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TREASURY DEPARTMENT

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, August 27, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated September 3, 1941, and will mature December 3, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Friday, August 29, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be

- 2 -

accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on September 3, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but

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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. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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DEFENSE SAVINGS STAFFADVANCE SCHEDULE OF RADIO PROGRAMS

WEDNESDAY - AUGUST 27, 1941.

Time: 12:45 - 1:00 P.M.
 Program: "Quiz Kids See How Bonds Are Made."
 Quiz Kids who will take part are
 Jack Lucal, Edna Heenan, Sheila Brenner,
 Gerard Darrow and Melvin Silver,
 Washington's Own Quiz Kid.
 Mr. Clark R. Long, Acting Director of
 The Bureau of Engraving and Printing,
 will act as host.
 Station: WMAL - Washington, D. C.

Time: 3:00 - 3:15 P.M.
 Program: Backstage Wife
 Station: WRC and NBC Red Network

Time: 7:00 - 7:30 P.M.
 Program: Quiz Kids - from Washington
 Station: WMAL and N.B.C. Blue Network

Time: 8:00 - 9:00 P.M.
 Program: TREASURY HOUR - "MILLIONS FOR DEFENSE"
 Starring Eddie Cantor as Master of
 Ceremonies, James Melton, David Rubinoff,
 Priscilla Lane, Barry Wood, Ray Block's
 Choir and Al Goodman's Orchestra.
 Station: WJSV and CBS Network

Time: 11:15 P.M. - 12:00 A.
 Program: "Music You Want, When You Want It".
 Station: WMAL - Washington, D. C.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

DEFENSE SAVINGS STAFF

ADVANCE SCHEDULE OF RADIO PROGRAMS

WEDNESDAY - AUGUST 27, 1941.

Time: 12:45 - 1:00 P.M.
 Program: "Quiz Kids See How Bonds Are Made."
 Quiz Kids who will take part are
 Jack Lucal, Edna Heenan, Sheila Brenner,
 Gerard Darrow and Melvin Silver,
 Washington's Own Quiz Kid.
 Mr. Clark H. Long, Acting Director of
 The Bureau of Engraving and Printing,
 will act as host.
 Station: WMAL - Washington, D. C.

Time: 3:00 - 3:15 P.M.
 Program: Backstage Wife
 Station: WRC and NBC Red Network

Time: 7:00 - 7:30 P.M.
 Program: Quiz Kids - from Washington
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Time: 11:15 P.M. - 12:00 M.
 Program: "Music You Want, When You Want It".
 Station: WMAL - Washington, D. C.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
 FROM: American Embassy, London
 DATE: August 27, 1941, 7 p.m.
 NO.: 3515

THE FOLLOWING IS STRICTLY CONFIDENTIAL FOR THE
 TREASURY DEPARTMENT.

Reference is made to the telegrams of the Embassy to the Department of State--No. 3775 of August 20 and No. 3805 of August 25--which dealt with the payments agreement which the Treasury of Great Britain is contemplating setting up in conjunction with its freeing of assets of the Japanese. In compliance to the Treasury promise to keep the Embassy informed, the following is sent from Waley and is quoted verbatim.

(not in paraphrase.) "We have made exports to China subject to licensing other than those via the Burma Road. Our intention is, pending more detailed arrangements, to discriminate between desirable and undesirable consignees, to grant licenses freely within the limits of normal trade for exports other than in short supply or valuable to Japan's war effort, or any specific consignments where there are strong reasons for refusing a license on economic warfare grounds.

Our wish is to tighten up this procedure as soon as we can without injury to friendly interests in China. We therefore want to obtain information about the trustworthiness of consignees

-2-

of consignees in order that exports may be confined to those cases in which the potential advantages to free China are likely to outweigh the danger of leakage to Japan so far as can be judged. British licensing authorities will, as far as possible, consult Shanghai on individual exports to consignees other than those known to be British, American, allied or friendly Chinese. We have suggested that our people in Shanghai should take advantage of the advice of banks who are being asked to avoid financing transactions likely to benefit the Japanese and so far as possible to conform with the policy of American banks.

One point on which we were uncertain was whether the United States Government refuse export licenses to Japanese consignees in China and on this we are asking our Embassy at Washington to make an inquiry.

