREASURY DEPARTMENT BY
STANDARD & POOR

Number of Answers as of November 23 - 9 days after 1,000 cards were put in the mail to a sampling of their subscription list taking in all parts of the country - 413.

REPLIES -

No - 304

Yes - 109

A breakdown of the replies to the question "Which type of issue?" shows that;

3 - didn't remember
10 $\frac{1}{2}$ - said TAX NOTES
25 - didn't answer the question
23 - mentioned various government issues
25-3/4 said E bonds
21-3/4 said F or G bonds

November 23, 1942
9:53 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Gen. George
Strong: Hello.

HMJr: Yes.

S: Mr. Secretary?

HMJr: In person.

S: General Strong speaking. About two weeks ago you wrote me a note in regard to Mr. Harold Hochschild

HMJr: That's right.

S:of the American Metal Company in New York.

HMJr: That's right.

S: I had him examined. He failed physically....

HMJr: Yes.

S:on account of his eyes. I had a little difficulty. I got a waiver on his eyes and asked him to sign a waiver in consequence, which he has done.

HMJr: Yes.

S: Now there's just one thing that comes up that I'm a little bit embarrassed to raise, but I thought I would raise it with you in view of the fact you know the family.

HMJr: Yes.

S: I'd like to know, in view of certain reports - certain reports the F.B.I. has filed with us, just what the relationship between Harold Hochschild is and Morfio Hochschild, who is down in Mexico and seems to have a rather unsavory reputation.

- 2 -

HMJr: I don't think there's any, but I....

S: Well....

HMJr:as far - I - I never heard of there being any.

S: Uh huh. Well, this Morfio Hochschild seems to be a rather unsavory chap, and he is reputed to have some connection with the American Metals Company. Now, of course, that may be - that may be an erroneous report but he is - it is established that he has some acquaintance, at least, with a man by the name of Zimmer and Otto Suseman.

HMJr: Yeah. Well, now don't you think the best way would be to ask him direct?

S: Well, you know - I have seen him only once. I had him before me. He impressed me very favorably indeed. One of my assistants knows him very well, has known him for years, and speaks very highly of him, and I thought I would contact you first in regard to it, because I don't want to embarrass him on questions that he might consider, if he was at all touchy, as....

HMJr: Oh, no....

S:reflected upon his own standing or loyalty....

HMJr: Oh, no.

S:or integrity or something of that kind.

HMJr: I'd ask him point-blank or have one of your men ask him point-blank.

S: Uh huh.

HMJr: That's what I would do.

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

HMJr: But I don't - I don't know about - about this end of the thing at all, you see?

S: Uh huh.

HMJr: I mean I've known him personally all my life, but when you get into his various business connections, I wouldn't know.

S: Well, of course, we may be a little bit allergic on this Mexican end because just as you know there has been a great deal of skullduggery going down - going on down there in connection with the Axis.

HMJr: Well, I - I wish you'd ask him and get it cleaned up, and if there's anything in it that's - that isn't all right, I personally would like to know it.

S: Hmm. All....

HMJr: See?

S:All right, sir.

HMJr: No, I'd very much - if there's anything down there which doesn't smell right, I - I hope you'll let me know.

S: All right, Mr. Secretary. Thanks very much.

HMJr: Right.

S: Good.

- 3 -

S: Uh huh.

HMJr: I mean I've known him personally all my life, but when you get into his various business connections, I wouldn't know.

S: Well, of course, we may be a little bit allergic on this Mexican end because just as you know there has been a great deal of skullduggery going down - going on down there in connection with the Axis.

HMJr: Well, I - I wish you'd ask him and get it cleaned up, and if there's anything in it that's - that isn't all right, I personally would like to know it.

S: Hmm. All....

HMJr: See?

S:All right, sir.

HMJr: No, I'd very much - if there's anything down there which doesn't smell right, I - I hope you'll let me know.

S: All right, Mr. Secretary. Thanks very much.

HMJr: Right.

S: Good.

November 23, 1942
2:30 p.m.

Re: CIVILIAN GOVERNMENTS IN
OCCUPIED TERRITORIES

Present: Mr. Bell
Mr. Gaston
Mr. White
Mrs. Klotz

H.M.JR: Bell says that Feis called him up and said they wanted somebody - in the first place, you had better tell them--

MR. BELL: In the first place, they are setting up an Interdepartmental Committee under the European Division of the State Department to handle this civilian government in occupied territory. Their first job will be to concentrate on Africa.

If the thing goes well and works all right, then they will go on from there to any other places where the Army has occupied. But first they would like to have a representative of the Treasury on this committee and there will be representatives from the State and the War and the BEW and possibly one or two others, maybe Agriculture and the Office of War Information. But that is the first task, to get one representative, and they want a meeting tomorrow or Wednesday. Later on they may want the second member on this committee.

The second thing--

H.M.JR: Let me do one at a time. You (White) can represent the Treasury on that. I want White to represent me.

MR. BELL: O.K. The second thing is they may want this week - they have already sent a cable to Murphy regarding the new setup, and they think they may want some men to go this week to Africa, and they probably will want one or two men from the Treasury.

- 2 -

They think maybe they will have a reply to that cable by Wednesday.

H.M.JR: What I would do is this. You talked about it enough. This man - what is his name - your first assistant, who is in the Army or Navy?

MR. WHITE: Southard?

H.M.JR: Southard is one.

MR. WHITE: There are three good men there.

H.M.JR: You like Southard; you told me so.

MR. BELL: Yes. Isn't he in the Navy?

MR. WHITE: He is in the Navy.

MR. BELL: They want civilians.

H.M.JR: Oh, they can take them and--

MR. BELL: This is a shift by direction of the President, from military government to civilian government.

H.M.JR: Then, if necessary, get them out of uniform, or something.

MR. BELL: Decommission them.

MR. GASTON: They can furlough or retire them.

H.M.JR: Sure, that can be done.

MR. WHITE: Southard and Tasca--

H.M.JR: I just haven't got enough people unless I go to the Army and Navy and have them furloughed.

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MR. BELL: Who is the second one?

MR. WHITE: Tasca - Southard, Tasca, and Oliver. You know Southard. Tasca is a very able chap who is a Lieutenant in the Navy, who claims that he, together with about two hundred and eighty other Ensigns, are doing absolutely nothing, and they are all very dissatisfied and want to get out. He is a very able fellow; he knows Italian very well, incidentally. He is an excellent economist.

H.M.JR: Well, look, why don't you - to save my time - he asked for a minute and had seven - give him the names of the people, those men to be discussed, and then get Norman Thompson busy talking to the commanders of the Army and Navy, and tell them we have been asked by the State Department to send some people over, and could these people have a furlough to go.

MR. WHITE: I think it is important, if they go, that the idea is to have them Treasury men. If they go they are important to the Treasury; they are not Navy men.

H.M.JR: That is right. He can work it out. They can use the same procedure they used for Secret Service, with which Norman Thompson is familiar - the White House detail. But I have got to keep moving.

Now, the other thing, the most important thing I want to suggest, they have no man to head this thing, you see, and you said they were going to take Ray Atherton. The man I want to suggest - he belongs to the Club with Mr. Sumner Welles and Ray Atherton, and the rest - but he is about one thousand percent better than Ray Atherton, and that is the Minister, now, to Cairo - I cannot think of his name. Does anybody know his name?

MR. BELL: I don't.

MR. WHITE: He is going to head what - the mission?

H.M.JR: Yes.

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MR. WHITE: Who are the alternatives? Atherton--

MR. BELL: No, not Atherton; they don't want him to head it, definitely. They are looking for somebody.

H.M.JR: They want a Club member, and here is a Club member who is O.K.

MR. BELL: What do you mean, "a Club member"?

MR. WHITE: Wears spats. (Laughter)

MR. GASTON: Alexander Kirk?

H.M.JR: Yes, he was Chargé in Berlin; he is all right. Alexander Kirk - where is he a Minister?

MR. HASTON: Cairo.

MR. BELL: They are perfectly willing to go outside if they can think of the right man to head it.

MR. WHITE: To head the mission?

MR. BELL: No, to head this division over in the State Department.

MR. WHITE: I thought they were going to put Don Hiss at the head.

MR. BELL: I don't think so. I just got this call before I went to lunch.

H.M.JR: Anyway, Alexander Kirk - I will put my money on him.

MR. WHITE: Do they ask the Treasury to recommend somebody?

MR. BELL: They asked me.

H.M.JR: Don't say--

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MR. BELL: They said to ask the Secretary. They said, "If you have anybody, let me know." Feis asked me to call him.

H.M.JR: Take it from me, Alexander Kirk, Chargé in Berlin, American Minister in Italy - he knows the Nazis and hates them, and he has stood up against them.

MR. BELL: Apparently this has been a little fight. I think Berle has wanted it because it is a financial matter.

H.M.JR: Well, Alexander Kirk, I would be very curious, how they would react to him. He is very able and I know his record. He is enormously rich, I mean, you never would pick the man at all. He is kind of - he is the "fashionplate" diplomat, but under the most trying circumstances, he showed up wonderfully. But if they didn't want him, what would you people think of Messersmith?

MR. WHITE: Very good.

H.M.JR: I am suggesting Kirk and Messersmith.

MR. BELL: Messersmith might do a good job. He is a little "wishy-washy" sometimes.

H.M.JR: But I think his heart is in the right place.

MR. BELL: Oh, yes.

H.M.JR: John Wiley?

MR. BELL: Oh, no, Mr. Secretary.

H.M.JR: What is the matter?

MR. BELL: Do you think he could do this job?

H.M.JR: Oh, yes.

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MR. BELL: Really? I have not seen a lot of him, but I was never impressed with John Wiley. You mean the fellow that was here?

H.M.JR: Yes.

MR. BELL: I never was impressed, but I could be wrong.

H.M.JR: I am thinking of people whose hearts are in the right places.

MR. BELL: This fellow has got to have some ability, I should think.

H.M.JR: Well, Messersmith or Kirk - there are two names for you, anyway.

MR. BELL: Yes, two good ones.

H.M.JR: There are two good names - what? They can't turn down Kirk because he is not a Club member, because he is. He belongs to that very exclusive Club over there.

MR. BELL: Feis was thinking of somebody outside.

H.M.JR: I know how it is when it comes to Sumner Welles; he will want to take somebody from the inside. It is a terribly important position.

MR. BELL: That fellow that is in New York, a lawyer or a financial man - Cumberland - but he is a black Republican, isn't he?

H.M.JR: I don't know him. Either Kirk or Messersmith--

MR. GASTON: Tom Eliot?

MR. WHITE: It is to head up the Occupation Division here in the State Department?

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MR. GASTON: He can get somebody to help on the feeding end.

H.M.JR: I didn't see the order, but my wife said that Lehman comes under the State Department. He would be under this man.

MR. WHITE: In other words, this would be a bigger job than that.

MR. BELL: Sure.

H.M.JR: In the eyes of the State Department.

November 23, 1942
3:05 p.m.

FINANCING

Present: Mr. Bell
Mr. Kuhn
Mr. Buffington
Mr. Wanders
Mr. Thomas
Mr. Lemmon
Mr. Hobbs

MR. BUFFINGTON: We have prepared a memorandum, Mr. Secretary, on the points that we are pretty much in agreement on, starting out with the name of the drive and the name of the bundle.

(Statement dated November 23, 1942, copy attached, handed to the Secretary.)

H.M.JR: (Reading) "It is important that a name should be decided upon at once. It is suggested that the whole matter be referred to as the Victory Fund Drive to sell the Victory Loan, and specifically that the principal security be referred to as the Victory 2 1/2s."

It is all right with me, but I think you ought to clear it with - don't you think you ought to clear it with OWI?

MR. BUFFINGTON: Yes.

MR. THOMAS: Yes.

MR. KUHN: We will do that at four-thirty this afternoon.

H.M.JR: I don't think I want to bother the President with that.

- 2 -

(Mr. Bell entered the conference.)

H.M.JR: Should we call it the "Victory 2 1/2s", that is the question.

MR. BUFFINGTON: Dan, those men were unanimous, as you may not have heard, that "Victory Loan" and "Victory 2 1/2s" would be a great thing to couple with the Victory Fund Drive.

MR. BELL: Why not just call it the "Victory Fund Drive" and let it go at that?

MR. BUFFINGTON: But you must have a name for the bundle you are selling. "Victory Loan" seemed to be the consensus.

MR. THOMAS: They did not want to call it a "Victory Fund Drive" because of the Community Fund and all the other funds. They wanted to get away from the word "fund". That was their only point.

H.M.JR: What are you going to call the second one and the third one and the fourth one? What are you going to call them, the "Victory 2 1/2 A's"? What about the third and the fourth and the fifth?

MR. KUHN: "Second Victory Loan."

MR. BUFFINGTON: We may be selling those "Victory 2 1/2s" at another time as part of that bundle but call them the "Second Victory Loan" and the "Third Victory Loan" as they came along.

H.M.JR: As long as it is the same issue there would not have to be any reason to change it.

MR. BUFFINGTON: John Fleek particularly said, "If you go out on this as a 'tap' issue or as a 'sale' issue, you will get nowhere. If you could refer to them as the 'Victory 2 1/2s' it would be a great stimulant to sales." Their publicity men were unanimous on that.

- 3 -

MR. THOMAS: This particular phraseology sounds a bit involved here. I just point out that at no time would you use this whole story together, the Victory Fund, the Victory Loan, and the Victory 2 1/2s. You would not be talking about those three things at the same time. You would be referring to the Victory Loan or you would be referring to the Victory Fund or the Victory 2 1/2s. You would not have the sequence, one after the other.

MR. WANDERS: That is true. Of course I do have the same feeling - I bridle a bit at the idea because you may want to reserve it for later on, it strikes me. But if everybody agrees that is the proper name, let's have it.

MR. BELL: We are a long way from the victory.

MR. BUFFINGTON: But the purpose of this money is to gain victory, and that is their approach to it.

H.M.JR: The way I feel is this. They are supposed to have a lot of trained psychologists, or something or other, over in OWI. Let's leave it this way. I am willing to go along with OWI, but I would not fight them on it if they are hesitant about it.

MR. BELL: Leave it as a Victory Fund Drive - First Victory Fund Drive.

MR. BUFFINGTON: The reason that is so important to decide as soon as possible is that all our copy on our mats for this sponsored advertising is dependent upon what name we use. Therefore, we want to decide it as quickly as possible, because we have a limited time in which to prepare these mats and get them out to the newspapers.

H.M.JR: Have you a second choice if they say no?

MR. BUFFINGTON: I have not.

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MR. THOMAS: There was only one other name that has been used, and that came out of the headlines of the papers. Naturally, I do not like it: "The Nine Billion Dollar Drive." I do not think it means anything. It is just a handle. It does not identify the security, and it does not give it a handle by which you can use it.

H.M.JR: I have a name as a second choice, "Freedom".

MR. THOMAS: We discussed that, too.

MR. KUHN: The selling organization--

MR. WANDERS: That is what I suggested.

H.M.JR: I am good, then. (Laughter)

MR. WANDERS: We are together on it, anyway.

MR. KUHN: The selling organization is known as the Victory Fund Committee. That name has been in existence for four or five months. That is why Victory Loan is a natural one.

H.M.JR: The only reason is that I know the President, six months ago, didn't want to use the word "Victory". A lot has happened since then. If you can get it by the OWI nicely, without any friction, O.K. and if you cannot, I would throw in the word "Freedom" as a suggestion. "If you do not like that, give us something else." Is that right?

MR. WANDERS: Would it perhaps improve matters if you called it the "First Victory Drive"?

H.M.JR: When are you going to see OWI?

MR. KUHN: At four-thirty we are going over to their shop.

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H.M.JR: That is the only thing. "The Executive Managers are to obtain statements from important people in the district calling attention to the drive and urging purchase. These statements are to be from time to time in the local communities.

"A master speech, five minutes length, is to be prepared covering the essential points of the drive. This is to be sent to each community and used and adapted locally for weekly luncheons like Kiwanis, for local radio announcements, and so forth."

Who is going to make the master speech?

MR. KUHN: I will get up a draft of it this afternoon.

H.M.JR: Who is going to deliver it?

MR. KUHN: It is a speech that can be used on all occasions. It is a guide speech.

H.M.JR: (Reading) "Executive Managers and Regional Managers are to contact all financial institutions having radio programs using the master speech as material with local adaptation. This list of financial institutions having radio programs is to be obtained from the War Savings Staff.

"Local spot announcements are to be prepared to be sent to Executive Managers and Regional Managers for use in contacting local radio stations."

This number six is all stuff I do not - that does not have to be settled today, and neither does seven.

(Reading) "Executive Managers are to arrange meetings between the Presidents of their respective Federal Reserve Banks and the local financial writers. This will not be done in New York because of the foregoing paragraph.

- 6 -

"National figures on the progress of the drive are to be released for the A.M. papers on December 7. Subsequent releases, the same kind, will be made at intervals."

I made the suggestion on number ten to you. They do not like my suggestion, that the mats be sent out by the ABA?

MR. BUFFINGTON: Yes, sir, we have just learned from talking with some of the banks that there is a question as to whether the commercial house groups will sponsor these advertisements. It is rather expensive to do it unless we think it will get a good response. It costs seventeen thousand dollars to get one ad out to each of the fifteen thousand banks. I think we should try it, even though it costs a little money.

MR. KUHN: On Page 3, Mr. Secretary, number 14, since these dinners were postponed, we do not have any springboard for the first week's publicity, and we all think that it is essential that we get the President to do something before the drive begins.

Now, whether that could be you going over to the White House tomorrow to sell him the first bond, and have the news reel men take a little shot of you and the President talking together about it, or whether the President could go on the air for five minutes on Sunday, or whether it would be confined to the still cameras - that is something we will have to work out, but it is terribly important and necessary.

H.M. JR: I will try it.

Reading this very hastily, it is all right with me.

MR. KUHN: If you do bring up that question with the President, try to get the news reel, because we all think it is so much better than anything else that could be done.

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(Draft of letter to the Victory Fund Committee handed to the Secretary by Mr. Buffington.)

H.M.JR: Who wrote this letter?

MR. BUFFINGTON: We did, in my shop. We have all seen it here, and after approval it was to go out to the Victory Fund workers, or to the salesmen of the Victory Fund Committee. Many of them will have a kit explaining how these securities should be sold. Canada did this same sort of thing, and it is felt by the Executive Managers--

H.M.JR: I do not like that last sentence, "When the task is done"--

MR. KUHN: You mean you would like yourself left out of it?

H.M.JR: No, no. Has everybody seen this?

MR. BUFFINGTON: Yes, sir, they have. We will re-write it and change it a little bit if you don't like it.

H.M.JR: I think that "when the task is done" - I was thinking in terms of when it is finished you would say, "well done."

MR. BUFFINGTON: But you do not like to ever thank in advance, and that would seem to be the best way.

H.M.JR: I will be back again. Does this have to go today?

MR. BUFFINGTON: Just as quickly as possible, today.

H.M.JR: I am willing to do it, but it does not seem to have much "oomph" to it.

MR. HOBBS: I think we can improve on that.

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H.M.JR: With all these high-powered fellows in the room here, somebody ought to be able to put some "oomph" in it. The big thing is to get the President to do something.

(A Sales Manual entitled "Dollars for Victory" handed to the Secretary.)

MR. BUFFINGTON: That is a proof; it is not final. That is the type of salesman's kit that has been drafted. A lot of it is blank in the back; that would be folded and go to each man. Most of the Executive Managers think it would be very helpful.

H.M.JR: I had better get downstairs. I am sorry. The King of Ecuador is arriving.

If you want to see me when I get back, will you let me know?

MR. KUHN: What time will you be back, do you know?

H.M.JR: The King of Ecuador arrives at four. I ought to be back at four-thirty or quarter of five.

November 23, 1942.

The following is a brief outline of the publicity and promotion that is planned for the financing program to be launched on November 30, 1942.:

1. It is important that a name should be decided upon at once. It is suggested that the whole matter be referred to as the Victory Fund Drive to sell the Victory Loan, and specifically that the principal security be referred to as the Victory 2 1/2s.

2. The Executive Managers are to obtain statements from important people in the district calling attention to the drive and urging purchase. These statements are to be issued from time to time in the local communities.

3. A master speech, five minutes length, is to be prepared covering the essential points of the drive. This is to be sent to each community and used and adapted locally for weekly luncheons like Kiwanis, for local radio announcements and so forth.

4. Executive Managers and Regional Managers are to contact all financial institutions having radio programs using the master speech as material with local adaptation. This list of financial institutions having radio programs is to be obtained from the War Savings Staff.

5. Local spot announcements are to be prepared to be sent to Executive Managers and Regional Managers for use in contacting local radio stations.

6. Under a covering letter from the Secretary, or from Mr. Bell, to editorial writers enlisting their cooperation, there is to be sent the Secretary's press release of the 19th and the letter to the workers, referred to above.

7. On or about December 5 or 6, a meeting is to be arranged in New York so that Mr. Bell can talk to the leading financial writers to inform them in detail. These writers are to be primarily syndicate writers.

8. Executive Managers are to arrange meetings between the Presidents of their respective Federal Reserve Banks and the local financial writers. This will not be done in New York because of the foregoing paragraph.

9. National figures on the progress of the drive are to be released for the A.M. papers on December 7. Subsequent releases, the same kind, will be made at intervals.

10. Mats of one "ad" are to be sent to all banks (15,000) through the War Savings Staff. This is to be covered by sponsorship from the American Bankers Association.

11. Mats of six "ads" are to be sent to newspapers on a revised War Savings Staff list with specific instructions to contact local Managers and publicity men in regard to sponsorship.

12. Local Managers and publicity directors are to be urged to contact newspapers and banks for local publicity releases.

13. Executive Managers are to make every effort to organize Regional Managers, Committees and publicity men to foster all local publicity possible. This is to be in the individual cities and towns.

14. The possibility of obtaining a news reel is to be explored.

15. A letter to each Salesman of the Victory Fund Committee is to be prepared for the Secretary's signature. This letter will be aimed to inspire each man. This will be the subject of a release aimed to inspire workers and also aimed at prospective purchasers. This to be ready for Monday, November 30, morning papers.

Harold Thomas:deb

November 23, 1942
5:15 p.m.

Operator: Miss Tully is not in her office. Miss Bachelder is there.

HMJr: Let me have Miss Bachelder.

Operator: All right. Miss Bachelder.

Toinette Bachelder: Yes.

HMJr: Miss Bachelder?

B: Yes, Mr. Secretary.

HMJr: How do you do?

B: How are you, sir?

HMJr: Would you - you got a pencil?

B: Uh huh.

HMJr: Will you give this note to Grace Tully to give to the President?

B: Be glad to.

HMJr: That I would very much like to have the President let me sell him the first Victory Bond.

B: Uh huh.

HMJr: Hello?

B: Yes, sir.

HMJr: And - before the newsreels....

B: Uh huh.

HMJr:tomorrow....

B: Tomorrow....

HMJr:to have this in all the newsreel theatres next week.

- 2 -

B: Uh huh. All right.

HMJr: And - and this would launch our \$9 billion bond drive.

B: Uh huh. All right, fine, Mr. Secretary. I'll give it....

HMJr: Now wait a minute - and - and I need the President's help very much.

B: Uh huh.

HMJr: And - and if he would approve, why - I'd - oh, yeah, and tell him I'd try to take it up through Steve Early but he's out.

B: Uh huh.

HMJr: Hello?

B: Yes, sir.

HMJr: I tell - I wanted to take it up first through Steve Early but he - but he's out. But that it would have to be done tomorrow.

B: I see.

HMJr: See?

B: Yes, sir.

HMJr: So....

B: Fine, fine.

HMJr:will you tell Grace, and I....

B: I certainly will, Mr. Secretary.

HMJr: I thank you.

B: Goodbye. Is there any particular time that....

HMJr: Well, that'd be up....

- 3 -

B: It's up to him.

HMJr: Any time tomorrow that suits the President.

B: I see. Fine, Mr. Secretary.

HMJr: Any - any time that - tomorrow that would suit the President.

B: Grand, sir.

HMJr: Thank you.

B: I'll tell her. Fine. Goodbye.

HMJr: Goodbye.

November 23, 1942
5:32 p.m.

HMJr:in to see me at nine tomorrow morning.

Daniel Bell: All right.

HMJr: Do you think I should get in on the fact that they cut us \$2 million dollars in War Bonds because they said he could do it?

B: Ah....

HMJr: Or should I keep out of it?

B: I don't know all the facts yet. I just got that hurriedly before I came into the movies, and....

HMJr: Well, if - if they want something, then I should be given a memo at about five minutes of nine tomorrow if you think I should get in on it at this stage.

B: All right, I'm not so sure that you ought to do it, but I'll look into it before....

HMJr: No - because I understand that somebody's down the line and they - the upper fellows did not even - I mean said that they never said such a thing.

B: Really.

HMJr: Some subordinate in Davis' office.

B: I see. Well, that I don't know, because I just got out....

HMJr: Well, if you want me to talk to him, I should have it by five minutes of nine.

B: Okay.

HMJr: Goodnight, Dan.

B: Yeah, goodnight.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 23, 1942

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

The Army and Navy Journal has requested a statement from you on "Financing the War" as part of a round-up to which the President, Secretaries Hull, Stimson and Knox and others are contributing. The attached article has been approved by Herbert Gaston and the others on our publicity committee. We think you should sign it in view of the importance of the Army and Navy Journal.

Financing the War

Readers of the Army and Navy Journal need hardly be reminded that wars are won on the field of battle, not in the field of finance. But while victory may not be the result of financial triumphs, defeat might very well be the result of financial blunders.

The American people, through their representatives in Congress, have determined to devote one-half of our total production in the current fiscal year to the business of winning the war. Our task at the Treasury is to assist in converting this expression of purpose into an expression of fact.

The decision to devote one-half of our national productivity to war will inevitably entail great sacrifices in our physical comfort and well-being. Wise financial policy attempts to keep to a minimum the sacrifices that must be made--by encouraging the fullest practicable use of our productive resources, by accomplishing a prompt and adequate diversion of resources from peacetime to wartime use, by distributing sacrifices among our citizens with a maximum of equity and a minimum of hardship, and by causing the fewest possible postwar

- 2 -

dislocations in the economy as a whole. War finance
~~must impose no burden on the people other than the burden~~
~~of wartime sacrifice they have imposed on themselves.~~

~~No financial legerdemain can alter the basic fact~~
~~that those who fight a war must likewise pay for the war.~~
the generation which

If one-half of the things we produce are to be devoted
to war, then one half of the income we create should
likewise be devoted to war. The diversion of goods and
services from peacetime to wartime use ~~should~~ ^{should} be accom-
panied by a corresponding diversion of purchasing power
from peacetime to wartime use. The failure to enforce
the necessary diversion of money incomes will not increase
the amount of goods and services available for purchase;
it will increase only the prices people must pay for the
same amount of goods and services as before.

The fact that the material and financial sides of
war-making are in reality complementary aspects of the
same problem has often been obscured by the employment
of financial policies running counter to the high goals
we have laid down. Governments at war have been known
to debase the coinage, issue new currency, and rely on

- 3 -

the credit-manufacturing mechanism of the banks to provide them with the necessary resources to conduct war. These practices did not reduce by one iota the sacrifices people were called on to make during the war. They simply added to the necessary burdens of wartime sacrifice the wholly unnecessary, arbitrary, and inequitable burdens of war inflation and postwar deflation, with their attendant misery and injustice.

Taxes are the ideal method of distributing the costs of the war consciously, deliberately, equitably. Since the beginning of the rearmament program, we have increased tremendously government revenues from taxes. Taxes were increased twice in 1940, once in 1941, and once again in 1942. Total tax revenue in the current fiscal year will amount to about 21 billion dollars. While this is nearly four times our tax revenue in fiscal 1940, it is only one-fourth of our estimated expenditures in this fiscal year. Against the standard of past achievement, the result is impressive; against the standard of present needs, however, it is not so impressive. We need still more tax revenue.

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In theory there is no reason why the war cannot be financed entirely from taxes; in practice, however, there are many obstacles to doing so. Any attempt to increase taxes tenfold from 1941 to 1943, the magnitude required, would undoubtedly dislocate vital sections of our economy, discourage individuals and firms from putting forth their best efforts, drain industry of necessary depreciation reserves, and work great hardship on people whose sacrifices might better be invited by way of a war savings bond than a tax receipt. From the practical viewpoint, therefore, we must borrow as well as tax.

Non-inflationary war financing requires, however, that as much as possible of government borrowings be directly from the people, and not from the banks. We must do all we can to avoid either creating new money or activating old money, but instead we must draw from the current income stream money that would otherwise have been spent in buying consumers' goods. Our borrowing must not add unnecessarily to the total of purchasing

- 5 -

power already in existence; it must transfer from private to public use the income that is being created by the war program itself. Only in this way can the Government check whatever tendency to a price rise it may be producing by its own spending program.

The purchase of war savings bonds accomplishes this very purpose. For the most part investments in these bonds represent savings from current income. This is particularly true of the investment in war bonds by workers participating in Payroll Savings Plans, through which some 23 million individuals are now investing approximately 8 per cent of their incomes. By January 1 it is hoped 30 million individuals will be investing regularly 10 per cent of their incomes.

The Treasury is leaving no potential source of non-inflationary funds untapped. Investments in government securities by Savings banks and Insurance companies provide the government with considerable institutional savings. Such nonbanking purchasers of government issues as corporations, fiduciaries, and individuals provide a growing market for both regular and so-called "tap" issues.

- 7 -

~~imposed on themselves. To attain this objective we~~
~~must recognize frankly that we who fight the war must~~
~~likewise pay for the war.~~

Final copy
11-23-42

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By Henry Morgenthau, Jr.

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- 2 -

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The fact that the material and financial sides of war-making are in reality complementary aspects of the same problem has often been obscured by the employment of financial policies running counter to the high goals we have laid down. Governments at war have been known to debase the coinage, issue new currency, and rely on the credit-manufacturing mechanism of the banks to provide them with the necessary resources to conduct war. These practices did not reduce by one iota the sacrifices people were called on to make during the war. They simply added to the necessary burdens of wartime sacrifice the wholly unnecessary, arbitrary, and inequitable burdens of war inflation and postwar deflation, with their attendant misery and injustice.

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In theory there is no reason why the war cannot be financed entirely from taxes; in practice, however, there are many obstacles to doing so. Any attempt to increase taxes tenfold from 1941 to 1943, the magnitude required, would undoubtedly dislocate vital sections of our economy, discourage individuals and firms from putting forth their best efforts, drain industry of necessary depreciation reserves, and work great hardship on people

- 4 -

whose sacrifices might better be invited by way of a war savings bond than a tax receipt. From the practical viewpoint, therefore, we must borrow as well as tax.

Non-inflationary war financing requires, however, that as much as possible of government borrowings be directly from the people, and not from the banks. We must do all we can to avoid either creating new money or activating old money, but instead we must draw from the current income stream money that would otherwise have been spent in buying consumers' goods. Our borrowing must not add unnecessarily to the total of purchasing power already in existence; it must transfer from private to public use the income that is being created by the war program itself. Only in this way can the Government check whatever tendency to a price rise it may be producing by its own spending program.

The purchase of war savings bonds accomplishes this very purpose. For the most part investments in these bonds represent savings from current income. This is particularly true of the investment in war bonds by workers participating in Payroll Savings Plans, through which some 23 million individuals are now investing

- 5 -

approximately 8 per cent of their incomes. By January 1 it is hoped 30 million individuals will be investing regularly 10 per cent of their incomes.

The Treasury is leaving no potential source of non-inflationary funds untapped. Investments in government securities by Savings banks and Insurance companies provide the government with considerable institutional savings. Such nonbanking purchasers of government issues as corporations, fiduciaries, and individuals provide a growing market for both regular and so-called "tap" issues. Various government trust funds, like social security, constitute an important additional source of non-inflationary funds. Finally, Treasury Tax Savings Notes, designed both for individuals and corporations, provide the government with the kind of funds it needs by removing current income from the circulation while tax liability is accruing.

What the government will not be able to obtain from the people by way of taxes and savings must come from the commercial banks. While borrowing from this source is by no means necessarily inflationary in its consequences, a large part of it could undoubtedly have

- 6 -

precisely that effect. Our policy, therefore, must be to keep this type of borrowing to an irreducible minimum, and at the same time employ added measures to control purchasing power and prices of consumer goods.

The overall objective of a sound wartime financial policy, I repeat, is to achieve maximum utilization of the nation's resources while distributing the burdens of sacrifice fairly and equitably. The attainment of these twin objectives is the Treasury's major task in wartime.

Alternative fiscal methods for reducing attempted
consumption by \$16 billion

DRAFT V-a
November 23, 1942

Introductory statement

In formulating a revenue program for 1943, several major objectives must be kept in mind. The present memorandum deals with one of those objectives: the prevention of the inflationary rise in prices and disorganization in the distribution of consumer goods that might develop if too much purchasing power were allowed to remain in the hands of the public. It does not explore that objective to the point of demonstrating the amount by which attempted consumption must be reduced during the coming years. Rather it accepts a figure for this purpose of \$16 billion for calendar 1943 on the basis of present expectations of income, taxes and savings, and indicates the principal fiscal alternatives by which attempted consumption might be reduced by \$16 billion. It does not go into the question of non-fiscal methods of immobilizing or reducing purchasing power.

Obviously since this memorandum does not examine the other major objectives of wartime fiscal policy or the non-fiscal methods of inflation control, it cannot by itself be accepted as the basis for a properly balanced revenue program for 1943. But it does give a number of alternative possibilities, and by implication suggests a number more, all of which are suitable so far as checking inflation is concerned. The

- 1-a -

differences among these several possibilities are small so far as total revenue is concerned. The range is only from \$24 billion to \$27 billion in the programs given in this memorandum. The close similarity in amount of revenue tends however to mask the very important qualitative differences - - differences that may prove decisive when some of the other major objectives of a revenue program are considered.

I. The problem

The present inflation problem arises from the attempt by individuals to spend more than the total value (at existing prices) of the available goods and services. Even if wage rates and farm prices are maintained at present levels, total income payments to individuals will probably reach \$125 billion in the calendar year 1943. Personal taxes now imposed by Federal, State, and local governments will take at most \$15 billion of this income, leaving at least \$110 billion for individuals to spend or to save. If voluntary savings were to be maintained at the level reached in the second quarter of the calendar year 1942, they would absorb approximately \$24 billion. This seems a maximum estimate for 1943, since, without substantial inducement or compulsion, the level of savings reached during the second quarter of 1942 is not likely to be much increased in the face of higher taxes, the adjustment of individuals

- 1-b -

to their new higher levels of income, and somewhat higher living costs. But even with this level of savings, consumers would be trying to spend \$86 billion, while the supply of goods and services will be at most \$70 billion, at present prices. If upward pressure on prices is to be relieved, the amount that individuals want to spend must be reduced one way or another by \$16 billion.

- 2 -

The attached Table 1 shows the estimated distribution of income and of attempted consumption for calendar 1943 by net income classes.

The classes shown in the first column of this table are in terms of statutory net income used for income tax purposes. Similarly, the number of returns is an estimate of the ^{number} ~~whole~~ of taxpaying units that there would be if there were no exemptions and if the present advantage to filing separate returns were retained. The total number of returns of almost 67 million is therefore approximately equal to the number of income recipients and is far larger than the estimated 45 million consumer units, that is, families and single individuals. Total income, equivalent to a Department of Commerce income payment figure, is, as indicated above, estimated to be about \$125 billion for the calendar year 1943. Tax exempt interest, other tax exempt income, and allowable statutory deductions reduce this to aggregate net income of less than \$108 billion. Federal and State ^{personal} ~~total~~ income taxes payable on this net income and estate and gift taxes are estimated at \$14.3 billion. This figure excludes the post-war credit part of the Victory tax since most of this will be taken currently. After personal taxes, individuals will have available \$111 billion of their total income to use for consumption, savings, and gifts. If individuals were free to use this money as they wished, they would try to spend \$86.3 billion on consumer goods and services. This estimate for attempted consumption includes the taxes payable on consumption goods, for example, cigarettes are included at their full

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sales price including tax. The last column of Table 1 shows the amounts of savings and gifts individuals would voluntarily make.

The net income classes over \$3,000 include less than 8 percent of all returns, but account for 20 percent of total attempted consumption. Nevertheless, the total attempted consumption of these groups is only \$18 billion. These groups cannot provide the entire \$16 billion reduction in consumption that is necessary to bring the total attempted consumption down to the level of available goods and services. We shall have to go farther down in the income scale. How far must we go? As shown in Table 1, the group under \$1,000 net income, though including more than 40 percent of all returns, accounts for only about as much of the total attempted consumption as the 8 percent of the returns with incomes above \$3,000. Even if the \$18 billion attempted consumption by this group were not reduced at all, there would still remain \$68 billion from which the necessary \$16 billion reduction could be achieved. We do not have to impair minimum subsistence standards in order to achieve the desired reduction.

The attached Table 2 gives four different methods by which the necessary reduction in consumption expenditures might be achieved. These methods are arranged in the order of progressivity. The last method -- Schedule C-4 -- is designed to show the approximate effect of a flat rate sales tax sufficiently large to reduce spending by the required amount.

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While, as noted above, the reduction in consumption can be achieved without impairing minimum subsistence standards, it is clear from Table 2 that this will not be easy. The most progressive schedule, Schedule C-1, involves a maximum reduction in consumption of 50 percent for the net income class of \$10,000 and over. In the absence of measures to reduce consumption, individuals in this class would, on the average, try to spend about \$8,800. To achieve the reduction set forth under Schedule C-1, it would be necessary to reduce their average actual consumption to \$4,400. The \$5,000 to \$10,000 net income class would attempt to spend an average of \$4,000. Under Schedule C-1, it would be permitted to spend no more than an average of \$2,300. The schedule involves a reduction of as much as 16 percent for the \$1,000 to \$2,000 net income class. The 5 percent reduction for the under \$1,000 class is intended to come primarily from single persons and supplementary earners in that class, rather than from families.

By imposing the reduction in consumption in a less progressive way, these very large reductions at the top of the scale can be avoided but only at the cost of much larger reductions at the bottom. For example, if we take the extreme Schedule C-4, the average consumption of the top group is reduced only from \$8,800 to \$7,800. But the average consumption of the very lowest group is reduced from \$650 to \$500, or by 23 percent from an already inadequate level.

The schedules shown in Table 2 are only a few of the possible alternative ways of eliminating the discrepancy between what people

would want to spend and the supply of goods available. This discrepancy must be eliminated one way or another. No larger supply of consumer goods can be made available except by impairing war output. If the discrepancy is not eliminated by fiscal measures, it must be eliminated by direct measures; and if not eliminated by direct measures, it will be eliminated by inflation.

II. Fiscal methods of solving the inflation problem

There are only two methods by which the amount that people will try to spend can be reduced to the amount that will be available for them to buy at existing prices; enough of their income must be taken away to reduce attempted consumption to \$70 billion, or individuals must be induced to save enough to reduce attempted consumption to \$70 billion. Some of the direct controls such as price control and rationing help to stimulate additional saving. This memorandum is, however, concerned with fiscal rather than direct controls.

Withdrawing income reduces the amount individuals will save as well as the amount they will attempt to spend. To achieve any given reduction in consumer spending, it is therefore necessary to withdraw substantially larger amounts of income than the total desired reduction in consumer spending. Stated differently, withdrawal methods bear on both spending and saving. They therefore bear with particular hardship on individuals who are committed to regular forms of savings, such as the purchase of insurance, the repayment of debt, and the purchase of war savings bonds. Examples of methods that rely primarily

- 6 -

on the withdrawal of income include the income tax, various forms of compulsory lending, and to a very large measure, a flat rate sales tax.

The problem of fixed savings commitments can be avoided by using methods designed to reduce spending without, at the same time, reducing saving. Saving can be made more attractive either indirectly by penalizing extra spending, or directly by giving a premium for saving. Examples of saving-inducement plans are a progressive rate sales tax, a spendings tax, and a combination of a spendings tax with an offset for savings.

A. Plans relying primarily on the withdrawal of income

An indication of the amount that would have to be withdrawn from income in order to achieve the desired reduction in spending is given in Table 3. For Schedule C-1, the most progressive of the four schedules, the table shows that over \$27 billion would have to be withdrawn from income in order to reduce consumption to the desired level. An example will show how this figure was derived. For the \$5,000 to \$10,000 class, average total income after present taxes is \$8,608. The permissible average consumption is \$2,227. This is the average attempted consumption before the additional taxes of individuals with an average income of \$2,984 (obtained by interpolating in Table 1 between the \$2,000 to \$3,000 class and the \$3,000 to \$4,000 class). ^{1/} If when individuals have their incomes reduced by additional taxes to \$2,984 they spend and save in the same way as individuals who before the taxes had an income of \$2,984, then these individuals would have to have their disposable income

^{1/} For more detailed information see appendix 1.

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reduced to \$2,984 by additional taxes of \$3,624 in order to induce them to spend no more than \$2,227. This is the assumption that was made in deriving the estimate of additional taxes needed. The estimate obtained in this way seems a minimum estimate of the amount of income that would have to be withdrawn. When individuals have their incomes reduced by additional taxes, they are reluctant to surrender their former living standard. They are therefore likely to draw heavily upon savings and to consume more than individuals who formerly had that lower income.

The additional taxes required under Schedules C-2, C-3, and C-4, were also derived by making the assumption indicated above. The total amount of taxes ~~needed~~^{needed} decreases as the reduction in consumption is distributed more regressively because individuals in lower income groups have a smaller amount of savings on which they can draw than individuals in the upper income groups. However, as shown in Table 3, the differences are not very large. Even for Schedule C-4, the equivalent of a flat rate sales tax, approximately \$24 billion would be needed if withdrawal of income alone were relied upon. Any method that relies primarily on the effect of withdrawal of income must therefore withdraw in the neighborhood of \$25 billion to \$30 billion at the very least in order to achieve the necessary reduction in consumption.

1. The income tax

The individual income tax is one of the fairest taxes that has yet been devised. Differences in marital status and in number of dependents are

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recognized, exemptions are provided to protect the low income groups, and the base has been adjusted in the course of many years of development to reflect the ability of the individual to pay taxes.

Under existing law, taxes payable to the Federal Government on calendar 1943 incomes are estimated to total about \$11 billion under the net income tax and another \$2 billion under the Victory tax (after post-war credit.). These taxes alone will take about 25 percent of net income in excess of exemptions allowed under the Revenue Act of 1942 -- \$500 for a single individual, \$1,200 for a married couple, and \$350 for each dependent. ^{1/}

In order to raise even the minimum additional amount required -- \$25 billion -- from an income tax with the same exemptions, the effective tax rate on net income in excess of exemptions would have to be increased by more than 50 percentage points, or to an aggregate of about 75 percent. Even if exemptions were reduced to \$400 for a single individual, \$800 for a married couple, and \$200 for each dependent, the effective tax rate on net income above exemptions would have to be increased by almost 40 percentage points, or to an aggregate of about 60 percent of the larger base. Such tax rates might call for a still further lowering of exemptions; and the bulk of the tax would certainly need to be collected at source. Rates that would be required to raise a total of \$35 billion (the yield of the present income taxes plus \$25 billion) with exemptions of \$400, \$800, and \$200, and to achieve approximately the reduction in consumption of Schedule C-1 of Table 2, are given in Table A.

^{1/} The Victory tax is levied on gross incomes above \$624. The 25 percent figure cited in the text neglects the Victory tax payable on incomes below the net income tax exemptions.

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Table A

An individual income tax rate schedule to raise an aggregate of \$38 billion (including the Victory tax net of the post-war credit) and to achieve approximately the reduction in consumption indicated in Schedule C-1 of Table 2.

(Still in process of preparation)

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2. Compulsory lending

In view of the heavy rates of tax and the lower exemptions that would be required to withdraw enough income, it has often been suggested that the money taken away be treated not as a tax but as a compulsory loan to be repaid after the war. In this way the levy would have a less detrimental effect upon individual incentive to work longer or harder, and certain groups would be compensated in the post-war period for war levies that are considered too heavy as a permanent burden.

There are, however, serious disadvantages to treating the money taken away as a compulsory loan. A larger sum would have to be taken in the form of a compulsory loan than in the form of taxes. Since individuals would regard the loan to the Government as an asset and a form of savings and hence would be considerably less hesitant to meet the loan requirement by reducing other forms of savings or by drawing on previously accumulated savings. Consequently, if \$25 billion is a minimum estimate of the amount that would be needed through taxes to accomplish a reduction in consumption of \$15 billion, perhaps as much as \$30 billion or \$35 billion would be a minimum estimate for the amount of compulsory lending that would be needed to accomplish the same reduction.

The rate of levy needed to raise this sum would be heavy. Total net income after present personal taxes will be about \$95 billion. Of this, perhaps \$40 billion would be accounted for by exemptions of \$400

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for a single person, \$500 for a married couple, and \$200 for each dependent, leaving some \$55 billion in the tax base. To raise \$30 billion over and above present taxes therefore means an average effective rate of 54 percent on net income after present taxes and after exemptions.

The effect of a compulsory loan on the expenditures of any income class depends not only on the income and current savings of that class but also on the amount and distribution of assets owned, i.e., of previously accumulated savings. At all income levels, individuals will tend to meet a loan requirement, to a much greater degree than a tax, out of such assets. Their ability to do so and their willingness to do so will depend on the amount of assets they already have, the ease of converting them into cash, and the like. In general, it seems probable that persons at the higher income levels will be in a better position to meet the loan requirement out of current and previously accumulated savings than the lower income groups. Consequently, a dollar of loan reduces consumption less at all income levels than a dollar of tax; both reduce consumption more at the lower income levels than at the higher; but the difference in consumption-reducing effect between income levels is larger for a loan than for a tax.

In the absence of information on the amount and distribution of assets at various income levels, it is extremely difficult to appraise the relative consumption-reducing effect of a loan at different income

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levels, and hence to construct a compulsory lending rate schedule that will produce the desired distribution of the reduction in consumption. The rate schedule presented in Table B, designed to reduce ^{consumer} consumption spending in accordance with Schedule C-1 of Table 2, was therefore constructed on the assumption that the difference between income levels in consumption reducing effect would be much the same for a loan as for a tax. The consumption reducing effects of the loan were therefore assumed to be somewhat less than was assumed in deriving the income tax schedule given in Table A, but to follow the same pattern. The actual distribution of the reduction in consumption under such a schedule would therefore be more regressive than Schedule C-1.

Table B.

(This table is being revised)

**Compulsory lending schedules
to yield \$30 billion**

(Lending requirement based on income, with no effects
for other forms of saving)

Married couple, no dependents

Net income brackets ^{1/} (after deduction of regular income tax)	Bracket rates (percent)	Cumulative amount of lending
0 - \$ 800	0	0
\$ 800 - 1,200	40	160
1,200 - 1,600	50	360
1,600 - 2,000	60	600
2,000 - 2,400	65	860
2,400 - 3,000	67	1,262
3,000 - 4,000	68	1,942
4,000 - 6,000	69	3,322
6,000 and over	70	-

^{1/} For single persons, brackets would be half the width of those shown; for families with dependents the width of the brackets would be increased by 25 percent of those shown for each dependent.

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A compulsory loan is likely to be less equitable than a tax in its immediate effect. In the first place, as indicated above, a compulsory loan with the same rate schedule as a tax will be more regressive in its current effect on consumption standards because the upper income levels are in a better position to meet the loan out of other savings or out of previously accumulated savings. In the second place, because it is a loan rather than a tax there is likely to be less opposition to imposing it in accordance with a more regressive schedule. In the third place, a compulsory loan imposes considerable inequities even among individuals at the same income level. Persons with liquid assets can avoid any current reduction in consumption simply by converting their assets; persons without assets or with assets that can only be realized on at a loss are forced to pay the loan out of reduction of consumption. Consequently, the burden on two individuals who have the same income and have previously maintained the same scale of expenditure may be very different.

Repayment of the loan in the post-war period clearly does not make the present distribution of the reduction in consumption more equitable. Its effect is simply to commit the Government to making specified payments to specified people in the post-war period, although conditions at that time may call for distribution of different amounts to different people.

Because of the discrimination under a compulsory lending plan against persons who cannot easily transfer assets or who have fixed

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savings commitments, there will probably be considerable pressure to provide for offsetting against any lending requirement certain forms of regular saving such as insurance premiums, repayment of debts, or purchases of war bonds. This is the pattern that has already been followed for the post-war credit of the Victory tax.

Providing for any such offsets greatly reduces the effectiveness of the tax in curtailing spendings. Under a compulsory lending plan with no offsets, there are at least frictional hindrances to converting voluntary saving into compulsory lending -- insurance policies must be lapsed, surrendered, or borrowed on, mortgages must be re-financed, assets must be sold, and the like. But if various forms of savings are permitted to be taken as a direct offset to the lending requirement, there are not even frictional hindrances. There is merely relabeling. What was formerly called voluntary saving is now called compulsory lending. It follows that the rates of a compulsory lending plan which provides for offsets for other forms of savings would have to be heavier than the compulsory lending plan described above if the same effect on spendings is to be obtained. ^{1/}

One form of compulsory lending that would require less severe rates to curtail spending by any desired amount is the payroll tax under the social security system. In the first place, the loan under

^{1/} This difficulty can be overcome to a considerable extent by providing for only a partial offset of other forms of savings rather than for a complete offset. (See Section B(3) below.)

the social security system is in general for a considerably longer period than the loan under most other forms of compulsory lending. Repayment is scheduled not for immediately after the war, but only for such a time as the individual reaches a specified age or satisfies certain other conditions. In consequence, the benefits accruing under the social security program are not likely to be regarded as an adequate substitute for voluntary savings. In the second place, payroll taxes are imposed without exemption and hence bear relatively heavier on the low income groups with no substantial voluntary savings. While requiring less severe rates, the payroll taxes involve a regressive distribution of the current reduction in consumption. They are levied without exemption and at a flat rate apply only to wages and salaries, and apply only to the first \$3,000 of wages and salaries.

3. Flat rate sales tax

A third major type of levy that relies primarily upon the withdrawal of purchasing power is a flat rate sales tax. A flat rate sales tax would have some incentive effect in making saving more attractive relatively to spending, but its major effect would be through the withdrawal of purchasing power. Unless exemptions were provided it would be impossible for individuals to escape the tax by curtailing consumption. A considerable part of their spending power would necessarily be drained off. This would be especially true at the lower income levels where there is insufficient leeway in consumption patterns to permit the saving incentive effect to be very important.

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As the figures for Schedule C-4 in table 3 show, a flat rate sales tax operating primarily through withdrawal of income would have to raise almost \$25 billion. If every dollar of consumer spending--including expenditures on domestic services, professional services, and the like--could be subjected to the sales tax, this would require a 35 percent flat rate. In practice it is impossible to collect a sales tax from all forms of expenditure. The practical tax base with a total volume of goods and services at existing prices of \$70 billion is probably not over \$50 billion. This would mean that a 50 percent flat rate tax would be required on those types of expenditures that can be reached.

B. Savings incentive plans

A reduction of about \$16 billion in the amount that consumers will want to spend could at one extreme be achieved without withdrawing any income whatsoever. This could be done if individuals could be induced one way or another to save an extra \$16 billion out of an unchanged income. The only certain way of accomplishing this result would be to compel the required amount of savings. Such a compulsory saving plan would require that each individual save a specified amount out of his income after allowing for all capital transactions. Such a plan is very different from compulsory lending which is a requirement that an individual lend to the Government a specified amount that might be derived either from income or from the sale of assets.

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It seems impracticable to achieve the objective of compulsory saving directly by specifying saving requirements. No individual could know that he had complied with the compulsory saving requirement until after the end of the period to which the requirement applied, since he would know neither his income nor his spending until that time. In consequence many individuals either deliberately or through honest error, would fail to comply with the saving requirements. It would not be feasible to "punish" these individuals except by sanctions laid down in advance, which would in effect convert the compulsory saving scheme into expenditure rationing, expenditure taxation, or compulsory lending. ^{1/}

Short of compelling specified amounts of net savings from individuals any saving incentive plan will inevitably involve some withdrawal of income. Individuals differ widely in their spending habits. Incentives that will suffice to reduce the spendings of one individual to the desired level will not suffice for another. Savings inducement plans can, however, be constructed so as to involve much withdrawal of income or relatively little. For this reason it is impossible to

^{1/} "The required amount of saving could be insured by issuing to all consumers licenses to purchase 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. The use of any of these last three sanctions, however, would involve great administrative difficulties and would cause widespread public resentment." (Letter of November 10, 1942 to Mr. Byrnes, p. 14).

give any very precise indication of the amount that would have to be obtained from a savings inducement plan in order to achieve the desired reduction in consumption. At the one extreme, it might be possible to achieve a \$15 billion reduction in consumption while withdrawing perhaps as little as \$5 billion. At the other extreme, almost as much might be needed as under withdrawal of income plans, that is \$25 billion or \$30 billion.

A progressive retail sales tax, a spendings tax, and a combination of a spendings tax with a savings credit are examples of plans that rely primarily on incentive effect rather than on withdrawal effect.

1. A progressive retail sales tax

Various plans have been suggested for a progressive retail sales tax either with or without exemptions. Most of these plans involve the use of coupons. The progressive rates would be handled by selling at successively higher prices books of coupons to cover purchases in excess of exemptions. If an exemption were granted, it would be handled by distributing specified minimum amounts of coupons free of charge.

Such a plan would involve all of the administrative difficulties of any retail sales tax, and many others as well. Careful and costly registration would be required to prevent persons from obtaining more than one tax-free set of coupons and to prevent persons from purchasing additional coupons at tax rates lower than those provided in the schedule. Some multiple registration and evasion of proper tax payment could not be prevented.

More important, it would be almost impossible to prevent the transfer of unused stamps--either unused exemption stamps if exemptions were provided, or unused low-rate stamps. Persons who had no use for the exemption stamps or for low-rate stamps would sell them to persons whose spendings were larger than the exempt amount or whose spendings were in higher rate brackets. Such transfers would be in the mutual interest of both parties. In practice, it would probably be preferable to permit such transfers freely rather than to attempt the impossible task of preventing them.

As with any retail sales tax, it is not feasible to tax certain classes of expenditures such as expenditures on domestic service, professional service, rent, and other similar items. With total spending of about \$70 billion, this means that the base would be not more than about \$50 billion before exemptions. Exemptions would reduce the base still farther. For example, suppose only \$300 of free coupons were issued to cover expenditures for each adult and \$150 for each child. This would involve the issuance of free coupons covering in the aggregate from \$27 billion to \$30 billion of expenditures. As indicated above, practically all of the expenditures covered by free coupons should be deducted from what would otherwise be the base of the tax, leaving only \$20 billion to \$23 billion in the base.

With a base so small, there is little room for progression. Suppose the first rate bracket is made \$300 for each adult and \$150 for each child, or the same as the exemptions. This would involve

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first bracket coupons covering aggregate spendings of \$27 billion or \$30 billion--more than the entire base. The most that would be feasible, if exemptions were permitted, would therefore be a flat rate tax above exemptions.

With a base of \$20 billion to \$23 billion and a necessary reduction in consumption of \$16 billion, a flat rate of 70 percent to 80 percent would be needed if each dollar of tax reduced spending by a dollar. Conceivably, a lower rate might do in view of the savings incentive effect of such high rates.

The considerations that limit progressivity if exemptions are allowed will also limit the possible progression in the absence of exemptions. A rate bracket of \$300 for each adult and \$150 for each child would account for \$27 billion to \$30 billion of expenditures. With a total base of \$50 billion only about two such rate brackets would be feasible. There would be many individuals whose expenditures would be above these two brackets, but most of them would be able to buy coupons at lower bracket rates from persons whose expenditures were less than the sum of the two brackets.

The feasibility of a progressive retail sales tax either with or without exemptions would, therefore, seem to hinge very largely on the development of a practical plan for preventing the transfer of coupons. If such a plan could be developed, the progressive retail sales tax would deserve serious consideration. It would have the merit of an ordinary sales tax of collecting the tax bit by bit as the money is spent; at the same time, it would not have the regressivity that is the major disadvantage on grounds of equity of the flat rate sales tax.

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2. A spendings tax

The spendings tax is an incentive plan very similar to a progressive rate retail sales tax. A spendings tax would be based on the total amount that an individual spends in any specified period. The amount he spends would be computed indirectly by computing the total funds at his disposal and subtracting all funds used for purposes other than current consumption--for payment of insurance premiums, repayment of debt, purchase of war bonds or other assets.

Under the spendings tax it would be feasible to include all types of expenditures, services as well as commodities. The problem of trafficking in extra coupons would be entirely avoided. An individual who spends less than the spendings exemption would have nothing to transfer to other individuals. He would merely be subject to no tax. Consequently, the base of the spendings tax can be very much larger than the base of a progressive retail sales tax.

The spendings tax would, of course, have administrative difficulties of its own. The final liability under the spendings tax would not be determined until after the close of the year. It would be computed at the same time as the regular income tax and on the same form. The spendings tax would, however, be of little immediate value as an anti-inflationary instrument if the actual collection of the tax were delayed this long. Consequently, the tax will have to be collected currently during the year by (1) collection at source

from income received in the form of wages and salaries, interest, and dividends; and (2) quarterly returns for persons with incomes from other sources and for persons in the higher spendings tax brackets. The difference between the ultimate liability and the amount collected during the year would be adjusted in the final year-end return.

The quarterly returns would involve a serious administrative difficulty. So also would the adjustment at the end of the year. In order to check on the ultimate liability shown on the year-end return, information would be needed that is not now available for income tax purposes, for example, information on bank deposits at the beginning and end of the year, purchases of securities and the like. One source of looseness for the first year or so of operation would be the extreme difficulty, if not impossibility, of checking on the amount of cash, as distinguished from bank accounts, in the hands of individuals at the beginning of the period.

The amount of revenue that will have to be raised by a spendings tax designed to reduce spending by \$16 billion depends on the extent to which the spendings tax will be paid out of money that would otherwise have been spent, or out of money that would otherwise have been saved. With an extremely progressive spendings tax employing high marginal rates, it is conceivable that spendings would be reduced by even more than the tax. With a relatively flat low rate spendings tax, spendings would be reduced by less than the tax. Perhaps the most that can reasonably be expected is that a dollar of spendings tax will cut spendings by a dollar, i.e., that none of the spendings tax would be paid out of money that would otherwise have been saved. If we accept this

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assumption that a dollar of tax will reduce spendings by a dollar, a spendings tax would have to be designed to raise approximately \$16 billion from total spendings of about \$70 billion.

Exemptions should be allowed under the spendings tax to protect minimum standards of living. If the exemptions were \$400 for a single person, \$800 for a married couple, and an additional \$200 for each dependent, the total amount of spending covered by the exemptions would be in the neighborhood of \$35 billion, or half of aggregate spendings. This would leave as the base of the spendings tax \$35 billion, implying an effective rate of 46 percent on spendings above exemptions.

In view of the concentration of spendings in the lower brackets, such an effective rate could be achieved only by a schedule with relatively narrow brackets at the bottom, a relatively high initial rate, and steep progression.

Table C shows for a married couple with no dependents the schedule that would be needed to reduce consumption by the whole of the necessary \$16 billion in accordance with Schedule C-1 of Table 2. This schedule was derived by assuming that a dollar of tax will reduce spending by a dollar, not only for all income classes combined, but also for each income class separately. This implies that the marginal rates increase just enough to offset the greater availability of current and previously accumulated savings.

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Table C.

(This table is being revised)

Spending tax schedule required to reduce
consumption by \$15 billion

(Married couple, no dependents)

Spending brackets ^{1/}	Bracket rates	Cumulative tax
0 - \$ 800	0	0
800 - 1,000	20%	\$ 40
1,000 - 1,200	40	120
1,200 - 1,600	80	360
1,600 - 2,000	100	760
2,000 - 2,400	150	1,360
2,400 - 3,000	200	2,560
3,000 - 4,000	250	5,060
4,000 - 6,000	300	11,060
6,000 - 10,000	350	25,060
10,000 and over	400	-

^{1/} For single persons, brackets will be half of those shown; for families with dependents, brackets will be wider than those shown.

3. Spending tax combined with savings credit

Under the spending tax alone an individual who reduces his consumption by the socially desired amount does not necessarily escape the tax. The spending tax can be escaped entirely only by reducing spendings to the level of exemptions. But this involves a more drastic equalisation of spending than is either necessary or desirable. Even the most progressive schedule of desired reductions in spending shown in Table 3, schedule G-1 permitted considerable inequality in spending. Under this schedule, spendings vary from an average of \$616 for persons with incomes below \$1,000 to an average of \$4,400 for persons with incomes above \$10,000.

Under a plan that is designed primarily to induce savings it seems reasonable that an individual who reduces his spendings to the degree desired, should escape all or most of the tax. This objective would be accomplished directly by a spending tax with variable exemptions, the exemptions being higher the higher the income.

The same objective can be accomplished indirectly by combining the spending tax with a credit for savings. For example, a flat 50 percent levy on spendings might be combined with a credit against the levy equal to 25 percent of the amount of savings. With these rates if an individual spent on consumption goods $1/3$ of his income, the net spending tax would be zero. The tax on his spending would be 50 percent of $35-1/3$ percent, or $1/6$ of his income. The credit for savings would be 25 percent of $66-2/3$ percent, or also $1/6$ of his income. This is equivalent to a spending tax of 75 percent on spendings in excess of an exemption of $1/3$ of income.

The plan would be more acceptable if the percentage of income exempt declined as income rose, that is, if the spendings to be permitted without the payment of the tax were a smaller percentage of a large income than of a small income. This objective can be accomplished by using a graduated spendings tax instead of a flat rate spendings tax while keeping a flat rate credit for saving.

This type of plan permits a very strong savings inducement with relatively small withdrawal of income. For every dollar that an individual reduces his consumption, he gains in two ways. First, he saves the spendings tax on that dollar and second, he gets a credit of an additional 25 cents for the extra dollar of savings. Consequently, with an initial spendings tax rate of 25 percent, the marginal effect is at a 50 percent rate since an additional dollar of savings will save 25 cents in tax and add 25 cents to the savings credit.

With a 25 percent credit for saving, the spendings tax schedule in Table D is a rough guess of a schedule that would be sufficient to reduce consumption by \$16 billion in accordance with Schedule D-1. of Table 2. The spendings that could be made at various income levels without the payment of tax under this particular schedule are given in Table X.

This combination (Plan I) is estimated to raise approximately \$_____ billion, i.e., to reduce spending in the aggregate by \$_____

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for each dollar of tax revenue. The net result would be to increase total savings by \$_____ billion, or from about \$24 billion to \$_____ billion.

Table F shows the estimated distribution of the tax revenue and the additional savings by net income classes.

Table D.

(This table is being revised)

Spending tax schedule to reduce consumption
by \$15 billion, if combined with a 25 percent
savings credit 1/

Married couple - no dependents

Spending brackets 2/	Bracket rate (percent)	Cumulative tax
0 - \$ 800	0	\$ 0
800 - 1,200	25	50
1,200 - 1,400	40	130
1,400 - 1,600	60	230
1,600 - 1,800	70	350
1,800 - 2,000	80	490
2,000 - 2,400	100	690
2,400 - 3,000	120	1,050
3,000 - 4,000	150	1,770
4,000 - 5,000	200	3,270
5,000 - 7,000	300	5,270
7,000 - 10,000	400	11,270
10,000 and over	600	23,270

1/ Savings is the amount by which net income exceeds the sum of spendings, the income tax and the Victory tax.

2/ For single persons, brackets would be half the size of those shown; for families with dependents, brackets would be wider than those shown.

Table E.

(This table is being revised.)

The savings that could be made at various income levels without the payment of tax under this particular schedule are as follows:

Spending that could be made without payment of tax, under Plan I for selected net incomes

(Married couple, no dependents)

Net income after income and Victory tax	Spending possible without tax	Associated savings
\$ 800	\$ 800	\$ 0
900	850	50
1,000	900	100
1,200	1,000	200
1,400	1,077	323
1,600	1,154	446
1,800	1,227	573
2,000	1,298	707
2,500	1,453	1,047
3,000	1,600	1,400
4,000	1,857	2,143
5,000	2,080	2,920
6,000	2,280	3,720
8,000	2,641	5,359
10,000	2,988	7,014
12,000	3,274	8,728
15,000	3,708	11,297
20,000	4,324	15,678
30,000	5,302	24,698
50,000	6,840	43,160
100,000	9,819	90,181
250,000	15,877	234,123

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Table F

**Estimates of revenue and the estimates of additional
and total savings by income classes under the rates
and credit of Table D.**

(Still in process of preparation)

Another modification of the plan that might be desirable would be to give a credit only for savings in excess of some minimum standard, since there seems little reason to give a credit for savings that would be made in any event. In line with the war bond saving campaign the minimum standard might be made 10 percent of net income in excess of exemptions. The savings credit might then be made 25 percent of savings in excess of this minimum standard. With this modification and with the same schedule as before, the spendings that could be made without the payment of tax would be lower since the credit against the spendings tax would be less. Consequently, a somewhat lower schedule would have the same consumption reducing effect. The amount of spending that could be made without the payment of the tax would, however, be lower than under the first plan. With a 25 percent savings credit of this type, a tentative schedule to accomplish the desired reduction in consumption and the spendings that could be made without the payment of tax are given in Tables G and H.

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Table G

**Spending tax schedule to reduce consumption by
\$15 billion, if combined with a credit of 25 per-
cent of savings in excess of 10 percent of income**

(Still in process of preparation)

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Table H

**Spending that could be made without payment of tax,
under Plan II for selected net incomes.**

(Still in process of preparation)

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This combination (Plan II) is estimated to raise approximately \$___ billion; i.e., to reduce spending by \$_____ for each dollar of tax revenue. The net result would be to increase savings by \$___ billion, or from about \$24 billion to \$___ billion.

Table I shows the estimated distribution of the tax revenue and the additional savings by net income classes.

Table I

Estimates of revenue and the estimates of additional and total savings by income classes under the rates and credit of Table G.

(Still in process of preparation)

It should be noted that under a plan combining a spendings tax with a savings credit, two persons who spend the same amount in a given year but who have different incomes, would pay different amounts of tax, the person with the larger income, and hence the larger savings, paying the smaller tax. This could be justified on the grounds that there are two aspects to the reduction of consumption, first, the final level of consumption, and second, the extent of curtailment from former levels. The spendings tax part of the plan is geared to the absolute amount of spending, imposing a heavier tax the higher the amount of spending, regardless of former levels. The savings credit aspects of the plan takes into account the extent of curtailment and rewards the individuals who reduce consumption by the largest percentage.

Even though with the same spending this new tax would decrease as income increased, the retention of the present income tax would insure that in practically all cases total taxes paid -- income tax and the new levy -- would increase with increasing income.

While the payments made by individuals to the Government under a plan of this type could conceivably be treated either as a tax or a compulsory loan, much of the effectiveness of the plan in curtailing consumption would be destroyed unless it were made a tax net to be returned.

As under the spendings tax current collection of the levy combining a spendings tax and a savings credit could be accomplished by

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a combination of collection at the source and quarterly returns. Collection at the source would be somewhat less desirable than under the spendings tax alone since if the individual spends no more than the desired amount, he would be subject to no tax and the whole amount collected at source would have to be refunded to him. Suppose, for example, that collection at source from income were at the first bracket spendings tax rate of 25 percent of income in excess of exemptions. At all levels the individual, in order to pay no tax, must save more than 25 percent of the excess of his income over exemptions. If his spendings are sufficiently low so that he saves this amount, he will have no current need for the money collected at source, unless he has extremely heavy fixed savings commitments. What is collected at source will in effect be a particular form of savings -- in the form of a Government liability to repay the amount collected. The extra amount collected could be refunded in the form of a Government bond.

Quarterly returns would in any event have to be used for the higher spendings brackets and it might conceivably be desirable to rely exclusively on quarterly returns.

LS/MFr
11/21/42

Estimated distribution of returns, total income, net income,
state and Federal personal taxes under the 1942 Act,
consumption and savings and gifts by net income classes
Calendar year 1943

Net income classes (000)	Number of returns ^{1/}	Total income ^{2/}	Net income ^{3/}	Personal taxes ^{4/}	Total income after taxes	Attempted consumption ^{5/}	Savings and gifts
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Aggregate amounts

	(thousands)		(millions of dollars)				
0 - 1	28,262	20,951	18,414	381	20,570	18,304	2,266
1 - 2	25,302	43,608	38,535	3,495	40,113	33,599	6,514
2 - 3	8,252	23,428	20,238	1,935	21,493	16,449	5,044
3 - 4	2,439	10,040	8,440	1,104	8,936	6,387	2,549
4 - 5	1,059	5,755	4,698	751	5,004	3,309	1,695
5 - 10	1,073	8,524	7,031	1,434	7,090	4,344	2,746
10 and over	448	12,694	10,473	5,200	7,494	3,948	3,546
Total	66,835	125,000	107,829	14,300	110,700	86,340	24,360

Average per return

0 - 1	1	\$ 741	\$ 652	\$ 13	\$ 728	\$ 648	\$ 80
1 - 2	1	1,723	1,523	138	1,585	1,328	257
2 - 3	1	2,839	2,452	235	2,604	1,993	611
3 - 4	1	4,117	3,460	453	3,664	2,619	1,045
4 - 5	1	5,434	4,436	709	4,725	3,125	1,600
5 - 10	1	7,944	6,553	1,336	6,608	4,049	2,559
10 and over	1	28,335	23,377	11,607	16,728	8,813	7,915

Treasury Department,

November 9, 1942

- ^{1/} Number of potential taxpaying units if there were no exemptions and if the present advantage to filing separate returns were retained.
- ^{2/} Corresponds to income payments.
- ^{3/} Total income less tax exempt income and deductible items: taxes, interest paid, contributions, etc.
- ^{4/} Includes Federal and State personal income taxes and estate and gift taxes; excludes post-war credit part of Victory tax.
- ^{5/} Includes consumption taxes.

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Table 2

Attempted consumption, alternative distributions of permissible consumption,
and percentage reduction, by net income classes
Calendar year 1943

Net income classes (000)	Attempted consumption	Schedule C-1 Percent reduction	Schedule C-1 Permissible consumption	Schedule C-2 Percent reduction	Schedule C-2 Permissible consumption	Schedule C-3 Percent reduction	Schedule C-3 Permissible consumption	Schedule C-4 1/ Percent reduction	Schedule C-4 1/ Permissible consumption
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Aggregate amounts (in millions of dollars)

\$ 0 - 1	18,304	5	17,389	5	17,389	5	17,389	22	14,277
1 - 2	33,599	13	29,231	16	28,223	20	26,879	20	26,879
2 - 3	16,449	23	12,666	25	12,337	25	12,337	18	13,488
3 - 4	6,387	32	4,343	30	4,471	25	4,790	16	5,365
4 - 5	3,309	40	1,985	30	2,316	25	2,482	14	2,846
5 - 10	4,344	45	2,389	35	2,824	25	3,258	13	3,779
10 and over	3,948	50	1,974	40	2,369	25	2,961	12	3,474
Total	86,340	19	69,977	19	69,929	19	70,096	19	70,108

Average per return

\$ 0 - 1	\$ 648	5	\$ 616	5	\$ 616	5	\$ 616	22	\$ 505
1 - 2	1,328	13	1,155	16	1,116	20	1,062	20	1,062
2 - 3	1,993	23	1,534	25	1,495	25	1,495	18	1,634
3 - 4	2,619	32	1,781	30	1,833	25	1,964	16	2,200
4 - 5	3,125	40	1,875	30	2,188	25	2,344	14	2,687
5 - 10	4,049	45	2,227	35	2,632	25	3,037	13	3,523
10 and over	5,813	50	4,406	40	5,288	25	6,610	12	7,755

Treasury Department,

November 9, 1942

1/ Schedule C-4 represents the approximate effect of a comprehensive flat rate retail sales tax sufficient to produce the required reduction.

Alternative distributions of permissible consumption, additional taxes required to produce such distributions, and balances available for gifts and savings by net income classes 1/.

Net income classes (000)	Schedule C-1			Schedule C-2			Schedule C-3			Schedule C-4		
	Total income after present taxes 2/	Permissible consumption	Additional taxes required	Total income after present taxes 2/	Permissible consumption	Additional taxes required	Total income after present taxes 2/	Permissible consumption	Additional taxes required	Total income after present taxes 2/	Permissible consumption	Additional taxes required

Aggregate amounts (in millions of dollars)

\$ 0 - 1	20,570	17,569	1,616	1,565	17,569	1,616	1,565	17,569	1,616	1,565	14,277	5,294	999
1 - 2	40,115	29,251	5,313	4,969	28,225	7,092	4,793	26,879	9,202	4,032	26,879	9,202	4,032
2 - 3	21,495	12,666	5,914	2,915	12,557	6,565	2,591	12,557	6,565	2,591	15,488	4,633	3,572
3 - 4	8,956	4,845	3,430	1,175	4,471	3,215	1,252	4,790	2,661	1,495	5,565	1,901	1,770
4 - 5	5,004	1,985	2,445	576	2,515	1,924	764	2,482	1,628	894	2,846	991	1,167
5 - 10 and over	7,090	2,589	5,889	612	2,824	3,156	1,180	3,258	2,256	1,596	3,779	1,106	2,116
Total	110,700	69,977	27,412	15,511	69,929	26,965	13,806	70,096	26,072	14,532	70,108	24,218	16,574

Average per return

\$ 0 - 1	\$ 728	\$ 615	\$ 58	\$ 55	\$ 615	\$ 58	\$ 55	\$ 615	\$ 58	\$ 55	\$ 505	\$ 187	\$ 96
1 - 2	1,585	1,155	254	196	1,115	280	190	1,082	364	159	1,082	364	159
2 - 3	2,804	1,535	716	553	1,495	795	514	1,495	795	514	1,685	560	409
3 - 4	3,664	1,761	1,402	451	1,855	1,318	515	1,864	1,091	609	2,200	758	726
4 - 5	4,725	1,874	2,507	544	2,187	1,637	721	2,544	1,537	844	2,637	956	1,102
5 - 10 and over	6,608	2,227	3,624	757	2,652	2,925	1,055	3,056	2,084	1,488	3,522	1,114	1,872
Total	16,728	4,406	9,415	2,909	5,288	7,632	5,808	6,610	4,890	5,288	7,755	2,460	6,513

Treasury Department,

November 11, 1942

1/ Additional taxes required computed by assuming that an individual with a specified amount of income after additional taxes will spend and save the same amounts as the individual who had the same amount of income after existing taxes. The distribution of income after existing taxes between spending and saving is shown in Table 1.

2/ From Table 1.
From Table 2.

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Original sent out from Mr. Kilby's office
11/23/42.

(File and extra copies - Mr. Kilby)

Photo file in Diary.



THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 23 1942

Dear Mr. Broughton:

As a war measure, and in view of the circumstances and conditions set forth in your memorandum to me of November 7, 1942, particularly the delay in discovering excess holdings and notifying owners, which, although necessary because of the tremendous volume of transactions as a result of the war, cannot be readily explained to the public, has caused some ill will, and if continued would doubtless have an adverse effect on the War Savings Program:

It is ordered that holdings of United States Savings Bonds of Series E which are not in excess of \$5,000, purchase price, and holdings in bonds of Series F and G of amounts not more than \$1,000 (issue price) in excess of the limit be disregarded, except in cases where the owner has voluntarily reported or submitted the excess for adjustment. It is further ordered that the Department continue to maintain cumulative records of each individual's holdings, but that the Division of Loans and Currency confine the cross reference of coownership stubs of Series E to those of the \$1,000 denomination.

Until further notice, bonds of these series presented for payment shall be paid at the redemption value current at the time of presentation without reference to a possible excess, unless the bonds are presented for the purpose of eliminating an excess, or

unless from the circumstances it appears probable that an excess holding arose through intent to violate the regulations. If an investigation in such case shall disclose that the excess was in fact willfully created, payment of such excess shall be made only at issue price.

This whole problem should be reexamined after the termination of the war with a view to determining the advisability of formally confirming holdings then existing in savings bonds of all series issued on and after May 1, 1941.

Very truly yours,


(Secretary of the Treasury.)

Mr. Wm. S. Broughton,
Commissioner of the Public Debt,
Treasury Department.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
NOV 7 1942

TO The Secretary
(Through the Under Secretary)
FROM Commissioner of Public Debt

The administrative work entailed in searching files for excess holdings of War Savings Bonds of Series E, making cross reference in cases of coownership of the large denomination bonds, and especially in preparing the necessary correspondence and conducting the transactions required to adjust these excesses on the present inflexible basis, is rapidly becoming an almost impossible burden. This work could be conveniently done and was done for earlier series, and for this reason, it may be argued that we have assumed at least a moral duty to notify holders of any excess they may have acquired.

However, because of the greatly increased volume of sales as a result of the war, and its relatively limited personnel, the Division of Loans and Currency was only recently able to complete the search of stubs of War Savings Bonds of Series E-1941 sold up to and including December 1941, which revealed 9,000 cases of excess holdings in bonds of that series on which steps have not yet been taken to correspond with the owners, in addition to cases already adjusted or in which action is pending. The Department is therefore almost 10 months behind in policing holdings and, moreover, there are a considerable number, on the average of about 500 a month, of excess cases which are voluntarily submitted by owners. It is

obvious, therefore, that the Department is no longer able to discharge its moral duty to notify holders of excess cases in a manner which is either consonant with the efficient handling of its other operations or satisfactory to the public.

Because of the necessary delay in settling cases of this sort, considerable ill will has arisen on the part of the purchasers which has had and will continue to have an increasingly adverse effect on sales, unless the situation is remedied.

Finally, most cases of excess holdings arise through ignorance of the limitation which is computed on maturity value rather than issue price, ignorance of the regulations as to bonds held in coownership, which provide that each coowner is charged for the full amount of the bonds held thereunder, through purchases in coownership form by other persons without the knowledge of the owner whose holdings are being examined, or as a result of enthusiasm, and of increasing sales pressure, which is being exerted so constantly. In other words, by far the greater majority of excess holdings do not constitute willful attempts to evade the regulations.

For these reasons, I make the suggestions incorporated in the attached proposed letter from the Secretary to the Commissioner of the Public Debt:

- (1) That the Department continue to maintain cumulative records of each individual's holdings, but that the Division of Loans and Currency be ordered to cross reference coownership stubs only on bonds of \$1,000 (maturity value), and to disregard cases involving holdings which are not in excess of \$5,000, purchase price. It should be understood, however, that where voluntary submission is made by a holder in excess, the Department should continue to adjust the case in accordance with present practice;
- (2) That the Division of Loans and Currency be ordered to disregard cases involving holdings in bonds of Series F and G of amounts not more than \$1,000, issue price, in excess of the prescribed limit, provided, of course, that the owner does not voluntarily submit his case to the Department for adjustment. Although the settlement of excess cases in bonds of these series does not present a problem nearly so acute as that which confronts the Department with respect to bonds of Series E, I believe that this proposal is necessary for the orderly administration of excess cases as a whole, as well

as to place holders of all series on as nearly an equal footing as possible;

- (3) That as a necessary corollary of the foregoing, in all excess cases, not reported by the holder or brought to his attention by the Department prior to the presentation of the bonds for payment, redemption, whether at or before maturity, be made at the redemption value current at the time the bonds are presented for payment, provided it does not appear that there has been a willful attempt on the part of the holder to evade the regulations.

By continuing, in accordance with present practice, to adjust cases voluntarily submitted, the Department would appear to be imposing a penalty on those who are honest enough to report the excess. However, a line more or less arbitrary in the final analysis must be drawn somewhere and the penalty is more apparent than real, in view of the fact that the Department offers as an adjustment of excess holdings of Series E, bonds of Series F and G, in most cases bearing the same issue dates as the bonds surrendered to eliminate the excess, or Series E bonds with subsequent year dating.

I am also submitting herewith for your approval an amendment to Department Circular No. 530, Fifth Revision, which would give effect to several changes which seem to be highly desirable at this time. The provision therein for a change in the method of computation of holdings in bonds of Series E will in itself render unnecessary the adjustment of a large number of excess cases discovered by the Department but still outstanding, and will eliminate a large portion of such holdings which could otherwise normally be expected.

I believe that your approval of the recommendations made herein and of the proposed amendment to the regulations is necessary if our war financing operations are to be maintained on an efficient basis. It will to a great extent offset the present ill will, which is becoming increasingly evident, on the part of bondholders, not only as a result of the delay in adjusting excess cases but also on account of the rather complex procedure necessary for that purpose. It will also be productive, I am convinced, of increased sales and will save the Department substantial administrative expense with a corresponding release of personnel for other important work.

Attachment.

10413

OK
JWB

TITLE 31 - MONEY AND FINANCE
 CHAPTER II - FISCAL SERVICE
 SUBCHAPTER B - BUREAU OF THE PUBLIC DEBT
 PART 315 - REGULATIONS GOVERNING UNITED STATES SAVINGS BONDS

1942

First Amendment to
 Department Circular No. 530,
 Fifth Revision, dated
 June 1, 1942.

TREASURY DEPARTMENT,
 Office of the Secretary,
 Washington, November 23, 1942.

Fiscal Service
 Bureau of the Public Debt -

To Owners of United States Savings Bonds, and Others Concerned:

Sections 315.10, 315.29, and 315.35 of Department Circular No. 530, Fifth Revision, dated June 1, 1942 (7 F. R. 5158), are hereby revised to read as follows:^{1/}

"Sec. 315.10. Calculation of amount.- In computing the amount of savings bonds of any one series issued during any one calendar year held by any one person at any one time for the purpose of determining whether the amount is in excess of the authorized limit as set forth in the next preceding section, the following rules shall govern:

- (a) The holdings of each person, as defined in the next preceding section, individually and in a fiduciary capacity, shall be computed separately.
- (b) In the case of bonds of Series A, B, C, D and E, the computation shall be based upon maturity values. In the case of bonds of Series F and G, the computation shall be based upon issue prices.

^{1/} The following sections, as amended, are prescribed under the authority of R.S. 161 (U.S.C. title 5, sec. 22), The Second Liberty Bond Act, as amended, and The Public Debt Act of 1941.

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- (c) There must be taken into account (1) all bonds originally issued to and registered in the name of that person alone; (2) all bonds originally issued to and registered in the name of that person as a coowner or reissued to add his name as coowner under the provisions of Section 315.29 (a), or to designate him as coowner instead of as a beneficiary under the provisions of Section 315.35 hereof: Provided, however, that with respect to bonds of Series E held in coownership form, the amount thereof may be applied to the holdings of either of the coowners, but will not be applied to both, or the amount may be apportioned between them; and (3) all bonds acquired by him before March 1, 1941, upon the death of another or the happening of any other event.
- (d) There need not be taken into account (1) bonds of which that person is merely the designated beneficiary; (2) those in which his interest is only that of a beneficiary under a trust; or (3) those to which he is entitled as an heir or legatee of the deceased registered owner, or by virtue of the termination of a trust or the happening of any other event unless he became entitled to any such bonds in his own right before March 1, 1941.
- (e) Nothing herein contained shall be construed to invalidate any holdings within, or, except as provided in subsection (c) above, to validate any holdings in excess of, the authorized limits, as

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computed under the regulations in force at the time such holdings were acquired."

"Sec. 315.29. Reissue for certain purposes. - A savings bond of any series registered in the name of one person in his own right, or to which one person is shown to be entitled in his own right under these regulations, may be reissued upon appropriate request for the following purposes:

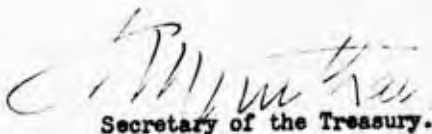
- (a) Addition of coowner.- Reissue in the name of the owner with that of another natural person as coowner, provided that bonds reissued in accordance with this subsection will be considered for the purposes of computation of holdings under Subpart D of these regulations as originally issued in both names and no reissue will be effective which results in any one person holding bonds in excess of the established limitation for the series to which the bonds belong. Requests for reissue under this subsection should be made on Form PD 1762.
- (b) Addition of a beneficiary.- Reissue in the name of the owner with the name of another natural person as designated beneficiary. Applications for reissue under the provisions of this subsection should be made on Form PD 1077.
- (c) Reissue in living trust. Reissue in the name of a trustee of a living trust created by the registered owner, after the original issue date of the bond, for his benefit in

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whole or in part, during his lifetime whether or not containing an absolute power of revocation in the grantor; but such reissue will be allowed only in the case of bonds of those series which may be originally issued in the name of a trustee."

"Sec. 315.35. Reissue during the lifetime of registered owner.-

A bond registered in the name of one person payable on death to another may be reissued, on the duly certified request of the registered owner, to name a beneficiary designated on the bond as coowner subject to the same restrictions and conditions contained in Section 315.29 (a). A bond may also be reissued upon the duly certified request of the registered owner, together with the duly certified consent of the designated beneficiary, to eliminate such beneficiary or to substitute another person as beneficiary, or to name another person as coowner. Requests should preferably be made upon the forms provided for such purpose."


Secretary of the Treasury.

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1963-68

Dated and bearing interest from December 1, 1942 Due December 15, 1968

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1963

Interest payable June 15 and December 15

1942
Department Circular No. 701

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, November 30, 1942

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 2-1/2 percent Treasury Bonds of 1963-68. These bonds will not be available for subscription, for their own account, by commercial banks, which are defined for this purpose as banks accepting demand deposits. The amount of the offering is not specifically limited.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 1, 1942, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on June 15 and December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1968, but may be redeemed at the option of the United States on and after December 15, 1963, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury.

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From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

3. The bonds will not be acceptable to secure deposits of public moneys before December 1, 1952; they will not bear the circulation privilege, and they will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Bonds registered as to principal and interest will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury, except that they may not, before December 1, 1952, be transferred to or be held by commercial banks, which are defined, for this purpose, as banks accepting demand deposits. However, the bonds may be pledged as collateral for loans, including loans by commercial banks, but any such bank acquiring such bonds before December 1, 1952, because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks.

5. Any bonds issued hereunder which upon the death of the owner constitute part of his estate, will be redeemed at the option of the duly constituted representatives of the deceased owner's estate, at par and accrued interest to date of

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payment, ^{1/} Provided:

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

Registered bonds submitted for redemption hereunder must be duly assigned to "The Secretary of the Treasury for redemption, the proceeds to be paid to the Collector of Internal Revenue at _____ for credit on Federal estate taxes due from estate of _____." Owing to the periodic closing of the trans-

fer books and the impossibility of stopping payment of interest to the registered owner during the closed period, registered bonds received after the closing of the books for payment during such closed period will be paid only at par with a deduction of interest from the date of payment to the next interest payment date;^{2/}

Bonds received during the closed period for payment at a date after the books reopen will be paid at par plus accrued interest from the reopening of the books to the date of payment. In either case checks for the full six months interest due on the last day of the closed period will be forwarded to the owner in due course.

All bonds submitted must be accompanied by Form PD 1782,^{3/} properly completed, signed and sworn to, and by a certificate of the appointment of the personal representatives, under seal of the court, dated not more than 6 months prior to the submission of the bonds, which shall show that at the date thereof the appointment was still in force and effect. Upon payment of the bonds appropriate memorandum receipt will be forwarded to the representatives, which will be followed in due course by formal receipt from the Collector of Internal Revenue.

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

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

^{3/} Copies of Form PD 1782 may be obtained from any Federal Reserve Bank or from the Treasury Department, Washington, D. C.

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

III. SUBSCRIPTION AND ALLOTMENT

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

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

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made on or before December 1, 1942, or on later allotment. One day's accrued interest is \$0.068 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the

respective Districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES E-1943

Dated and bearing interest from December 1, 1942

Due December 1, 1943

1942
Department Circular No. 703

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, November 30, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series E-1943. The amount of the offering is not specifically limited, although allotments to commercial banks, which are defined for this purpose as banks accepting demand deposits, for their own account will be limited to \$2,000,000,000, or thereabouts. The books will be open today and until further notice for the receipt of subscriptions from others than commercial banks for their own account, and on December 16, December 17 and December 18 for the receipt of subscriptions from commercial banks for their own account.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated December 1, 1942, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on June 1 and December 1, 1943. They will mature December 1, 1943, and will not be subject to call for redemption prior to maturity.