In general we are anxious to know as precisely as we can what American policy is going to be as regards cotton and other exports so that our policy may conform. We are asking our Embassy at Washington to do all they can to obtain information on this point."

WINANT.

HAIFAK

COPY

TELEGRAM SENT -- GRAY

AUGUST 27, 1941, 5 p.m.

AMEMBASSY,

CHUNGKING, CHINA, VIA N.R.

207.

Your No. 353, August 18, 10 a.m.

Please communicate the following message to Fox.

QUOTE: The Trade Agreements Committee has authorized a country committee to study and report on the possibility of a trade agreement with China.

Trade agreement material is being sent to the Embassy for you. Mr. Cochran advises that in response to your telegram of June 24, he mailed you, care Consulate General, Hong Kong, on June 28, five copies of Tariff Commission report on foreign trade of Japan; on June 30 by airmail one copy Tariff Commission report on imports from Japan in 1939, and on August 4 by pouch four copies thereof. END QUOTE.

HULL.

TA/EA:JCR/FL:PAK

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TELEGRAM SENT

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FM

GRAY

August 27, 1941.

7 p.m.

AMERICAN CONSUL,

HONGKONG, VIA N.R.

236.

Treasury Department is arranging to send Mr. Richard P. Aiken to Hong Kong as a financial adviser to the Consulate General. He will probably leave Manila between September 2 and 5.

His main function is to investigate the operation of the freezing control in Hong Kong area and to assist Mr. Fox in connection with the problems with which he is concerned.

Mr. Aiken is expected to keep you informed of the problems upon which he is working and you will assist him in so far as is practicable by providing stenographic assistance and office space, by making available all relevant reports of the Consulate General, by making such suggestions as to method of operation and as to policy as may be considered appropriate, and by arranging appointments with such representatives as may be appropriate.

Mr. Aiken will assist you in so far as time will permit in explaining operations of the freezing control system and by giving such advice as may be requested.

-2-

Such reports as he may deem desirable to submit to the Treasury Department will be transmitted by you to the Department of State for forwarding. You are free to suggest any changes considered desirable but you have no authority to edit any such reports.

Costs of any official telegrams sent upon the request of Mr. Aikon should be included in the regular accounts of your office as separate items for billing to the Treasury Department in accordance with the provisions of Section V - 45 of the Foreign Service Regulations.

HULL.
(GHS)

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(Handed by Mr. Bewley to Mr. Cochran in the Treasury at 12:30 noon,
September 4, 1941.)

Governor Hong Kong

Sir R. Campbell

6.00 p.m. August 27, 1941.

9.45 a.m. August 27, 1941.

Addressed to Colonial Office telegram No. 932 repeated to Washington
for Phillips and Niemeyer, Shanghai telegram No. 320. Chungking
telegram No. 199.

Following for Treasury from Rogers /?Chungking/ telegram No. 416
to Foreign Office.

No more than 6 of 15 members of exchange plan committee set up
August 13 and supported August 19 (sic) can be said to have more than
a rudimentary understanding of the problems involved. Remainder are
officials, generals and /grp. Undec./ Committee will have four divisions
viz General affairs, import, export and nationalization (sic) of foreign
aliens. I have reason to believe latter will be a family preservation
(sic).

2. A standing committee has been appointed consisting of the 3 Chinese
/??appointed to/ stabilization board of China and two others.

Copy:alm 9-4-41

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(Handed by Mr. Bawley to Mr. Cochran in the Treasury at 12:30 noon, September 4, 1941.)

COPY OF TELEGRAM FOR TREASURY FROM HALL PATCH, SHANGHAI,
DATED AUGUST 27TH, 1941.

An open market is developing. American banks decline to deal at official rates and are providing cover at Open market rates for oil companies and others. Hong Kong and Shanghai Banks and Mercantile Bank have so far only quoted official rate but cannot maintain this attitude (continually) in a competitive market.

2. Open market is fed mainly by a) export bills which are again flowing to foreign banks and b) foreign banks with resources and local (?deposits) in United States dollars. These not being "banking institutions within United States" are free to operate within their United States dollar resources and those of their clients provided no operations are put through New York which would infringe freezing order. Thus they buy United States dollars from their depositors and they sell United States dollars provided these are retained in local accounts. They will not sell exchequer transfers or drafts against such local accounts (except for imports from United States) but they will re-purchase (?) at any time) at open market rates.