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

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with two interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to December 19, 1942. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions and securities dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be received without deposit. All other subscriptions must be accompanied by payment in full for the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$100,000 from commercial banks, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over \$100,000 from commercial banks will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder to or for the account of others than commercial banks must be made on or before December 1, 1942, or on later allotment. Payment at par and accrued interest to December 28, 1942, for certificates allotted hereunder to commercial banks must be made on that date. One day's accrued interest is \$0.024 per \$1,000. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-3/4 PERCENT TREASURY BONDS OF 1948

Dated and bearing interest from December 1, 1942

Due June 15, 1948

Interest payable June 15 and December 15

1942
Department Circular No. 702

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, November 30, 1942.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for bonds of the United States, designated 1-3/4 percent Treasury Bonds of 1948. The amount of the offering is not specifically limited, although allotments to commercial banks, which are defined for this purpose as banks accepting demand deposits, for their own account will be limited to \$2,000,000,000, or thereabouts. The books will be open today and until further notice for the receipt of subscriptions from others than commercial banks for their own account, and today, December 1 and December 2 for the receipt of subscriptions from commercial banks for their own account.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 1, 1942, and will bear interest from that date at the rate of 1-3/4 percent per annum, payable on a semiannual basis on June 15 and December 15, 1943, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1948, and will not be subject to call for redemption prior to maturity.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift

or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Bonds registered as to principal and interest will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to December 3, 1942. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions and securities dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from commercial banks for their own account will be received without deposit. All other subscriptions must be accompanied by payment in full for the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and

to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including \$100,000 from commercial banks, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over \$100,000 from commercial banks will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder to or for the account of others than commercial banks must be made on or before December 1, 1942, or on later allotment. Payment at par and accrued interest to December 11, 1942, for bonds allotted hereunder to commercial banks must be made on that date. One day's accrued interest is \$0.048 per \$1,000. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District.

V. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

JOINT STATEMENT OF THE COMPTROLLER OF THE CURRENCY,
THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM, AND THE EXECUTIVE COMMITTEE OF THE
NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS.

The Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Executive Committee of the National Association of Supervisors of State Banks make the following statement of their examination and supervisory policy with special reference to investments in and loans upon Government securities.

1. There will be no deterrents in examination or supervisory policy to investments by banks in Government securities of all types, except those securities made specifically ineligible for bank investment by the terms of their issue.

2. In connection with Government financing, individual subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short term or amortization basis fully repayable within periods not exceeding six months.

3. Banks will not be criticized for utilizing their idle funds as far as possible in making such investments and loans and availing themselves of the privilege of temporarily borrowing from or selling Treasury bills to the Federal Reserve Banks when necessary to restore their required reserve positions.

November 23, 1942

JOINT STATEMENT OF THE COMPTROLLER OF THE CURRENCY,
THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM, AND THE EXECUTIVE COMMITTEE OF THE
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3. Banks will not be criticized for utilizing their idle funds as far as possible in making such investments and loans and availing themselves of the privilege of temporarily borrowing from or selling Treasury bills to the Federal Reserve Banks when necessary to restore their required reserve positions.

November 23, 1942

November 23, 1942

Dear Fiorello:

Thank you for sending me the text of Mr. Mitchell's talk. I like the passage you marked on page two, and I think we can make good use of it here at the Treasury.

Sincerely,

(Signed) Henry

Hon. F. H. LaGuardia,
Mayor, New York City,
New York, N. Y.

FK/cgk

FROM MRS. MCHUGH (11/21/42)

19

FORWARDED TO MR. KUHN AT THE REQUEST
OF THE SECRETARY.

140 NOV 21 1942



CITY OF NEW YORK
OFFICE OF THE MAYOR

November 19, 1942.

A

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

Dear Henry:

Here is the speech I told you
about. You will find the statement on
page two.

Sincerely,

Fiorello
Mayor

Original address prepared and delivered by
Mr. Frank B. Mitchell, United States Treasury 141
Department, New York War Savings Staff, over WNYC
on Sunday, November 8, 1942.

Ladies and Gentlemen:

Several days ago, I listened to a broadcast by three distinguished men who discussed varying viewpoints concerning the attitude and morale of the American public during these perilous days. One speaker expressed the opinion that the reason for public apathy was the fact that we did not want this war. One of the other speakers immediately declared that no one ever did want a war and that statement was accepted by all three gentlemen. It is my opinion that while it may sound quite civilized and logical to say that people never want a war, that that statement is based on wishful thinking.

Is it not true that Germany, Italy and Japan prepared for many years to wage war and deliberately became aggressor nations, knowing that they would encounter resistance? Was not the attack on Pearl Harbor a dastardly declaration of war in the midst of a Peace Conference? These and many other facts show all too clearly that a great portion of the peoples of the world did want war and deliberately set about waging it. It is undoubtedly true that the people of this nation did not want a war, and because it was thrust upon them like a bolt from the blue, it has taken time for us to become aware of its full implications. We know now that there can be no compromise with the aggressors. Every intelligent person certainly realizes that we are fighting for everything that we have or ever hope to have.

The Village of Lidice and the countless thousands of massacred Czechs, Poles, Greeks and others bear mute witness to the fate that is in store for us, if we do not win. Why then, do not the people literally storm the Banks and Post Offices to buy War Bonds? Why indeed do we still find

-3-

business organizations that do not have a Payroll Savings Plan, and why do not all wage earners voluntarily save at least 10% of their earnings? My experience leads me to believe that it is because we are convinced that we are going to win this war, and you may be very sure that we will eventually. But what is not generally appreciated, is that if we as individuals do not now voluntarily do as our government asks, that we are guilty of prolonging the war and adding to the cost, not only in money, but in human life and suffering.

There are still far too many people who are hoping to help win the war while continuing to live their normal lives. Winning this war will require sacrifice from each and every one of us. We are still told that many wage earners cannot afford to save 10% of their own money for themselves, because they have other financial obligations, or because they are raising and educating their children. Such people should realize that the countless millions of our Allies and the growing total of American boys whose bodies are strewn over the battlefields of the world cannot "afford" to die. Every American should realize that our armed forces are fighting and dying so that we may continue to meet our financial obligations - so that we may continue to educate our children, and so that we may preserve our civilian comforts.

The question is, what are we willing to sacrifice in order to preserve these things? This is not a question to be decided by how much money we earn, nor is the solution found in mouthing patriotic phrases. The answer lies in action. Our soldiers are saying to you, "Praise the Lord but Pass that Ammunition".

Depending on how readily you pass the ammunition, and the quantities in which you pass it, will rest the answer to whether or not American morale

-3-

is as good as it should be. We all have the price of freedom. Your government believes that you are willing to accept your duty to preserve it. Let there be no more talk of inconvenience and personal budgets, while our enemies are busy working and fighting day and night to annihilate us. Let there be no more talk about what you can afford. Rather let us put first things first now, so that when our men again come home, you and I may look them in the eye, knowing that we did our part to help to bring them back, and that we did our best by saving and sacrifice to maintain the country they willingly and bravely fought to preserve.

November 23, 1942

Dear George:

Thank you very much for your telegram telling me what your employes and officers are doing in the Payroll Savings plan. Your record of 97 percent participation and more than 10 percent of payroll is a wonderful accomplishment, and I think everyone in your organization can be proud of it.

Please convey to all your people my congratulations upon their fine achievement.

Sincerely,

(Signed) Henry

Mr. George L. Harrison,
New York Life Insurance Company,
51 Madison Avenue,
New York, N. Y.

Original file to Thompson

Photo file in Diary

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HON HENRY MORGENTHAU JR

SECY OF THE TREASURY DEPT

I AM GLAD INDEED TO BE ABLE TO ADVISE YOU PERSONALLY
THAT 97 PERCENT OF THE 4409 EMPLOYEES AND OFFICERS AT
THE HOME OFFICE OF THE NEWYORK LIFE INSURANCE COMPANY ARE
PARTICIPATING IN THE PAYROLL SAVINGS PLAN AND THAT
MORE THAN TEN PERCENT OF THE PAYROLL IS NOW BEING
INVESTED IN UNITED STATES WAR SAVINGS BONDS

GEORGE L HARRISON.

725A

NOV 29 1942

To The Steelworkers of America:

Next Monday, November 30, your union, the United Steelworkers of America, and your employers are opening a joint War Bond Drive with the objective of having every worker in your industry set aside at least 10% of his pay regularly for the purchase of War Savings Bonds.

Many thousands of steel workers are already subscribing for War Bonds in amounts of 10% and more of their pay. Perhaps you are one of them. If you are, I want to congratulate you on investing in your country's future and helping to win the war.

If you have not yet authorized your employer to set aside 10% of your wages each pay day for the purchase of War Bonds through the Payroll Savings Plan, I am sure that you will want to do so immediately.

These War Bonds are playing a vital role in the war. They help provide the weapons for our soldiers and sailors -- for the men who left your shop and your town to fight for freedom. War Bonds also provide you and your family with savings to buy peacetime goods when the war is won.

I know that I can count on you to do your part in war production and also to take a leading part in the War Savings Drive.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Original to Odegard for
transmittal. (Also extra
copies)

CC in Diary

NOV 23 1942

Council of Electric Operating Companies
324 Homer Building
Washington, D. C.

Attention: T. P. Walker & Philip Ward

Gentlemen:

I was delighted to learn of the decision of the Council to join hands with several other leading industries in a concentrated drive to enroll at least 10% of their payrolls in the purchase of War Savings Bonds.

The fact that our top-flight industries are engaged in this nation-wide effort will aid materially our campaign to enroll thirty million workers by December 31.

Of the 157,000 firms with Payroll Savings Plans, over 30,000 have already gone over the 10% goal. This undertaking will be brought to the attention of literally millions of Americans who are very determined in their willingness to support the war effort through savings from their current income.

I know that the men and women employed in your industry will give their wholehearted support to this drive and I should like to have you extend to them my appreciation of the important job they are doing.

My best wishes to you for a successful campaign.

Sincerely,

(Signed) H. Morgenthau, Jr.

TRG:jrc

Copy to Ward in Philadelphia*

CC in Diary

Copies to Thompson

* cc of this ltr
cc to Ward, reply to Mrs. Klotz, dt 11/25
Filed in her file.

Sales of United States savings bonds
November 1 through November 21, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales
	Daily	Nov. 1 to date	Nov. 1 to date	to date	Daily	Nov. 1 to date	Nov. 1 to date	to date	Daily	Nov. 1 to date	Nov. 1 to date	to date
	to date	to date	as % of quota		to date	to date	as % of quota		to date	to date	as % of quota	
Nov. 2	\$ 5.2	\$ 5.2			\$.3	\$.3			\$ 5.5	\$ 5.5		
3	4.1	9.3			.8	1.1			4.9	10.4		
4	11.2	20.5			6.7	7.8			17.9	28.3		
5	10.8	31.3			6.9	14.7			17.7	46.0		
6	21.8	53.1	\$ 57.0	93.2%	16.7	31.4	\$ 25.2	124.6%	38.5	84.5	\$ 82.2	102.8%
7	9.3	62.3	80.7	77.2	2.6	34.0	31.4	108.3	11.9	96.4	112.1	86.0
9	34.0	96.4	121.1	79.6	9.9	43.9	43.6	100.7	43.9	140.3	164.7	85.2
10	14.6	111.0	141.9	78.2	5.4	49.3	50.1	98.4	20.0	160.3	192.0	83.5
11	35.5	146.5	159.4	91.9	9.5	58.8	59.2	99.3	45.0	205.3	218.6	93.9
12	15.4	161.9	188.5	85.9	5.3	64.2	68.2	94.1	20.7	226.1	256.7	88.1
13	19.2	181.1	212.6	85.2	7.2	71.4	75.8	94.2	26.4	252.5	288.4	87.6
14	7.4	188.5	226.4	83.3	2.6	74.0	78.6	94.1	10.0	262.5	305.0	86.1
16	41.6	230.1	262.4	87.7	9.3	83.2	87.5	95.1	50.8	313.3	349.9	89.5
17	11.5	241.6	276.0	87.5	5.6	88.9	90.6	98.1	17.2	330.5	366.6	90.2
18	20.7	262.3	293.8	89.3	8.3	97.2	98.3	98.9	28.9	359.4	392.1	91.7
19	25.1	287.4	324.4	88.6	7.3	104.5	106.9	97.8	32.5	391.9	431.3	90.9
20	27.2	314.6	350.7	89.7	8.7	113.2	114.9	98.5	35.9	427.8	465.6	91.9
21	12.9	327.4	365.9	89.5	3.7	116.9	118.1	99.0	16.5	444.3	484.0	91.8
23			406.5				129.8				536.3	
24			421.8				134.3				556.1	
25			441.9				146.1				588.0	
26			476.8				160.0				636.8	
27			507.9				174.0				681.9	
28			541.0				189.0				730.0	
30			595.0				205.0				800.0	

November 23, 1942.

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

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

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of November sales to date with sales during the same number of business days in October and September 1942

(At issue price in thousands of dollars)

Date	November daily sales	Cumulative sales by business days				November as percent of October
		November	October	September		
November 1942						
2	\$ 5,467	\$ 5,467	-	-		
3	4,920	10,387	-	\$ 6,634		
4	17,919	28,306	\$ 7,263	34,336		389.7%
5	17,723	46,029	62,607	62,818		73.5
6	38,472	84,501	77,309	92,698		109.3
7	11,855	96,356	105,841	160,648		91.0
9	43,949	140,305	145,185	180,015		96.6
10	20,022	160,327	173,075	202,724		92.6
11	45,009	205,336	191,304	229,531		107.3
12	20,750	226,086	244,135	243,458		92.6
13	26,387	252,473	255,662	292,348		98.8
14	10,013	262,486	278,669	307,980		94.2
16	50,843	313,329	314,127	342,611		99.7
17	17,182	330,512	338,347	370,149		97.7
18	28,916	359,427	355,453	392,958		101.1
19	32,469	391,896	400,333	406,704		97.9
20	35,863	427,759	428,143	462,969		99.9
21	16,539	444,298	452,538	478,336		98.2

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

November 23, 1942

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

UNITED STATES SAVINGS BONDS - SERIES E

Comparison of November sales to date with sales during the same number of business days in October and September 1942

(At issue price in thousands of dollars)

Date	November daily sales	Cumulative sales by business days				November as percent of October
		November	October	September	November as	
November 1942						
2	\$ 5,164	\$ 5,164	-	-		
3	4,108	9,272	-	\$ 6,142		
4	11,188	20,460	\$ 5,045	24,448		
5	10,849	31,309	42,285	42,251		74.0%
6	21,767	53,076	52,984	64,418		100.2
7	9,250	62,326	73,919	110,817		84.3
9	34,040	96,366	98,490	124,113		97.8
10	14,636	111,002	117,077	140,542		94.8
11	35,492	146,494	131,593	160,115		111.3
12	15,435	161,929	169,859	169,699		95.3
13	19,191	181,120	179,232	205,242		101.1
14	7,376	188,497	194,811	215,960		96.8
16	41,587	230,083	222,243	237,815		103.5
17	11,540	241,624	239,891	255,436		100.7
18	20,650	262,274	254,201	271,912		103.2
19	25,135	287,409	290,282	282,296		99.0
20	27,159	314,568	312,386	322,741		100.7
21	12,850	327,418	327,928	332,455		99.8

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

November 23, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

Comparison of November sales to date with sales during the same number of business days in October and September 1942

(At issue price in thousands of dollars)

Date	November		Cumulative sales by business days			
	daily sales	November	November	October	September	November as percent of October
November 1942						
2	\$ 303	\$ 303	-	-	-	
3	812	1,115	-	-	\$ 492	
4	6,731	7,846	\$ 2,218		9,889	353.7%
5	6,874	14,720	20,322		20,567	72.4
6	16,705	31,425	24,325		31,280	129.2
7	2,605	34,030	31,922		49,831	106.6
9	9,909	43,940	46,695		55,902	94.1
10	5,386	49,326	55,998		62,182	88.1
11	9,517	58,842	59,711		69,416	98.5
12	5,315	64,157	74,275		73,759	86.4
13	7,195	71,352	76,430		87,106	93.4
14	2,637	73,989	83,857		92,020	88.2
16	9,257	83,246	91,884		104,796	90.6
17	5,642	88,888	98,457		114,713	90.3
18	8,266	97,154	101,252		121,047	96.0
19	7,333	104,487	110,052		124,408	94.9
20	8,704	113,191	115,757		140,228	97.8
21	3,688	116,880	124,610		145,881	93.8

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

November 23, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds. These figures have been adjusted on the basis of wire reports and therefore will not agree with the Treasurer's accounts.

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

New York Patterson - Rec'd 4:30 pm
Rev. car.
WAWSS FIELD DIRECTORS OFFICE

NY WAR SAVINGS STAFF NY CLG 11-23-42

HON HENRY MORGENTHAU
I UNDERSTAND THAT YOU ARE GOING AWAY FOR THANKSGIVING AND IT
WILL PROBABLY BE INCONVENIENT FOR YOU TO LUNCH WITH US THIS WEEK
THEREFORE COULD YOU LUNCH WITH ME AND THREE OF MY COLLEAGUES ON
TUESDAY WEDNESDAY THURSDAY OR FRIDAY OF NEXT WEEK
RICHARD C PATTERSON JR
GA
MIN PLS.

WILL REFER YOUR FIRST MSG
END CAR
OKEND

11/24/42 Secty saw this
was on phone with
Patterson - Secty is to
notify Patterson on
which date he
should come down.

RECEIVED
1942 NOV 24 PM 6 03

SECRETARY OF TREASURY
OFFICE

5:30

152

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1942.

TO Secretary Morgenthau

FROM George Buffington *GJS.*

Subject: Home and office addresses and telephone numbers.

CHICAGO

Mr. C. S. Young, President,
Federal Reserve Bank of Chicago.

Home: 6700 South Crandon, Chicago.

Dorchester 3233.

Office number: Harrison 2320.

Mr. F. F. Patton, Executive Manager,
Victory Fund Committee.

Home: 2733 S. Deere Park Drive, Highland Park.

Highland Park 3876.

Office number: Harrison 2320.

Mr. Norman B. Collins,
State Administrator,
War Savings Staff,
105 West Adams Street.Home address not given in Chicago
directory and not known to War
Savings Staff.

Office number: State 2940.

Mr. Harold H. Swift,
State Chairman,
War Savings Staff,
105 West Adams Street.

Home: Blackstone Hotel, Chicago.

Harrison 4300.

Office number: Union Stock Yards,
YARds 4200.

ST. LOUIS

Mr. Chester C. Davis, President,
Federal Reserve Bank of St. Louis.

Home: 4954 Lindel Street, St. Louis.

Forest 4312.

Office number: Garfield 1700.

- 2 -

ST. LOUIS (continued)

Mr. John R. Longwire, Executive Manager, Home: 340 Papin Street, St. Louis.
Victory Fund Committee.

Republic 3669.

Office number: Garfield 1700.

Mr. Dan M. Nee,
State Administrator,
War Savings Staff,
Post Office Building,
Jefferson City, Missouri.

Not listed in Jefferson City, Missouri,
directory.

Office number: Jefferson City 3800.

State Chairman of War Savings Staff recently resigned, no new appointment made.

KANSAS CITY

Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City.

Home: 316 East 68th Terrace, Kansas City.

Highland 9181.

Office number: Main 6950.

Mr. Sigmund Stern, Executive Manager,
Victory Fund Committee.

Home: 236 West 54th Street, Kansas City.

Hilland 3792.

Office number: Main 6950.

Mr. Evan Griffith,
State Administrator,
War Savings Staff,
208-210 Federal Building,
Topeka, Kansas.

Home: Hotel Capitol.

Topeka 6587.

Office number: Topeka 3-6273.

Mr. William Allen White,
State Chairman,
War Savings Staff,
Emporia, Kansas.

Home: Emporia, Kansas.

Office number: Not available.

NOV 23 1942

To Heads of Bureaus, Office and Divisions,
and Chiefs of Divisions, Secretary's
Office, Treasury Department.

Some confusion has arisen in the handling and dispatching of correspondence dealing with salary stabilization. The authority to determine whether payments are made in contravention of the Act of October 2, 1942 entitled "An Act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" or any regulations thereunder rests solely with the Commissioner of Internal Revenue. Every decision must, therefore, have the signature of the Commissioner of Internal Revenue.

In the interests of the public speed in handling mail is most important. The Commissioner of Internal Revenue can in many instances eliminate the preparation of perfunctory acknowledgments for signature of other Treasury officials by immediately ruling on the question presented. It is also confusing to the public to carry on correspondence with other than the official duly authorized to make decisions.

To insure orderly expeditious procedure, effective this date all correspondence received in the Treasury on the subject of salary or wage stabilization should, upon receipt, be immediately routed to the Commissioner of Internal Revenue for proper handling.

(Signed) H. Morgenthau, Jr.

Secretary.

Original and extra copies
to Thompson

CC in Diary

November 23, 1942

Dear Tom:

Thank you for sending me Mr. Lafe Pfeifer's letter about Sergeant Donald Huntley of the R.A.F. who has been killed in action over Germany. This boy did a magnificent job for us when he was in this country last summer, and Mr. Pfeifer's tribute to him only confirms all that we had heard and seen of him.

Please tell Mr. Pfeifer for me that I am trying to arrange the shipment of his film to Huntley's mother in Southern Rhodesia, together with a copy of his letter to you.

Sincerely,

(Signed) Henry

Hon. Tom Connally,
United States Senate,
Washington, D. C.

Mr. Kuhn's office handled
mailing of Connally and
Air Marshal D. C. S. Evill
letters.

FK/cgk

Orig. of Pfeifer's ltr. went to
Evill for Mrs. Huntley (with film)

Photo to Connally.

File in Diary.

United States Senate

November 12, 1942

ENDING PAGE

Respectfully referred to

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

with thanks for such favorable consideration as
the communication herewith submitted warrants,
and for a report thereon, to accompany return
of inclosure.

By direction of

[Handwritten Signature]
U. S. S.



FEDERAL BUREAU OF INVESTIGATION

DALLAS, TEXAS

November 6, 1942

RECEIVED

NOV 11 1942

SEN. CONNALLY

Hon. Tom Connally
United States Senate
Senate Building
Washington D. C.

Dear Senator:

You no doubt recall the United States tour of the War Heroes which was sponsored by Mr. Morgenthau. During their visit to Texas a motion picture film was produced and distributed to theatres throughout Texas through the auspices of Mr. Karl Hoblitzelle, the president of our company.

It was Mr. Hoblitzelle's thought that the great message and inspiration they bore deserved dissemination to other cities, towns and communities who were not so fortunate as to be able to see them in person.

In this group of heroes, one lad stood out from all the rest for us here in Texas. Although the tales of his deeds of bravery were not as vivid and glowing as some of the rest, still he was the sort to win your heart and make you feel that "here was a brave man". In his appearance on the speakers platform in both San Antonio and the Dallas-Ft. Worth meeting, his remarks were pointed and outstanding. The remarks of all heroes, when called to the microphone, were recorded on film and in the final editing and cutting of the picture, we chose his "bit" as the "smash" finish for our film. Audience reaction proved we were not wrong. The film received great ovation and spontaneous applause in every theatre.

I spent the late hours of one evening with this lad, and took a great personal interest in him. At that time, I had him give me his mothers name and address and promised him that I would send her one of the films as a memento of his visit to Texas.

We have just read in our local paper that this boy, Donald Huntly, has been killed in an air raid over Germany. We want to keep our promise to this boy, and it is Mr. Hoblitzelle's suggestion, that we write to enlist your aid.

Under separate cover, we are mailing you one of the films in the hope that you may find time to arrange a screening for yourself and Mr. Morgenthau. Then if you find nothing of an objectionable nature, we thought you might find a way of insuring the safe delivery of this film to this boys mother. When you have screened this film and seen this boy in action and heard him speak, you will well realize what a great treasure this film would be for his mother.



INTERSTATE CIRCUIT, INC.

MAJESTIC THEATRE BUILDING
DALLAS, TEXAS

His mothers address is --

Mrs. M. Huntly
Green Gates
20 Dale Road
Salisbury
South Rhodesia
South Africa.

We write this letter with the full realization of the tremendous burden of your present duties and activities, but we know too, that if you can find time to give your personal attention to this matter, you will have eased the heart-break of one mother in a far corner of the world.

Respectfully yours,

Lafe R. Pfeifer
LA FE R. PEEIFER

LEFVMB

November 23, 1942

Dear Air Marshal Evill:

Senator Connally has just sent me a film record of the reception which his State of Texas gave last summer to Sergeant Donald Huntley of the R.A.F., who has since been killed over Germany. The Senator sent it to me with a letter from a constituent who had seen a good deal of Sergeant Huntley and who wanted the film sent to Huntley's mother.

I wonder if you would be good enough to send the film and the letter for me. Mrs. Huntley's address is: Green Gates, 20 Dale Road, Salisbury, Southern Rhodesia. In the last two or three minutes of the film, Huntley comes to the microphone and delivers a personal message to the American people.

Sincerely,

(Signed) H. Morgenthau, Jr.

Air Marshal D. C. S. Evill,
c/o British Embassy,
Washington, D. C.

FK/cgk

Kuhn's office handled mailing
of Connally and Evill letters.

Orig. of Pfeifer's ltr. went
to Evill for Mrs. Huntley
(with film)

Photo to Connally

File in Diary

November 23, 1942

My dear Mr. Prime Minister:

It was very kind of you to send me an autographed copy of your book, "The Unrelenting Struggle". It will be a pleasant memento of a most interesting and encouraging trip to your country.

I would like to take this opportunity to again thank you for the hospitality and many courtesies which you extended to me during my visit.

Through the courtesy of Ambassador Halifax, I am sending you the twelve most popular phonograph records in this country, and I hope that you will enjoy them.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Right Honorable,
Winston Churchill,
Prime Minister of England,
London, England.

Del. By Chauffeur 11:00 11/24
File in Diary

THE TWELVE MOST POPULAR RECORDINGS OF 1942

1. "White Christmas"
2. "Praise The Lord And Pass The Ammunition"
3. "Kalamazoo"
4. "Jingle Jangle Jingle"
5. "Deep In The Heart Of Texas"
6. "I Don't Want To Walk Without You"
7. "Blues In The Night"
8. "Moonlight Cocktail"
9. "Somebody Else Is Taking My Place"
10. "Rose O'Day"
11. "Johnny Doughboy"
12. "Sleepy Lagoon"

November 23, 1942

My dear Lord Halifax:

I would appreciate it very much if you would forward the enclosed letter and phonograph records to Prime Minister Churchill.

With thanks for your courtesy in this matter, and best regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Excellency,
The British Ambassador,
Washington, D.C.

Del. by Chauffeur 11:00 11/24

File in Diary

November 23, 1942.

My dear Mr. Ambassador:

Thank you very much for your letter of November 16, which transmits to me the book written by the Polish Sub Lieut. Kyrk Sopoeko. I shall be most interested in reading this account of the sinking of the *Bismarck*, and appreciate your remembering my interest in the subject, and your offer to send me the book.

I too enjoyed our conversation at the recent luncheon.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
Jan Ciechanowski,
Ambassador Extraordinary and
Plenipotentiary,
Polish Embassy,
Washington, D. C.

GEF/dbs

File in Diary

L'AMBASSADEUR DE POLOGNE
À WASHINGTON

November 18th, 1942.

Dear Mr. Morgenthau,

I have much pleasure in sending you the little book by the Polish Sub Lieut. Eryk Sopocko on the sinking of the Bismarck, of which I told you about yesterday. I hope it will interest you.

May I thank you once again for the very pleasant luncheon of yesterday and the conversation with you which I so much enjoyed.

Yours very sincerely,

J. Ciechanowski

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

November 23, 1942.

Dear Archie:

It was good of you to ask your publishers to send me a copy of the booklet including your address on the "American Opinion and the War", as delivered at Cambridge last July. I shall be interested in re-reading this in its printed form, and I am glad to have it for my library.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Archibald MacLach,
Librarian of Congress,
Washington, D. C.

GEF/dbs

Secretary kept book

File in Diary

November 23, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending November 10, 1942

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending November 10, 1942 amounted to \$53,144,000. Military equipment accounted for \$19,251,000 of the total and included three light bombers, 58 fighter planes and 20 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China reported during the period under review amounted to \$233,000 of which \$221,000 was military equipment. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Spain amounting to \$9,000.

ISF/efs
11/23/42

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)

	10-day Period ended Nov. 10, 1942	11-day Period ended Oct. 31, 1942	Total Domestic Exports Aug. 1, 1942 to Nov. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 53,144	\$ 45,701	\$ 418,999	\$ 742,941
Free China	233	—	7,166	97,720
Spain	9	361	766	2,858
Switzerland	2	2,724	4,251	11,537
Sweden	1	—	2,626	18,056
Portugal	—	211	796	9,743
French North Africa 2/	—	—	2,088	6,305

Treasury Department, Division of Monetary Research

November 21, 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.

PM/sfs 11/21/42

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - November 10, 1942 1/
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>U.S.S.R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
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 3/	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
Oct. 21 - Oct. 31 4/	--	45,701
Nov. 1 - Nov. 10	233	53,144
Total	\$ 107,489	\$ 1,162,759

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

November 20, 1942

ISF/efs
11/20/42

SECRET

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APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
TOTAL EXPORTS			\$ 53,144
<u>Military Equipment (\$19,251)</u>			
Ammunition	-	-	5,232
Aircraft			4,364
Light bombers (2 eng. A-20)	No.	3	
Fighters (1 eng. P-39)	No.	10	
Fighters (1 eng. P-40)	No.	48	
Aircraft parts and accessories	-	-	4,028
Ordnance combat vehicles	-	-	2,486
Scout cars	No.	2,534	
Armored cars, medium	No.	36	
Ordnance combat vehicles, n.e.s.	No.	28	
Military tanks			1,040
Light tanks (M-3, M3A1, M-5, & T7)	No.	10	
Medium tanks (M4A-2)	No.	10	
Explosives	Lb.	2,419,519	957
All other	-	-	1,144
<u>Non-Military Goods (\$33,893)</u>			
Industrial, electrical, and agricultural machinery & parts	-	-	8,413
Metals and manufactures, n.e.s.	-	-	4,838
Iron and steel manufactures, and semimanufactures	-	-	4,828
Motor trucks, motorcycles & parts	-	-	4,645

Appendix C (Continued)

Page 2

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
Meat products	-	-	2,660
Aluminum and manufactures	-	-	2,054
Chemicals and related products	-	-	1,664
Relief supplies	-	-	1,037
All other	-	-	3,754

Treasury Department, Division of Monetary Research November 21, 1942

EPM/efs 11/21/42

SECRET

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APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
November 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 233

Principal Items:

Military equipment	221
Automobile replacement parts	10
Casings and tubes	1
Mica and manufactures	1

Treasury Department, Division of Monetary Research November 21, 1942

EPM/efs 11/21/42

November 23, 1942.

Dear Mr. Stettinius:

I have received your note of November 21, transmitting my personal copy of the report on the status of the Soviet Aid Program, as of October 31, 1942. I appreciate your giving me this current information.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable E. R. Stettinius, Jr.,
Administrator, Office of Lend-Lease
Administration,
Five-Fifteen 22nd Street, N.W.,
Washington, D. C.

* Returned to Stettinius at his request, 8/24/43

GEF/dbs

File in Diary

SECRET

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

E. R. Stettinius, Jr.
Administrator

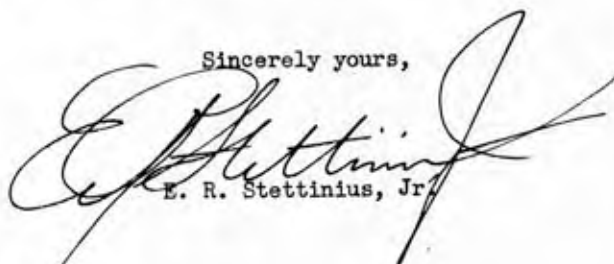
November 21, 1942

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

Dear Mr. Secretary,

Attached hereto is your personal and
private copy of the report on the status
of the Soviet Aid Program, as of October 31,
1942.

Sincerely yours,



E. R. Stettinius, Jr.

Enclosure

Report on status of Soviet Aid Program
as of 10/31/42: Returned to Stettinius
at his request, 8/24/43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 23 1942

TO Secretary Morgenthau
FROM Randolph Paul

CONFIDENTIAL

You may be interested in the following development:

The Free Thai Government has organized a military mission, the first unit of which will be leaving the United States for overseas service in the near future. The Office of Strategic Services is handling the financial arrangements for equipment, weapons, pay and other expenses of the unit's operations abroad. A transfer of \$500,000 from the Royal Thai Treasury Account to the Office of Strategic Services was licensed by the Treasury Department in connection with this program.

hm

[Signature]

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

NOV 23 1942

TO Secretary Morgenthau
FROM Randolph Paul

For your information:

On October 31, 1942, we recommended to the State Department that Banco de la Nacion and Banco de la Provincia, both of Argentina, be subjected to ad hoc freezing action. These two banks have long been notorious for their failure to cooperate in any way with our program of economic warfare in Argentina, and, as you may recall, it was their failure to sign undertakings to cooperate in such program which led to this Government's refusal to permit Export-Import Bank loans to these banks and, ultimately, to all Argentine banks. To date, State has not agreed to blocking action with respect to these two banks, one of which is partly owned by the Argentina Government and the other by Argentine provincial governments.

Within the past few days State has, however, agreed that we should prevent these banks from obtaining any new credit facilities in the United States. Accordingly, pursuant to Section 5(b) of the Trading with the enemy Act, we have instructed banks in the United States that no new credit facilities may be made available to these two banks without a specific license from the Treasury Department. It is not proposed to issue any such licenses.

Aspl

MA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1942

TO Secretary Morgenthau
FROM H. D. White
Subject: The Current Situation in Ecuador

United States Assistance to Ecuador within Recent Months.

1. A stabilization arrangement between the Treasury and Ecuador for \$5 million was concluded in March of this year. (So far no transactions have taken place due to the excellent foreign exchange position of Ecuador.) Treasury now has an advisor with the Ecuadorean Treasury, Mr. Joseph Friedman.
2. The Export-Import Bank has extended an \$8 million loan for the construction of sanitary waterworks in Quito and Guayaquil. (This project has not proceeded because of the inability to obtain machinery and supplies in the United States.)
3. The Coordinator of Inter-American Affairs has made a gift of \$2 million for health purposes in Ecuador. (This project is now proceeding.)
4. The Export-Import Bank has extended a \$10 million loan to the Ecuadorean Development Corporation for the development of agriculture and industry. (This project is now getting under way.)
5. The Department of Agriculture has recently established an agricultural experimental station in Ecuador.
6. A Lend-Lease Agreement has been signed estimated at \$10 million but so far only small amounts have been sent.
7. The Coordinator of Inter-American Affairs has made a grant of several million dollars for the reconstruction and rehabilitation of the Province of Ecuador which was invaded by the Peruvian Army. (This project is now proceeding.)

Ecuador is Firmly Behind the United Nations in the War Effort.

1. Ecuador broke off relations with the Axis after the Rio Conference.
2. Ecuador gave the United States Armed Forces an airbase on the Santa Elena Peninsula and in the Galapagos Islands.
3. Ecuador has signed an agreement to sell all rubber produced to the United States at fixed prices.
4. Ecuador has cooperated with the United States in the administration of the Proclaimed List, in freezing funds belonging to Axis interests, and in dollar currency controls.

Current Problems Facing Ecuador.

1. The principal problem now facing the country is the shortage of imported commodities due to United States export controls and shipping shortage.
2. There is a very serious inflationary price movement in Ecuador. (Prices have risen more than 40 percent within the past year.)
3. There is considerable political instability in the country, principally arising from the widespread feeling that Ecuador was worsted in the dispute with Peru and that the Rio Conference gave a settlement which was more favorable to Peru.

Resources of Ecuador for Future Development.

Ecuador has a large area which is extraordinarily rich and fertile and which has barely been developed. The principal needs for development are irrigation, capital and technical skill. In this area she can grow practically all of the commodities which we formerly imported from the Far East.

There are several gold and copper mines in Ecuador now operated by American capital and other mineral potentialities probably exist. There are also extensive potentialities for petroleum production. Standard Oil and Shell are now exploring for oil in various parts of the country.

Cacao formerly was the most important export of Ecuador. In the last 15 years disease has ravaged cultivation, prices in the world market have declined, and Ecuador has been economically depressed since the end of the last war. Only new economic developments can bring Ecuador out of this depression.

Summary

ECUADORSUMMARYForeign Exchange:

1. Rigid exchange control, effective since June 1940, has held the sucre at 6.7 cents (15 sucres per dollar, selling rate) since December, 1940. Its value was raised from 5.6 cents at the time control was imposed.
2. Central Bank gold and foreign exchange reserves are relatively large and have been increasing. In September, 1941 reserves totalled \$5.7 million of which \$2.5 million were in excess of legal requirements.
3. Excess reserves (\$2.5 million in September, 1941) are equivalent to exchange requirements for nearly 3 months. Since June, 1941 both excess reserves and the reserve ratio have declined slightly, the result of increased note issues brought about by the Peruvian dispute.
4. Ecuador's balance of payments position improved during 1941. Exports increased as a result of increased sales to the United States and Latin America and imports declined because of restrictive exchange allocations by the Central Bank.
5. Estimated exchange availabilities in 1941 total \$14 million, probably 80-85 percent in dollars, and requirements \$11 million. Part of the \$3.0 million excess may have been absorbed in undisclosed capital exports.
6. Dollar deposits in the New York district for Ecuadoran account at the end of 1941 totalled \$4.7 million, of which probably half was for private account.
7. Gold output totalled \$3 million in both 1940 and 1941.
8. Exchange proceeds of exports must be sold to the Central Bank at 14.8 sucres per dollar. Payment for imports and financial remittances must be made at the official selling rate of 15 sucres per dollar.
9. A black market exists but is unimportant, accounting for only about \$500,000 compared to \$13-14 million of official exchange transactions annually.
10. Jap funds have been frozen.
11. Increases in monetary circulation since June, 1940 might have put pressure on the sucre in the absence of exchange control, although internal prices have risen very little.

Banking:

1. The banking system consists of the Central Bank, 13 commercial banks, and 3 mortgage banks. There is a Bank of London and South America branch in Ecuador but no American bank. An Italian bank was recently taken over by Ecuadoran businessmen to obtain removal from the British blacklist.
2. The Central Bank has suffered from frequent changes of management, political interference, and conflicts with member banks, particularly with La Previsora which has about 40 percent of public deposits in commercial banks.
3. The Central Bank makes direct loans to and accepts deposits from the public. Some borrowers are said to be continuously indebted to the Bank. Some commercial banks, including La Previsora, never rediscount while others rediscount continuously.
4. During 1932-37 heavy Government borrowings from the Central Bank were responsible for credit expansion, price increases, and depreciation of the sucre. Large advances to the Government stopped in 1937.
5. Since June, 1940 the circulating medium, especially bank deposits, has increased markedly. Internal prices, however, have risen by a relatively small amount. In the absence of effective exchange control, continued increases in circulation might put pressure on the exchange rate. On the other hand, costs have been slow to rise and rising costs are not expected to affect exports adversely for some time.
6. Excess reserves of commercial banks exceeded 100 percent of required reserves in mid-1940, were down to a low of 30 percent by the summer of 1941, and had risen again to 130 percent by September 15, 1941. The existence of excess reserves during the earlier period was due largely to the extreme caution of the Central Bank in allocating foreign exchange. The changes in the summer of 1941 were due to the Peruvian border dispute, which brought about conversion of bank deposits into holdings of bank notes, and later increase in note issue by the Central Bank to relieve the situation.
7. Cedulas (guaranteed mortgages) constitute practically the only private long-term security in Ecuador, but the amount outstanding has shrunk materially since 1930. Banks are said to be reluctant to make long-term loans despite the need for this type of credit.

Foreign Trade:

1. Ecuador's export excess in 1941 will be the largest in several years, on the basis of 9-month figures as shown below in millions of dollars:

	1941 (9 mos.)	1940 (9 mos.)	1940 (12 mos.)	1939 (12 mos.)	1938 (12 mos.)
Exports	9.7	7.8	10.7	11.3	12.6
Imports	<u>7.2</u>	<u>8.5</u>	<u>11.1</u>	<u>10.0</u>	<u>11.0</u>
Balance	+2.5	-0.7	- 0.4	+ 1.3	+ 1.6

2. The unfavorable trade situation in 1940 was due to a poor cacao crop and low prices for coffee and petroleum. The improvement in 1941 has been due to increased United States purchases of tropical foodstuffs and forest products and to higher prices for coffee.
3. The share of the United States in Ecuador's trade has doubled as a result of the war, rising from about 35 percent of both imports and exports before 1939 to over 70 percent in both categories during the first 9 months of 1941.
4. Exports are made up chiefly of precious metals (22 percent in 1940); cocoa (17 percent); other tropical foodstuffs (22 percent); crude petroleum (15 percent); and various forest and animal products (11 percent). Foreign companies producing petroleum, gold, and certain agricultural products leave abroad various percentages of the exchange proceeds, thus reducing Ecuador's exchange availabilities.
5. The United States in 1940 took almost all of Ecuador's gold, over 80 percent of the coffee exports, more than half the cocoa and banana exports, and large proportions of the less important exports. Most of the Ecuadoran petroleum which formerly went to France is now sold in the South American market.

Public Finance:

1. The deficit for 1941 is expected to be 12 million sucres, out of an ordinary budget of 117 million sucres, according to a press report on December 30.
2. The Ecuadoran Government, however, stated in its reply to a Treasury question that Ecuador is operating on the basis of a balanced budget, and that expenditures are not made if there are no funds available. In particular it stated that 8-month expenditures were slightly less than 8-month revenues in 1941, even though the revenues were much lower than anticipated in the budget.

3. Ecuador has experienced rising expenditures since the early thirties. The 1940 deficit was 7 million sucres in the ordinary budget, partly offset by a 3.3 million sucre surplus in the extraordinary accounts, leaving a net deficit of 3.7 million sucres (about \$250,000) with total expenditures of 123 million sucres.
4. Official statistics show deficits in 1938-40, surpluses in the years 1935-37, and balanced budgets in 1930-34. Deficits are known to have existed, however, as is shown by Government borrowing at the Central Bank. Profits from gold revaluation in 1935 were used to reduce the Government's debt to the Bank.
5. About 50 percent of ordinary revenues come from import duties and receipts from Government monopolies (chiefly alcohol and tobacco).
6. Total ordinary expenditures have doubled since 1929. The chief items of expenditure are, in the order of importance, national defense, education, and public works.
7. The 1942 budget shows an increase in estimated revenues and expenditures of 5 million sucres, equally divided between the ordinary and extraordinary budgets.
8. Executive Decree No. 803, issued after the outbreak of hostilities with Peru, provides a special extra-budgetary capital levy for financing national defense. Rates of the levy are 1 percent on assets of 10,000 to 500,000 sucres (\$670 to \$33,300) and 1 1/2 percent on assets of 501,000 sucres and over. It is estimated that this levy will yield approximately 120 million sucres.

Public Debt:

1. Ecuador's external long-term debt amounts to about \$12 million, mostly in sterling, and has been in default for periods ranging up to 27 years. Hence, interest arrearages roughly equal principal.
2. The Government of Ecuador has floated new loans when old loans were in default and has repledged revenues already pledged.
3. There have been no recent negotiations for settlement of the outstanding external debt. On occasions such as 1928 and 1930, when funds were available for foreign debt service they were used to purchase bonds in the market at a fraction of par.

4. A reasonable debt settlement would probably involve about \$750,000 per year in charges, or 10 percent of Government revenues.
5. The internal debt is in the form of a credit at the Central Bank and is currently about \$1.9 million. Part of the gold revaluation profit in 1935 was used to reduce this debt.
6. In May, 1940 the Export-Import Bank made a loan of \$1,150,000 to the Republic of Ecuador, mostly for road-building purposes. The disbursements under this loan have amounted to \$382,000.

Direct Investments:

1. Foreign direct investments in Ecuador are variously estimated at \$12 to \$25 million, of which about half are American.
2. The principal American direct investment is in gold mining. The only relatively new direct investments have been in petroleum (British), bananas (American), and airways (American).
3. There has been no expropriation of foreign-owned properties, but the Government began a compulsory revision of concessions in 1938, materially worsening their terms, under decrees issued in that year.

However, new legislation in October, 1941 repealed the 1938 decrees on foreign capital, with the purpose of attracting United States capital.

Foreign Exchange

FOREIGN EXCHANGE1. The exchange rate.

The Ecuadoran sucre is currently pegged to the dollar at a rate of 6.67¢ (Central Bank selling rate of 15 sucres per dollar and buying rate of 14.8). This rate has been maintained since December, 1940. In May and June, 1940 (when a rigid exchange control system was adopted), the Central Bank's selling rate depreciated to 5.6¢ per sucre or 18 sucres to the dollar and then appreciated again by successive stages to the present level.

The following table shows the level of the sucre at selected dates:

Table 1. -- Sucre-Dollar Exchange Rates

(U.S. cents per sucre)

1933	December	-	16.66	1940	March	-	6.67
1934	December	-	8.33		June	-	5.56
1935	December	-	9.52		September	-	6.05
1936	December	-	9.52		December	-	6.67
1937	December	-	7.30	1941	March	-	6.67
1938	December	-	6.94		June	-	6.67
1939	December	-	6.67		December	-	6.67

Ecuador suspended the gold standard in February, 1932. Thereafter for about five years Central Bank advances to the Government, monetary circulation and prices rose rapidly, and the sucre, accordingly, declined. Heavy Bank loans to the Government stopped in August, 1937. Thereafter total monetary circulation and deposits remained roughly stationary but began increasing again in 1940. The sucre declined till 1939 and has remained roughly stationary ever since except for the summer and fall of 1940.

The Central Bank has at times established and adhered to its selling and buying rates for foreign currencies despite strong pressure against them and at other times has more or less allowed the sucre to seek its own level, establishing its buying and selling rates in accordance with market tendencies. Rigid exchange control was in effect during various periods, the latest beginning in June, 1940, and continuing to date. Since the outbreak of war the sucre has been pegged to the dollar.

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2. Reserve position of the Central Bank.

In recent months the gold and foreign exchange reserves of the Central Bank of Ecuador have increased markedly. There are now almost \$6 million of gold and foreign exchange reserves, of which about \$2.6 million are excess reserves. The course of the reserves since December 1938, is shown in Table 2. Data for the first two years in the table have been adjusted to make them comparable to the later figures. Improvement is due to increased exports because of greater United States and Latin American purchases in Ecuador, and decreased imports because of reduced exchange allocations by the Central Bank, and to shortages in the United States. The increased note issue in mid-1941, due to the Peruvian dispute, sent excess reserves down somewhat.

Table 2. -- Legal Reserves of the Central Bank of Ecuador
(1,000 dollars)

Date	Gold	Foreign Exchange	Total Legal Reserves	Reserve Ratio (percent)	Required Reserves	Excess Reserves
1938:						
December 1/	3,386	236	3,622	53.1	2,045	1,577
1939:						
December 1/	3,550	130	3,680	51.2	2,157	1,523
1940:						
June 30 1/	3,351	749	4,100	58.4	2,110	1,990
September 30 1/	3,797	890	4,687	59.4	2,369	2,318
December 31	4,062	1,015	5,077	58.2	2,619	2,458
1941:						
January 31	4,135	1,027	5,162	62.2	2,490	2,672
June 30	4,541	805	5,346	60.4	2,651	2,695
September 4	4,611	1,062	5,673	54.2	3,137	2,536

1/ Gold reserves for 1938 and 1939 are computed at their actual value of \$35 per ounce instead of the legal Ecuadoran value of about 12 sucres per gram (roughly \$25.50 per ounce at the then current exchange rate). This necessitated special computation of reserve ratios, required and excess reserves, for the reason that the legal reserve requirement of 30 percent necessitated the holding of actual reserves of over 40 percent using gold valued at \$35 per ounce. For the last half of 1940 and 1941, the legal Ecuadoran gold valuation of \$34.67 per ounce (at current exchange rate of 15 sucres per dollar) was used.

Until May, 1940, the Central Bank undervalued its gold holdings, carrying them at about 12.4 sucres per gram (equivalent to \$25.50 per ounce at the going exchange rates), and nevertheless had sufficient excess reserves to carry on stabilization operations in the exchange market. During the spring of 1940, however, the effort to maintain the rate had brought its reserve ratio down to 32 percent--only 2 percent above the legal minimum--and the exchange rate had broken away from the former level of 15 sucres to the dollar.

By decrees of June 4 and June 13, 1940, Ecuador revalued the gold in the Central Bank to 16.72 sucres per gram (\$34.67 per ounce, at an exchange rate of 15 sucres to the dollar), raised the exchange rate to 18 sucres per dollar, and established a comprehensive system of exchange control. The first measure averted any immediate danger of falling short of the reserve requirements, and the second two caused a rapid increase in foreign exchange holdings at the expense of drastically curtailed imports and some accumulation of exchange arrearages. Subsequently the reserves of the Central Bank continued to increase and it was able to restore by gradual stages the former exchange rate of 15 sucres to the dollar, with little apparent strain, as evidenced by the reportedly small volume of transactions on the black market.

3. The table below shows total Ecuadoran dollar deposits in the New York district in 1940 and 1941. Probably half of the deposits are for private Ecuadoran account. There was no gold earmarked in the United States by Ecuador in this period.

Dollar Deposits in the New York District, 1940 and 1941

(In millions of dollars)

<u>1940:</u>		<u>1941:</u>	
March 27	3.7	April 2	2.5
June 26	2.6	July 2	3.0
September 25	2.2	October 1	2.7
December 31	2.7	December 31	4.7

4. Gold output was \$3 million in both 1940 and 1941.

5. Exchange control system.

Purchase and sale of exchange was unrestricted August, 1936--August 1937. The Minister of Finance, through the Department of Exchange and Import Control of the Central Bank, has exercised rigid exchange control since June, 1940. Payments for imports and all financial remittances must be made at the official selling rate of the Central Bank which was depreciated to 18 sucres per dollar in June, 1940, but has since appreciated to 15 per dollar. Similarly the exchange proceeds of all exports must be sold to the Central Bank at its established buying rate of 14.80 sucres per dollar.

Prior to this time exchange purchases and sales were unrestricted except for brief periods of exchange control, during August, 1936--August, 1937, and April, 1932--December, 1933.

A black market exists but is said to be unimportant. The Finance Minister has estimated that annual transactions in the black market do not total more than \$500,000 compared to official transactions of \$13-\$14 million. An important source of exchange for the black market has been commissions paid agents of foreign firms, but a recent decree requires these to be turned over to the Central Bank. After the outbreak of our war with Japan, the black rate for dollars dropped sharply to about 15 sucres per dollar.

Under the system adopted by Ecuador, the Central Bank under the supervision of the Finance Ministry, makes periodic allocations of exchange for permissible uses on the basis of recent exchange receipts. These allocations are now made on a semi-annual basis, though formerly they were made on a quarterly and originally on a weekly basis. On November 26, 1941, an additional quota of \$1.5 million (about two months' imports at current rates) was granted for immediate importation of various goods such as automobiles, tires, machinery, iron, steel, etc. Importers and other purchasers of exchange are granted individual quotas in accordance with the size of the global allocation. Exporters must have permits, which are granted only if exchange is cleared through the Central Bank.

The global Central Bank allocations are distributed among the following uses for exchange:

- (1) Payment for new imports of private firms and individuals.
- (2) Payment for imports of the Guayaquil and Quito Railway.
- (3) Payment for new imports of the Government and other public entities.

- (4) Payment for new imports for agricultural and industrial development.
- (5) Remittance of profits, royalties, insurance premiums, and travel, foreign resident, and student expenses.
- (6) Settlement of import obligations existing prior to the establishment of exchange control.
- (7) Other uses.

Under a decree issued October 14, 1941, Japanese bank deposits in Ecuador were frozen, except insofar as used to pay for exports from Ecuador to Japan, which are negligible under Ecuador's export control adopted August 1, 1941. Following outbreak of the United States-Japanese war, it was ascertained that there was less than \$100,000 of Japanese funds exclusive of bank deposits in Ecuador, that only \$1,000 a month is being allowed the Japanese Legation, and that the principal loophole in the freezing control may be the free use of safety deposit boxes.

6. Balance of Payments

Ecuador's estimated balance of payments for 1940 and 1941 is shown below:

	(Million Dollars)	
	<u>1940</u>	<u>1941</u>
<u>Availabilities</u>		
Exports other than those by foreign companies	7.9	9.0
Exchange sold by foreign companies ^{1/}	1.8	2.0
Capital inflow, tourists, etc.	1.9	1.5 ^{2/}
New gold production	<u>1.5</u>	<u>1.5</u>
	13.1	14.0
<u>Requirements</u>		
Exchange arrearages	-	.2
Imports	11.0	10.0
Remittances	1.0	.8
	<u>12.0</u>	<u>11.0</u>
<u>Excess of availabilities</u>	1.1	3.0

^{1/} Includes proceeds from exports of some gold ore.

^{2/} Includes \$200,000 disbursed by the Export-Import Bank.

The apparent surplus of \$3 million in 1941 is not necessarily all available to the Central Bank of Ecuador, because undisclosed capital exports might have been large during the border crisis with Peru last summer.

The 1940 estimates include some free as well as controlled exchange. The 1941 estimates are for controlled exchange. It is estimated that transactions in the black market account for only about \$500,000 per year.

The proportion of exchange receipts represented by dollars was 70 percent in 1940 and is estimated at 80-85 percent for 1941.

The distribution of exchange during the first 9 months of 1941 was at the rate of \$1 million per month, and probably was continued at that rate in the last quarter. In addition, a special allocation of \$1.5 million was approved on November 26, 1941. Actual imports in the first 9 months of 1941 totaled only \$7 million, however, and therefore import exchange needs for the year 1941 are estimated at only \$10 million, despite substantially higher allocations (which might not actually have been disbursed).

In 1940 the Export-Import Bank approved a loan of \$1,150,000 to the Ecuadoran Government and \$30,000 to a private corporation for development in Ecuador. Only \$210,000 had actually been disbursed by the Bank up to August, 1941.

The improvement in Ecuador's balance of payments position during 1941 is due chiefly to increased purchases by the United States and other American countries and to a reduction of imports, partly forced by shortages of certain materials in the United States.

Foreign companies leave abroad their export exchange proceeds as follows:

- (1) Oil companies leave abroad all export proceeds. They bring in exchange only for new explorations, etc. Normal local expenses are met by internal sales revenues.
- (2) Gold producers leave abroad 40 percent of their export values, and pay for their imported supplies out of those foreign balances.
- (3) Foreign producers of bananas and other agricultural products leave abroad 20 percent of export proceeds.

Banking

BANKING1. Structure of the Banking System

The Central Bank heads the Ecuadoran banking system, which is made up, in addition to the Central Bank, of 13 commercial banks and 3 mortgage banks. There is a good deal of rivalry between the Central Bank and the commercial banks, especially with La Previsora Banco Nacional de Credito, which has about 40 percent of the deposits of the public in commercial banks. The Central Bank competes with private banks in lending to the public, and on the other hand does little to make itself useful to the private banks. Nearly all Central Bank loans to the public are nominally short-term, but commercial banks make short-term and mortgage loans.

Ecuador has a branch of the Bank of London and South America and an Italian-owned bank which was recently taken over by well-known Ecuadoran businessmen, in order to obtain removal from the British blacklist (it was on our original black list and was subsequently removed). There is no American bank in Ecuador. The following table summarizes the deposit and loan situation of Ecuadoran banks as of recent dates.

Table 1. -- Deposits and loans of the banks in Ecuador

(millions of sucres)

End of	Demand Deposits of the public in		Loans of the Central Bank to		Portfolio of Commercial Banks ^{1/}	
	Central Bank	Other Banks	Govern- ment	Public	Loans to Public	Mortgage Loans
1936	4.1	60.1	15.9	22.1	68.1	59.0
1937	5.2	58.8	26.0	24.4	76.4	44.4
1938	6.4	67.7	29.7	21.0	74.7	30.9
1939	5.1	69.2	29.2	21.7	85.0	35.3
1940	14.0	95.6	26.0	19.8	96.8	44.4
1941- July	12.6	82.4	27.9	25.9	109.8	45.4

^{1/} Includes mortgage loans by all mortgage banks except the government-owned Mortgage Bank of Ecuador.

2. Operations of the Central Bank

The Central Bank does some rediscounting for commercial banks and also purchases bankers' acceptances, an operation which is equivalent to rediscounting. These extensions of credit have usually been of minor importance (although they were large in 1928-31 and 1935-36), and as a result most banks feel little dependence on the Central Bank. Three or four banks, however, are said to be steady borrowers at the Central Bank, while one or two (including La Previsora) never rediscount.

To some extent the Central Bank may use rediscounting and purchase of acceptances as an instrument of credit control, or as an offset to changes in excess reserves of associated banks. At present, however, the magnitude of Central Bank rediscounting for commercial banks is too small (rediscounting of 1.1 million sucres and acceptances of 313 million sucres, compared with loans to the public of 19.8 million sucres at the end of December 1940) for this operation to have much effect on credit conditions. In some recent periods, especially since June 1940, the excess reserves of associated banks have been large enough to obviate any need for rediscounting on their part. The latest recommendations of foreign advisers have urged that the Central Bank gradually retire from the direct lending field and exercise credit control through rediscounting and other operations with commercial banks.

The Central Bank has 10 branches and 1 agency, and 6 of its branches constitute the only banking service in the communities. This illustrates the extension of the Bank into the direct lending business, in which its loans comprise one-sixth of the total loans made by all credit institutions. The Bank also accepts deposits from the general public, such deposits totaling 12.6 million sucres as of July 31, 1941, compared with deposits of associated banks totaling 20.2 million sucres and government deposits of 9.5 million sucres. Foreign advisers have recommended that the Central Bank discontinue its deposit business with the general public.

The Government has borrowed heavily from the Central Bank during the past 10 years, and from 1932 to 1937 these borrowings were directly responsible for credit expansion, price increases, and depreciation of the sucre. (See the section on public debt for details of these borrowings.) Besides direct loans to the Government the Central Bank has been obliged to take shares of the government-owned Mortgage Bank of Ecuador and to rediscount for that institution. Profits from gold revaluation have been used to reduce the government's debt to the Bank. Since 1937 there appears to have been a reduction in new advances made to the government and probably some repayment of previous loans to the government.

The Central Bank has suffered from frequent changes in management, from political interference, and from bitter hostility of the commercial banks, especially La Previsora. In the past the entire Board of Directors has sometimes resigned when a new government was formed, and few Directors have accumulated more than the 2-year experience of a single term of office.

3. Operations of the commercial banks

Since June 1940 the commercial banks have had excess reserves, which had exceeded 100 percent of required reserves in mid-1940, but which fell to 80% by December and to 30% by the summer of 1941. This excess reserve position was due in large part to the extreme caution of the Central Bank in allocating foreign exchange; it purchased more exchange than it sold, and payment for this excess of purchases was made in deposit credits, which constitute legal reserves for commercial banks. At the end of 1940 commercial banks had excess reserves of 13.7 million sucres--80 percent in excess of required reserves. By June 30, 1941, excess reserves had declined to 51 percent of required reserves, but on September 15 were 130 percent.

Table 2. -- Ecuador: Reserves and Deposits of Commercial Banks ^{1/}

Date	(million sucres)			All Deposits of the Public in Commercial Banks ^{2/}
	Reserves in the Central Bank Total	Required	Excess	
1939:				
March 31	19.6	13.2	6.4	94.9
June 30	24.1	13.8	10.3	101.9
September 30	19.7	13.9	5.8	99.0
December 31	19.9	14.3	5.6	102.3
1940:				
March 31	18.5	14.3	4.2	105.3
June 30	28.4	14.1	14.2	112.2
September 30	31.5	15.7	15.8	123.1
December 31	30.5	16.9	13.7	130.3
1941:				
March 31	29.8	16.8	13.0	128.0
June 30	28.4	18.7	9.7	141.0
September 15	22.5	9.7	12.8	119.1

^{1/} The term "commercial banks" here refers to all banks except the Central Bank.

^{2/} Includes time deposits.

The sharp drop in excess reserves during June and July, 1941, was due to large-scale withdrawal of deposits and increased hoarding of currency, occasioned by the capital levy announced in July. To replace the notes which were said to be hoarded, the Central Bank put nearly 20 million sucres of bank notes into circulation from July to September 1941. These developments are shown in Table 3. During the same period it is reported that there was a marked restriction of bank credit, and the large increase of note issue may not have inflationary effects, at least for the time being.

Typical bank loans in Ecuador are short-term, less than 6 months, and are used for financing import trade or retail merchandising, where there is a rapid turnover of goods. The banks are said to be very reluctant to lend at long-term, even with funds deposited with them in savings accounts, although the industrial and agricultural development of the country requires long-term credits. However, 7 of the 13 commercial banks have mortgage departments, and there are one government and two private mortgage banks, all of which lend considerable sums at medium or long term for mortgages. Only 20 to 30 percent of total mortgage loans are made directly by and held by the issuing bank. The remaining 70 to 80 percent are made by means of cedulas, or warrants, which are sold in the open market and which bear the guarantee of the issuing bank as well as of the mortgaged property.

Cedulas are practically the only securities on the Ecuadoran capital market, and their quantity has shrunk drastically in recent years. Cedulas outstanding in 1930 totaled 32 million sucres (\$6.4 million at the 1930 exchange rate) and had decreased to only 19 million sucres in 1936 (\$1.8 million at the 1936 exchange rate). The decrease in cedulas outstanding has been attributed by a recent foreign adviser to the continued expansion of credit and inflation of prices during 1932-1937, which greatly reduced the real rate of return on cedulas, and may have produced losses in terms of purchasing power during some periods.

4. Circulating medium, prices and exchange rates.

From March 1940 to July 1941, the Ecuadoran note circulation rose sharply, particularly May to July, 1941. Bank deposits also increased considerably. Internal prices showed only a moderate increase, and actually decreased, February to May, 1941. However, there is a likelihood that internal prices may rise because of excess reserves of commercial banks, because the deposits of the public have risen nearly 50 percent, and because import prices are probably increasing.

Table 3. -- Ecuador: Circulating Medium, Prices, and Exchange Rates

Period	Circulating Medium			Internal Prices (1927 = 100)	Exchange Rates (sucres per dollar)
	Notes and Coin (million sucres)	Sight Deposits (million sucres)	Total		
1932:					
December	27.7	30.3	58.0	66	6.0
1936:					
December	62.4	70.4	132.8	148	10.5
1937:					
December	73.6	76.2	149.8	168	13.8
1938:					
December	73.1	81.1	154.2	157	14.4
1939:					
March	68.1	79.8	147.9	162	14.6
June	68.5	82.4	150.9	160	15.0
September	75.3	77.4	152.6	161	15.0
December	77.8	83.9	161.7	165	15.0
1940:					
March	69.2	80.5	149.7	170	15.0
June	72.6	93.6	166.2	172	18.0
September	76.7	104.2	180.9	171	16.0
December	80.0	118.4	198.4	177	15.0
1941:					
February	77.4	118.7	196.1	173	15.0
May	83.2	121.7	205.0	166	15.0
July	100.3	105.5	205.8	176	15.0

In earlier years, as shown in Table 3, the increase in circulating medium corresponded fairly closely with the increase in prices and the depreciation of the peso compared to the dollar. From 1932 to 1937 the notes in circulation increased by 165 percent, deposits rose by 150 percent and internal prices rose by 160 percent. The exchange rate in terms of dollars more than doubled during the period 1932-1937, while prices in the United States were rising by about 30 percent.

After the summer of 1937 the monetary circulation in Ecuador remained relatively stable, and after October, 1937, internal prices ceased rising. Subsequently the exchange rate was allowed to rise to 13.80, then in the course of another year to 15.00. The stability of note circulation, total bank deposits, internal prices and exchange rate in the period 1937-1940 was remarkable in view of the continued inflation-devaluation process of the preceding six years. After May, 1940, as pointed out previously, the exchange rate rose and exchange control was imposed.

Under the 1940 exchange control the Central Bank purchased considerably more foreign exchange than it sold--its holdings of foreign exchange increasing by 13.4 million sucres (\$750,000) in the first month. Since it paid for the foreign exchange by issuance of notes or by opening deposit credits, the total monetary circulation rose by an equivalent amount. Part of the deposits in the Central Bank are held by the public, but individuals and firms tend to redeposit these funds in the associated commercial banks, which in acquiring Central Bank deposits increase their legal reserves. In the summer of 1940 this created a very sizable excess reserve position for commercial banks, and although these banks subsequently created additional deposits (a multiple expansion of the circulating medium), they still had large excess reserves in the Fall of 1941. These relationships are shown in Table 2.

In the absence of an effective exchange control system, the excess reserves, larger bank deposits and probable increases of internal prices would put considerable pressure on the exchange rate. But under present conditions prices have been slow to rise and even when they do rise there need not be immediate effects on Ecuador's international exchange position. The import control system can prevent an abnormal drain of foreign exchange to pay for imports, even if price conditions should increase the demand for imports. The volume of exports could be maintained even with an appreciable rise of domestic prices, because products of foreign-owned enterprises (e.g., petroleum) would continue to be shipped abroad even at lower profit rates, and tropical foodstuffs, (such as cacao beans and coffee) are produced under virtual peonage conditions, where rising prices may not be reflected in rising wage rates for a considerable time.

Foreign Trade

FOREIGN TRADE

1. Course of trade in recent years.

As in the case of most other countries, the value of Ecuador's foreign trade declined sharply after 1929 and recovered after 1932. By 1937 the value of her foreign trade was approximately four-fifths of the 1929 figure. Another decline set in after 1937, but by 1940 both exports and imports had recovered to nearly two-thirds of their 1929 levels. For the first nine months of 1941 exports were running at a rate only 7 percent below the 1936-1938 average.

Following a fairly continuous decline in the value of imports relative to exports from 1929 to 1937, a reverse movement began in 1935. In the three years 1938 to 1940 the trade balance deteriorated even more markedly. An excess of imports, the first in over a decade, was shown for 1940. Chiefly responsible for this situation were a poor cacao crop in 1940, a reduced market for cacao and coffee exports due to the European War, and a substantial drop in the price of petroleum, one of Ecuador's principal exports. In the first nine months of 1941, however, the trade balance turned sharply favorable again and exports increased and imports decreased. Table 1 shows the course of Ecuador's foreign trade since 1929.

2. Extent and reasons for the export excess.

Ecuador customarily has an excess of exports over imports, as the table shows. This excess of exports, while never very large in absolute amount, has been maintained rather near an average level of \$2.2 million, except during the past three years.

An important factor responsible for the excess of exports is the existence of relatively large foreign direct investments in Ecuador. These investments are chiefly in the fields of petroleum, gold, and banana production. Not all of the foreign exchange proceeds of petroleum, gold, and banana exports are converted into sucres and thus available for the payment of wages, materials and taxes in Ecuador. Thus, the American-owned South American Development Company, which produces most of Ecuador's cyanide precipitates, estimates that about 20 percent of the value of its exports is left abroad. Similarly, the two British companies producing most of the country's petroleum have from 25 to 30 percent of their export proceeds in foreign centers. The result is that a part of Ecuador's international income is not available for expenditure on imports.

Since 1935 Ecuadoran imports have also been checked somewhat by direct and indirect restrictions on the importation of merchandise. A four-column tariff, with rates based on trade balances with particular countries, was set up in 1935. Exchange-control restrictions date from 1936.

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Table 1. -- Ecuador's Foreign Trade*

(Millions of Dollars)

	<u>Exports</u> <u>1/</u>	<u>Imports</u>	<u>Balance</u> <u>of</u> <u>Trade</u>	<u>Imports as a</u> <u>Percentage</u> <u>of Exports</u>	<u>Average</u> <u>Exchange</u> <u>Rate</u> <u>2/</u>
1929	\$17.2	\$17.0	\$.2	98.6	\$.2000
1930	16.1	12.8	3.3	79.4	.2000
1931	11.3	8.8	2.5	77.7	.2000
1932	8.2	5.8	2.4	70.3	.1667
1933	7.4	5.3	2.1	72.0	.1667
1934	13.5	7.8	5.7	57.7	.1250
1935	11.4	9.7	1.7	85.5	.1000
1936	13.9	11.2	2.7	80.5	.0952
1937	14.9	12.0	2.9	80.2	.0910
1938	12.6	11.0	1.6	87.6	.0746
1939	11.3	10.0	1.3	88.5	.0674
1940	10.7	11.1	-0.4	103.1	.064
9 months 1940	7.8	8.5	-0.7	109.0	.061
1941	9.7	7.2	2.5	74.0	.067

Treasury Department, Division of Monetary Research January, 1941.

1/ Includes all gold and silver.2/ Used in conversions from sucre figures.

* Import values are stated to be c.i.f. at the frontier; in practice they are f.o.b. costs, disregarding freight and insurance. Export values are stated to be local market values, including duties and charges up to the frontier; actually they are c.i.f. port of embarkation.

3. Effect of the war on Ecuador's trade.

The influence of the war on Ecuador's foreign trade has been limited by (1) the overwhelming importance of the United States as a market for Ecuador's exports and as a source of her imports, and (2) the ability of the South American market to absorb a larger proportion of Ecuador's exports. The United States in 1940 took almost all the Ecuadoran output of gold and "Panama" hats, over 80 percent of the coffee exports, and more than half the cacao and banana exports. France was formerly an important market for Ecuador's petroleum and coffee; while Germany had become an important market for cacao on a compensation trade basis. American purchases of vegetable and forest products have offset in large measure the loss of the European market in these commodities. And most of the Ecuadoran petroleum which formerly went to France is now sold in the South American market.

On the import side, the reduction during 1939 stems as much from the imposition of control over imports and bank credit (discussed below) as from the reduced value of Ecuadoran exports. The sharp increase in imports in 1940, however, was due mainly to the withdrawal of all import restrictions during the first five months of the year. Imports in 1940 would have been larger had the Ecuadorans not re-imposed exchange control restrictions in June and October of that year. The abrupt decline in imports in 1941 was due to the combined effects of strict rationing of exchange and unavailability of United States goods.

4. Major export commodities.

Ecuador's exports consist almost entirely of tropical vegetable and animal products, precious metals, and crude petroleum. In 1940 agricultural foodstuffs (cacao, coffee, rice and bananas) accounted for 34 percent of total exports; the precious metals, principally gold, for 22 percent; crude petroleum for 15 percent; and miscellaneous forest and animal products (tagua nuts, toquilla "Panama" hats, crude rubber, balsa wood, hides and skins, and live animals) for 11 percent. These and other particulars are shown in Table 3.

It will be noted that the relative importance of precious metal exports has increased substantially over the past decade, 8 percent of total exports being in this category in 1929 as against 22 percent in 1940. On the other hand, the cacao industry has declined in relative importance from 25 percent of total exports in 1929 to 17 percent in 1940. The higher dollar price of gold accounts for most of the improvement in the case of the precious metals, while disease and unfavorable weather conditions together with lower commodity prices were principally

responsible for the showing of cacao. Crude petroleum and coffee have also suffered a decline in their relative importance owing to lower price levels. In both cases, however, the physical volume of exports had risen appreciably since 1929.

5. Major markets for major exports.

The United States is an important market for nearly all of Ecuador's principal exports. Moreover, since the outbreak of the European War the ability of the United States to absorb large quantities of commodities formerly sold to Europe has reduced the impact of the war on the Ecuadoran economy.

With respect to crude petroleum, 35 percent of Ecuador's 1939 exports went to Continental Europe (mainly France) and 43 percent to South America. Japan took 13 percent. In 1940 only 6 percent went to Europe, while Japan's share rose to 17 percent and South America's to 72 percent. The Uruguayan demand almost doubled in a year.

Cacao exports did not fare so well. In 1938 60 percent of Ecuador's cacao exports went to Germany, 25 percent to the United States, and the remaining 15 percent to Continental Europe and Britain. In 1939 the United States share increased to 44 percent, and in 1940 to over 50 percent. The closing of the European market is responsible for a reduction of about \$1 million in the value of cacao exports from 1938 to 1940.

In 1938 the United States took about one-third of Ecuador's coffee exports, France about 40 percent, while the remaining 27 percent went to Peru, Italy and Germany. With the virtual loss of the European market in 1939, the United States increased its share to 61 percent (by taking all of Ecuador's surplus stocks at reduced prices). In 1940 the United States took over 80 percent of total exports.

Rice and bananas have been affected very little by the war. Rice is exported as a rule to neighboring countries, while bananas are shipped to the United States, Chile and Peru.

On the other hand, tagua nuts have been adversely affected by the war, for the bulk of pre-war shipments went to Japan, Germany and Italy. Toquilla "Panama" hats have suffered over the past decade from the decrease in the United States demand for "old style" hats. In 1940, however, the Ecuadoran hat industry changed its product to meet the style demand of the United States market, with the result that exports of "Panama" hats recovered in this year.

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Table 3. -- Ecuador's Principal Export Commodities

(Millions of Dollars)
1929 to 1940

	1929	1932	1938	1939	1940	Percent of Total Exports in 1940	Estimated Exports 1941
Total	\$17.21	\$8.22	\$12.62	\$11.27	\$10.72	100.0	10.2-10.9
<u>Precious Metals:</u>	1.42	1.13	2.64	2.85	2.36	22.0	2.4
1. Cyanide Precipitates	1.42	1.13	1.60	1.82	2.36	22.0	2.4
2. Gold and Silver, in bars	a/	a/	1.04	1.03	a/	a/	
<u>Crude Petroleum:</u>	3.03	2.41	1.97	1.72	1.57	14.6	1.5
<u>Tropical Foodstuffs:</u>	7.43	3.42	5.55	4.05	4.19	39.1	4.0
1. Cacao	4.25	1.88	2.93	2.15	1.85	17.3	1.6
2. Coffee	2.33	1.34	1.25	1.05	1.02	9.5	1.1
3. Rice	.85	.16	.81	.38	.93	8.7	.9
4. Bananas	a/	.04	.56	.47	.39	3.6	.4
<u>Miscellaneous:</u>	3.33	.75	1.66	1.50	1.12	10.5	1.3-1.5
1. Tagua Nuts	1.22	.20	.53	.66	.50	4.7	.5
2. Toquilla "Panama" hats	1.36	.45	.47	.22	.28	2.6	.3
3. Rubber, crude	a/	a/	.32	.32	.20	1.9	.20-.25
4. Hides and Skins	.17	.05	.18	.13	a/	a/	.10-.15
5. Balsa Wood (logs)	.04	.01	.16	.17	.14	1.3	.15-.20
6. Live Animals	.54	.04	a/	a/	a/	a/	.05-.10
<u>Other:</u>	2.00	.51	.80	1.15	1.48	13.8	1.0-1.5

Division of Monetary Research, Treasury Department.

January, 1942.

a/ Not shown separately.

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6. Trade by countries.

Exports. As is shown below, the United States ranks far and away as Ecuador's most important market. From a pre-war average of some 45 percent, in 1940 the United States took 60 percent of Ecuador's total exports and 74 percent in the first nine months of 1941. The war has interrupted trade with important European markets. Germany took almost a fifth of Ecuador's exports from 1936 to 1938. Exports to France averaged nearly 10 percent of the total. The United Kingdom market has taken on the average under 4 percent of Ecuador's exports. In 1940 Britain took but 2 percent of her exports. Japan's share has increased from 1.8 percent in 1937 to 3.3 percent in 1940. The percentage taken by the South American market has doubled, rising from 14 percent in 1937 to about 30 percent in 1940. Ecuador's principal South American markets on this latter date were Uruguay, Peru, Colombia and Chile. Particulars are shown in Table 4.

	<u>Exports</u>			<u>Imports</u>		
	(In percent of Total)			(In percent of Total)		
	9 mos. 1941	12 mos. 1940	12 mos. 1939	9 mos. 1941	12 mos. 1940	12 mos. 1939
U.S.	73.6%	60.0%	49.1%	73.9%	59.4%	48.7%
Latin America	23.0	27.3	19.6	6.5	5.5	6.9
United Kingdom	.5	3.7	2.0	7.2	7.5	5.5
Germany	-	0.0	6.8	.8	2.0	18.1
Italy	-	2.5	2.2	.2	4.1	3.0
Japan	1.0	3.3	3.9	3.9	10.4	5.2

Imports. The United States is regularly the principal source of Ecuador's imports. As is indicated in the table above, the United States has supplied on the average about 45 percent of her imports. In 1940 the share jumped to 59 percent and in the first nine months of 1941 to 74 percent. Germany has been Ecuador's second largest source of imports, supplying an average of some 18 percent up to 1939. Britain ranks third as a supplier, with about 10 percent of Ecuador's imports coming from this source. France and Italy together supply some 7 percent of the imports. Imports from Japan have fluctuated a good deal, but in most recent years have amounted to 7 - 10 percent of the total. Finally, about 5 percent of Ecuador's imports originate in South America. These matters are shown in detail in Table 5.

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Table 4. Ecuador's Exports by Countries

(Percent of Total)

	1929	1932	1936	1937	1938	1939	1940
Total (Millions of Dollars)	\$17.21	\$8.22	\$13.90	\$14.93	\$12.62	\$11.52	\$10.74
1. United States	45.2%	45.3%	46.0%	33.2%	37.5%	49.1%	60.0%
2. United Kingdom	2.7	6.4	3.3	2.7	4.7	3.7	2.0
Europe:							
3. Germany	5.9	5.0	14.1	21.9	17.5	6.8	0.0
4. France	5.5	11.0	10.4	12.5	8.0	6.5	1.3
5. Italy	6.3	4.2	1.8	3.9	1.6	2.2	2.5
6. Belgium	a/	a/	a/	1.1	0.9	2.3	0.5
7. Netherlands	a/	"	"	2.2	1.5	2.5	0.1
8. Switzerland	"	"	"	0.3	b/	b/	0.1
9. Sweden	"	"	"	b/	0.4	0.7	0.3
10. Denmark	"	"	"	0.4	0.6	1.1	0.1
11. Norway	"	"	"	b/	0.1	0.1	b/
Asia:							
12. Japan	"	"	"	1.8	2.5	3.9	3.3
South America:							
13. Peru	"	"	"	1.7	7.4	3.5	4.7
14. Colombia	"	"	"	1.2	1.3	3.2	3.6
15. Chile	"	"	"	3.1	3.8	3.0	3.1
16. Brazil	"	"	"	1.7	2.9	1.3	2.1
17. Argentina	"	"	"	1.1	0.2	1.4	0.6
18. Uruguay	"	"	"	5.3	5.5	5.3	8.2
19. Other	34.4	28.1	22.6	5.9	3.6	3.4	7.5

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Not readily available.

None reported.

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Table 5. Ecuador's Imports by Countries
(Percent of Total)

	1929	1932	1936	1937	1938	1939	1940
Total (Millions of Dollars)	\$17.0	\$5.8	\$11.2	\$12.0	\$11.0	\$10.2	\$11.1
1. United States	40.9%	58.1%	28.8%	39.6%	34.6%	48.7%	59.4%
1a. Canada	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	0.4	0.3	1.4
2. United Kingdom	19.1	12.4	9.7	10.1	7.7	5.5	7.5
Europe:							
3. Germany	12.6	9.2	21.3	24.1	24.1	18.1	2.0
4. France	4.4	4.6	2.3	3.1	4.4	5.0	3.6
5. Italy	4.5	2.9	2.1	2.9	3.2	3.0	4.1
6. Belgium	<u>a/</u>	<u>a/</u>	<u>a/</u>	1.4	1.7	1.0	0.9
7. Netherlands	<u>u</u>	<u>u</u>	<u>u</u>	1.3	1.0	1.1	0.9
8. Switzerland	"	"	"	0.9	3.3	0.8	1.0
9. Sweden	"	"	"	0.8	1.0	0.5	0.5
10. Denmark	"	"	"	0.5	0.2	0.2	0.3
11. Norway	"	"	"	0.4	0.6	0.6	0.3
Asia:							
12. Japan	0.2	1.0	8.7	3.2	7.4	5.2	10.4
South America:							
13. Peru	<u>a/</u>	<u>a/</u>	<u>a/</u>	2.1	1.4	2.5	1.0
14. Colombia	<u>u</u>	<u>u</u>	<u>u</u>	<u>b/</u>	0.1	0.3	1.4
15. Chile	"	"	"	1.8	1.6	1.3	1.4
16. Brazil	"	"	"	<u>b/</u>	0.2	0.2	0.5
17. Argentina	"	"	"	1.8	0.3	0.3	0.8
18. Uruguay	"	"	"	<u>b/</u>	<u>b/</u>	<u>b/</u>	0.0
19. Other	18.4	11.8	27.1	5.5	6.8	5.4	2.6

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Not readily available.

a/ None reported.

7. Trade balance by countries.

Except for 1940, Ecuador has regularly had favorable trade balances. These have averaged \$2.2 million since 1929. In 1937, about 80 percent of Ecuador's trade was carried on with the United States and Europe in roughly equal proportions. With respect to the favorable trade balance, however, that with Europe was 10 times as large as that with the United States, or \$2.1 million as compared with \$210,000. The trade balance is heavily favorable to Ecuador in the case of her trade with South American countries. On the other hand, unfavorable balances are regularly shown for Ecuador's trade with the United Kingdom, Japan and Canada.

The tendency to greater unfavorable balances with most of Europe and Japan has been in evidence since 1938. And in 1940 Ecuador's long standing favorable trade balance with the United States was reversed. Her large favorable balance with neighboring South American countries has continued to date. The details regarding Ecuador's balance of trade with various countries are shown in Table 6.

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Table 6. Ecuador's Trade Balance by Countries *

(Millions of Dollars)

	1937	1938	1939	1940
Total	\$2.9	\$1.6	\$1.3	-0.4
1. United States	.21	.90	.62	-.18
1a. Canada	(-.07)	(-.05)	(-.04)	-.16
2. United Kingdom	-.81	-.27	-.14	-.61
Europe:				
3. Germany	.39	-.46	-1.06	-.22
4. France	1.50	.53	.23	-.26
5. Italy	.23	-.16	-.07	-.19
6. Belgium	0.00	-.08	-.16	-.05
7. Netherlands	.17	.08	.17	-.09
8. Switzerland	-.07	(-.36)	-.05	-.10
9. Sweden	(-.10)	-.06	.03	-.05
10. Denmark	0.00	.06	.10	-.02
11. Norway	(-.05)	-.05	-.04	-.03
Asia:				
12. Japan	.18	-.51	-.10	-.81
South America:				
13. Peru	.01	.78	.13	.40
14. Colombia	(.18)	.15	.33	.23
15. Chile	.24	.30	.20	.17
16. Brazil	(.26)	.35	.13	.17
17. Argentina	-.06	-.01	.12	-.03
18. Uruguay	(.79)	(.69)	(.60)	.88

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* Figures in parenthesis denote that data for one of the trade factors, exports or imports, were lacking. A positive figure denotes that only the export figures are taken into account, and vice versa.

Public Finance

PUBLIC FINANCE

1. The deficit in 1940 was 7 million sucres in the ordinary budget, but there was a surplus of 3 million sucres in the extraordinary budget. Fiscal results for 1939 and 1940 are shown below and for earlier years in Table 1.

	(Millions of sucres)	
	1939	1940
Ordinary budget revenues	117.2	110.0
expenditures	<u>121.9</u>	<u>117.0</u>
balance	- 4.7	- 7.0
Extraordinary budget revenues	10.4	9.3
expenditures	<u>8.2</u>	<u>6.0</u>
balance	<u>+ 2.2</u>	<u>+ 3.3</u>
Net deficit	- 2.5	- 3.7

2. Revenues during the first 8 months of 1941 were about 7 percent below the corresponding period in 1940, as indicated in the following table:

	(Millions of sucres)	
	8 months 1940	8 months 1941
Import taxes and consular fees	28.8	20.0
Government monopolies	14.6	18.3
Income tax	4.4	6.1
Other revenues	<u>25.8</u>	<u>24.2</u>
Total	73.6	68.5

3. With Treasury receipts for 8 months amounting to 68.5 million sucres, a yearly rate of 102 million sucres, it would appear that a sizable deficit, or an accumulation of unpaid bills, salaries, etc., would occur. The Government states, however, that 8-month expenditures are slightly less than revenues and that Ecuador is operating on the basis of a balanced budget. For example, expenditures are not made if there are no funds available and the Government does not borrow from other sources.

On the other hand, a press report from Guayaquil dated December 30, 1941 stated that Ecuador is expected to close the year with a budget deficit of 12 million sucres, according to an estimate based on revenues collected in that month.

Table 1. — Ecuador: Actual Revenues and Expenditures

Ordinary Budget							
(In Millions)							
Dec. 31	Sucre			Exchange Rate	Dollar Equivalent		
	Revenues	Expenditures	Balance		Revenues	Expenditures	Balance
1941	117.2	117.2		\$.0666*	\$ 7.8	\$ 7.8	\$
1940	110.0	117.0	- 7.0	.0632**	7.0	7.4	- .4
1939	117.2	121.9	- 4.7	.0674	7.9	8.2	- .3
1938	120.8	129.6	- 8.8	.0746	9.0	9.7	- .7
1937	87.1	80.9	6.2	.0910	7.9	7.4	.5
1936	77.5	76.4	1.1	.0952	7.4	7.3	.1
1935	66.4	64.1	2.3	.1000	6.6	6.4	.2
1934	48.3	48.3	.0	.1250	6.0	6.0	.0
1932	42.2	42.2	.0	.1667	7.0	7.0	.0
1930	60.8	60.8	.0	.2000	12.2	12.2	.0
1928	61.6	58.6	3.0	.2000	12.3	11.7	.6

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a/ Budgeted

* Official selling rate

** Weighted average of Central Bank "free" selling rate (January-May) and "official" rate (June-December).

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4. It is known that in the period 1932-1938 the Ecuadoran Government borrowed heavily from the Central Bank. Official statistics as to government revenues and expenditures do not, however, indicate heavy budgetary deficits during this period. On the contrary, as is shown in Table 1, they indicate an approximate balance between revenues and expenditures or the existence of a surplus. This circumstance is to be explained by the following factors:

(a) The revenue and expenditure figures apparently apply only to the ordinary and not to the extraordinary budgets. Extraordinary budgets have been a normal feature of Ecuador's public finance system in recent years. Usually, however, the extraordinary budgets are small compared to the ordinary budgets and they are generally balanced by receipts from extraordinary sources (though the latter may include some borrowed funds).

(b) Among the sources of ordinary revenues is an item for miscellaneous receipts which is believed to include the proceeds of public borrowings. In recent years this item has varied from 3 to 21 percent of total ordinary revenues (see Table 2).

5. In the 1942 budget estimated revenues are roughly 2.5 million sucres higher than those estimated for the 1941 budget, and proposed expenditures are increased accordingly. Comparative figures from the two budgets are shown below:

<u>Estimated Revenues</u>	(In millions of sucres)		
	<u>1941</u>	<u>1942</u>	<u>% in 1942</u>
Government monopolies	8.0	8.2	6.3
National services	8.0	9.1	7.0
Indirect taxes	76.1	70.9	54.2
Direct taxes	10.4	17.7	13.5
Other ordinary revenues	<u>14.7</u>	<u>13.7</u>	<u>10.5</u>
Total ordinary revenues	117.2	119.6	91.5
Extraordinary revenues	<u>8.7</u>	<u>11.2</u>	<u>8.5</u>
Grand total	125.9	130.8	100.0

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<u>Estimated Expenditures</u>	<u>1941</u>	<u>1942</u>	<u>% in 1942</u>
National Defense	24.7	24.7	18.9
Education	20.3	20.1	15.4
Public Works	12.9	12.8	9.8
Other ordinary expenditures	<u>59.3</u>	<u>62.0</u>	<u>47.4</u>
Total ordinary	117.2	119.6	91.5
Extraordinary budget	<u>8.7</u>	<u>11.2</u>	<u>8.5</u>
Grand total	125.9	130.8	100.0

6. The major sources of ordinary revenue in recent years have been import duties and receipts from government monopolies (particularly alcohol and tobacco). The proportion of total revenue accounted for by these two items has varied considerably in recent years but is generally in the vicinity of 25 percent for each of them. Other important sources of revenue include income from port and communication services provided by the government, accounting for 5 to 10 percent of total revenues, and income from government mines and railways accounting for another 5 to 10 percent.

7. Total ordinary expenditures have roughly doubled since 1929, amounting currently to about 120 million sucres as compared to 63 million sucres in the former year.

The major increases in expenditures have occurred in connection with national defense and education which have roughly trebled as compared with 1929.

The most important items of expenditure are national defense, education and public works in that order of importance.

8. Though official statistics indicate substantial deficits for the first time in 1938, the deficits reported since then are probably small compared with the actual deficits of the preceding years.

In recent years budgetary deficits have been financed almost exclusively by borrowing from the Central Bank, except for a small external loan of \$1 million obtained from Italy for purchase of munitions. As indicated elsewhere, the government debt to the Central Bank has been considerably reduced below what it would have been by the use of profits of gold revaluation in 1935 to reduce this indebtedness.

Table 2. -- Ecuador: Actual Government Revenues from Major Sources

	(Ordinary Budget)									
	(Thousands of Sucres)									
	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941
Total (Dollars)	\$ 7,028	\$ 6,975	\$ 6,035	\$ 6,649	\$ 7,374	\$ 7,930	\$ 9,014	\$ 8,826	\$ 7,145	\$ 7,806
Total (Sucres)	42,162	41,842	48,282	66,486 ^{a/}	77,463	87,138	120,500	130,950	113,050	117,200
Taxes:	29,454	32,609	40,157	61,934	61,624	68,276	96,470	95,370	88,950	92,222
1. Export Duties	2,109	1,460	2,470	2,703	429	322	550	400	b/	b/
2. Import Duties	9,418	9,802	15,326	23,642	23,094	21,642	33,000	31,000	25,300	25,000
3. Monopolies:	12,192	14,342	14,162	21,537	18,306	22,299	35,000	32,000	32,700	33,500
(a) Alcohol & Tobacco	8,653	9,863	b/	17,529	b/	b/	b/	b/	b/	b/
(b) Salt and Matches	3,538	4,479	b/	4,008	b/	b/	b/	b/	b/	b/
4. Consular Fees	1,177	1,324	2,405	4,929	5,573	6,955	5,700	8,000	b/	b/
5. Sales Tax	1,320	1,356	2,126	2,528	5,070	5,560	4,500	6,500	b/	b/
6. Rural Property Tax	1,175	1,532	1,268	2,231	2,777	4,490	4,500	4,500	b/	b/
7. Income Tax	1,083	1,554	1,321	2,861	3,876	4,125	5,100	6,300	b/	b/
8. Tax on Bequests	321	557	200	234	373	374	550	500	b/	b/
9. Stamp Tax	606	619	767	1,075	1,868	2,164	4,500	4,700	b/	b/
10. Other	53	63	112	194	258	345	3,070	1,470	30,950	33,722
National Services c/	2,152	2,306	3,159	3,668	4,475	5,510	5,590	11,770	7,830	7,970
Income from National Properties d/	1,717	2,706	2,091	2,598	1,929	2,858	8,500	8,565	8,365	8,031
Miscellaneous e/	8,839	4,221	2,875	2,289	9,435	10,494	9,940	15,245	7,905	8,977

a/ This figure is quoted as the total by official publications, even where the detailed figures here listed are itemized. However, adding these figures results in a total of 70.489 million sucres.

b/ Not readily available

c/ This consists of port charges, mail, and telephone and telegraph revenues.

d/ This consists of revenues from railways, mines, and other national properties.

e/ Includes revenue from loans, treasury reserve, special funds, coined silver and mortgage bonds.

Public Debt

PUBLIC DEBT

1. Ecuador's public debt consists largely of an internal debt in the form of a consolidated loan held by the Central Bank and an external debt which is almost entirely in default.

2. External debt.

Ecuador has the longest history of default on its foreign debt of any country in South America. Not only have there been repeated defaults of unconditionally guaranteed loans but, in addition, the government has several times pledged customs revenues against a new loan which were already pledged against an outstanding loan.

The external debt is largely a sterling debt although a considerable part of the bonds are held in the United States. The dollar equivalent of the now outstanding pre-1929 debt is as follows:

(a) The Guayaquil-Quito Railway guaranteed bonds--\$10.7 million with accumulated arrearages since 1914 of about \$14 million.

(b) Salt Bonds, \$600,000, in arrears since 1929.

(c) Condor sterling bonds, \$500,000, in arrears since 1921.

Despite the existence of this outstanding defaulted debt, the Ecuadoran Government and the Mortgage Bank, in 1927 and 1929, negotiated two loans totalling \$3 million with the Swedish Match Monopoly, both of which were settled in 1935 at 22 cents on the dollars. In 1937 a loan was secretly negotiated with Italy amounting to \$1 million, to be used for the purchase of munitions. This five-year five percent loan has been serviced, so far as is known, through 1940.

On occasions such as 1928 to 1930, when funds were available for foreign debt service they were used to purchase Guayaquil and Quito Railway bonds in the open market at a fraction of par.

There have apparently been no recent negotiations for the settlement of the Ecuadoran external debt. Ignoring the Italian loan, the remaining external loan has a principal amount of about \$12 million with accrued interest of approximately another \$12 million. If, following the precedent in certain other foreign debt settlements, the principal and half of the accrued interest is recognized in the settlement, then the foreign debt thus scaled down will amount to about

\$18 million. If interest and amortization payments were to be resumed at 3 percent and 1 percent respectively, the annual service charges on the Ecuadoran foreign debt would amount to about \$750,000 per year or approximately 10 percent of the average revenues of the Ecuadoran Government in recent years.

In May, 1940, the Export-Import Bank made a loan of \$1,150,000 to Ecuador, of which \$900,000 is for road-building, \$200,000 for railway equipment and \$50,000 for agricultural development. The disbursements under this loan have amounted to \$382,231, repayments to \$16,483, and availabilities to \$767,769.

3. Internal debt.

The present internal debt of the Ecuadoran Government consists of a consolidated loan and a government account at the Central Bank. At the end of December 1934 this Central Bank debt amounted to 37 million sucres, or \$3.1 million at the then current rate of exchange. Part of the profits of gold revaluation in December 1935 were used to reduce the government's indebtedness at the Central Bank to 19.6 million sucres or \$1.9 million. Thereafter the consolidated and floating debt stood as follows at the end of December:

1936	16.9 million sucres or \$1.6 million
1937	26.0 million sucres or \$1.9 million
1938	29.7 million sucres or \$2.1 million
1939	29.2 million sucres or \$1.9 million
1940	26.0 million sucres or \$1.7 million
1941(July)	27.9 million sucres or \$1.9 million

Direct Investments

FOREIGN DIRECT INVESTMENTS

1. United States direct investments in Ecuador were estimated by the Department of Commerce in 1936 at \$5 million; other estimates range up to \$12 million. Most of the remaining foreign direct investment is British. Apparently the American investment is about one-half of the total.

2. Principal American investment is the South American Development Company which controls the principal--if not the only--gold mines now being actively exploited. The petroleum industry is being developed by British capital and represents the only major increase in foreign direct investments in Ecuador since before the World War. The foreign direct investment in public utilities is represented by an American investment in light and power and the British investment in the telephone system in Guayaquil. The cable service is furnished by All America Cables. The insurance business is dominated by British and American companies.

3. Until recently the air transportation was divided between the German control of the local air lines through a registered Ecuadoran company and international service supplied by Pan American Grace Airways. The German lines have been recently squeezed out.

4. Early in 1938 the government decreed that existing concessions held by foreign companies could be revised whenever advisable in the public interest. Thereafter the changes in the concessions took the form of additional tax burdens, loss of privilege of importing materials free of customs duties, etc. For instance, the South American Development Company was forced to agree to an increase in the production tax from 6 to 12 percent and to pay customs duties on imports which it had previously been able to bring in free of duty. The banana companies--American controlled--were subjected to a limitation of 80,000 hectares on the amount of their land holdings and were required by the Decree of July 8, 1938 to sell any excess to natives within five years in small plots. They were also required to purchase 50 percent of all their bananas from native producers.

However, new legislation in October, 1941 repealed the 1938 laws on foreign capital and asserted that "the Ecuadoran State respects the judicial concept of contracts." The purpose of the repeal was to attract United States capital.

Treasury Department
Division of Monetary Research

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Date....November..24,1942.19

To: Secretary Morgenthau

From: Mr. White

Mr. Plumptre of the Canadian Treasury left a memorandum on Canada's U.S. dollar position. It was written at the suggestion of Dr. Clark, Deputy Minister of Finance, to "correct" the impression which he heard you had, namely, that Canada's U.S. dollar position is better than it has been at any time since the outbreak of war. The report was drawn up presumably to show that Canada's position is not improving.

Our analysis of the report and of the general situation, however, indicates that Canada's U.S. dollar position is not getting worse, that her total international financial position (i.e., vis-a-vis all countries) has improved during the war and that the prospects are for continued improvement both vis-a-vis the United States and vis-a-vis all countries.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1942

TO Mr. White

FROM Miss Kistler

Subject: Canada's U.S. Dollar Position Since the Outbreak of War.

The attached document, submitted by Mr. Plumptre, contains no new information, apart from a few minor revisions of figures for the early war period. It summarizes Canada's balance of payments vis-a-vis the United States during the first three years of war in such a way as to highlight Canada's cash deficit of U.S. dollars and the means by which it was financed. Instead of proving a lack of any basis for optimism, the document seems to me to give support to the opinion reputedly held by the Secretary.

The document, however, sets forth a number of interesting facts:

1. The Canadian Government's holdings of gold and U.S. dollars at the close of September were as large as at the beginning of war — that is, \$260 million. (They have since risen \$25 million).

2. The entire decline in Canada's liquid U.S. dollar reserves is represented by a decrease in Canadian private balances in this country, which have been reduced to minimum working levels — or by \$130 million.

3. In addition, Canadians have sold \$109 million of U.S. securities and other assets in the United States as well as \$203 million of Canadian securities and other assets in Canada. (The figures included here for the first sixteen months of war are \$26 million lower than those previously reported to us).

This brings the total increase in Canada's net debtor position vis-a-vis the United States since the outbreak of war to over \$400 million. But this is only part of the story. Against this must be set the much greater improvement which has occurred in Canada's position vis-a-vis the United Kingdom; Canada has repatriated \$675 million of U.K.-held Canadian securities, extended a \$630 million loan to the British Government and granted a \$900 million gift to finance British purchases in Canada.

4. The remainder of the \$1.1 billion cash deficiency reported by the Canadian Government in its transactions with the United States since September 1939 has been met in part by the sale of gold and dollars received by Canada from third countries (\$335 million) and in part from receipts from Hyde Park transactions (\$291 million). Neither of these operations, however, represent a worsening of Canada's U.S. dollar position. The use of receipts from third countries, with which she has a favorable

Division of Monetary
Research

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balance of payments, is the customary way for Canada to meet her adverse balance vis-a-vis the United States, while the distinction drawn in the document between Hyde Park exports and other current receipts is an artificial one for purposes of evaluating changes in Canada's international debtor position.

The Worsening of Canada's U.S. Dollar Position during
the War and its Growing Dependence upon
Foreign Borrowing and Hyde Park
Exports.

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ments on the following Table entitled, Canada's Balance of Payments with the United States Sept. 15, 1939 to Sept. 30, 1942.

Canada's liquid U.S. dollar position is worse than at the outbreak of the war by the amount of the decline in total liquid reserves, \$131 million.

The recovery of our official stock of monetary gold and U.S. dollar balances, despite our mounting needs for U.S. dollars, has been achieved by the use of gold purchased from the United Kingdom and dollars obtained from other countries, by sales of our foreign assets and of Canadian securities abroad, by receipts under the Hyde Park agreement, and by the loss of our private balances of U.S. dollars -- in that order of importance.

The changing relative importance of these ways of meeting our U.S. dollar deficits is indicated by the following table:

Percentage contribution to meeting Canada's U.S. dollar deficit

<u>Source of Funds</u>	<u>Sept. 15/39 to Dec.31/40</u>	<u>1941 & 1942</u>	<u>Total war Period</u>
(1) Loss of total liquid reserves	15%	10%	12%
(2) Gold and U.S. dollars obtained from United Kingdom and other countries	65%	10%	30%
(3) Canada's foreign borrowing	20%	33%	28%
(4) Hyde Park receipts	-	42%	26%
(5) Errors and omissions in the estimates	-	5%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

From this table it will be observed -

1. That loss of exchange has been important in both periods.
2. That our foreign borrowing (i.e. sales of our foreign assets and of Canadian securities abroad) has been a large factor and grows in relative importance.
3. That the proportionate importance of Hyde Park receipts in the recent period in meeting our mounting deficiency of U.S. dollars is not yet as great as was that of gold and U.S. dollars from other countries in meeting our deficit in the earlier period.

The nature of Canada's foreign borrowing is indicated in the following table:

Relative importance of the forms of capital imports

	Sept. 15/39 to Dec.31/40	1941 & 1942	Total war Period
1) United States purchases of Canadian securities.....	22%	51%	43%
2) Sales of U.S. and other foreign securities and other forms of foreign assets.....	40%	35%	35%
3) Other U.S. investments of capital in Canada (including short term).....	<u>38%</u>	<u>16%</u>	<u>22%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE:

1. The dominant position of the sale in the United States of securities held by residents of Canada.
 2. That this took the form, in the earlier period, of the sale of U.S. and other foreign securities.
 3. That more recently sales of Canadian securities have been much more important.
- It should be added that nearly all the Canadian securities sold to the United States have been bonds payable in U.S. dollars.

CANADA'S UNITED STATES DOLLAR POSITION
Sept.15, 1939 - Sept.30, 1942
(in millions of U.S. dollars)

Experience over the whole of the war period

Canada's reserves of monetary gold and U.S. dollars	decreased	151
Decrease in official balances	.....	1
Decrease in private balances	.....	150 ¹
Total U.S. dollar deficit for the period	amounted to	1,115
Less decrease in Canada's reserves	.....	<u>131</u>
Deficit met otherwise	.....	984
Remaining deficit was met -		
(1) with U.S. dollars from other countries:		
gold from the United Kingdom	....	227
dollars from other countries	....	<u>108</u>
(2) Canada's foreign borrowing	.....	312
(3) Hyde Park receipts	.....	<u>291</u>
		<u>938</u>
Errors and omissions in the calculations	<u>46</u>	984

to the war, a very large proportion of Canada's exchange reserves was held by private rather than official agencies. In the spring of 1940, the Foreign Exchange Control Board, which had been charged with responsibility for managing the country's exchange reserves, took over all such balances in private hands, other than the minimum amount considered essential for day-to-day working balances.

Experience before the Hyde Park Agreement, Sept.15/39 - Dec.31/40

Canada's reserve of monetary gold and U.S. dollars decreased	61
<u>Increase in official balances</u> ..69	
<u>Decrease in private balances</u> .130	
Total U.S. dollar deficit for the period	414
Less decrease in Canada's reserves	<u>61</u>
Deficit met otherwise	353
This remaining deficit was met -	
(1) with U.S. dollars from other countries:	
gold from the United Kingdom ..227	
dollars from other countries .. <u>41</u>	268
(2) Canada's foreign borrowing	<u>82</u>
	350
Errors and omissions	<u>5</u> 353

Experience since the Hyde Park Agreement, i.e., Jan.1/41 - Sept.30/42

Canada's reserve of monetary gold and U.S. dollars decreased	70
Decrease in official balances .. 70	
Total U.S. dollar deficit for the period	701
Less decrease in Canada's reserves	<u>70</u>
Deficit met otherwise	631
This remaining deficit was met -	
(1) with U.S. dollars from other countries:	
gold from the United Kingdom 0	
dollars from other countries <u>67</u>	67
(2) Canada's foreign borrowing	230
(3) Hyde Park receipts	<u>291</u>
	588
Errors and omissions	<u>43</u> 631

Canada's Balance of Payments with the United States
Sept. 15, 1939, to Sept. 30, 1948,
A Summary Statement. (Revised to date)

(in millions of United States dollars)

Items	Item No.	Calendar Years		1942 (to Sept. 30)	Totals		Total war period	
		Sept. 15, 1939 to Dec. 31, 1939	1940		1941	Sept. 15, 1939 to Dec. 31, 1940		1941 and 1948 to Sept. 30
		I	II	III	IV	V	VI	VII
<u>Canada's Debt for U.S. Dollars.</u>								
<u>Current Account with the United States:</u>								
Receipts by Canada.....1		266	1,039	1,191	1,069	1,305	2,260	3,565
Payments by Canada (excluding Hyde Park payments - cf. item 10).....2		213	735	905	714	945	1,619	2,547
Balance of payments over receipts (1-2).....3		53	304	286	355	357	641	1018
<u>Payments by Canada on Capital Account:</u>								
Gold subscriptions and other capital payments.....4		6	51	45	18	57	60	117
Gold (7 & 8).....5		59	355	328	375	414	701	1,118
<u>United States Euro Unit.</u>								
<u>By capital imports by Canada:</u>								
By the sale in the United States of Canadian holdings of U.S. and foreign securities and other investments abroad.....6		11	22	40	36	35	76	109
By foreign borrowing by the sale of Canadian securities in the United States.....7		7	11	31	86	18	117	155
By other investments of United States capital in Canada.....8		24	7	25	14	31	57	66
Total capital imports (6 & 7 & 8).....9		42	40	96	136	84	250	330
By the sale of U.S. dollars obtained by transactions under the Hyde Park agreement.....10		-	-	88	233	-	291	291
By the sale to the United States of gold purchased under the United Kingdom.....11		2	225	-	-	227	-	227
By the sale of U.S. dollars obtained from transactions with Newfoundland and other non-sterling area countries outside the United States.....12		21	20	24	45	41	67	108
Total (9 & 10 & 11 & 12).....13		65	285	198	412	350	588	938
Total (-) or Surplus (+) of United States dollars (9-13). 14		16	-70	-182	139	-64	-115	-177
<u>Change (+) or Decrease (-) in Canada's Stock of Gold and United States Dollars.</u>								
<u>Changes in official balances:</u>								
in monetary gold.....15		113	-81	-	-14	-68	-14	-68
in United States dollar balances.....16		132	105	-322	186	137	-64	161
Total official balances (15 & 16).....17		245	24	-322	172	69	-78	-7
<u>Changes in Private Balances:</u>								
Reduction in private United States dollar balances....18		-37	-95	-	-	-130	-	-130
Total change (17 & 18).....19		18	-69	-182	172	-61	-78	-137
Errors and Omissions (14 of. 19).....20		2	1	10	35	3	45	46

CANADA'S BALANCE OF PAYMENTS WITH THE UNITED STATES,
SEPTEMBER 15, 1939 TO SEPTEMBER 30, 1942 - FOOTNOTES
TO THE TABLE

Sources of information

1. For the years 1941 and 1942, the U.S. Dollar forecast made October, 1942.
2. For 1940, the Dominion Bureau of Statistics calculations of our balance of payments with the United States converted to a U.S. dollar basis and modified slightly, in the light of the most recent information, by Mr. C. D. Blyth, of the Foreign Exchange Control Board.
3. For September 15, 1939, to December 30, 1939, a special compilation made by Mr. Blyth.

In general the estimates for 1940 are believed to be less reliable than those for the later period, and the estimate for the autumn of 1939 is necessarily arbitrary in some items in allocating some portion of the yearly total to the autumn months of the year.

Debt maturities in the United States (Item 4).

For 1940 the annual total has been reduced from the former figure of \$65 million to \$51 million because of the following transaction. In August, 1939, the Bell Telephone Company sold a \$25 million bond issue in the United States, and with the proceeds (which were not sold to the F.E.C.B.), paid off their own securities (which were called for redemption) \$11 million in the autumn of 1939 and \$14 million in 1940. Because this increase in Canada's private U.S. dollar balances in 1939 and the decline in 1940 were not taken into the changes in stocks of U.S. dollars, the maturities in 1939 and 1940 have been omitted likewise.

Short term borrowing in connection with Grain Trade Financing

In 1939 the Wheat Board, to facilitate the export of wheat for storage in the United States and to assure the receipt of hard currency when the grain should be sold, made arrangements with grain companies in Canada and the United States which had the effect of a short term capital import. In 1940 these arrangements were abandoned and the short-term capital imported in 1939 was repaid in 1940 and 1941. The amounts concerned have been included in Item 4 for 1940 and 1941, and in Item 8 for 1939. The latter entry explains the unusual size of the amount for the autumn of 1939 in Item 8.

Hyde Park receipts, Item 10.

The amounts here used are obtained from the October U.S. dollar forecast Table IV, Item 4. They are less than the amount used in Table I of the October forecast, as good lend-leased to the United Kingdom and transferred to Canada have been excluded.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTCL No. 408

Information received up to 7 A.M., 23rd November, 1942.

1. NAVAL

BOUGIE. 21st. 10 enemy aircraft attacked the harbour, destroying 7 landing craft and 1,000 gallons of petrol. One of H.M. Submarines sank a south-bound escorted 4,000 ton ship south of SARDINIA on the 11th.

Another of H.M. Submarines sank an east-bound 5,000 ton passenger ship off MESSINA on 17th.

On the 21st, 700 miles south-south-west of FREETOWN, an enemy blockade runner was scuttled on the approach of a U.S. Cruiser. Some prisoners were captured.

2. MILITARY

LIBYA. Columns of 4th light armoured brigade are advancing along the TOURAI-BENGHAZI and BARCE - EL ABIAR roads, but owing to mines progress is slow.

Further South, 7th Armoured Division made contact with enemy defences on the 21st and our advanced elements reached the area immediately north-east of JABBYA.

The quays at BENGHAZI have suffered extensive damage, and the water supply has been destroyed.

3. AIR OPERATIONS

WESTERN FRONT. 22nd. 11 U.S. Fortresses bombed LORIENT and possibly hit a ship. In operations over the BAY OF BISCAY enemy casualties were 2, nil, 3. Ours 1, nil, nil.

22nd/23rd. 221 bombers were sent to STUTTGART, 10 are missing. Preliminary reports indicate successful attack with fires well concentrated.

LIBYA. TRIPOLI was bombed by U.S. Liberators on 21st and R.A.F. Liberators on 21st/22nd. A warehouse and possibly an ammunition dump were hit.

SICILY. On 21st/22nd and 22nd, airfields at TRAPANI, GELA and COMISO were attacked with bombs and/or cannon fire.

MEDITERRANEAN. 21st/22nd. 5 strongly escorted south bound ships were unsuccessfully attacked south-south-west of SARDINIA. On the following night 1 of 3 ships 100 miles east of CAGLIARI was torpedoed.

On 22nd fighters intercepted enemy aircraft near PANTELLARIA. Enemy casualties 6, nil, 2. Ours 1, nil, nil.

FRENCH NORTH AFRICA. 21st. Escorted U.S. Fortresses bombed airfields at TUNIS and BIZERIA. Enemy casualties - in the air - 4, nil, nil. On the Ground - 5, 5, 20.

21st/22nd. Wellingtons dropped 10½ tons of bombs on BIZERIA airfield.

BURMA. 20th. 8 U.S. Liberators bombed railway installation at ANDALAY. At night RANGOON and TOUNGOO airfields were attacked.

November 23, 1942.

Dear Mr. Langer:

Thank you for sending me the copy of "Intercepts Digest No. 19", which has been prepared in your office. I have read this brief with a great deal of interest and shall be glad to see further documents of this sort as they are issued.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable William L. Langer,
Director, Branch of Research & Analysis,
Office of Strategic Services,
Washington, D. C.

File in Diary

GEF/dbs

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

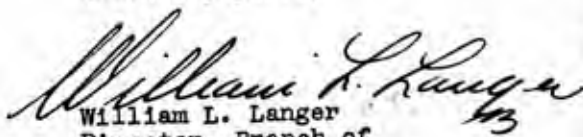
November 5, 1942

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

Sir:

At the suggestion of Mr. Alvah Sulloway of this office, I am transmitting herewith a copy of "Intercepts Digest No. 19," prepared in the Research and Analysis Branch of the Office of Strategic Services and classified as confidential. I am asking that your name be placed on the distribution list to receive the Digest regularly.

Sincerely yours,


William L. Langer
Director, Branch of
Research & Analysis

Enclosure

cc: A. Sulloway

Treasury Department 234
Division of Monetary Research

Date Nov. 24, 1942

To: Mrs. McHugh

There is nothing of outstanding
current interest.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

11/23/42 - From Mrs. McHugh, for you
"to read and mark anything you think
the Secretary would be interested in."
C. A. - 4

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Issue No. 19

INTERCEPTS DIGEST

France and the German Occupation:
Opposition Activities and Movements

OFFICE OF STRATEGIC SERVICES
Research and Analysis Branch
Central Information Division

NOTICE

This publication is restricted to Government officials whose knowledge of its extremely confidential contents is essential to the prosecution of the war. In no case shall the material be copied, reproduced, widely distributed, or made public in any form without the express consent of the Director of Censorship.

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Copy No. _____

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EDITOR'S NOTE

This publication is a digest of confidential documents received from The Office of Censorship. The information contained in these documents is abstracted by The Office of Censorship from the following types of matter emanating from various countries and intercepted by American and British censors: (1) personal communications, (2) business and commercial communications, (3) newspapers and sundry literature, (4) trade bulletins and reports, (5) press and radio bulletins, (6) Relief Society Reports, (7) Reports by the Red Cross, (8) letters from prisoners of war in belligerent countries. No claim is made by the Office of Censorship for the reliability of information intercepted from such channels.

The aim of these digests is not to conjecture upon actual conditions; but irrespective of existing fact, to analyze merely the picture of conditions which appears in the intercepts. The information included in the following pages is offered for whatever interpretation the reader -- recognizing the uncertainty of its character -- may see fit to put upon it.

All documents from which this digest was prepared are on file in the Central Information Division and can be obtained for further study on request to the Intercepts Unit, Room 104, South Building, Extension 2252.

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SUMMARY

Approximately 230 intercepts dealing with opposition to the Nazis in France were received in the Intercepts Unit, and they deal with numerous ideologies and activities. The activities described in the intercepted material more or less divide themselves into the following distinct types: (1) acts of sabotage, strikes, etc.; (2) actual attempts at revolt, military assistance to the enemy, such as that rendered the British Commandos at St. Nazaire; (3) attacks and assassinations; (4) demonstrations, food riots, and passive resistance; (5) peasant resistance; (6) help to escaping refugees and prisoners of war; (7) clandestine press; and (8) radio propaganda, and listening to Allied broadcasts.

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FRANCE AND THE GERMAN OCCUPATION: OPPOSITION
ACTIVITIES AND MOVEMENTS

I. SABOTAGE, STRIKES, LABOR TROUBLE

Letters from private individuals tell of sabotage in French factories and numerous press reports corroborate their statements. Work for the Germans "slows up" machines are damaged; railroads are blown up; radio stations are put out of commission.

A writer from Bern, in an early September (1941) intercept, gives such detailed information on the subject of sabotage that it is worth noting here (he quotes a French industrialist):

"In factories, sabotage by slowing down the work has taken enormous proportions. It can be estimated at 70 percent of the production, which means that the factories produce half of what they could produce. The output figures for automobile construction factories in the plants which make lorries for the Germans have gone down considerably." (BER 58469, 9/21/41; Bern to New York, Press Alliance, Inc.)

An April 26 release from the London Atlantic Pacific Press Agency gives figures for the last three months of 1941:

"In France, during the last three months of 1941, 74 steel mills were sabotaged; 18,000 war tanks and trucks were destroyed and 184 trains derailed. In the Dewoitine factories, in Paris, the production decreased 45 percent due to sabotage in the machines...it would be erroneous to suppose that these acts of sabotage in occupied zones obey directions from any organization outside of the nation where it takes place." (BA 5593/42, 4/26/42; London to Panama.)

An intercept not received in this Unit was quoted in the Postal and Telegraph Censorship Report on France. Dated February 1, it gives a detailed picture of sabotage; but it

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adds that sabotage has been largely stopped, due to the tightening restrictions of the Germans:

"When the Germans were shooting hostages there was always a recurrence of acts of sabotage. After the shooting of 100 innocent people, 74 foundries were sabotaged, 18,000 trucks carrying war materials destroyed, 30 ammunition dumps blown up and 194 railway trains derailed. German fighter planes repaired in Paris frequently cracked after a few hours flight...Tanks repaired in the Citroen and Renault works broke down after only going a few miles. But things are different now. The Germans have tightened up and sabotage is now impossible, anyway in the plants. Each foreman is made responsible for everything turned out by his workmen, if anything goes wrong he is taken out and shot." (HER/NAV 651/42; 1/2/42; p. 14, Postal and Telegraph Censorship, Report on France No. 67, July 1, 1942.)

A March 8 article from Portugal to the North American Newspaper Alliance, New York, tells, according to the censor, 1/ of sabotage in aircraft factories, and lorries sabotaged en route to Libya. An article describing French collaboratorist propaganda appearing on the pages of the strangled Paris press remarks that:

"...the articles lose weight as they frequently appear on the same page with notices of executions of uncooperating French workers." (SA 3512, 3/25/42; Mexico to New York.)

Interesting information is given in several letters from individuals written in April. An April 6 letter tells of probable sabotage activity near Nancy, Occupied France:

"I am acting as chief of the district of Prouard, a little workmen's town 8 Km. away from Nancy...From the time I took up my duties there has been one incident after another. The first day one of the workers on the railway was run over; and a few days later, six trucks were derailed." (HER 20247/42, 4/6/42; Drome, France, to Flushing, New York.)

1/ The censor has digested the information in titles without further details. (HER/NAV 12008/42, 3/8/42; Lisbon to New York.)

On strikes in France:

"Courage is not wanting. I had a card from Madame Thomas, her husband was taken away with 240 comrades on the 21st March after one day's strike at the factory of Fives-Lille, she does not know where he is...No doubt there is still a shortage of workmen in Germany. He is a first class tractor and checker..." (HER 20028/42, 4/9/42; Auch (Gers), France, to Somersworth.)

In April, a writer, probably from Paris or a near district, according to the censor, states:

"For a few days we have to be home at 11 p.m. All entertainments are closed down owing to a train running off the lines through sabotage." (HER 20024/42, 4/21/42; Marseille to New York.)

A writer from Switzerland states:

"...the industrial and outlying districts of Paris are being subjected to systematic sabotage." (NY 46308, 4/22/42; Kusnacht-Gsch., Switzerland, to St. Bernhard.)

An April 25 edition of the French Liberation (an underground publication) tells of strikes in the Var Basin:

"After the strikes of St.-Etienne and Ales, serious unrest has broken out in the mining district of the Var basin, the bandite from which goes wholly to Germany. Strikes at Luc, strikes at Mascruet, strikes at Brignoles. At the factories in Beausset, the wives of the miners demanded bread! — they were imprisoned for 'Rebellion.' At the same time, the miners of Beausset started a sympathy strike. The Toulon guard was sent out. Tumult. Two guards were wounded." (HER/NAV 12962/42, 5/23/42; Zurich to New York. Writer's translation.)

In the same edition, the writers of Liberation call upon the workers of France to demonstrate their sympathies on the first of May by marching past either a statue of the Republic or the Town Hall (Mayor's house) of their Community. This is to be done:

"For the honor of the Workers,
"For an economic and social order founded upon Justice,
"For a Free France in a Free World." (Writer's translation.)

A private letter from Limoges gives interesting details of sabotage activity: 1/

"Everyday now, there is sabotage; a train derailed, broken cables, a soldier killed. All that makes an excuse for reprisals;...One is on tenter hooks when anything happens for fear one's brothers will be taken and shot." (NY 12569, 4/26/42; Limoges to New York.)

From Cuba comes an interesting report on the activities of Paul Louis Weiller, most prominent aeronautics industrialist of France. According to this report, Weiller's company had about 20,000 employees at the time of the capitulation, and refused absolutely to collaborate with Germany. As a result, Weiller was deprived of French nationality and his property seized; his company was put under the management of an administrator jointly appointed by the German and Vichy Government. The morale of the employees is described as excellent, and the factories, after the capitulation, never have been able to reach more than 20 percent of their production before the French defeat. 2/

From a Free French Propaganda Bulletin, Informaciones de Francia Libre, published in Uruguay, comes a report on the morale of the French workers:

"In the factories of Paris, and throughout France, the French are forced to work for the Germans although they offer stubborn resistance. The supervisors and watchmen are Germans...

"Although the Germans have demanded an output of two planes per day from the aviation factories, thus far the workers have produced only one plane daily. Once that a plane is completed, the French are required to give it its trial test."

1/ Indication of sabotage in Limoges factories is further illustrated in SA 8588, 4/27/42; Mexico to Wollsey, Mass.

2/ MI 13154, 5/3/42; Cuba to New York.

"The workers are De Gaullist in sentiment. They discuss the B.B.C. radio reports from London in spite of threats and prohibitions, and listen to the broadcasts of Free France.

"When General Huntziger, the Vichy Minister, died, a minute of silence was ordered in the factories. During this period of silence, one could hear the rattling of keys and the noise of hammers." (W 1342, 5/11/42; Uruguay to Panama.)

An article by Inisa Gorkin, Paris Under the Nazi Terror, mailed from Mexico May 13, states:

"Acts of sabotage and attempts against German officials are much more frequent than the press is allowed (to) know; in factories, in transportation -- everywhere. Much of it is due to the individual initiative of the workers; others respond to exact direction and all demonstrate (sic) organization. Whenever possible, they direct sabotage against production for Germany. These acts of sabotage are very popular, especially in the area of Paris. (Bk 6072/42, 5/13/42; Mexico to Buenos Aires.)

According to El Inmrcial, Guatemala, the false air raid alarm in Paris on May 13 was the work of saboteurs. 1/

A Y.M.C.A. worker in Switzerland writes of his work in France and tells of sabotage in the Occupied Territory:

"Within the last two weeks two trains loaded with German soldiers on leave have been wrecked with heavy casualty lists. The Germans now order that all such trains must carry French civilian passengers, as well." (BER 22611/42, 5/15/42; Geneva to New York.)

A writer from Haute-Vienne tells of the sabotaging of a Nazi radio station:

"For the last ten days we have been able to hear the B.B.C., a powerful interference station at Bourges having been blown up." (BER/NAV 27251/42, 5/20/42; Haute-Vienne to New York.)

The Mexican El Universal Grafico corroborates this statement with its description of the silencing of the powerful Radio-Paris, used for Nazi propaganda purposes, "due to the work of saboteurs at Bourges." 2/

1/ SA 16056, 5/15/42; Guatemala to Mexico.

2/ SA 11809, 5/15/42; Mexico to Texas.

In articles evidently intended for the De Gaullist press in South America, a writer gives interesting details concerning the morale and activities of the French worker:

"The last secret leaflet that we read before leaving France, and which mysterious hands had placed in our coat pocket, hanging on a hook in the restaurant while we were dining, read thus: 'If, on arriving at home, we find only a piece of black bread and water in the saucepan; if we lack coal and they have rationed our gas and electricity; if we cannot dress and shoe ourselves, why work?'

"A group of Frenchmen, employed in a coal mine, is in charge of a Frenchman who is held responsible for their behaviour and production. When the men learn that the coal is to be sent to Germany, their production falls off. Rewards are offered to promote a higher production, but production continues to fall off, until it is noticed by the Board of German control. When the situation is brought to the attention of the Frenchman in control, he makes excuses for his men on the basis of their being underfed. He is relieved within twenty-four hours of his responsibility, but before leaving he calls his men together and praises their attitude and behaviour.

"He is not again given any position of trust; he and his men are sent to concentration camps or sentenced to hard labor." (MI 43837, 6/24/42; Mexico to Cuba.)

That the work of the saboteurs has been effective is suggested by heavy penalties, such as those mentioned in the foregoing intercept, which the Nazis have imposed. The July 15 issue of the American-Swedish News Exchange Bulletin comments on the German police decree in Occupied France: if a saboteur escapes, all relatives are punished in his stead. 1/

An article in the Uruguayan Bulletin d'Information de la France Libre states that it is becoming increasingly difficult to sabotage:

1/ CH 3194, 7/15/42; New York to Canada. BA 6072/42, 5/13/42; Mexico to Buenos Aires, already quoted, tells of high sums offered to those who will inform against the saboteurs.

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"Sabotage is becoming very difficult and it is equally difficult to slow down production. The papers of each worker are minutely examined...there are guards inside and out." (BA 3522/42, 3/14/42; Uruguay to Mexico.)

The need for actual planning and organization of sabotage is illustrated by an intercept from Mexico, written by a prominent Italian Socialist:

"Writer states that in France these Organizations (Political and Syndicalist Workers Groups) exist both legally and illegally. Within the Legal Groups, which use the slogans of Vichy and the Germans, there are some who have joined in order to sabotage the policy of collaboration. The Illegal Groups consist mostly of youths, whose efforts are not coordinated and therefore fail to produce the best results.

"Writer states that if Propaganda is carried on effectively, sabotage can be employed widely, especially in France...

"In conclusion, writer states that it is necessary to organize...Action Groups with the Sicilians, the Spanish, and the Gaullists, with the aim not only of Propaganda, but of Warfare Action, and of Sabotage. (SA 31501, 7/15/42; Mexico to New York.)

Six other intercepts, newspaper articles, dated from May through July, corroborate those quoted above in regard to acts of sabotage. The Renault works, thoroughly bombed by the British, were further damaged by sabotage; 1/ sabotage on railroads in Occupied France has been extensive; 2/ a rubber deposit burned in Argentina; a train dynamited near Fontainebleau; 3/ Jewish and communist saboteurs completely destroyed aerodrome hangars by fire and killed ten soldiers with a bomb hurled into the group at Fontaine (near Belfort). 4/

1/ NO 6501/42, 6/21/42; Mexico (El Popular) to Cuba, and EP 3849, 7/7/42; Mexico (Journal Francais du Mexique) to California.

2/ EP 3611, 6/30/42; Mexico (El Nacional) to California.

3/ EP 3679, 6/29/42; Mexico (Journal Francais) to California.

4/ EP 3442, 6/25/42; Mexico (Journal Francais) to California. Statements of sabotage also appear in: SA 18635, 5/4/42; London to Mexico; EP 2863, 6/27/42; Mexico (Alcornoque Libre) to Arizona. See also pages 58 and 59.

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Regreded Unclassified

That there is organization within the country of the activities of French workers is suggested by two intercepts. The first is a statement said to be taken from the address by the French Syndicalists living in France at the International Trade Union Alliance, May 1, 1942. This document says in part that France was betrayed, that the future of the French workers is in the hands of their English, American, Russian brothers, that:

"They will sabotage the German manufacturers (when?) they can, and will undergo justified bombardments of German Factories." (SA 18635, 5/4/42; London to Mexico.)

That the French workers have made good their promise seems probable from the news item in the June 3 edition of the Journal Francais de Mexique, which states that as a result of a conference with Abetz, Laval told the Syndicate of French Workers in the Occupied Zone to stop outrages against the Germans. 1/

1/ EP 1493, 6/3/42; Mexico (Journal Francais) Mexico to California.

II. ATTEMPTS AT REVOLT. MILITARY PREPARATIONS. ASSISTANCE TO THE ALLIES

When the English Commandos landed in April at St. Nazaire, many of the French thought their day of deliverance was at hand, according to information derived through censorship, and joined in the fight against the Germans, which resulted in tragic reprisals after the attack was over. A letter written to America in February shows the anticipation and hope of the French at that time. With the announcement of the disembarking in Ireland of the first American troops, they appeared ready for a Second Front:

"What will happen in April? We have had great hopes for some time and we are counting on you and your friends. The radio has just announced this evening that the first American Contingent has disembarked in Northern Ireland...We hope that whilst the Germans are engaged in Russia during the Spring, you will come to set us free — everybody will help you." (HER 13074/42, 2/23/42; Marseilles to New York.)

Private letters and newspaper articles contain accounts of French participation in the English raid on Saint Nazaire. 1/

"The St. Nazaire incident showed the immediate reactions of the French population, which, roused by an immense hope, disclosed its feelings too soon and suffered ghastly reprisals — one Hun — ten Frenchmen shot; they opened the doors by grenade explosions, they shot right through the cupboards, pushing the poor people, who were surprised in their sleep, into the gutters to massacre them...There was no question of collaboration then." (TRI/MIL 12514/42, 4/10/42; Marseille to New York, uncensored by Franco.)

An April intercept gives the following information on the St. Nazaire raid:

"That the anti-German spirit can rise into action on occasion is amply proved by what happened in Saint-Nazaire. Here, people naturally thought the British attack was part of an

1/ See also HER 19808/42, 4/11/42; Toulon to Los Angeles, for a description of the St. Nazaire raid.

invasion and the entire populace of the city turned out to battle with the Germans. Old shot-guns and revolvers were resurrected from hiding and a general street battle ensued. It took the Germans more than twenty-four hours to restore order in the city after the British had withdrawn, and we understand that several hundred British unable to retire with their troops are still being concealed by the French populace. Of course, the population paid dearly for their courageous action and 270 'hostages' were executed by the Germans in reprisal. But it gave the invaders such a scare that within a few days they had moved seventeenth motorized divisions into occupied France. Incidentally, we are informed that these divisions consist of boys under eighteen and men over fifty years of age." (HER 21690/42; 4/30/42; Y.M.C.A., Geneva to New York.)

"The executions...continue: 20 follows for having passed a joke at the time of an R.A.F. air raid, at St. Nazaire, 1000 of them. At Gonnevilliers, at the funeral of victims and British airmen, the population strewed flowers on the route and adorned the caaskets with these words: 'Died for the Liberation of France,' (CAN 5127/42; CAN 23501, 5/14/42; Portugal to Montreal.)

A friend quotes a letter from one who was in France in April:

"Everett said that when the Commandos raided St. Nazaire the French thought it was a real invasion and went for the Germans tooth and nail with every weapon they could lay their hands on; the Germans had more trouble putting down the French revolt than in dealing with the British raiders; of course, when it was put down, countless numbers were shot and hanged in reprisals." (MI 39524, 6/16/42; Columbus, Ohio, to Chile.)

Intercepted newspaper stories on St. Nazaire corroborate these personal ones, 1/ and that of A. J. M. Williams to the North American Newspaper Alliance states that a total of nearly five hundred Frenchmen, including those killed fighting alongside the British, as well as hostages and others shot for harboring the British, were buried together with the English dead. 2/

1/ B4 5533/42, 4/23/42; Mexico to Chile (Oficina de Informacion Aliada). HER/NAV 12464/42, 4/20/42; Lisbon to New York (North American Newspaper Alliance).

2/ HER/NAV 12462/42, 4/20/42; Lisbon to New York.

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A correspondent with Nadia Boulanger gives an encouraging picture of military organization and preparedness in France for aid to the Allies in a Second Front:

"Moreover, a real unity outside of and beyond political parties, is in the process of being formed, by all those who want to work for the liberation of France; arms are being accumulated; those which belonged to the old army and could be hidden, those that fall from the skies; chiefs in charge of equipment are organizing the work, all that is being co-ordinated. When the English disembarked at St. Nazaire, ten minutes after their arrival, 2,500 armed men, organized in regiments, battalions, companies and sections, occupied the streets and machine-gunned the Germans who were marching towards the docks. When the moment comes, the invader will be expelled from France, and that with a speed that we can scarcely imagine." (HER 28537/42, 5/29/42; Switzerland to Massachusetts.)

That there are organizations of armed men, waiting for the Allies and the chance to join in a Second Front in France, as mentioned in the preceding intercept, is corroborated by other intercepts. The writer of an early December 13 intercept speaks of seeing a list of names in the papers of Frenchmen shot at Brest for possessing fire-arms and having dealings with the enemy; 1/ and a December 24 intercept tells of the organization of the evacuees from Alsace-Lorraine:

"There are whole regiments here, composed exclusively from soldiers of Alsace-Lorraine, who will march some day when the time will at last arrive." (NY 10367/42, 12/21/42; Los Angeles to California.)

A letter from Pau, written on July 15, tells of arrests and reprisals by the Authorities for possessing concealed arms:

"We are living almost under the reign of Terror. Recently, your doctor, his wife, and their servants were interned for three weeks, with no reason given. Mr. Fomier, after having given up 17 rifles, kept 4 revolvers on his property...Mr. F. has been sentenced to 7 years imprisonment in a fortress...Barnitche has been

1/ HER 6711/42, 12/13/42; Zurich to New York.

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shot in Bd (Bordeaux). Larralde showed us a letter he had received from him as follows--'I'm going to give you a piece of bad news--I am to be shot today--I die a good Frenchman and a good Basque.' His friend believes that he was a partisan of the British, and how many daily mourn for similar deeds." (TRI 19554/42, 7/15/42; Pau to Concepcion, Fr. unc.)

An item, "Concealed Weapons Somewhere in France," in Exelsior, Mexico, further corroborates the story of secret military activities in France:

"...the Gestapo and Vichy police have searched in vain for various concealed arsenals in France that will be used by French patriots to form a guerrilla rear guard when Allied forces land on French shores. These arsenals were started when the French Army fell in 1940 and have been strengthened by the English who send weapons by airplane to secret fields in the French interior." (EP 2014, 6/15/42; Mexico to Texas.)

A note to General De Gaulle from a representative of Franco Libre in Mexico states that, in France, there are powerful groups, organized and secretly provided with arms, who are awaiting the moment for action. These groups are making a list of the collaborators. 1/

A further example of cooperation between British and French is given in a letter from Quebec, describing the experiences of "young L...", after his demobilization from the French army:

"The understanding with the inhabitants of the English coast is extraordinary; so the day Goering was installed in the chateau near Bosumont, half an hour later the R.A.F. bombed it..." (CAN 20,337, 3/15/42; Quebec to Bogota.)

From the Free French organ in Uruguay comes the story, related by one of General de Gaulle's staff, that Free French aviators and the R.A.F. while crossing France received luminous signals from the inhabitants, reading "Here the ammunitions depot," "Here gas

1/ SA 14223, 5/23/42; Mexico to England.

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reservoirs," etc. 1/

That there have been other uprisings besides those occasioned by the Commando raids is suggested by the following: 2/

"When the Parisians experienced the great English air raids they thought that the English and the Americans had landed in France, whereupon the population seized chairs, brooms -- anything at hand -- and began to belabor the occupying troops. That's why there were so many executions." (NY 46308, 4/22/42; Switzerland to Ohio.)

1/ BA 3954/42, 3/28/42; Montevideo to Mexico City (Bulletin d'Information de la Franco Libre).

2/ See also Demonstrations, pages 19-22. For a description of how all organized De Gaullists will rise to meet the Germans when the Allies invade France, see SE 3611/42, 8/8/42; (France Goes Underground by Renee Chazarin), Anchorage to Chicago.)

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III. ATTACKS, ASSASSINATIONS, ETC.

Private letters, corroborated by press reports and releases, tell of numerous assaults upon members of the Occupying Army in France.

The attacks seem to have occurred consistently through the period of Occupation; an American citizen in France in October, 1941, states:

"I was in a metro-station when a German was pushed under an incoming train and killed. The subway platform was crowded...it was impossible to discover who did it...I dashed up the stairs and out of the station precinct...a cordon of Police was thrown round the metro station and identity papers examined. Ten persons about whose documents there was doubt were marched off to Vincennes and shot the next day..." (HER 13902/42, 3/15/42; Lisbon to New York, North American Newspaper Alliance.)

That the average Frenchman is not in sympathy with these assaults, which call forth reprisals on his food rations, hours of amusement, and even take members of his family away for punishment, is evidenced by this early November intercept from Brittany: 1/

"The sad part is that executions are very frequent. Stupid attempted assaults are made on members of the Army of Occupation and every time a German is killed 50 hostages are shot. If the culprit does not give himself up, 50 more are shot. It is idiotic to attack the Germans in this way; no good can come of it and hundreds of innocent people are massacred." (HER/NAV 60620, 11/9/41; Casablanca to Fort de France.)

1/ HER 1845/42, 12/3/41; Vichy to New York, also describes early assaults on the Germans and the reprisal measures taken.

In December of last year, as a retaliatory measure for an attack on the garrison at Thuir, Pyrenées Orientales, all Jews who arrived after 1936 were to be imprisoned, says a writer from Thuir, 1/ A letter written early in December of last year states:

"You should be happy that we are not at Nantes or Bordeaux--think about these families of those 50 innocents shot in each of these 2 cities and about 100 others who will be if the guilty ones who killed those 2 German officers are not found before a specified date." (NY 6927/42, 12/10/41; Clermont Ferrand to Garraosse.)

A news letter from an American representative of NRC in Vichy expresses concern over these isolated attacks upon the Occupying forces:

"France today is like a volcano. Someday it will belch forth with a vengeance. Isolated murders of German soldiers are merely the spouts which reveal the presence of the volcano. In themselves these attacks are useless. The American colony here even considers these local explosions as harmful under present conditions.

"What may happen in the near future is the re-edition of Collette's gesture in Versailles, when he tried to kill Laval and Deat. A French journalist recently left Vichy and turned collaborationist for a consideration. Leaving the headquarters of his new employers he took a cycle taxi in Paris. A hundred yards farther on, a car crashed into the frail carriage. Purely by accident the new collaborationist was not killed. Someone had missed his--shot--like Collette. But both his legs were shattered beyond future usefulness.

"Yves Peringaux, the Director of Cabinet of Fuchau, Minister of the Interior who was murdered three days ago in the occupied zone, was specially assigned to prosecuting communist agitations. The murder may be a result of clandestine radio campaigns which name a number of men for their responsibility in the arrest and execution of hostages, communists or otherwise." (HER/NAV 538/42, 1/7/42; Lisbon to New York (NRC).)

2/ TRI 6791/42, 12/20/41; Thuir (P.O.) to Argentina. For further reprisals against the Jews, see TRI 3507/42, 1/26/42; Lyon (Rhône) to Rio de Janeiro, Uncensored in France.

That these assaults have not diminished with the passing of time under the Nazis' Regime is suggested by this letter from Scotland:

"The French and Dutch especially can't stand the sight of the German Police in their country, and sometimes molest them or even take a shot at one of the soldiers... Last week it happened in France, and they picked out 27 innocent ones, and drove them hands tied through the streets in a big cart to a sand pit and shot them. The people joined them in singing the French National song and at night put wreaths on their graves." (OH 2258, 5/22/42; Edinburgh to Illinois.)

A woman in Chile writes that she has recently had a conversation with a woman from Occupied France who described the efforts of her family to make life miserable for the Huns:

"This indomitable lass has carried the battle against the hated Boche with dynamic fury, even to the extent of shooting them on several occasions with her own hands. Were you to listen to her enthusiastic accounts of how she struck out on her own, a modern Joan of Arc, you would realize that to call the French cowards is a gross injustice and a generalization prone to error." (MI 26843, 5/25/42; Santiago to Watertown, Mass.)

A letter not received here but quoted in the June 22 weekly Diary of the Imperial Censorship, Bermuda, tells of an assault in Paris:

"A notice in the window of a butcher's shop read, 'aujour'hui viande sans cartes' (today meat without coupons). This naturally caused a sensation and a crowd of about 200 housewives congregated in front of the shop which however remained closed. At last after several hours of waiting the police arrived and forced the door. A German soldier in uniform who had been shot the night before was hanging on a hook like the carcass of a calf. It was in answer to this that the Germans sent the notorious Gestapo brute Heydrich." (Imperial Censorship Bermuda, Private Branch Weekly Diary; 6/22/42; No. 80, p. 3.)

Press releases and articles also corroborate reports in private letters: In January, the UF representative at Vichy (Ralph E. Heiman) reported that, according to private advices

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from Occupied France, the statue of Georges Clemenceau, erected near his home in Vendee, was destroyed by German officers billeted in that region.

"The Vendee peasants took annoying reprisals against the occupying forces; such as tying solitary Germans to trees where they were found the next day." (SER/NAV 223/42; 1/7/42; Vichy to New York (UF).)

According to a release from Teleradio, the news broadcasts from Vichy report that, on March 26, a lighted firecracker was thrown at Marcel Deat as he lectured at Tours, 1/ IA Republica, "Newspaper for the Defense of the Democracy" in the Dominican Republic, publishes in its April 14 edition a rather rhetorical description of underground activities in Paris: 2/

"The French people do not hide their contempt and utter disdain for their oppressors and it is not unusual, in fact quite common to see how they take their revenge at night, under cover of darkness.

"In the early mornings, the turbulent water of the river Seine gives up its dead. Numerous bodies of German officers and soldiers are seen floating on the surface of the river.

"The V.- is painted in large bright color on the wall of houses and public buildings and to that one letter is also added: V.- for Victory and Revenge--for Verdun and Valmy.- I have heard the Frenchmen repeat these words, taken from the British: 'We are waiting for you, so are the fish in the Channel.'

1/ SA 3482, 3/28/42; New York (Teleradio) to Guatemala.

2/ For another article of similar propaganda calibre, describing the workings of the French underground in collaboration with De Gaulle's Fighting French forces, see SE 3611/42, 8/3/42; France Goes Underground by Renee Chazarin, Anchorage to Chicago.

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"I have seen Frenchmen of all ages leave the coast of France in frail embarkation to reach the shores of England and offer their services to the British to fight against the common enemy." (NO 3497/42, 4/14/42; Trujillo to Santiago de Chile.)

Although such material as the above is obviously of propaganda calibre, it is substantially corroborated by other reports in the intercepted material quoted above. 1/

1/ For other press reports on attacks upon the German army in France, see HER 58469, 9/21/42; Zurich to New York (Press Alliance Inc.) Also, see HER/NAV 509/42, 1/8/42; Bern to New York (International News Service), and EP 1615, 6/7/42; Mexico (La Prensa) to California.

IV. DEMONSTRATIONS, FOOD RIOTS, PASSIVE RESISTANCE

On May 1st, De Gaullists, Communists, workers' unions, and other anti-Nazis united in demonstrations against the Conqueror. Evidence that these demonstrations did take place and that they were substantial comes not only from De Gaullist literature but from private letters and from the clandestine press articles on this subject. We have already quoted from the clandestine newspaper Liberation, April 25th edition, (p.3) which published instructions to the workers to demonstrate on May 1st. A May issue of Le Franc-Tireur, also published illegally in France, describes the success of the May demonstrations:

"From all corners of the country we have received information on the unhopod-for success of our demonstration on May 1st.

"At the call of the organizations of national resistance, Frenchmen of all classes demonstrated at 6:30 before the town halls and statues of the Republic. 2,000 men and women answered our call. The crowds sang the Marseillaise, with its double meaning, popular and national. Crying 'Down with Laval!' the crowd demonstrated their desire for justice, and in acclaiming General De Gaulle, they showed their desire to re-enter the war with the Allies.

"From all the information we have received, we affirm that everywhere, at Toulouse as at St. Etienne, this demonstration was not just a party gathering, but all classes participated, priests alongside members of labor syndicates; that Socialists sang the national anthem with Conservatives; and that we saw members of the Legion lift their banners to shout with us 'Jail Laval!'

"At 5 o'clock, the Maréchal spoke! At 6:30, France answered him with her double cry of scorn and hope!" (HER 24268/42, 6/6/42; Zurich to New York. p. 2-3 of photostat; writer's translation.)

An American or Englishwoman in France writes on May 13 of demonstrations at Lyons, possibly part of the May 1 appeal:

"I think one thing is quite certain. Revolution is coming in this land and the hatred of the Germans was a revelation to me. I talked to a man in a restaurant. He had come from Paris. He said it was worse there than Lyons. I did not think that could be possible. My coiffeur told me since their demonstration last week, the ravitaillement (rationing) had been very much cut down." (NY 49114, 5/13/42; France to Long Island.)

Documents forwarded from Zurich on May 16 indicate the part the clandestine press plays in organizing and directing demonstrations:

(1) A leaflet addressed by the Mouvement Ouvrier Francais to French workers, instructing them how to act on May 1...

(2) A paper, headed "People of France Brave," put out by the same body, expressing their pleasure at the success of their appeal and thanking General De Gaulle for his broadcast message...

(3) A May day appeal by the Comité D'Action Socialiste.

(4) An appeal to the workers of the port of Marseille to strike on May 1.

(5) An appeal to the people of Savoy to march past the pedestal of "Sasac" on the day of the festival of Jeanne d'Arc as a protest against the theft of the statue... The appeal it is added, was successful. (BER 23364/42, 5/16/42; Zurich to New York.)

Food shortages seem to arouse serious demonstrations. In January, a number of these broke out, according to intercepted material:

"There have lately been demonstrations in two houses in the South as a result of the food difficulties; and I find the working class very 'red.' At Sete they sang the International and to calm them down the authorities wisely used only the fire-hose..."

"I have just learned that after Sete and Montpellier, Nimes has become the theatre of demonstrations. What gives rise to much disquiet is that the International sung at the top of the voice transfers those outbreaks of bad temper from the plane of 'stomach,' where something can be done about it, to the plane of political passion where we (the government) are singularly impotent..." (BER/NAV 486/42, 1/20/42; Vichy to Chicago. A private letter from one newspaperman to another.)

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A refugee recently arrived from France is quoted in a May 24 letter as stating that there had been food riots in Marseille and Montpellier, caused by increased rationing, 1/ and so serious did Vichy consider the riots in Nimes and Montpellier, according to a despatch from Berna in the Mexican El Excalibur, that all newspapers published in Unoccupied France were ordered never to mention "the news of revolt in Nimes, Montpellier, Sete and in other places." 2/

Three intercepts quoted in the Imperial Censorship Bermuda, Private Branch Weekly Diary, June 22nd, give interesting accounts of a demonstration caused by the appearance of the Berlin Philharmonic orchestra at Lyons:

(1) "The Monday before there had been a concert given by the Berlin Philharmonic Orchestra and there were demonstrations in the streets from 10-12. They collected two vans full of demonstrators."

(2) "The poor people in Lyons are deprived of meat, vegetables and what not for having misbehaved when the music came-- Berlin Philharmonic. A pity the innocent have to suffer and no doubt it was not on account of the band!"

(3) "On May 18th there was a concert given by the Berlin Philharmonic Orchestra. I can't tell you as much about it as I should like to, suffice it to say that there was a big noise! I knew that on Wed. 20th there was to be a concert conducted by Paray and that this concert would end by becoming a French manifestation so I took a ticket for Paul... it was marvelous as a musical performance as well as a patriotic demonstration. Flowers were showered on the conductor, and at the end there were shouts of 'vive In France,' and the Marseillaise was sung!" (Imperial Censorship Bermuda, Private Branch Weekly Diary, 6/22/42; No. 80, p.3.)

1/ SA 13996, 5/24/42; Mexico to Vermont.

2/ NO 3328/42, 4/9/42; Mexico to Honduras (El Excalibur).

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South-American newspaper releases and articles confirm the above quoted reports concerning demonstrations in France. Three of these intercepts report the success of the May 1 demonstrations, taking place in Marseille, Lyon, Avignon, Toulouse, Montpellier, and Nice. 1/ In a report to General De Gaulle, a Mexican representative states that at Cannes there was an open demonstration of protest over the food shortage by housewives. 2/ Two intercepts contain a release from the Free French Journal in Mexico concerning the secret decoration on American Memorial Day in France of the graves of Lafayette and American soldiers. 3/

Other French patriots take part in what might be termed a more passive form of resistance; they scribble insults to Laval and Vichy on the walls of Paris; they give secret parties at which they sing the Marseillaise and express their real feelings.

According to the Postal and Telegraph Censorship Report on France (No. 6), July 1, 1942, an American in Vichy gives proof of the French habit of scribbling political slogans on walls:

1/ SA 6291/42, 5/18/42; (Agencia Saporiti) Buenos Aires to Caracas; MI 31223, 5/23/42; (Bulletin D'Information de la Franco Libre) Montevideo to Tobad-Afrique, Francaise Libre; MI 30230, 5/27/42; Montevideo to Acara-Gold Coast.

2/ SA 14223, 5/23/42; Mexico to London.

3/ EP 3343, 8/24/42; Mexico (Journal Francaise du Mexique) to California; and SA 23466, 8/24/42; Mexico (Journal Francaise du Mexique) to Texas.

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"The fires were barely extinguished at Boulogne-Billancourt, Pecq and Sevres when the first slogans appeared: 'Vive le R.A.F.', and 'Petain au dodo, Darlan au poteau, De Gaulle au boulot,' which translated directly from slang means: 'Petain to bed, Darlan to the firing squad, De Gaulle on the job.'" (PO 45363/42, 3/23/42; from Vichy; quoted in the Postal and Telegraph Censorship Report on France (No. 6), 7/1/42.)

The writer of a personal letter mentions the following verse which can be read on the walls of Paris:

"Il n'y a plus de feu.
Vive Fucheu.
Il n'y a plus de Marylands.
Vive Durlan.
Il n'y a plus de pain.
Vive Petain.
Et tout va tres mal.
Vive Laval."
(MI 25078, 5/11/42; Buenos Aires to New York.)

With regard to private parties, a writer of a May 10 intercepted letter states:

"We were up all night at a surprise party. There were quite a number of people and principally naval officers with their wives...The evening opened with any number of patriotic speeches (it is indispensable now at nearly all private parties), then we danced until dawn (which is forbidden) and everyone did honour to the buffet and to all the good things which each one had brought, and which could only have been supplied by the black market..." (TRI 10037/42, 5/10/42; Marseille to Guadeloupe.)

The Free French bulletin from Uruguay tells the following story:

"In a Parisian establishment a portrait of Petain was displayed in the window. A patron asked that it be reserved for him. When the shopkeeper removed it, he replaced it with the sign 'Sold.' The next day, the German authorities entered the shop and demanded an explanation. The shopkeeper answered that he was obliged to put up the sign since there were no more portraits of the Marshal left. When he was forced to remove the sign, he put up another which read 'Exhausted.'" (W 1342, 4/11/42; Montevideo to Panama.)

At the movies, the French demonstrate their dislike for the Germans whenever they can. The material concerning these

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demonstrations comes from the NBC representative in Vichy, and from Free French literature:

"Reactions in moving pictures to news reels are amusing and instructive. War flashes from the eastern front are greeted with frigid silence. Muddy roads with German trucks deeply bogged bring out sarcastic merriment. The rescue by a German crew of a British aviator in the Mediterranean creates more laughs because the picture looks posed and the Germans are so kind to the RAF flier. Goering is greeted with loud and ribald laughter. Hitler--well there is a general din of shrieks, boos, hoots and catcalls whenever he is shown." (BER/NAV 538/42, 1/7/42; Lisbon to New York (NBC).)

An article in the Free French organ in Uruguay states:

"In the moving picture theaters, the news features are exclusively German. The lighting of the auditoriums is obligatory in order to prevent whistles and boos at Nazi leaders." (W 1342, 4/11/42; Montevideo to Panama.)

A report from the assistant delegate of the National French Committee, Delegation de la Franco Libre, states:

"At the time of the death of General Huntsinger, the films showing the Marshal shaking hands with the German Commission were received with hostile cries." (SA 16829, 6/2/42; Mexico to London.)

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V. PEASANT OPPOSITION

A special type of resistance in France, noted occasionally in the intercepted material, concerns the opposition of the French peasant to the requisitioning of agricultural products.

That the authorities fear resistance from the peasants is recorded in an intercepted letter written in March:

"They (the peasants) have apparently submitted very well to a system of Draconian regulations, but which in fact the authorities have not dared to enforce (not even in the occupied zone) for fear of being confronted by a passive resistance of the peasantry; which in a country living from day to day would reduce the urban population to famine." (BER 16416/42, 3/25/42; Limoges to New York.)

Actual resistance is indicated in the following:

"In the country the Germans count the rabbits and the fowls, we have to give them a number of eggs in accordance with the number of hens. If you have declared 25 fowls and the Germans on coming to verify them find 30 (which has happened) they take away the five immediately - so much lost! But the peasant who has been repressed for centuries has more than one trick up his sleeve and he manages to cheat them. It is lucky for those who succeed but there are some who are unlucky!" (BER 20974/42, 4/10/42; Franco to Massachusetts.)

"The wheat isn't growing, the peasant in his savage obstinacy will not deliver anything." (BER 19858/42, 4/23/42; Hte. Loire, to San Francisco.)

"As part of the frantic campaign by Vichy to drum up more food, supposedly for French consumption, the farmers in a small town near Grenoble were summoned to deliver grain on a certain day. About the time it was stacked in front of the City Hall, a train of Italian trucks drove up to take it away, but the farmers used their pitchforks and such a threatening attitude that the Italians drove away empty, whereupon the farmers took their grain back to their own houses." (BER 21690/42, 4/30/42; Geneva (YMCA) to New York.)

"The peasants, over requisitioned, refuse to produce." (MI 22658, 5/1/42; Buenos Aires (letters enclosed from Mexico) to California.)

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"Anticipating the requisitions of beasts and fodder the peasants are killing their cattle, so later on what will there be for meat or leather?" (HER/NAV 27251/42, 5/25/42; Haute-Vienne to New York.)

The following letter from a French peasant leader gives an interesting picture of the difficulties of his class, and also an indication of the independent spirit of this class, who attempt to evade the restrictions of the Authorities whenever possible:

"The general food program is increasingly under the pressure of growing misery and the authorities of the occupation force more painful restrictions upon us; for example, I, as well as the Syndic an to divide equally among all the peasants of my commune, the quota of potatoes which the said program is supposed to force from the said community...I must admit that after having given the Syndic of the Department notice, I myself, undertook to reduce by half the ridiculously high quota that had been filed ...The press makes us submit to a campaign of Scotch showers, which are rather unhealthy alternatives between dithyrambic praise of the heroic effort of our peasants and threats of horrible reprisals against any opposition and lagging." (NY 49224, 5/28/42; Argentina (letter enclosed from France to London.)

The April 25 edition of Liberation, the clandestine French newspaper already quoted, tells of peasant opposition to the heavy requisitioning program:

"A desperate Vichy has finally decided to threaten and hunt down peasants guilty of not submitting with sufficient antiaxisism to the orders of the grafting slaves of Germany.

"Vichy is sending food control officials (controlsurs de ravitaillement) into the villages. At Mornant, for example, not far from Lyon, the officials even tore open a mattress to see if a peasant had hidden flour there!" (HER/NAV 12962/42, 5/23/42; Zurich to Elmhurst, L.I. Translation is writer's.)

VI. HELP TO ESCAPING REFUGEES, PRISONERS OF WAR

Another form of illegal activity in France about which the intercepted material gives some information is the aid to escaping prisoners and refugees:

"Writer states that his sister who is in the French Espionage Service helping English soldiers to escape from occupied France, has been condemned to death but has succeeded in escaping the Gestapo." (NY 60669, 11/16/41; Chny to Curtisville.)

A letter to the editor of the North American Alliance, written in April, describes the experience of an American who escaped into Unoccupied France a week after the United States declared war on Germany: 1/

"Then I got into touch with...a person engaged in the tricky game of smuggling people across the demarcation line...He agreed to take me...we reached the border village...All the kids of the village knew who my guide was, they rushed ahead...and gave us warning of any danger in the form of German guards...we traversed a goat track through the forest into unoccupied France...The French Police are supposed to send anyone they catch illegally crossing the frontier back into Occupied France. But I never heard of an American or a Britisher being sent back. I was received with open arms by the French gendarme who quickly fixed me up with the necessary papers." (HER/NAV 12465/42, 4/21/42; Lisbon to New York.)

Even "legal" aid to refugees sometimes oversteps the bounds and takes on a political significance. A document forwarded by one René Bertholet in Zurich describes the activities and aims of three organizations — The International Relief Committee, an organization composed of split-ups among the Communists and Social-Democrats; The Emergency Rescue Committee, founded to help a number of prominent writers, artists, and political men,

1/ See also HER 13902/42, 3/15/42; Lisbon to New York (North American Newspaper Alliance) in which the experiences of another American caught in Occupied France are described.

including not only leftists but even well known fascists; and the Centre Americain de Secours, which attempts to aid all categories of refugees, of various political tendencies, according to this intercept. 1/ The activities of the International Relief Committee are barely tolerated by Vichy; and the Centre Americain de Secours, according to one intercept, was closed by the authorities because its members were accused of being De Gaullists. 2/

Foreign refugee groups are especially active in helping their members to escape from France, or across the demarcation line. BER/NAV 12606/42, 5/7/42; Lisbon to New York; BER 45701, 4/7/42; France to New York; BER 9093/42, 1/11/42; Geneva to Washington -- all give news of Italian refugees in France, their arrest and imprisonment, and plans to aid them with food and obtain their release. That their activity is not necessarily illegal but often assumes a diplomatic and political nature is evident from the intercepts. 3/ However, a plain case of illegal activity of this nature on the part of Poles is evident from the following:

In Nancy the Gestapo arrested the wife of a Polish official, ...accusing her of helping Poles to leave occupied France for the unoccupied part illegally. (BER 11568/42, 3/2/42; France to New York.)

1/ BER 16497/42, 3/1/42; Zurich to New York.

2/ See De Gaullists, pp. 63-77.

3/ Other activities of these groups, especially the Spanish Anti-Franco-ists, are given under Opposition of Foreign Refugees.

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VII. CLANDESTINE PRESS

According to Free French sources in London, of approximately 200 underground newspapers circulating in Europe, about 30 are published in France. 1/ Material concerning these newspapers comes via the intercepts from various sources: Rene Bertholet, a leftist in Zurich, has sent numerous copies of many of these documents to New York; they are occasionally mentioned in personal letters; Free French and pro-Allied newspaper articles list and describe their work. According to the intercepts, they are printed by hand, mimeographed, or actual printing presses are used, sometimes supplied by parachute. 2/ They appear to be small affairs, of a size easily slipped into a coat pocket. 3/ They are written in a slangy, dramatic style with occasional flashes of dry humour. There are instructions for sabotage; appeals to the reader, like those for demonstrations on May 1; diatribes against Petain, the "Messieurs de Vichy," and the Nazis. 4/ There are short paragraphs like the one in Liberation describing the delicious dinner eaten by Darlan, Casiot, and their guests at a certain banquet, which ends with the remark:

"Voilà, Francis, ceux qui vous prochant la 'Privation'!"

(BER/NAV 12962/42, 5/23/42; Zurich to New York, p. 9)

1/ S 1342, 4/11/42; Uruguay (Informaciones de Franco Libre) to Panama

2/ SA 31141, 7/19/42; Texas (La France) to Various Addresses.

3/ See the photostat samples attached to BER 24268/42, 6/6/42 Zurich to New York; BER/NAV 12869/42, 4/25/42; Zurich to New York; BER/NAV 12962/42, 5/23/42; Zurich to New York.

4/ Ibid.

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At the bottom of their pages often appear notices and directions to the reader, like that in Liberation: "Organize yourself...The leaders and the weapons are ready. Each sympathizer must become a fighter, a soldier. 1/ Usually, the admonition is added that the reader, after he has finished with the paper, must pass it on to another: "Lecteur, Continue la Chaine, 'Liberation' doit faire son chemin." 2/

These newspapers are published by many different resistance groups: among them, trade unions, Socialists, Catholics, De Gaullists, Communists, refugee groups, and the underground movements, Liberation, Liberation Française, Liberation Nationale, and Liberté, Le Franc-Tireur, and La France au Combat. 3/ The titles of those appearing in the intercepted material are:

Alsation Boy Scouts' Paper 4/ "Correspondence des Chefs Eclaircisseurs Unionistes d'Alsace." Editor, Jacques Lafon. Edition 10 times a year; no definite selling price but donations accepted. This seems to be issued by Alsatian refugees, and although there is no indication by the censor that this is an illegal publication, the anti-German nature of the material certainly suggests that it is clandestine.

Cahiers du Témoignage Chrétien 5/ "Edition 60,000." Series of bi-monthly pamphlets against anti-Christian Nazi philosophy, said to be published by the Catholics, forming the "United Front of Spiritual Combat and Resistance for the Liberation of France."

1/ HER/NAV 12962/42, 5/23/42; Zurich to New York (page 8.) The translation is the writer's.

2/ Ibid, page 3.

3/ See Resistance Groups and Organizations.

4/ Postal & Telegraph Censorship P.C. 73, LIV 25872/42, 3/15/42; Franco to New Galadonia (Free French territory). For quotations from the paper, see Youth Organizations.

5/ Postal & Telegraph Censorship Report on Religious Movements, No. 3, New Series, 5/2/42; p. 4. HER 233364/42, 5/16/42; Zurich to New York. SA 37285, 7/31/42; Washington, D. C. to Costa Rica. HER 23364/42 indicates that this group puts out individual pamphlets as well as the Cahiers.

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Combat 1/ Organ of the Liberation Française movement.

Le Coq Enchaîné 2/

Le Courrier de Sainte-Odile 3/ Said to be a Catholic clandestine publication.

Le Feu 4/

La France Continue 5/

Le Franc-Tireur 6/* "Published twice a month whenever possible and by the permission of Pierre Laval's police." (quotation from paper.) An intercept describes it as a secret paper published by an underground organization of the same name.

La Guerre Continue 7/

1/ See Vérités, p. 32. Copies forwarded by René Bertholet, Zurich, in: HER 16980/42, 7 Zurich to New York; HER 23067/42, censored 6/3/42; Zurich to New York. March issue quoted in Postal and Telegraph Censorship, Report on Franco (No.6), 7/1/42; BE/PO 56175/42, 5/22/42. Mentioned by title only in SA 44272, Mexico (International Press Service) to Texas (La France).

2/ Mentioned by title only in SA 44272, 8/12/42; Mexico (International Press Service) to Texas (La France).

3/ Mentioned in an intercept quoted in Postal & Telegraph Censorship, Report on Franco No. 7, 8/22/42; P. 5; HER 22812/42.

4/ Title mentioned only in IA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California. Also mentioned by title in SA 43614, 8/9/42; Mexico (El Bravo) to San Antonio, Texas.

5/ Title mentioned only in IA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California.

6/* Asterisk indicated photostat available on request to Intercepts Unit. NY 91892, 4/16/42; Switzerland to Connecticut, mentions Le Franc-Tireur as "a very strong anti-German group" publishing its secret newspaper. A copy of the actual paper is forwarded in HER 24268/42, 6/6/42; Zurich to New York. Also mentioned by title in SA 44272, 8/12/42; Mexico (International Press Services) to Texas (La France).

7/ Title mentioned only in IA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California

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L'Humanité 1/ Described as a Communist secret newspaper, stressing the separate existence of the Communist Party as a party of the Proletariat.

Liberation 2/ Intersected material describes it as pro-British, pro-De Gaulle, a secret newspaper published by an underground organization of the same name; average circulation, 20,000.

Liberté 3/ Described as a secret newspaper, published by an underground organization of the same name, 150,000 copies issued. Seems to be gotten out by De Gaulleists.

L'Ordre Nouveau de la Servitude 4/

Pantagruel 5/ Described as a De Gaulle publication. Weekly, printed on very small sheets of paper.

1/ Mentioned by title only in SA 43814, 8/9/42; Mexico (El Bravo) to San Antonio, Texas. Mentioned in intercepts quoted in Postal & Telegraph Censorship Report on Franco (No. 7), August 22nd, 1942, p. 3 and p. 5. (BER/NAV 12410/42, p. 3; BER 22812/42, p. 5.)

2/ BER/NAV 12869/42, 4/25/42; Zurich to New York; BER/NAV 12862/42, 5/23/42; Zurich to New York; BER/NAV 883/42, 2/9/42; Zurich to New York. An edition of Liberation is also quoted in Postal and Telegraph Censorship Report on Franco (No. 8), 7/1/42; SF/PO 36702, 4/29/42; Also, NY 91892, 4/15/42; Switzerland to Connecticut and LA 3302, 1/30/42; (Die Welt Woche), Switzerland to California.

3/ "I have good news from my friends in France who are publishing a clandestine newspaper 'Le Liberté,'" writes a De Gaulleist in TRI 9913/42, 5/30/42; Buenos Aires to New York. Also LA 3549, 3/25/42; Switzerland (Noue Bundnar Zeitung) to California; BER/NAV 683/42, 2/9/42; Zurich to New York.

4/ Title mentioned only in LA 3549, 3/25/42; Switzerland (Noue Bundnar Zeitung) to California.

5/ Title mentioned only in LA 3549, 3/25/42; Switzerland (Noue Bundnar Zeitung) to California. (NOTE: A source document in the CID, not an intercept, which contained a list of clandestine papers and organizations, was consulted to check up on these newspapers; according to 18542 S (CID) Pantagruel and Volny have been discontinued.) But SA 43814, 8/9/42; Mexico (El Bravo) to San Antonio, Texas, mentions it.

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Pensee Libre 1/ Described as a Catholic publication.

Le Père Duchesne 2/ Title derived from old French Revolution publication. Said to have the same publisher as Le Franc-Tireur.

Les Petites Ailes de France 3/

Peuple de France 4/

Le Populaire 5/ This old paper of Leon Blum seems to have been revived for clandestine distribution.

Le Quatrième Republicain 6/ Described as a Socialist organ, illegal publication, said to be put out in the North of France.

Reconquest of Spain 7/ Spanish anti-Franco publication secretly circulated among Spanish refugee workers in France.

1/ Mentioned in an intercept not received in this Unit but quoted in Postal & Telegraph Censorship Report on Franco, (No. 7), 8/22/42; p. 5, BER 22812/42.

2/ Ibid

3/ Mentioned by title only in LA 3549, 3/25/42; Switzerland (Noue Bundnar Zeitung) to California.

4/ Ibid. (18542 S (CID) states that this is a Communist paper.)

5/ BER 24265/42, 6/6/42; Zurich to New York, speaks of a socialist manifesto appearing "in the Populaire bearing date 15 June 1942." Censor suggests therefore that Blum's old paper has been clandestinely revived.

6/ Not mentioned in any intercepts received in this Unit, but appears in Postal & Telegraph Censorship Report on Franco (No. 7), August 22nd, 1942, p. 4, (LIV 48137/42, 4/12/42; quoted by Russian newspaper, New York.)

7/ MI 92025, 8/24/42; Mexico to Cuba. Information given by refugee recently arrived in Mexico, who was in Gurs from February 6th to September, 1939 -- just how long he remained in France is not definitely stated, or when the paper was published.

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Resistance 1/ Described by the censor as a paper published jointly by three underground organizations: Liberation, Liberation Nationale, Liberté. Said to contain simple enumerations of acts of resistance, shooting of Germans, sabotage, and lists of hostages shot.

Revue Hebdomadaire de la Presse Française 2/

Socialisme et Liberté 3/ "Bulletin" of the Comité D'Action Socialiste, published according to intercepted material, for "fonctionnaires" of the party in Occupied France.

Unter Wort 4/ Jewish publication. Nazis said to have offered 100,000 francs for information concerning this publication.

Valmy 5/ Edited until his escape to London by Paul Simon, who started propaganda activities by printing anti-Nazi notices on rolls of gummed paper (for protection from splintering glass during air raids) and graduated to Valmy.

1/ BER/NAV 003/42, 2/9/42; Zurich to New York; SA 23205, 6/25/42; Mexico (Journal Français) to Texas, describes Resistance as both an organization and a paper, but the intercept is a confused one. Also mentioned in SA 43014, 9/9/42; Mexico (El Bravo) to San Antonio, Texas.

2/ Mentioned by title only in SA 31141, 7/19/42; Texas (La Presse) to various addresses.

3/ Not mentioned in any intercepted material received in this Unit, but Postal & Telegraph Censorship Report on France, (No.7), states that it is an organ of the Socialists, (p.16, SE/PO 56189/42, BER 22975/42, issues for December, February, March.)

4/ MI 53575, 7/11/42; New York to Palestine (Minutes of June 10th meeting of Left Poale Zion Organization.)

5/ (See NOTE to Fantagruel, p.32, footnote 5.) W 1342, 4/11/42; Uruguay (Free French Press) to Panama, gives the history of the start of this paper, whose editor escaped to London. Mentioned by title only in LA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California. Also mentioned as started 5 weeks after the Occupation by Simon in SA 43014, 8/9/42; Mexico (El Bravo) to San Antonio, Texas.

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Verités 1/ Described as a secret newspaper published by Liberation Nationale; circulation of 10,000. Was violently anti-Communist; said to have altered its name and possibly its policy and now appears as Combat. (see p. 31)

La Victoire 2/ Director, Gustave Herve.

La Voix du Nord 3/ "keeps the workers in the Industrial Regions of the North of France in a continual state of excitement." (Quotation from intercept).

La Voix de Paris 4/

Besides preaching rebellion, calling upon the people for demonstrations against Vichy and the Nazis and giving general information on the progress of underground activities, the clandestine press published accounts of the Rieux trial which did not appear in the censored French press. A writer in Liberation, for example, familiar with the uncensored account of the trial, declares that the prisoners were condemned before they were judged, and that Pétain was the real prisoner at the bar. Other illegal

1/ Mentioned by title only in LA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California. BER/NAV 803/42, 2/8/42; Zurich to New York; BER/NAV 60577, 11/10/41; Zurich to New York. Postal & Telegraph Censorship Report on France (No.7), LIV 24351/42; 2/24/42; p. 4, and BER/NAV 007/42, p.4, also SE/PO 12108/42, 3/21/42) states that Verités is now Combat and has refrained from discussing Communism, at least in these issues.

2/ Mentioned in LA 3302, 1/30/42; Switzerland (Die Welt Woche) to California.

3/ Mentioned by title and the quotation from SA 43014, 8/9/42; Mexico (El Bravo) to San Antonio, Texas.

4/ (18542 S (CID) calls this a Communist paper.) Mentioned by title only in LA 3549, 3/25/42; Switzerland (Neue Bunder Zeitung) to California, also in SA 43814, 8/9/42; Mexico (El Bravo) to San Antonio, Texas, and SA 44272, 8/12/42; Mexico (International Press Services) to Texas (La Presse).

Other intercepts mention clandestine papers but give no title: LA 3545, 2/20/42; Switzerland to California. Swiss newspaper mentions arrest of De Gaullists in Nice who were running an illegal news bulletin, the editor Industriel René Marton--name of paper not given. For a suggestion that the Masons too publish an illegal bulletin, see Masons.

documents containing accounts of the trial were circulated in France. 1/

Another use of the clandestine press is suggested by an article in France Libre, which states that these publications urge the population to demoralize the Occupying troops by sympathy and vivid descriptions of the horrors and dangers of war in Russia. 2/

Besides the clandestine papers mentioned, various individual documents seem to be secretly distributed from time to time. 3/ During the first half of February, an unknown hand distributed the following prophesy among French schoolchildren, according to a writer from France:

February 17	The Japs take Singapore.
March 15	The Germans invade Turkey.
March 29	The Germans take Sebastopol.
April 14	Anglo-American Setback.
April 21	Russians take the offensive at Roumborg.
May 9	The English take Tripoli.
May 15	Anglo-Americans land on the French coast.
June 21	Germans evacuate Paris.
June 28	Vigorous offensive in the Mediterranean by the British. Turks push the Germans back towards the sea.

1/ Postal and Telegraph Censorship Report on France (No.6) 7/1/42; p.9, gives an interesting analysis of these illegal reports on the Rim trial, including the report in Liberation quoted above.

2/ EP 791, 5/19/42; Mexico (France Libre) to Los Angeles.

3/ For other evidence of the activities of the clandestine press in France, see: HER 23496/42, 5/21/42; Corsica to Brazil; NY 36153, 5/27/42; Buenos Aires to London; MI 57883, 7/12/42; Uruguay (Proo Franco) to India; HER 21690/42, 4/30/42; Genova (Y.M.O.A.) to New York.

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July 13	Rising in Eastern Europe.
August 14	Italians ask for an Armistice.
August 17	Assassination of Hitler.
August 26	Franco takes up arms against the Reich and Italy.
September 29th	French enter Cologne.
October 18th	Germany asks for an Armistice."
(BER 11568/42, 3/2/42; Franco to New York.)	

Occasionally, separate pamphlets are put out by the publishers of the clandestine papers already mentioned; for example, Postal and Telegraph Censorship state that the Comité D'Action Socialiste and the Communists put out special papers calling for demonstrations on May 1. 1/

The papers carry instructions and incitement to sabotage and other acts of violence, according to Postal and Telegraph Censorship:

"One number of 'Liberation' carries an article forcibly denouncing the industrialists...and ending: 'Do not forget that sabotage is the only arm we still possess -- that not to make use of it is to delay peace, to desert. To commit acts of sabotage is to fight!'" (Postal & Telegraph Censorship Report on France (No.7), p.2, SE/PO 33072, 4/29/42.)

"The Communist Party has published an appeal to the French people similar to that in 'Liberation,' but much longer and more detailed. Workers are urged to strike, to damage machines, to destroy goods destined for Germany and to disrupt communications. Women must organize food riots, and make raids on food and fuel depots, on black market centres, and on restaurants...The peasants should harry the occupiers in every possible way." (Postal & Telegraph Censorship Report on France, No.7, 8/22/42; p. 2. SE/PO 56415/42; 5/23/42.)

1/ p.2, Postal & Telegraph Censorship Report on France (No.7), SE/PO 56189/42, 5/1/42; SE/PO 56325/42, 5/15/42; HER 23364/42; 5/16/42.) For a quotation from one of these papers giving directions concerning the demonstration, see Demonstrations.

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So annoying has the clandestine press become to the Nazis in France, that they have resorted to publishing clandestine papers of their own, printed like the others, with the same admonition found on most to "pass it on" when the reader is through. 1/

Even the legal and controlled press is not completely silent. From France, a writer states:

"Here, we don't know a great deal. The French Press is empty, censorship is on watch and the journalists are under orders. Le Temps and Le Figaro are holding on and in the form of literary articles they express the love of the necessary freedom." (SA 14125, 5/25/42; Costa Rica (letter from Franco enclosed) to Illinois.)

Early in November of last year, a writer in Cuba enclosed a poem which he stated appeared in Paris Soir in April, despite German censorship. This poem, which appears later in March of this year in El Sencanto (El Salvador), if read ordinarily, is a song of praise for Hitler; but if a line is drawn through the center of the verso, two verses are formed which are violently pro-British and anti-Nazi. The first two lines present a sufficient sample of the whole:

"We love and admire Chancellor Hitler
Eternal England is unworthy to live"

which, divided into two parts, reads:

"We love and admire
Eternal England

"Chancellor Hitler
is unworthy to live."
(NY 38923, 11/12/41; Cuba to Sweden) 2/

1/ IA 3519, 3/25/42; Switzerland (Neue Bunder Zeitung) to California and NY 46214, 6/18/42; New York (British Information Service) to Mexico (Free French Delegate).

2/ This poem also appeared in NO 2032/42, 3/30/42; El Salvador (El Sencanto) to New York.

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The news letter issued by British Friends of France on February 7, 1942, states:

"Scrutiny of the French press of both occupied and unoccupied Zones, reveals many signs of opposition to Nazis and Vichy on the part of the apparently docile journalists. Some times examples are so glaring as to make it difficult to understand how they could have passed unnoticed. At other times they are extremely subtle." (NY 58858, 2/7/42; London to Port de France.) 1/

1/ BA 5593/42, 4/26/42; London to Panama (Atlantic-Pacific News Agency), states that not even the controlled French press can remain silent about what is happening.

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VIII. RADIO: ALLIED PROPAGANDA BROADCASTS

Although listening to Foreign Broadcasts is forbidden -- even in the Unoccupied Zone, according to a Free French report, the punishment is 20 years at hard labor -- there is ample proof in the intercepted material that these broadcasts are heard, although it does not necessarily follow that they are heard with wholehearted approval;

"Paula writes that Congenheim in Limoges is in difficulties because he listened to an English broadcast. This has been forbidden for some time now. But we hear New York and Boston very well." (TRI 3397/42, 11/28/41; France (unoccupied) to Brazil.)

A Parisian writes:

"In the metro I often heard people beside me say: 'By the way did you listen to London last night? What did they say...?' If the same conversation had taken place in the unoccupied zone the speakers would have been arrested -- In Paris quite the contrary happens -- besides the Fritzes themselves all listen in when they can." (BER 6771/42, 12/28/41; France to New York.)

In January of this year, a writer criticizes the BBC:

"All our newspapers are subjected to German and Italian censorship...So one listens to the English radio. Unfortunately the latter often attacks Marshal Petain and there is a danger that France will divide, part for Petain and part for De Gaulle." (BER 9260/42, 1/15/42; Lyon to Lima.)

"Un Francais Du Midi No. 222" writes in January to his "Dear American Friends," trying to reach the Free French in London and Africa; and he wants to hear through the BBC whether he has been successful in his aim. 1/

In March, an American in Unoccupied France writes:

"The evenings we spend listening in to London in spite of the promise of Prison and terrific fine if we get caught." (BER 11649/42, 3/2/42; France to New York.)

1/ BER 9497/42, 1/22/42; France to New Jersey.

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An April writer tells of the encouragement derived from the New York broadcasts:

"Every day in the afternoon the New York Radio brings the echo of American opinions and the effort which upholds the nation. It is comforting to hear of their drive, energy and confidence...For two week(s) now the same Radio Station tells us about a plot which is not very clear. The French newspapers don't breathe a word about it...The Marshal, up to now, has not lent himself to the scheme..." (NY 33643, 4/4/42; Nice to Managua.)

"At Paris the speaker from Cincinnati is much listened to, on account of his stentorian voice which the Parisians find very comforting." (BER 19703, 4/10/42; Sete, France, to New York.)

"It is becoming more and more difficult to hear America on the radio. As to the (VOIX CHAUDE) it always speaks very well every evening but the voice is as though it were covered and veiled." (BER 20974/42, 4/10/42; France to Cambridge, Mass.)

A Y.M.C.A. representative in Geneva writes in April of the dearth of news in unoccupied France, due to censorship, but he adds:

"This deficiency is met to a certain degree by people listening to the foreign radio..." (BER 21690/42, 4/30/42; Geneva to New York.)

An American writes of a friend in France:

"A friend, a doctor in Lyon, wrote me lately to thank for him the French speaker at Radio-City..." (MI 27021, 5/28/42; Atlanta, Georgia, to French Equatorial Africa.)

In an interview in May with a refugee just arrived from France (Bermuda Travellers Censorship, Ships Passenger Report No. 147), the Frenchman is quoted as reporting:

"The B.B.C. was listened to extensively in private, and apparently people were satisfied with the programmes..." (p.1) 1/

1/ Free French literature corroborates these private reports: BA 6195/42, 5/13/42; Caracas (Free French bulletin) to Mexico; SA 16829, 6/2/42; (Report to General De Gaulle; Mexico to London.)

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Not everyone who listens to the Allied Radio in France approves of its propaganda methods; an American in Vichy writes in January an interesting criticism of the attack on Vichy by the De Gaullists (the letter was written before the advent of Laval):

"How can they give this government hell if they know all the problems of the case?"

He ends with the remark:

"But the lad or lads who will get the people started, won't be thousands of miles away behind a microphone. They will have to be right here in the thick of it." (HER/NAV 538/42, 1/7/42; Vichy to New York. (The writer is a NBC representative.) 2/

There is very little information in the intercepted material about illegal propaganda radio stations within France itself. Intercepts quoted in the Postal & Telegraph Censorship Report on France (No.7), give some details of these stations:

"Illegal broadcasts also play their part in rousing the people to action. A priest of German sympathies, describing a 'freedom radio' said to be operating in Paris, says that it 'incites and moves men to revolt; and that it rails against the scarcity of food and the many employees 'bought over by the Trusts' who are said to prevent the even distribution of food products. It begs listeners to assassinate these traitors. (P. 2, Postal & Telegraph Censorship Report on France, No.7, 8/22/42; LIV 45874/42, 2/5/42; Avoyron.)

"The clandestine paper 'Liberation' advertises three such stations, giving names and wave-lengths. (P.2, Postal & Telegraph Censorship Report on France, No.7, 8/22/42; SE/PO 12854/42.)

1/ See also HER 9041/42, 1/16/42; Monaco to California, in which the writer gives a very critical account of the De Gaullists' broadcasts.

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IX. RESISTANCE GROUPS AND ORGANIZATION: POLITICAL, RELIGIOUS, NATIONAL.

As stated in the introduction to this digest, the intercepts present a very confused picture of the single and combined resistance groups in France. From the intercepted material on underground newspapers, it is evident that certain resistance groups publish some of these papers, jointly and separately. There are the groups known as Liberation, Liberation Nationale, Liberation Francaise, Liberte, Le France-Tiraur, and Le France Au Combat. 1/ Almost nothing is determinable from the intercepted material concerning these groups, except that they seem to be underground organizations publishing newspapers, occasionally combining their forces, and allied to one or more of the various factions fighting against Nazism in France -- the Communists, the Socialists, the Syndicalists, and De Gaullists, and the Catholics. 2/

A. Communists

Private letters and documents from France, from December through August, give evidence of organized Communist activity; and the reaction of many Frenchmen seems usually unfavorable to their acts of violence.

1/ 10542 S (CID), not intercept material, states that Liberation is combined with Liberte, Liberation Francaise and Liberation Nationale may be one and the same, and also the Liberation Francaise may be combined with Liberation.

2/ LA 3302, 1/30/42; (Die Weltwoche) Switzerland to California, describes Liberation as a pro-British organization with pro-De Gaulle followers, and Liberation Nationale as composed of leftists, Catholics, and conservatives.

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A December report from the journalist David Walker to the foreign editor of The Christian Science Monitor tells of friction between the De Gaullists and the Communists:

"Politically, Occupied France is as active as the Free Zone is idle. De Gaulle's radio orders its men in Occupied France to lie low, but these orders are being ignored. Free Frenchmen are being landed by British planes and patrol boats with orders to use their personal authority to postpone a general insurrection: but the Communists, with or without orders from Moscow, continue to murder German officers and cause the mass shooting of hostages... Both Britain and De Gaulle feel that for the moment this is a waste of life; but they have not been able so far to curb the steady crescendo of revolution." (BER/NAV 60984, 12/14/41; Lisbon to Boston.)

An early picture of Communist activities is given by an alarmed writer last September:

"In Paris the Communists assassinate German Officers at the rate of one a day--cases of sabotage increase on railways and in factories. The Peugeot Garage 2, Quai de Tokio which was requisitioned by the Germans has been destroyed by a Communist bomb. Nearly a hundred hostages have already been shot by the Germans. All the houses in the 11th and 15th districts have been searched and the foreign Jews living there are sent to concentration camps.

"It is certain that if the German Army evacuated France, civil war would break out that very same day--and it would not be the English Army who would protect us from Communist riots." (BER 65796, 9/17/41; Switzerland to New York.)

In March of this year, a long article from France to The Argonaut, San Francisco, reports on Communist activities in France and their suppression. Although the correspondent seems anti-British and extremely pro-Vichy, the report gives interesting details about the Communist organization in France:

"Last October we wrote of the communist-terrorist movement in France...its manifestations at Rennes and Nantes...in the fall of last year a series of murders had been committed against the officers of the occupying force while train wrecks and criminal attempts of all sorts marked a period of terrorism...

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"A report has just been issued of the police activities which averted a suppress attempt on the part of the Comintern, to create a diversion on French soil, which had it succeeded, would have plunged France into deepest misery....

"The police report...exposes the communist organization as revised in France after the defeat of 1940. In September 1939... the communists modified their methods to meet the new conditions. Until the outbreak of hostilities between Russia and Germany, the communist movement in occupied France had an easy time...the conflagration between the two eastern powers changed all that. Communism, in France, became the common enemy. The wave of terrorism organized last year enabled the French police to execute a plan of suppression...numerous arrests and perquisitions(?) have shown a vast organization so cleverly put together that its component parts, working in close harmony, totally ignored one another: from the heads, directing from over the frontier, to the three members of each cell existing in every city, factory, town and village. To establish communication a few agents sufficed; women all of them; fanatics...unceasingly active.

"The police have finally broken the back of the fabulous monster that has done so much harm to France..."

After a description of the arrest of Fauveau, considered a chief agent, and the method used in cleaning up the other agents, the article continues:

"There is still an army of latent communists in hiding, waiting for the good old days of the Popular Front to be revived; but it is not composed of the active elements necessary to a successful revolutionary movement. We feel it will have a long time to wait -- we hope, for ever." (BER 14789/42, 3/9/42; Grasse to San Francisco.)

That the "monster's" back is far from "broken" however, is the conclusion drawn from the statements of most intercepted material on this subject. A writer, after summing up the difficult living conditions in France, states:

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"The result of all this is that for the last year the country has been advancing by leaps and bounds towards a morale state ripe for a violent revolution. The working class are 'en masse' against the government, which is not to be wondered at as they have seen all the conquests of a century taken away in a few months. The 'bosses' have in general profited from the circumstances...giving proof of the narrowness of their views, which is leading them inexorably to their destruction, one will see it in a few years no matter what the result of the war may be. One would be greatly mistaken in thinking that the working class are not organized at the present time; in spite of the dissolution of the C.G.T. and the outlawing of communism, they have at this moment a very strong and able organization the framework of which is formed largely by the old leaders of the communists. The movement moreover avoids calling itself communist, and in fact contains many elements who are not communists at all. A terrifying hatred is actually accumulating in the working classes, and combined with the present material situation it is producing something quite new for those of our generation." (BER 16416/42, 3/25/42; Limoges to New York.)^{1/}

A woman writer in Mexico, with French contacts, gives all the credit for opposition activities to the Communists:

"Opposition to Nazis carried by Stalinists, who became active at outbreak of Russo-German war." (SA 8055, 4/30/42; Mexico to New York.)

And a May intercept, evidently written by a member of the Communist party in Cuba, reports on Communist activities in France and their cooperation with the Socialists:

The writer was also informed about the accord reached between the Socialist and Communist parties of France. They agreed to work in close cooperation, but they did not decide to have one common central organ. They also agreed to widen their activities among the progressive elements of France. (MI 22522, 5/15/42; Havana to New York.)

^{1/} For other comments on possible revolution in France, see W 1383, 1/27/42; Geneva to Washington, D.C.; TRI 1134/42, Caracas to Fort de France.

A document sent from Vichy describes the execution of 27 French hostages at Leir -- Inferieure, the Chateaubriand Camp, on October 22, 1941. All died with great heroism, despite the brutality of the German soldiers; the writer quotes the last words of Gabriel Peri, sworn Communist enemy of Hitler: "Adieu that France may live."^{1/}

That Communists were active in May of this year is shown by a tract, forwarded by Bertholet, calling upon the workers of the port of Marseille to strike on May 1. ^{2/} A more pessimistic letter, written in May, states:

"...I do not think that 30 thousand French Communists could carry the day, in spite of their organization, and their armaments (they are really responsible for the majority of the assaults.)" (BER/MAY 27251/42, 5/20/42; Hauto-Vienne to New York.)

A writer who left France when the Riom trial was three weeks in adjournment, makes interesting observations on the Communists in France:

"(3)...the Communists are the active element in the French left.

"(5) The Communists preached pacifism in the early part of the war and were the only body who kept at the masses...With German setbacks in Russia, the Communists gained in influence and published interesting high-class newspapers, leaflets and booklets." (MI 25351, 5/26/42; Havana to New York.)

^{1/} TRI 7140/42, 3/30/42; Vichy to Buenos Aires.

^{2/} BER 23364/ 2, 5/16/42; Zurich to New York.

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^{1/} TRI 7140/42, 3/30/42; Vichy to Buenos Aires.

^{2/} BER 23364/2, 5/16/42; Zurich to New York.

From Bertholot, in June, comes a tract, given out as having been printed in France in February of this year. On the tract, which calls for the whole-hearted support of General De Gaulle, Bertholot has written:

"The position of the Communists toward De Gaulle is interesting. A year ago it was very different!!!" (HER 24265/42, 6/6/42; Zurich to New York.)

Cross releases and De Gaullist literature corroborate these intercepts. A report from the Mexican delegate to General De Gaulle, in London, states that the Communists "who are perfectly organized" listen frequently to the B.B.C., and that they distribute English language tracts on the Place De La Comedie in Montpellier. 1/ A June 25 edition of the Journal Francais du Mexique, in describing resistance groups in France, lists the Communist Party, whose "experience in clandestine opposition has no equal" and who possess considerable financial means and the support of many thousands of active and professed sympathizers. 2/ From the June 27 edition of Alexandra Libro (Mexico) comes an article describing the shooting of the 27 communists at Chateaubriand, who died singing the Marseillaise and the International, shouting "Long live France; Long live the Soviet Union; Long live the Communist Party, and Long live the Communist Party of Germany." 3/

1/ SA 16829, 6/2/42; Mexico to England.

2/ SA 23205, 6/25/42; Mexico (Journal Francais du Mexique) to Texas.

3/ EP 2863, 6/27/42; Mexico (Alexandra Libro) to Arizona.

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How closely related to the other opposition movements in France is the Communist party? According to the Postal and Telegraph Censorship Report on France (No.7.), Communist literature denotes that members of the party are "at present submerging their identity in that of the large general movement dedicated to the ultimate expulsion of the Germans." 1/ There would seem to be two types of Communists in France -- the cooperating type of the Front Unique, supported by Liberation, and urging cooperation between the underground French, the British, the United States, and the "heroic Red Army;" 2/ and the type of Communist supported by L'Humanite, which constantly underlines the separate existence of the Communist Party as a party of the Proletariat. 3/ A report quoted in the Postal and Telegraph Censorship states that, since the recent British reverses, the Communist influence has increased, "enabling them to boost the successes of the Red Army at the expense of the Gaullists, who now figure somewhat as poor relations." 4/ There is even a threat that, if the British and Americans let Russia down now, the Communists in France will "revise their line of action." 5/

1/ Postal & Telegraph Censorship Report on France(no.7), August 22nd, 1942; p. 3.

2/ Ibid., (SE/FO 56415/42, 5/23/42.)

3/ Ibid. The writer of the Postal & Telegraph Censorship Report bases these findings on a commentary on a booklet entitled What the Communists Want, HER 24268/42, 6/6/42.

4/ Quoted from What the Communists Want; Ibid.

5/ Quoted on the same page 3 of the Postal & Telegraph Censorship Report, FMS/FO 58455/42.

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It is noted in the Censorship Report quoted above that Veritas, which used to declare itself forcibly against Communism, has changed its name to Scabat, in which there are no attacks upon Communism, as far as can be determined from the editions of that paper on hand. Liberte denounces the forces of capitalism, and Liberation welcomes all members of the various resistance groups into the forces of De Gaulle. The same appears true of Le Franc-Tirleur, which also advocates conferring any necessary powers upon De Gaulle after the war, in order to establish the ultimate return of a constitution chosen by France herself. Le Pere Duchesne, published by the same group, also welcomes all opposition members into the fight against the Germans. The Socialists, in their various publications, advocate the establishment in France, after the War is won, of a Socialist Government. One group, which the intercepts picture as emphatically opposed to the Communists, is the Partie Socialiste Ouvrier et Paysan, a group denouncing the "Totalitarianism of Stalin,, and his barbarians," and even reproving the De Gaullists for attempting to combat the Nazi ideology with arms, instead of with a total Socialist revolution. 1/

Private letters and other documents have been quoted which illustrate how Communism is feared by the average Frenchman; Postal and Telegraph Censorship indicates that there is some friction between the Communists and other opposition groups, although the majority welcome all fighters against Nazism. At least this much is obvious from a study of the intercepted materials: the leadership of the opposition appears divided between the De Gaullists and the Communists.

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1/ Postal and Telegraph Censorship Report on France, No. 7, pp. 4, 5, 6.

B. Socialists.

A letter written in March from a party member in Mexico describes the situation of the Socialists in France, saying that many of the members in France have gone over to Vichy. The writer ends his letter with the following remark:

"It is too clear to my eyes that nothing effective will be done against Nazism as long as the workers do not take in their own energetic hands the direction of this world civil war." (BA 3265/42, 3/13/42; Mexico to Uruguay.)

Ronó Bortholot forwards Zurich Socialist tracts from the Occupied Zone concerning resolutions passed, reunions, manifestos, etc. The authors, he states, are socialists and trade unionists; although no very thorough digest was made of these writings in the intercept, they are mentioned here as evidence of Socialist activity in France. 1/ The same sender also forwarded in May a May Day appeal by the Comité D'Action Socialiste, of which 12,000 copies were said to have been circulated in the Free Zone. 2/ He also forwards a manifesto of the Comité D'Action Socialiste which is corroborated by two other intercepts 3/ which record the proceedings and results of the meeting of the same group:

"This, announcing that in France all activity on behalf of Socialism is subordinated to the liberation of the country, expresses the party's readiness to work with all movements of resistance and particularly with 'Gaullisme.' It would be in-

1/ BER 23,078/42, 5/8/42; Zurich to New York.

2/ BER 23364/42, 5/16/42; Zurich to New York.

3/ SA 17823, 6/6/42; (France Libre Report) Mexico to Cuba; EP 1615, 6/7/42; Mexico (Le France) to Los Angeles, California.

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conceivable that the temporary dictatorship--no doubt presided over by General De Gaulle and in which the Comité d'Action Socialiste from now on declares itself ready to participate--which will be set up in France on the morrow of the fall of Hitler and Mussolini should be anything other than the preparation for the return to political democracy." (BER 24265/42, 6/6/42; Zurich to New York.)

The Free French France, in London, published in July a Socialist tract describing the rights enjoyed under the Republic and exhorting the people to have confidence in the final defeat of Hitler. 1/

C. Trade Unions.

A writer, already quoted, who left France during the Ricon trial adjournment, gives interesting information about the Social-Democrats:

"The Social-Democrats are pro De Gaulle. Their excellent leader, Jouhaux, is in concentration camp, after powerful work in trying to unite Socialists and Communists, both of whom, and the middle class as well, praised him.

"The publication of leaflets of Leon Blum's Ricon speech signals the stirring of Social-Democratic activity and they are working on the trade unions and the Legion." (MI 25351, 5/26/42; Havana to New York.)

The trade unions seem, from intercepted information, to be variously influenced by the Communists, Socialists, and De Gaullists. They apparently put out pamphlets and make resolutions of their own; for example, René Bertholet forwards a leaflet addressed by the Mouvement Ouvrier Français to French workers, instructing them how to act on May 1. It was circulated in all towns of the Free Zone; another tract was also forwarded, giving thanks

1/ NY 68806, 7/3/42; London (France) to Brazil.

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for General De Gaulle's broadcast message. 1/

D. Rightist Opposition.

Belonging to the large opposition groups like Liberation are many conservatives, Catholics, former officials, and army officers. 2/ A December, 1941, report states that

"The Vichy Government relies for support on the ex-front soldiers' organizations but those (who know) the state of affairs (in) these organizations realize that the majority is only waiting for a favourable opportunity to break up all collaboration with the Germans..." (BER/NAV 458/42, Lisbon to New York.)

The suggestion that some members of the old French Army are pro-Allied occurs again in a much later intercept from Geneva to Time, Chicago:

"Hitler has asked Laval to disband the Legion Française des Combattants, Petain's own creation. This organization is too 'patriotic' for the Germans who accuse it of doing all it can in order to 'sabotage' the franco-german 'rapprochement.'" (BER 22419/42, 5/22/42; Geneva to Chicago.)

An article in the Free French organ in Mexico, describing underground movements in France, lists the Batalia de Francia as representing the rightist opinion:

"It has stamped for violent deaths Pierre Laval, Marcel Deat, Jacques Doriot, and Sacha Guity. It does not publish a regular bulletin but issues one frequently which is characterized by a violent tone that can't help impressing both German and French readers. It is believed that the nucleus of the group opposes old members of the 'Partido Social Frances,' a semi-fascist organization created by Colonel Larocque in 1934." (SA 23205, 6/25/42; Journal Francais du Mexique to Texas.)

1/ BER 23364/42, 5/16/42; Zurich to New York. Also see BER 24265/42, 6/6/42; Zurich to New York, and BER 23,078/42, 5/9/42; Zurich to New York, in which Bertholet has forwarded trade unionist literature.

2/ IA 3302, 1/30/42; Zurich (Die WeltWoche) to California. See also the Report, originally submitted under SA 27039, International News Service, to North American Newspaper Alliance. (Submission slip not received yet in this Unit; copy of report received 8/10/42.)

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1. French Police. Two documents suggest that there is opposition activity among the French police. In a long report, originally written in Spanish, and sent by International News Service under the signature of J. Williams to the North American Newspaper Alliance, the writer states definitely that such activity exists:

"It is true that all detected foreigners are sent to concentration camps without pity, but it is also true that information reaches the camps of the pending visit of a German Commission, and the prisoners are allowed to escape secretly in order to prevent them being used by the Germans. When this is not possible, the medical examination is used to advantage and only those whom it is impossible to declare ailing are pronounced fit..."

"The officials of the Central office, whose these practices are known, overlook the infractions on the part of the local police and in this manner boycott the German demands."

"The police force of France today represents a cover for the protests against the invader, which protests are increased as talks by Laval of cooperation with Germany come from Vichy." (Copy of report sent with SA 27039, International Press Service to North American Newspaper Alliance. Submission slip SA 27039 not yet received in this Unit, copy of report submitted 8/10/42, quotation from page 9.)

In April, a French writer states:

"The French have something which is different from other people, in spite of the rottenness we have spoken about, something fine and wholesome is emerging...and when we read such announcements or notices, that the State is absolutely sure of the loyalty of the Police, we become thoughtful; why say it, write it, it is only to be expected if everything is all right!!!" (BER 19858/42, 4/23/42; Hqs. Loire to San Francisco.)

2. French Navy and Merchant Marine. That the French Navy is not entirely with Laval, and that there have been frequent mutinies of the French Merchant Marine, is reported in various intercepts. A woman in Connecticut refers to a conversation with M. Fouillorat, in which he is said to have stated:

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"Germany will never get the French Fleet: first because the sailors are extremely Anti-Nazi and would mutiny if ordered to sail a ship into German hands;" (SA 1599, 3/18/42; New Haven to Mexico.)

A Y.M.C.A. report from Geneva states:

"In any event it seems unlikely that Laval will give up the fleet to the Germans...Another reason is the fleet's dislike of Laval--not heightened by the fact that he has kicked their admiral downstairs," (BER 21690/42, 4/30/42; Geneva (Y.M.C.A.) to New York.)

Four other intercepts corroborate these reports. France Libre, Mexico, in its April 28 edition, states that, although the French sailors are anti-British, they are strongly anti-Vichy and anti-German; it is this passive resistance that makes it impossible to order the French fleet to Germany. 1/

An evidence of the opposition of the French Merchant Marine, 2/ as well as of the French Navy, comes in an excerpt from Documents D'Information, dated November 1 of last year:

"Proof of resistance to collaboration by the French Merchant Marine was found in a letter which Admiral Darlan addressed to the General Secretary of the Central Committee of French ship-owners. The French merchant marine is accused of helping stop-aways, of performing their duties inefficiently, and of carelessness in the loading of cargoes." (SA 6211/42, 5/19/42; Panama (From France) to Martinique.)

El Diario, Bolivia, tells of mutinies on board French merchant ships; in one case, it reports on the successful turning over of a ship by French officers to the British at Gibraltar. 3/

1/ NO 4581/42, 4/28/42; Mexico (France Libre) to La Paz, Bolivia.

2/ SA 14740, 5/25/42; (Journal Français du Mexique) Mexico to Texas, tells of the conflict between the captain and crew (De Gaullist), of the French tanker Meropo.

3/ LA 2218/42, 3/24/42; (El Diario) Bolivia to Hollywood, Cal.

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That the French authorities are fearful of Naval morale seems to be evident from an interesting excerpt in a letter written to the editor of The North American Alliance, New York:

"Some mystery seems to attend to what is going on in the French navy. A young French lad was demobilized recently from the Navy. Finding no civilian employment he applied for re-entrance. Admitted, he was given a civilian rating in the French navy. What is behind the readmission to the French navy of all these young ex sailors with a civilian rating? And what are they needed for? It is not by any means certain that Darlan has the whole of the rank and file of the Vichy French navy behind him, 'lock stock and barrel.'" (BER/NAV 12465/42, 4/21/42; Lisbon to New York.)

The report on France, received in this Unit on August 10, and already quoted, states that the French sailor is "honestly patriotic, full of courage, and void of all personal prejudice." 1/ The writer, a journalist, interviewed sailors of the French fleet at various ports before leaving France. At the suggestion that the French fleet might find its way into German hands, the reaction was "unanimous." The sailors answered: "Never! so long as we are aboard. We will not surrender the fleet without a fight!" At Toulon, where the sailors had never heard of the possible surrender of the fleet, their reaction was: "Never! We would rather join the English." And the report adds:

"This was not just braggadocio. A few days before there had been a mutinous incident in one of the boats. While passing Gibraltar, the crew had wanted to join the English." (France Under Nazi Domination, report sent by International News Service to North American Newspaper Alliance, for publication in U.S. Copy of report submitted to this unit 8/10/42; Submission slip No. SA 27039, not received.)

1/ France Under Nazi Domination, report sent by International News Service to North American Newspaper Alliance, for publication in U.S. A copy of this report was submitted to the Unit 8/10/42; Submission slip SA 27039 was not received. (This slip was the one to which the report was originally attached.)

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E. Opposition of Foreign Refugees.

An interesting letter from Heinzen to the UP in New York indicates that the White Russians are opposing the New Order in France:

"After unsuccessful efforts to enroll them as 'volunteers' for the Eastern front, all the several thousand non communist Russians hitherto interned, ... have been released by the occupation authorities. Captain Graff, chief of Vladimir's staff who continues interned, is blamed by the Germans for the Grand Duke's resistance to the German offer of support of his claim in exchange for a manifesto inviting Russian emigres to rally to the anti-Bolshevist stand.

"Vladimir... does not hide his pro-Russian sentiments.

"Maklakoff, Russian Ambassador to Paris from the provisional 1917 Government, who remained in France after the rise of Bolshevism, has published a manifesto in the name of 30,000 emigres announcing that they are not partisans of the anti-Bolshevist crusade. They refused to enroll either as fighters or interpreters.

"Monsignor Duloge, Archbishop of the Russian Orthodox Church in Western Europe, also announced in Paris that he is not supporting the anti-Russian crusade." (BER/NAV 12606/42, Vichy to UP, New York.)

Other refugee groups especially active in France, as evidenced by the intercepts, are the anti-Fascist Italians and the Anti-Franco Spaniards. The intercepted material on these groups, however, has to do mostly with the efforts of these organizations to get their members out of France -- efforts which are not, strictly speaking, opposition activity. 1/ An intercept dealing with Spanish Republicans in France, however, indicates that members of this group are aiding the opposition:

1/ See Pages 26, 27, 28.

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"The writer states that the Spanish Republicans are well liked by the French population for their aid and heroism, especially in the occupied zone where there are many of them." (MI 3592, 2/9/42; Havana to London.)

An item in France Libre, Mexico, states that a Spanish Republican agitator was condemned to death by Vichy "for a plot against the state and for connection with the Communist party." 1/

Another August intercept from Mexico on Spanish refugees in France gives a detailed description of their sabotage work there:

"From February 6th to September 1939, the informant was in the concentration camp of Gurs, most of the time. The organization of the party began with the constitution of "cells" which kept in constant contact with one another. These "cells" did excellent work. Soon the refugees went to work, many in aviation plants. The informant went to work in Toulouse. There, there were no reunions, no meetings, but a "troika" (examiner: team) was formed by the aviation commander, a major of the Medical Corps, and the informant. This team received some issues of L'Humanite, whose distribution in the factory was forbidden. The Spanish refugees met secretly with French comrades, and passed the watch words. The result was that the factory put out 220 planes only during the war, and none of these planes could be used. All the activities of the Party, in the "workers companies" were underground activities. Issues of L'Humanite and of Reconquest of Spain were distributed and the watchword was passed for all Spaniards to unite under the orders of Negrin. Because of this propaganda, and since the Party has no representatives by the Ambassador of Mexico in Vichy, all the comrades believe that they must remain in France and near the Spanish border, in order to be able to seize the first opportunity to become the vanguard of the forces which will reconquer Spain. Another aspect of the work of the groups of the Party is wood-production. Those engaged in cutting wood to make charcoal for gasoganes which manufacture gas for the Germans, do not even cut half a cubic meter of wood a day."

After describing the conditions and work of the Spanish refugees in detail, the report continues:

1/ EP 1793, 6/2/42; Mexico (France Libre) to California.

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"The French people and the 'degaullists' are the friends of the Spanish refugees. French people in Nimes and Remoulins opened their homes to the refugees. There they listened to the broadcasts from England and Russia..."

"Many women were sent to work in factories working for the Germans; there was so much sabotage that some were executed." (MI 92025, 8/24/42; Mexico to Cuba -- informants recently returned from France.)

Four intercepts from France, written in veiled language, indicate that Anti-Franco Negrinist activity in France is well organized. The writer speaks of "wandering about the boulevards" in pursuit of his "Padres' business;" of the welfare of certain "commercial zones;" and of a "Book which caused such commotion in those parts". These and various other allusions are interpreted by the censor as referring to organization of the Spanish Communist party in France; to the circulation of the Union National Manifesto, issued by that body; and to various friends of the party in France. 1/

A. Refugees from Alsace - Lorraine 2/

A intercepted letter from Nice, written April of this year states:

"Morale in Lorraine is apparently tremendous..."

"M. Bandouin, deputé of Chateau Salins, released from captivity because he is the father of 4 children, said that in November he was received by the Marshal and told him that he had received many letters from his fellow townsmen saying 'We are fed up, the government has forgotten us, ! Petain jumped up 'What, I have forgotten L... You will go back to your homes, I shall lead you back. !

1/ BER 10985/42, 1/18/42; Franco to Mexico; MI 52, 2/25/42; Franco to Mexico; BER 14082/42, 2/25/42; Franco to Cuba. A strange intercept from France to Argentina, TRI 3657/42, 1/28/42; Franco to Argentina, written in especially fantastic language, may refer to espionage work or to some movement (possibly connected with the Negrinists, since the language is somewhat similar), which aids prisoners to escape.

2/ See also Youth Organisations, and BER 22753/42 (?), 5/9/42; Born to New York, enclosing an article about resistance in Alsace-Lorraine which is not digested by the censor.

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Regraded Unclassified

"And it seems that in Alsace, the walls are covered with the '7N' which means 'Wir wollen wieder werden was wir waren' (We want to be again what we were)...I must say that all expelled or ex-occupied Alsatians are persuaded that their country will only remain French if Germany is thoroughly beaten." (Postal & Telegraph Censorship, BGL/PO 123273/42; 4/15/42; Nice to Lisbon.)

The Postal and Telegraph Censorship Report on France (No. 7), August 22, 1942, gives further details on the morale and opposition activities in Alsace Lorraine itself. The report corroborates the statement that the morale of both refugees and inhabitants of Alsace Lorraine is excellent.

"A fine method of irritating the Nazis is to continue to wear a French beret. Not only French hats but also French expressions, even such as have long been assimilated in the German language, are banned.

"Bands of young Alsatians express their feelings in stronger ways. On March 31st, 1942, the Strasburger Court condemned a well-organized gang of ten of these patriots, for acts of sabotage, terroristic attentats, etc., 'With the aid of explosives, hand grenades and other engines they committed a great number of acts of terror. They expressed anti-German sentiments by covering walls and billboards with anti-German inscriptions, by attacking and destroying automobiles belonging to the Wehrmacht and the police, cutting telephone wires, tearing up railway lines and destroying railroad equipment. A single one of the accused alone destroyed 100 autos belonging to the Party and the Army.'" (BER 22758/42, 5/9/42; not received in this Unit but quoted on page 12 of the Postal & Telegraph Censorship, Report on France (No. 7), 8/22/42.)

F. Religious Opposition.

According to the intercepted material, the Church in France has been active against the Nazi Regime. Early in August, 1941, a writer reports:

"The whole of the clergy is against the persecution. I told you a Rabbi had assured me that two curates had been imprisoned for two months at Besancon, because they showed their disapproval of the decree too openly. At Nice, Milia was reading the new regulations in front of the Town Hall, when he noticed a priest

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wearing cassock and decorated with the Legion of Honour, who stared him straight in the face and finally said, 'It is neither French nor Christian.'" (BER 45931, 8/6/41; Switzerland to New York.)

A letter in April describes the arrest of several intellectuals, among them:

"Vanhove, a Catholic friend of the Archbishop of Toulouse, very active on behalf of the 'Syndicats chrétiens,' ...and many other young people. They are accused of some wicked plot or other, but the charges brought against them are non-existent; of course it is true that they were well known to be ardent patriots." (BER 23160/42, 4/7/42; Zurich to New York.)

Another April intercept, from the Y.M.C.A. representative in Geneva, states:

"The situation of churches and Christian organisations in general is becoming increasingly difficult. One happy result, however, is really excellent collaboration between Protestants and Catholics in common resistance to Fascist tendencies of the Vichy government. First the Protestant, and then the Catholic youth organisation signed a letter formally refusing to accept a government forbidding them to accept foreigners or Jews in their membership. There is greatly renewed interest and spirit in Protestant youth organisation, YM, YW, Scouts etc." (BER 21690/42, 4/30/42; Geneva (Y.M.C.A.) to New York.)

In connection with the protest of the Churches against the anti-Semitic legislation of Vichy, a Swiss newspaper states that the French Federation of the Association of Christian Students, in its recent publication, denotes its disapproval of anti-Semitism. 1/

In May, René Bartholot forwards a tract, "Il Part Choisir, Le Christ Ou Hitler," which he states was put out by "the group which publishes and circulates Témoignage Chrétien" (a clandestine series of pamphlets, mentioned on page 30, under Glandestino Press.)

1/ SF 6284, 5/29/42; Switzerland (Le Petit Jurassien) to California.

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"And it seems that in Alsace, the walls are covered with the '77' which means 'Wir wollen wieder werden was wir waren' (We want to be again what we were)...I must say that all expelled or escaped Alsatians are persuaded that their country will only remain French if Germany is thoroughly beaten." (Postal & Telegraph Censorship, HOL/PO 123273/42; 4/25/42; Nice to Lisbon.)

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1/ SF 6284, 5/29/42; Switzerland (Le Petit Jurassien) to California.

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this document, with quotations from both Catholic and Protestant writers, is said by the examiner to call on all Christians of whatever creed, to unite in a common front for the liberation of France. 1/ An intercept quoted in the Postal and Telegraph Censorship Report on Religious Movements, (No.3), May 22, 1942, New Series, also mentions the Cahiers as a Catholic clandestine publication, denouncing the essentially anti-Christian nature of the Nazi philosophy. 2/ This report goes on to state that opposition is especially prevalent among the religious youth movements, such as the Jeunesse Ouvrière Chrétienne (Catholic) and the Conseil Protestant de la Jeunesse; but it states that there is insufficient evidence in the mail for any comment on the pronouncements of the Reformed Church.

The Free French representative in the Antilles encloses from Cuba a newspaper clipping on the religious situation in France:

"Great abuses have been committed, especially in Brittany which is one of the most Catholic regions in the country. The Nazis justify their violence by saying that the 'new order' requires the throwing away of old ideas. Priests in Brittany have been arrested as hostages whenever any accident has occurred to Germans, making them responsible, and not only priests but Catholic individuals have been arrested, accused of a certain crime and held under suspicion just for being Catholics.

"The national French sentiment has been denounced as 'a clerical reactionary expression.'

"In the Département de Calvados is where violence and cruelty have struck hardest. Religious services have been suspended accused of being subversive meetings. Churches have been plundered and sacred things stolen.

1/ BER 23364/42, 5/16/42; Zurich to New York.

2/ Postal & Telegraph Censorship Report on Religious Movements (No.3), New Series, 5/22/42; page 4. SA 37285, (NOWC News Service) Washington, D.C. to Costa Rica also mentions this series of pamphlets, published by the United Front of Spiritual Combat and Resistance for the Liberation of France. (4737)

"In Normandy the churches were used as quarters and the religious Joan of Arc associations were disbanded. However, on the day of Joan of Arc, English flags were seen floating in the German quarters.

"In Cherbourg, presidents and maids of a religious association as well as two priests were shot.

"The Archbishop of Paris, M. Suhard, demanded better treatment for the Catholics and respect for their churches." (SJ 7255, 6/20/42; Cuba to Puerto Rico.)

G. Masons

One intercept, dated December of last year, indicates that the Masons, although persecuted, continue to some extent their activities in France. It gives news of a member who is being carefully watched:

"A priest censors his mail which makes it impossible to send him masonic letters except through the connections we used to have.... The Masons can not help him, since all masons in occupied Europe are cruelly persecuted.

"You should know that all persecutions of all of our H.H. (?) originates in occupied France and there (sic) (France) a daily paper is published revealing matters pertaining to the Lodge and its members who have fallen into the hands of the Germans..." (SJ 285/42, 12/27/41; Cuba to Puerto Rico.)

H. Jews

Two intercepts give a few details concerning Jewish resistance in France. Minutes of the June 18 meeting of the Left Poale Zion organization tell of an illegal paper published by the organization. Great pride is taken by this organization in the fact that it is one of the most active enemies of the Nazis in France. 1/ Another intercept, Bulletin number 29, issued by the American Representation

1/ MI 53578, 7/11/42; New York to Palestine.

(4737)

of the "Bund" -- Yiddish-Polish organization, states that the response to the request for funds for the underground movement of the "Bund" in 1942 was very warm. The censor states that news about the movement in France is given, but this information is not given on the submission slip. 1/

I. Youth Organizations.

Mention has already been of the opposition of religious youth organizations to the Nazi regime. Two intercepts give details concerning the resistance of Alsatian youth:

"I read some very inspiring letters yesterday from a young Alsatian girl going through all the pain and humiliation of losing French nationality and becoming German or rather Nazi. Her spirit is far from broken and her letters are splendid. She met Antoinette Laufer's sister in a Guide Camp here in Switzerland and has remained in contact with her since 1938 where they first met... Her letters are most cleverly worded but all the same I cannot imagine how the censor passes them! Her revolt and scorn and pain and hope are crystal clear." (BRI 3183/42, 1/18/42; Switzerland to Argentina.)

Another interesting evidence of Alsatian youth's resistance is a document which seems to be a publication by Alsatian refugee boy scouts, it is published ten times a year. There is no indication as to whether or not the paper is published clandestinely, but the subject matter is certainly not the type which would pass the German censor:

"This issue contains a message from the Chief (Alfred Bots), alludes to the sufferings caused by the war, which is 'for most of us the loss of liberty -- it matters little whether the camp be enclosed by barbed wire or not...are we of those who, deceived by the appearance of a semblance of restored peace, have already resumed the calm of a potty, quiet and selfish life? Sons of France and Sons of God, the Scouts of Alsace will descend one day to hoist the colours they love on the spire of their cathedral!'"

1/ NY 10464/42, 3/17/42; New York to Uruguay.

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Under the guise of a youth health organization, this scout group preaches rebellion to its young members:

"Allons, debout! vaillants enfants d'Alsace!
Bientot vivra, pour nous, l'aube du jour,
Où nous prendrons d'un pas ferme et tenace,
Le sac au dos, le chemin du retour!

"Heureux de rester Français,
Dans la guerre ou dans la paix,
Soyons unis pour jamais!
Et chantons, plains d'assurance,
Dans la joie et la souffrance;
Alsace et France!"

(A footnote to this song states that it can be bought for one franc a copy, 40 francs for 50, and 75 francs for 100. Postal & Telegraph Censorship, LIV 25872/42, 3/15/42; France to New Caledonia.)

The Communist youth are also organized, according to a June intercept from a Chilean member of the Free French who has received word, two months old, from France:

"I learned also that Michaud, secretary for the Young Communists (Jeunesses Communistes) had been arrested in Lyon and was in bed for the balance of his life. His wife continues the fight and directs the movement for the young girls called the (Jeannes d'Arc Rouges) Red Joans of Arc." (MI 45641, 6/23/42; Chile to New York.)

J. Resistance of the Intellectuals.

Intercepted material indicates that professors, scholars, and scientists are also resisting Nazi aggression in France. One of the documents forwarded by Berthelot on June is a manifesto "To the Professors of Secondary Education," a declaration by certain "syndicalist professors of Paris" on the future of liberated France, stating the steps which should be taken for the restoration of the rights of the teaching profession. 1/

A Colombian refugee has news from Europe:

1/ BER 24265/42, 6/6/42; Zurich to New York.

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"Two of my friends at the Museum...have been shot in Paris by the Germans, and the Yvonne Odden librarian condemned to death, pardoned and deported to Germany because the Fifth Column also had some representatives at the Museum and if I had stayed over there I should no longer be living today." (MI 40586, 6/12/42; Colombia to London.)

The Free French Bulletin D'Information published in Uruguay gives some lurid information on the death in April of the "eminent French scientist", M. Fernand Holweek. He had, the article continues, worked on the development of a new weapon and was presumably tortured by the Nazis to secure the secret of his invention. Death occurred ten days after his imprisonment, from a broken neck. 1/

K. De Gaullists.

The General's cause seems to be variously espoused by the other opposition groups mentioned in this report. The Communists, according to most of the intercepts, are pro-De Gaulle; so are the Socialists, the foreign refugee groups, etc. The material concerning the De Gaullists may be divided into certain categories: a certain body of letters state percentages of De Gaullist followers in the Occupied and Unoccupied Zones; others deal with actual De Gaullist activities; others, with persecutions of De Gaullists.

There is also a group of anti-De Gaulle intercepts. Some of these are written by members of the upper class in France who still expect salvation from Vichy. Writers of these letters are occasionally pro-German; more often, they couple violent hatred of the Germans with equally violent hatred of

1/ HER 24265/42, 6/6/42; Zurich to New York.

2/ NO 7765/42, 6/2/42; Montevideo (Bulletin D'Information De La France Libre) to Denver.

the British and of the De Gaullists, those French who fight French; and have maligned "the French Miracle" (Petain). 1/ Especially, they seem afraid of the Communists, who they fear will seize control of France if the Allies win the war. Their chief argument against the De Gaullists is that the movement is conducted predominantly from outside France by emigrants, mostly Jews and Free-Masons, they say, who have lost touch with their country and her problems.

In December, a writer from France states:

"In Paris more and more people carry two rods (*deux gaules*) when they walk on the streets." (MI 11462, 12/2/41; Lima to Cochinchina.)

In January, 1942, an Englishwoman in Lisbon writes news of France:

"Few of the best families have joined De Gaulle because of their 'interests.' ...I believe the best spirit is in the ports we bomb. They bear it in hopes that we hit a German now and then..." (HER 10950/42, 1/15/42; Portugal to New York.)

During the close of January, a writer from Switzerland sums up French opinion, and under "Pro-English" he includes:

- "a. The Communists, naturally, who are Gaullists.
- "b. Right-thinking people, for whom an English victory signifies a return to the pleasant little pre-war existence.
- "c. The dirty dogs who would like to get back to the atmosphere of intrigue.
- "d. Many people who do not make any distinction between being against the Germans and for the English. In my opinion, this is the mental background of the Gaullists in the country. Bretons and Normans, amongst others, are reputed to be Gaullists, but one must not be misled about this, and they are above all anti-Occupiers. If one day it were the English who were occupying, they would be anti-English." (HER 14919/42, 1/31/42; Switzerland to New York.)

1/ NY 92980, 6/6/42; Uruguay (Bulletin D'Information de la France Libre) to California. In this issue is a report on the Fascist pro-German movement, to which Petain is said to have belonged during Daladier's premiership.

The writer, who is violently anti-British, goes on to list a special category of French opinion, obviously the group in which he is interested, who are anti-British Vichy-ites.

An interesting letter mailed from Nice in April gives another Vichy-colored survey of French opinion:

"...90% of the population of the occupied zone, especially in the (east ?), the North and in Brittany are very ardent and on the whole anglophile, not from a disinterested love of England itself nor of General De Gaulle but because they have only one idea; to get rid of the occupier. This 'Gaullisme' of very special nature, which does not at all mean a recognition of the general as head of a government, is simply a way of expressing their hostility to the occupation, it is a gesture of opposition to Germany and it adjusts itself in almost every case to a perfect fidelity to the Marshal and the respect due to him. It is a 'mood.' I mention this from what I hear, after collecting impressions from balanced and well-placed residents in the O. Zone. In the free zone, it is almost impossible to generalize; one meets all opinions, from 100% anglophiles to people who seem to like the Germans better than the British; on the whole, the immense majority doesn't worry about politics, for there is no struggle of parties...They react against active communists and against people who by too serious (faults) failures, endanger the revolution of the country.

"In the free zone, they are very tired of the war, they want to see England win but they wonder if she will manage to avoid a stalemate...Morale is firmer in the occupied zone, they cling to anything which gives them hope of getting rid of the occupiers." (Postal & Telegraph Censorship, ROL/PO 123272/42, 4/15/42; Nice to Lisbon.)

A writer from Switzerland, however, contradicts the impression given in the last two intercepts quoted, that many De Gaullists are still for Petain:

"Mention of the Marshal is avoided. I think they say to themselves that he is getting old and tired.

"De Gaullism is making great progress, particularly lately. As long as there is no armed allied intervention, it will do nothing as is the case with all the other conquered countries." (N.Y. 82394, 5/4/42; Berno to Foral River.)

(4737)

In another interesting May intercept, an anti-British writer (significantly enough, the addressee seems to be French Canadian) draws up a chart of French opinion in both zones, the chief point of which seems to be the proving that De Gaullists are not necessarily pro-British:

"There has been a noticeable evolution for the last few months. One doesn't like the Boches any more than one did, the English even less...Here's roughly the situation as regards current opinion:

	Occupied Zone	20%	Unocc. Zone	60%
For Petain	"	"	"	"
" De Gaulle	"	80%	"	30%
" The English	"	30%	"	10%
" The Germans	"	1%	"	5%

People who are for the British may be for De Gaulle, but the contrary is not necessarily exact. Many who are against the British fear the return of the Jews and free masons; they are also afraid of a revolution led by the Communists...unfortunately this tendency is making great progress, for De Gaulle is surrounded by people who aren't worth very much and his propaganda is often absurd, and too tendentious." (NY 39645, 5/13/42; Marseille to Quebec.)

In May, a recently escaped Frenchman writes, in ungrammatical but enthusiastic English:

"Do you realize that in the occupied zone more than one 90% of the people thinks and says that the only French Government is that of Comité National of the General de Gaulle. He is the real and honored Chief of the true Franco...Even in the unoccupied Franco, more than half of the inhabitants think the same thing, and functionaries, and many official people also. Do you imagine what would be the result of recognition from part of USA of the Gaullists in the mind of the French people--this one, who is unmanly americanophil, would leave much more his despised government with the German, and wait with patience the promised and certain victory of the allies." (MI 22586, 5/14/42; Paris to Chicago.)

A final letter written in June states: 1/

"A Mexican doctor, who left Lyon 6 weeks ago, came back to Mexico. I think it will be of interest to you, that 100% of the French people in occupied France are for De Gaulle and that in

1/ See corroborating Free French reports, MI 26850, 5/11/42; London to Puerto Rico; SA 14223, 5/23/42; Mexico to London.

(4737)

the unoccupied part, the number of his followers is steadily increasing. In Lyon the percentage is estimated at 80-90%. Laval is hated and Petain almost as much." (NY 55454, 6/26/42; Mexico to London.)

Intercepts from September, 1941, through July of this year give evidence of De Gaullist activities. A September intercept from France states that there was no great show of flags during the Legions's parade in August, but:

"...on July 14th (as the France Libre asked it to do) there were none." (BER 66474, 9/17/41; France to New York.)

An October, 1941, intercept tells of the persecution of De Gaullists:

"On the 2nd of May at 9 p.m. we were very peaceful in our little home when the front door bell (rung?) violently. Mether went to answer it and found herself in front of a dozen young men who were surrounding an old man. The latter asked why we had placed two rods (Gaules) in our garden...He got into a rage calling us Gaullistes, saying that we listened to the English radio, etc..."

"On May 25th, we found on our wall big inscriptions in red lead 'Vive Petain, down with the Gaullistes; this house is a lunatic asylum, etc.' The Police came to see the damages done during the night. Since then they have not ceased doing us dirty tricks, insulting us, making an uproar at night and threatening us..."

"Believe me above all, we want to maintain our self-esteem no matter what it costs. Many French people suffer with admirable heroism!! We want to be amongst them, because the life of France is more to us than our very own."

"The inquiry proved that the only things they could reproach us with were our personal opinions...To be true French people, to have admiration and sympathy for friendly nations, the only ones to love France and who work both heart and soul for the liberation of France, is today very dangerous." (TRI 3249/42, 10/29/41; France (Rive Saltes, P.O.) to Buenos Aires.)

In November, 1941, a young De Gaullist wrote to the BBC about activities in Unoccupied France:

"I am from Marseilles and I wish to tell you that in the Unoccupied zone, at least 95% of the population is on your side."

(4737)

That could be seen on the day of the demonstration in honour of Yugoslavia. And that includes all classes of society, I know for certain that there are a few foolish social climbers of the middle-class (Bourgeois) who try to boast of the collaboration but these are in the minority, an infinitesimal minority --I know workmen, peasants, country priests, well-known priests belonging to various orders, republicans, royalists, who are unanimously for England. My father who belongs to a shipping firm asks me to tell you that 99% of the Mercantile Marine Service are for England...

"The regulations do not prevent us from listening to the radio--In the beginning we turned it on softly but now we play it as before and we laugh when you say the ritual sentence: 'Reduce the volume, if it is necessary.' However we are determined to shoot the first 'Legionnaire' who attempts to cross-examine us. Our neighbours have collected all their old electric bulbs and have given them to the boarder in the top storcy, who is ordered to throw them on sight, at the soldiers over the parapet."

"In spite of the threat of prison, everyone up to now, wears the Cross of Lorraine but now they are applying the law... Our other rallying sign is the safety pin which everyone wore last winter with bits of sazerani pinned on as a brooch."

"We also embroider 'V's' on all our clothes."

"Those poor Vs have survived everywhere in spite of reported seizures. They rival the portraits of the Marshal, which are everywhere and which make us sick...But if the Marshal's portrait is inflicted everywhere--that of General De Gaulle is distributed freely sub rosa. Who has not one now?--I distributed 15--but I know some people who distributed scores each--As soon as a thing is forbidden, that is one thing to be done; pamphlets and secret newspapers circulate from hand to hand and help to keep resistance alive."

"The students are at the head of the revolutionary movement and the other day in our philosophy class, we found on the blackboard a superb drawing representing a huge boot at the foot of which was a little rat which licked it with a tongue a yard long--and at the side was this inscription: 'Defeat to the boot-lickers' signed by the artists. I do not know what will be the result as several Gaullist pupils have already been expelled from school and we are always being threatened...The struggle is kept up by writing on the walls."

"In the country as well as in the city, everyone listens to the BBC. During the holidays, we go, in the evening, to a neighbouring farm where we have hung up in fine style the portrait of Gen. De Gaulle..."

(4737)

Then the writer describes morale in the Occupied Zone as pro-Allied, and goes on to give details of the demonstration for Jugoslavia last March, when flowers were placed on the monument to the King of that country, and a fight broke out between the police and the crowd, who sung the Marseillaise. She continues:

"You know that the factories are working for the Germans; the workmen who manufacture soaps for them, once filled the cakes of soap with large nails in revenge. I was told of this by one of the workmen and it is absolutely true." (TRI 1660/42, 11/26/41; Marseilles to London.)

She concludes by inviting various of her favorites on the BBC broadcasts to a "marvellous fete" on the day of victory for the Allies. 1/

The De Gaullist element in the Ricm trials is brought out by the December letter of Ralph Heinzen to the UP:

"The only charge against Reynaud was the export of 14,000,000 francs from Bordeaux in June 1940, after his overthrow. Two of his secretaries carrying the money in two valises were arrested in Spain. There is no doubt Reynaud sent the money out to put it at the Disposition of De Gaulle. The Germans...never have forgotten his very close ties with De Gaulle, whose book demanding equality of tank divisions with Germany which Reynaud espoused and sponsored in Parliament in 1935. They apparently fear that if Reynaud is not put away, he may become far too popular a figure and a leader among the anti-German 95% of the French population." (BER/NAV 169/42, 12/26/41; Vichy to New York (UP).)

A Swiss newspaper, forwarded from Switzerland in February of this year, gives the following report on De Gaullist activity:

"Mention is made of the discovery by the Germans of a secret group in Nice...which was gathering recruits for General De Gaulle...An illegal news bulletin published by this group was directed by an industrialist of Nice....Ten others were arrested in connection with the activities of this group. Among those were one law student, teachers and pensioned officers." (IA 3545,

1/ For another letter by a De Gaullist to the BBC, see NY 14808/42, 12/8/41; Franco (Toulouse) to Minden. (4737)

2/28/42; Switzerland (Oberlandisches Volksblatt) to California.)

De Gaullist literature from Uruguay gives descriptions of the demonstrations on May 1 called for by General De Gaulle, by the Communists, Socialists, and Trade Unions; instructions for these demonstrations were also published in the various clandestine newspapers. 1/ The Free French literature calls the demonstrations an unqualified success; 50,000 persons took part at Lyon, with minor riots occurring; the prefect of Bouches De Rhone reported, according to the Free French, that the demonstrators in Marseille numbered 30,000, and the crowd shouted "Long Live De Gaulle!" At Toulouse, 8,000 persons marched; at Nice, 3,000 at Avignon, 2,500; and at Montpellier, there were also demonstrations. 2/

In connection with De Gaullist activity, it should perhaps be again noted that Liberto, an organization publishing a clandestine paper of the same name, is according to the intercepts quoted, a De Gaullist organization. Libertation is also pro-De Gaulle, as well as other groups and organs of the underground.

Several intercepts speak of the arrest of certain individuals for De Gaullist activities, without stating the nature

1/ See Clandestine Press.

2/ NO 7144/42, 6/2/42; Uruguay to Colorado (& others); MI 30893, 5/23/42; Uruguay to Nigeria.

(4737)

of these activities. 1/

A letter written in April states:

"We tremble when we think of what Laval may do next; we are furious and ashamed at his coming back to power; one good thing is that he does not represent the majority of the French people. You know my husband and I are 100% De Gaullistes. We were delighted about General Giraud's escape." (BER 2250L/42, 4/30/42; Lausanne to New York.)

A letter written in May by a Peruvian Free Frenchman tells of his relatives in Paris:

"My sister-in-law and my nephew have been thrown into prison by the Nazis (pretext: they were caught while calling upon friends whose ideas are friendly to De Gaulle!!!) And that's the sum they want us to collaborate with!" (MI 18155, 5/7/42; Lima to Illinois.)

In July of this year, a writer of an intercept states that he has been told that the American Aid Center (Centre Americain de Secours) in Marseille has been closed and the chief and the employees arrested, because they were on the side of the Anti-Fascist De Gaullists. 2/

There is a large body of intercepted material which is anti-De Gaulle. Few of these intercepts seem to be written by pro-Germans; many of the writers seem to be comfortable, upper-class persons, afraid of the Communists who have allied themselves with De Gaulle, and the working-class in general, who seem to be the most pronounced De Gaullists. 3/ They still cling to

1/ BER 6466/42, 12/26/41; France to New York; NY 68470, 1/28/42; New York to Lisbon. See also NY 40807, 5/29/42; California to London (inclosing letters in code from French De Gaullists.)

2/ MI 50351, 7/4/42; Havana to New York.

3/ The Free French themselves stress this; SA 16829, 6/2/42; Mexico to London, report to National Commissioner of Foreign Affairs, states that in Montpellier "the working-class is in great majority Gaullist. The Croix de Lorraine is sold openly and the people are not uneasy." W 1342, 4/11/42; Uruguay to Panama, states "the workers are De Gaullists in sentiment."

Vichy and collaboration. An interesting group of those anti-De Gaullist intercepts, while criticizing the movement, give pertinent comments on its growth, on the kind of people who are De Gaullists in France, and on the kind of people who are against the movement.

"Those in Martinique who dare criticize the Marshal, make no laugh, where they are warm, with well filled stomachs -- in an island 5,000 kilometers away from France, where they have no information except the absurdities broadcast by all radios.

"Christian (the writer's husband) who has a very important post, sees the Marshal from a close angle, and it is extraordinary how young he is...he is a pure symbol of our country; Alas! the French lower classes fill us with disgust they are all ill-bred, mean and stupid, and I assure you the ascent is hard!!

"All the elite and intellectuals of France of both sexes, stand by the Marshal, he is the 'French Miracle' the only one to keep us united, because without him we could not avoid a bloody revolution.

"These are the things which the people 5,000 kilometers away from France do not always understand...." (TRI 2191/42, 1/3/42; Vichy to Martinique, Uncensored in France.)

"The atmosphere in the drawing-rooms is like that at the time of the Dreyfus affair. There is warfare between Gaullists, Anglophiles, Russophiles...In the same family you will find Louis René, collaborationist and Armand, Gaullist. Personally I don't understand people being pro-anything. Let us all be good Frenchmen and do what the interests of our country demand. The Marshal knows what they are better than any of us, so let us stay united in his support. Everybody who has dollars or Jewish blood is pro-English; the business men and manufacturers...are collaborationists, which doesn't mean pro-German. Nobody is pro-German... The last twenty years have seen ideals perish in France, corrupted by the Jews, the free-masons, and the popular front. When I think that some people hope for a Russian victory! They don't realize that in 5 minutes Bolshevism would have spread to the Balkans, to Germany and Italy, to France, to Spain...What I can't endure is Gaullism...People who bear arms against France! What a disgrace!" (BER 9010/42, 1/10/42; Antibes to New York.)

"Of course I am for the Marshal...He is a wonderful man, it is a real miracle wrought by God to have given him to us. As you say, unfortunately, opinions are very divided; more so in the Occupied, than in the Unoccupied Zone -- There is not sufficient well organized propaganda. People call you pro-German if you are not for De Gaulle. I say 'I am for France!' It is particularly amongst the lower classes that they are dull-headed. Marie F., my typist, unfortunately is of that opinion. I do as much

propaganda as I can for the Marshal." (TRI 6918/42, 3/12/42; Lorient, Morbihan, France to Martinique. Uncensored in France.)

An interesting November intercept bears the German censorship label, but has not been censored the usual German way; and, although various passages are blocked out, they are easily legible. Since this document was going to the Boston Transcript Syndicate, it seems probable that it was intended as a deliberate piece of anti-De Gaulle propaganda. It describes the "failure" of the five-minute strike ordered by De Gaulle, and alleges a "startling change" of attitude towards De Gaulle, based on an interview with about 300 people. De Gaulle is variously described as a traitor and as an office boy for the British. There is also a not-too-subtle attempt throughout the document to white-wash the German authorities of Occupation, and to emphasize the British Blockade. It is interesting as an indication of the strength of the De Gaulle movement at so early a period, especially if it is, as it seems, a Vichy or Nazi-inspired thrust against this leader. 1/

In February, a writer comments on air raid damage in the coastal zone, and adds:

"The damage to the buildings is not very serious, it was done by a Gaullist aeroplane." (BER 14,839/42, 2/1/42; France to Mexico.)

In March, a writer, violently anti-British and anti-American, states that "Wilson and Lloyd George are at the bottom

1/ JAM 3062/41, 11/1/41; Paris to New Orleans (Boston Transcript Syndicate). For other early anti-De Gaulle letters, see TRI 6118/42, 11/29/41; France to Chile; BER 6144/42, 11/30/41; France to Connecticut; TRI 6208/42, 11/30/41; France to Argentina; and TRI 6189/42, 12/2/41; France to Chile.

of the beginning of our misfortunes" and continues:

"Those who succeeded them did the rest, helped by the Jewish robbery and international Free Masonry..."

"As for believing that England and the traitor De Gaulle work for the liberation of France and restoring her colonies, no! no! I don't believe the first word of it. England has never given back what she has stolen. England and De Gaulle assassinated our soldiers at Meis el Kibir, at Dunkerque, at Dalgay and in Syria. She has taken over a large part of the territories of our empire. She is starving us in an atrocious manner, and for vengeance with a nameless cruelty. And you wish me to believe in her good feeling toward us for the future. No! No!

"I see nothing out of the way in her annihilating Nazism, if she desires to continue the war to the death, but what she desires is that others shall do the fighting..."

"The assassinations of German soldiers are provoked by the foreigner, the Jew, the Mason, to make us postpone the Peace, and to undergo more privations. The hostages of Mantos were not shot on account of Burdeaux. What were those hostages? Communists and Jews. I don't pity them a moment. I understand that De Gaulle received the sympathy of Roosevelt and America and where the Jews and Free Masons reign as masters." (CAN 21,103, 3/11/42; Puy-De-Dome to Quebec.)

An April intercept encloses a letter from France:

"I do not know what will become of us. Everywhere you see death, hunger, suffering, misery, and hatred. It is useless to tell you that we are for Petain, and against the English who united with De Gaulle only for the dirty work of making Frenchmen fight against each other." (CA 119, 4/4/42; Martinique to San Francisco.)

From Algeria, an out-and-out collaborationist writes:

"...the collaboration which almost every Frenchman desired, but which was rejected by the Gaullists, seems to have taken a big step forward, i.e. the choice of Pierre Laval, by our Marshal, as the head of the new Government." (TRI 11829/42, 4/28/42; Algeria to Massachusetts, Fr. Cons.)

A letter from Argentina is interesting, because it describes the attitude of an ex-French Ambassador, a violent anti-De Gaullist and collaborationist:

"A few days ago I went to see Poyroux who talked to me for nearly an hour. He is a violent opponent of the Gaullists

November 23, 1942.

Dear Mr. Goldsmith:

Thank you for your letter of November 20, which transmitted a copy of the preliminary study covering the subject of "World Production of Combat Armaments". You are right in thinking that I would be interested in the facts and figures which these pages include, and I thank you for your courtesy in seeing that I received this material.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. R. W. Goldsmith,
Planning Committee,
War Production Board,
Washington, D. C.

File in Diary

GEF/dbs

WAR PRODUCTION BOARD
WASHINGTON, D. C.

PLANNING COMMITTEE

IN REPLY REFER TO:

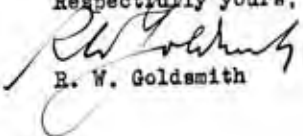
November 20, 1942

The Honorable
The Secretary of the Treasury

My dear Mr. Secretary:

I am taking the liberty of sending you a copy of a preliminary study of "World Production of Combat Armaments," recently prepared for the Planning Committee of the War Production Board, because I felt, from previous contacts with you while with the Securities and Exchange Commission, that you might be interested in the subject.

Respectfully yours,


E. W. Goldsmith

Attachment



October 26, 1942
(Revised Nov. 12)

282

MEMORANDUM

TO: Mr. Robert E. Nathan, Chairman, Planning Committee

FROM: Raymond W. Goldsmith

SUBJECT: World Production of Combat Armaments

I

To appreciate our war production effort correctly and to view our own achievements in the right perspective it is necessary to compare both with the level and the growth of munitions production among our allies and enemies. The appropriate yardstick is the quantity of combat armaments turned out rather than total war production, as the latter includes much that is not of immediate military effectiveness and significance. Since comprehensive data on the quantity of armaments produced are lacking for most countries and are unavailable for year-to-year changes it has been found necessary to base this preliminary study primarily on reported or estimated expenditures for combat armaments. The results are shown in Tables I and II and are illustrated by the attached two charts. The sources of the figures are indicated in the footnotes to Table I.

II

Such a study is necessarily a hazardous undertaking and can never show very accurate results. It is primarily intended to give an idea of the level of combat armament production in the two great groups of powers arrayed against each other, and to show outstanding trends in combat armament production since pre-war days. The figures, rough though they be, are, I trust, adequate for these two important purposes. The most problematical part of the tables -- except the guess for China which is chiefly a pro memoria item and without quantitative importance -- is the estimate for the U.S.S.R. about whose munitions production we apparently know less than about that of any of our enemies. The estimates for Japan also contain a considerable margin of error, but the order of magnitude indicated can hardly be wrong and any mistake in the Japanese figures -- as well as in the estimates for the Neutrals -- is too small to affect significantly either the world total or the relationship between the major groups of powers.

All figures are intended to cover the production of combat armaments only, i.e. aircraft, ground ordnance (guns, small arms, and combat vehicles), ammunition, signal and communications equipment, and army and naval vessels and equipment. They, therefore, exclude a considerable proportion of total military expenditures, viz. those on merchant ships, clothing and personal equipment, automotive vehicles, war construction, industrial facilities, and, of course, pay and subsistence. The figures are supposed to reflect actual output of combat armaments through September 1942 and probable production (rather than production schedules or objectives) thereafter.

Practically all the figures are based on reported (U.S.A. and Canada) or estimated expenditures for combat armaments. The estimates for foreign countries, originally expressed in their own currencies, have been translated into U.S.A. dollars in such a way as to take account, as well as that can be done with our often insufficient information, of the difference in the price level of armaments. (For Great Britain e.g. a rate of \$1 = £ 0.15 has been used; for Germany one of \$1 = RM. 1.80). To the extent that this translation is correct, the estimates provide an index of the relative volume of the production of combat armaments in the different countries as well as of year-to-year changes in their output.

The results of this translation of monetary expenditure figures into what is in effect a volume measurement of output have been checked against quantity indices or estimates wherever they are available, i.e. chiefly for U.S.A., Canada, Great Britain and Germany. They have also been compared with estimates of direct military steel consumption and of the number of persons employed in the metal and chemical industries, both comparisons that provide a rough check on the reasonableness of the relative level of combat armament production indicated by the calculations.

III

The two charts and the underlying tables best speak for themselves. The outstanding features of the figures, however, may be summarized as follows:

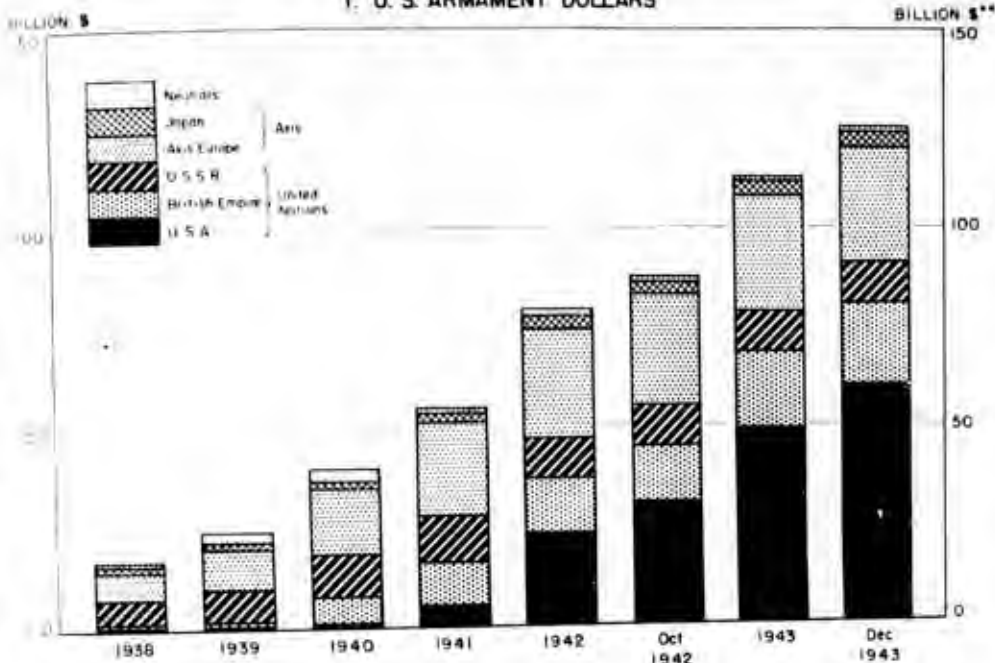
1. World production of combat armaments has risen very rapidly, and without interruption, since 1933, and particularly since 1938. (Chart I, upper panel). At the present time (October, 1942) it amounts to more than twice the 1940 total, and more than five times the immediate pre-war (1938) level.^{1/} By the end of 1943, it will be fully three times as large as it was in 1940 and well over seven times as large as in 1938. By that time about one-third of total world output will be in the form of combat armaments, and total munitions production (including war construction) will account for over two-fifths of the world output of commodities and services.

2. The share of the United States in the production of combat armaments has been increasing rapidly. (Chart I, lower panel). It has advanced from 1% in 1938 and less than 3% in 1940 to 35% at the present moment, and is likely to rise to almost 50% by the end of 1943. In other words, in a little more than a year from now this country alone will produce almost as many combat armaments as all the rest of the world put together. This is a remarkable achievement as the United States account for not much over one-fourth of the real national income of the entire

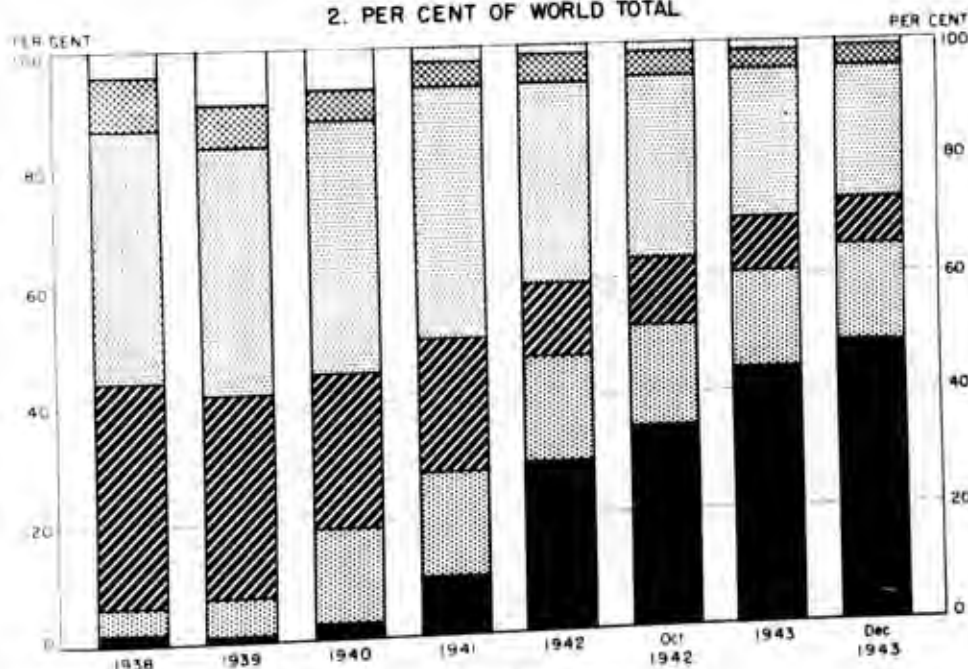
^{1/} The pre-war level, in turn, was more than ten times as high as that of 1929 (not specifically discussed in this memorandum).

WORLD PRODUCTION OF COMBAT ARMAMENTS*
1938 - 1943

1. U. S. ARMAMENT DOLLARS



2. PER CENT OF WORLD TOTAL



* Aircraft, ground and naval equipment, tanks and cover assets and equipment
** Excludes submarines

WAR PRODUCTION BOARD
Planning Committee
November 17, 1943

world^{2/} and started on the large-scale production of combat armaments only two years ago.

3. The position of the United Nations, compared with that of the Axis, has improved with almost equal rapidity (Chart II, upper panel). In 1940 the British Empire, France and the United States produced not more than one-half the combat armament of Germany and her satellites. (In 1938 their production had been as low as one-fifth of that of Germany and Italy.) If U.S.S.R. and Japan are added on the sides they ultimately have taken, the 1940 production of the United Nations was still slightly behind that of the Axis. Even in 1941 the United Nations together just managed to reach the level of their enemies' production of combat armaments. In the current year, however, the munitions production of the United Nations is fairly certain to exceed that of the Axis by not less than 50 percent. In 1943 the United Nations will probably turn out nearly two and a half times as many combat armaments as the Axis. In 1944 and later, finally, the United Nations may even be able to produce three times as many munitions as all the Axis nations combined.

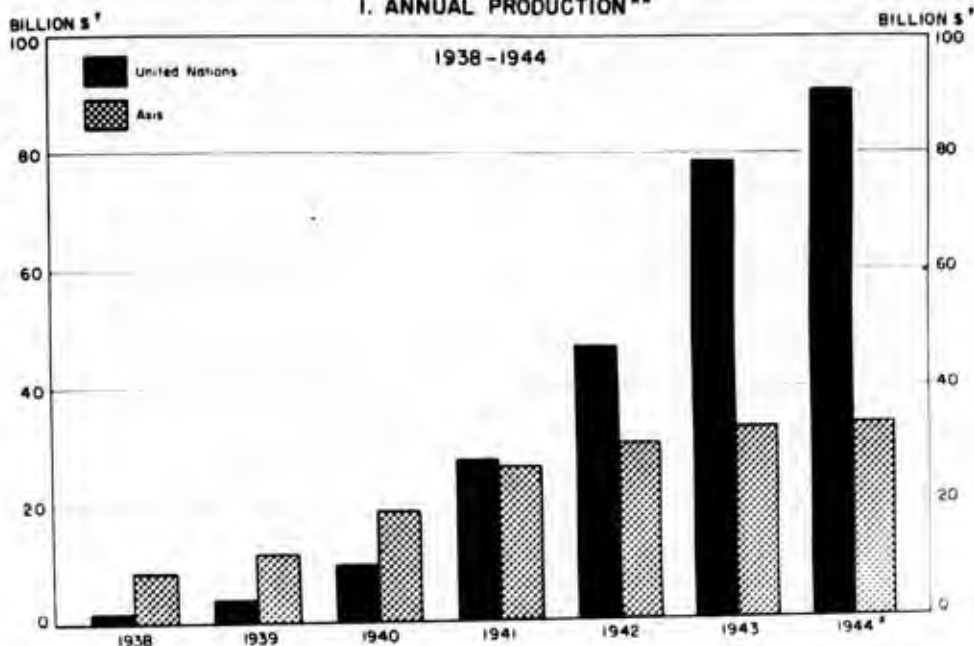
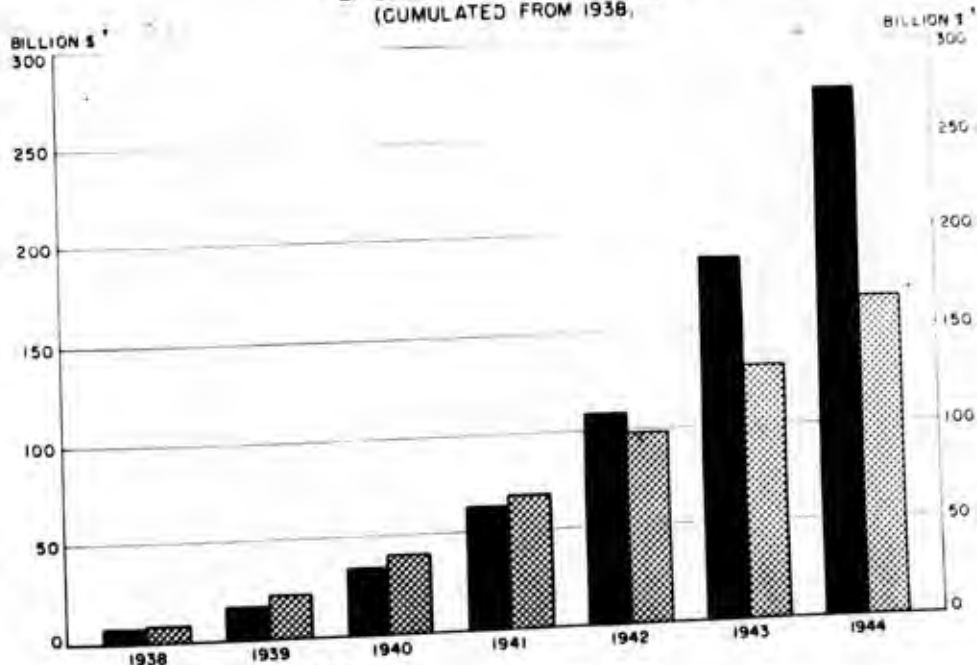
4. These ratios are based on total quantities of combat armaments produced. They cannot take into account the distances between the centers of production and the theaters of operation; the possibility of concentrating armaments in strategic points; and the stocks of armaments accumulated previously. On all these counts, the Axis partners are, at the moment, better off than the United Nations. Their advantages are rapidly declining, however, particularly those represented by large accumulated stocks (Chart II, lower panel). Disregarding weapons produced before 1938 (as we will say on account of obsolescence and the then relatively low level of production) and battle usage, the Axis has been ahead of the United Nations until about the middle of this year. By the end of 1943, however, the cumulated combat armament production of the United Nations should be nearly one-half in excess of that of the Axis. One year later the lead of the United Nations will have risen to fully 70 percent. The ratio of actual stocks of combat armaments (which reflects battle use as well as other losses in addition to cumulated new production) should be still more favorable to the United Nations as their combined consumption of combat armaments is likely to exceed that of their opponents by a much smaller margin than that by which their production will surpass that of the Axis.

^{2/} The share of the United States in the world's income, measured in comparable prices, during the decade 1928 to 1934 has been estimated by Colin Clark at 36% ("The Conditions of Economic Progress," p. 36).

CHART II
ESTIMATED COMBAT ARMAMENT PRODUCTION*
OF UNITED NATIONS AND AXIS

266

I. ANNUAL PRODUCTION**

2. CUMULATIVE PRODUCTION*
(CUMULATED FROM 1938.)

* Aircraft, ground ordnance and communication equipment,
army and navy vessels and equipment.

** France included with United Nations in 1938-1940; U.S.S.R. included in 1941-1944.

† U.S.S.R. included with United Nations in 1938-1944; France excluded throughout. Figures as of end of year.

‡ U.S. armament purchasing power.

§ December 1943 rates.

WAR PRODUCTION BOARD
Planning Committee
November 12, 1942

SECRET

SECRET

- 4 -

TABLE I

ESTIMATED WORLD PRODUCTION OF COMBAT ARMAMENTS*
1938 - 1943

A. In Billion of U.S.A. Armament Dollars

	C. Y. 1938	C. Y. 1939	C. Y. 1940	C. Y. 1941	C. Y. 1942	Oct. 1942	C. Y. 1943	Dec. 1943
I. U. S. A. <u>1/</u>	$\frac{1}{2}$	$\frac{1}{2}$	1	5	22 $\frac{1}{2}$	30	49	60
II. Allies								
1. U. K. <u>2/</u>	$\frac{3}{4}$	1 $\frac{1}{2}$	6	9 $\frac{1}{2}$	12 $\frac{1}{2}$	12 $\frac{3}{4}$	16	17
2. Canada <u>3/</u>	0	0	$\frac{1}{2}$	$\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$	2 $\frac{1}{2}$	2 $\frac{1}{2}$
3. Other British Empire <u>4/</u>	0	0	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{3}{4}$	$\frac{3}{4}$	1
4. U.S.S.R. <u>5/</u>	6	8	10	12	10	10	10	10
5. China <u>6/</u>	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$
6. Latin America <u>7/</u>	0	0	0	0	0	0	0	0
TOTAL ALLIES	7	9 $\frac{3}{4}$	16 $\frac{3}{4}$	22 $\frac{1}{2}$	24 $\frac{1}{2}$	25 $\frac{1}{2}$	29 $\frac{1}{2}$	30 $\frac{3}{4}$
III. Axis								
1. Germany <u>8/</u>	6	9	15	20	22	22 $\frac{1}{2}$	24	24
2. Italy <u>9/</u>	$\frac{1}{2}$	$\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{3}{4}$	2	2	2	2
3. Other Axis Europe <u>10/</u>	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{3}{4}$	2	3	3	3	3
4. Japan <u>11/</u>	1 $\frac{1}{2}$	1 $\frac{3}{4}$	2	2 $\frac{1}{2}$	3 $\frac{1}{2}$	3 $\frac{3}{4}$	4	4 $\frac{1}{2}$
TOTAL AXIS	8 $\frac{1}{2}$	11 $\frac{3}{4}$	19	26 $\frac{1}{2}$	30 $\frac{1}{2}$	31 $\frac{1}{2}$	33	33 $\frac{1}{2}$
IV. Neutrals <u>12/</u>	$\frac{3}{4}$	2 $\frac{1}{2}$	2 $\frac{3}{4}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$	1 $\frac{1}{2}$
WORLD	16 $\frac{1}{2}$	24	39 $\frac{1}{2}$	55	78 $\frac{3}{4}$	87 $\frac{3}{4}$	112 $\frac{1}{2}$	125 $\frac{1}{2}$

* Aircraft; ground ordnance and communications equipment; army and naval vessels and equipment.

Note: (a) The figures for U.S.S.R. and China are subject to a particularly wide margin of error.

(b) 0 stands for less than \$ 1/8 billion.

(c) For sources of figures see following page.

October 24, 1942

(Revised November 12, 1942)

Footnotes to Table I

- 1/ Figures for 1941 through 1943 based on detailed breakdown of actual or (from fourth quarter of 1942 on) expected production. Those for 1939 through 1940 estimated on the basis of ratio of combat armaments to total munitions production and war construction of about one-third prevailing during second half of 1940.
- 2/ Based on total expenditures for home produced munitions (See memorandum of October 17, "Estimate of Value of Munitions Production in Great Britain", Table I and estimate of ratio of combat armaments to total home produced munitions. £ 1 assumed equal to \$6 2/3 in armament purchasing power. The relation between the actual (first half of 1943) or scheduled (July 1942 - December 1943) production of aircraft and ground ordnance in U.K. and U.S.A., as reflected in the CPEB indices, has been used as a supplementary basis of the estimates for 1942 - 1943.
- 3/ Figures for 1941 through 1943 based on detailed breakdown of actual or, beginning with second half of 1942, scheduled production. (See "Estimates of the Value of War Production, 1939 - 1st. quarter 1944" by Department of Munitions and Supply). Those for 1938 through 1940 represent rough estimates. \$1 Can. assumed equal to \$1 U.S.A. in armament purchasing power.
- 4/ Covers Australia, New Zealand, South Africa and British India. Based on budgeted total military expenditures (converted at slightly above current rates of exchange) and estimated ratio of combat armaments to total military expenditures.
- 5/ Rough estimates, based partly on budget figures for total military expenditures and partly on estimates of quantities of some important types of armaments.
- 6/ Assumed unchanged at \$1/4 billion a year, chiefly as a pro memoria item.
- 7/ Includes all Latin American republics except Argentina and Chile. Figures are rough estimates based on budget figures for total military expenditures.
- 8/ Based on total expenditures for munitions and war construction (See memorandum of October 24, "Comparison of Munitions Production in U.S.A., Canada, Great Britain and Germany", Table I) and estimated ratio of combat armaments to total munitions production. RM 1.80 assumed equal to \$1 in armament purchasing power. For 1942 a quantitative comparison between American and German armament production prepared by the Office of Strategic Services has been used as a supplementary basis of estimation.
- 9/ Based on estimates of total military expenditures (adjusted for price changes) and of share of combat armaments. Lire 10 of 1938 assumed equal to \$1 in armament purchasing power.
- 10/ Included in 1938 and 1939: Czechoslovakia; in 1940 - 1943; Czechoslovakia, Poland, Roumania, Hungary, Bulgaria, Norway, Denmark, Finland, Netherlands, Belgium and occupied France. 1938 and 1939 figures based on budgeted military expenditures. For 1940 to 1943 estimated as a proportion (beginning with 1941, 10% to 15%) of German production of combat armaments.
- 11/ 1938 to 1940 based on estimates of total military expenditures (adjusted for price changes) and ratio of combat armaments to total. Yen 1 of 1936 assumed equal to \$1 in armament purchasing power. Figures for 1941 - 1943 are rough estimates.
- 12/ Covers all countries not specifically enumerated. Includes from 1938 through 1940 all of France, from 1941 on only the unoccupied part. Estimates for Sweden, Switzerland, Ireland, Turkey, Argentina and Chile and France before 1941 based on budgeted total military expenditures and estimated ratio of combat armaments to total. Other figures rough guesses.

SECRET

- 6 -

TABLE IIESTIMATED WORLD PRODUCTION OF COMBAT ARMAMENTS*1938 - 1943B. In Percent of World Total

	C. Y. 1938	C. Y. 1939	C. Y. 1940	C. Y. 1941	C. Y. 1942	Oct. 1942	C. Y. 1943	Dec. 1943
I. U. S. A.	1.5	1.0	2.5	9.1	28.6	34.2	43.5	47.9
II. Allies								
1. U. K.	4.6	6.2	15.2	17.3	15.9	14.6	14.2	13.6
2. Canada	0.0	0.0	0.6	0.9	1.6	1.7	2.0	2.0
3. Other British Empire	0.0	0.0	0.6	0.5	0.6	0.9	0.7	0.8
4. U. S. S. R.	36.4	33.4	25.5	21.8	12.7	11.4	8.9	8.0
5. China	1.5	1.0	0.6	0.5	0.3	0.3	0.2	0.2
6. Latin America	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ALLIES	42.5	40.6	42.5	41.0	31.1	28.9	26.0	24.6
III. Axis								
1. Germany	36.4	37.5	38.0	36.3	27.9	25.5	21.3	19.1
2. Italy	3.0	2.1	3.1	3.2	2.5	2.3	1.8	1.6
3. Other Axis Europe	3.0	2.1	1.9	3.6	3.8	3.4	2.7	2.4
4. Japan	9.0	7.3	5.0	4.5	4.5	4.3	3.6	3.4
TOTAL AXIS	51.4	49.0	48.0	47.6	38.7	35.5	29.4	26.5
IV. Neutrals	4.6	9.4	7.0	2.3	1.6	1.4	1.1	1.0

WORLD	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Aircraft; ground ordnance and communications equipment; army and naval vessels and equipment.

October 24, 1942

(November 12, 1942 Revision)

SECRET

Receipt for this signed
by Mr. Thompson 290 821

ALL COMMUNICATIONS SHOULD BE ACCOMPANIED BY CARBON COPY AND ADDRESSED TO

01
TO INSURE PROMPT ATTENTION
IN REPLYING REFER TO

WAR DEPARTMENT
OFFICE OF THE CHIEF OF ORDNANCE
WASHINGTON

Capt. G.S. Davis
11/21/42

NO. 451.25/3340 (5)
ATTENTION OF

November 23, 1942

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

My dear Mr. Secretary:

The following paraphrases of cables and letters, regarding the performance of the M-4 medium tank under battle conditions, are furnished for your information:

PARAPHRASE OF A CABLE RECEIVED IN WASHINGTON, SUNDAY 1ST NOVEMBER, 1942, FROM MAJOR GENERAL, MIDDLE EAST, TO B.A.S., WASHINGTON

Confirmation has been received by reports from the Western Desert, indicating great satisfaction with the M4 Medium Tank (Sherman).

The position of the main gun in the turret has made possible the advantage of maximum cover in "hull down" position in addition to good observation by the Tank Commander. There is concrete evidence that the enemy tanks, including the special P.Z. K.W. IV (with the long barrelled higher velocity 75 mm gun) has been destroyed up to ranges of 2,000 yards. All troops are indicating that there should be more Shermans sent out at the earliest opportunity.

At the present moment there is no information regarding the use of the Stabilizer, and it is not expected that this will be available early as it is still the policy to fire from stationary "hull down" positions whenever the opportunity permits.

EXTRACTS FROM MIDDLE EAST CABLE Q (AE) 63086

Two. - Users are giving unstinted praise to all American equipment particularly M4 which embodies all desired improvements except ideal gun sights.

Three. - Would again stress it is vital we receive earliest large numbers M4 regardless of the availability of tools and spares for which we are prepared to wait.



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SECRET

EXTRACTS FROM LETTER TO B.A.S., WASHINGTON
FROM MAJ. GEN., A.F.V., MIDDLE EAST

Sub-para. to 4.

The Tanks M4 have made a great impression on everyone, and the troops are thrilled with them. The long gun is magnificent, both in accuracy and in penetration, and the sights are evidently a considerable improvement on the Grant.

PARAPHRASE OF THE PRIME MINISTER'S MESSAGE
DATED OCTOBER 30, 1942, TO THE PRESIDENT,
COPY OF WHICH WAS FORWARDED TO ORDNANCE
FROM THE WHITE HOUSE

The special Mk IV enemy tanks are being destroyed with M61 ammunition at ranges up to 2000 yards.

According to first reports from the Western Desert, the Shermans are excellent. There is maximum concealment in the "hull down" position and the commander has good observation.

The 105 mm Gun Motor Carriages and ammunition have proven very satisfactory. Although they have not been used in a very mobile role as yet, great results are expected in use against enemy guns.

PARAPHRASE OF A CABLE FROM THE M.G., A.F.V.,
MIDDLE EAST TO THE DIRECTOR OF ARMoured FIGHTING
VEHICLES, WAR OFFICE. RECEIVED ON 12TH OF NOVEMBER 1942

In continuance of my last cable relating to the Medium Tank M4 (Sherman) further reports confirm satisfaction. Emphasis is placed on the extremely tough nature of the fighting during the period 24th to 28th October. Mines, anti-tank guns, and very heavy concentrations of artillery fire restricted Tank movements until such time as a combined Infantry and Tank attack on the night of November 1st-2nd opened up a clear road. However, the period of close fighting wore out the enemy's Armoured and Anti-tank gun strength, so that our Armour had a decisive superiority in the final action between Armour on the 4th November.

Many of our Tank casualties were due to mines and shelling which affected the tracks and suspensions only. Enemy A.P. H.E. which penetrated our Tanks caused fuel and cordite fires. All the evidence shows that gasoline causes an instantaneous fire whilst Diesel fuel ignites more slowly and gives a crew a better chance of evacuation.

An investigation is in hand as to whether many Tanks might be saved if the ammunition bins are more heavily armoured even at the expense of the number of rounds carried.

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It is estimated that 50 Medium Tanks (M4) and 30 Medium Tanks (M3) have been written off as damaged beyond repair.


There are 75 Medium Tanks (M4) and 60 Medium Tanks (M3) which have been recovered and are repairable. Exact figures will be sent when the battlefield is cleared.

Information to date shows that little use was made of the stabiliser during the static fighting which is described in paragraph 1. No information is to hand at present regarding its use during the more mobile operations which have taken place since that date.

With reference to paragraph 2 requesting information on the performance of the new Diesel engine in the M-4 tank, it is presumed that the engine referred to is a caterpillar Diesel engine, of which one engine has been completed and which must be considered still experimental.

The above information is forwarded at the request of Mr. William Thompson, Administrative Assistant.

For the Chief of Ordnance:


J. C. RAAEN
Colonel, Ord. Dept.
Executive Officer