3. (?There is) little sterling on free market and British American banks are respecting (?undertaking) a given to control by their London offices. Local Manager of National City Bank has not however given these undertakings; his head office is unwilling that he should do so and his sterling is still frozen. This is creating bad blood. Difficulty apparently is that head office feels that local manager cannot give the undertakings you require without (?run)ning risk of actions in local United States courts.

4. Main difficulties (?here) in the first instance are: a) Uncertainty owing to conflicting instructions from Chungking as to imports for which cover at official rates will be provided. b) Uncertainty as to whether import requirements for which cover is not provided at official rates should be covered in open market. c) Misgivings as to what form Chinese (?exchange) control will take and uncertainty as to when it will be brought into effect.

5. As to a) a clear-cut prohibited list revised by customs from time to time seems the solution provided the banks can count on cover from the Board for all imports not on the list at time they provide exchange to importer. I am pressing for this. As to b) an open market seems inevitable until freezing procedures can be tightened up and coordinated and Chinese Exchange

- 2 -

Control procedure is devised. Prohibited imports (e.g. oil and tobacco) will continue to be financed on open market and sooner or later British banks will be forced to deal in that market and quote rates. While active open markets exists there will be no in-(iflow) of foreign exchange from Shanghai to either Board or Chinese Government. To deal with imports it may ultimately be necessary to devise means to restrict imports from sterling area and United States to those licensed by authorities in exporting areas in agreement with the Chinese Government. As to c) I have told British Banks that the Board will use its influence to ensure efficient and non-discriminatory exchange control measures. They remain sceptical.

6. The Board is pressing the Chinese Government to accelerate exchange control procedure and after discussion with my American colleague I will see if we are able to make any joint recommendations for modifications of freezing procedures.

TKB:KF

Copy:mew 9/4/41

C
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FBI Miss Chauncey
Y

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA

August 27, 1941

My dear Mr. Secretary:

Reference is made to your conversation with the Minister of Finance of Ecuador on August 15, and to conversations between the Minister of Finance, the Ambassador of Ecuador, and officers of this Department and of the Treasury with respect to the request of the Republic of Ecuador for the assistance of this Government in expanding the scope of operations of its stabilization fund.

During his visit to Washington, the Minister of Finance addressed to the Department a formal request for such assistance, and the Department encloses herewith a translation for appropriate action by the Treasury.

It is the Department's view that appropriate cooperation between the Treasury and the Government of Ecuador in the regulation of the relationship between the Ecuadoran sucre and the United States dollar would be beneficial and desirable.

It is accordingly requested that, if you agree, the Treasury continue with the Ambassador of Ecuador the conversations initiated during the visit of the Finance Minister. If, at a later date, it appears desirable that the Finance Minister or some representative again visit Washington, it is probable that this can be arranged.

Sincerely yours,
(Signed) Sumner Welles
Under Secretary

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

- 2 -

Enclosure:

From the Ecuadoran Embassy,
August 18, 1941 [In translation].

Copy:lg 8/28/41

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(TRANSLATION)

EMBASSY OF ECUADOR
WASHINGTON

August 18, 1941

Mr. Secretary:

I have the honor to address Your Excellency with a view to advising you that it would be very satisfactory to my Government if the Government of the United States of America would accept this note as an application for the granting of a loan, which would serve to increase the Monetary Stabilization Fund which Ecuador now has.

The idea of the Government of Ecuador is that perhaps a revolving fund for stabilization may be necessary with a maximum of US\$5,000,000.00, to be used partially and as may be required.

This Stabilization Fund would be handled and controlled by a special agency, which would be directly under the authority of the Minister of the Treasury.

The ends sought by the Government of Ecuador with respect to the Stabilization Fund is:

- a) To establish a defense fund against the sudden variations in Ecuadoran currency, caused by a temporary inequality in the trade balance of Ecuador with the United States;
- b) To increase the confidence of the Ecuadoran public in their currency;
- c) To assure that the reserves of the Banco Central maintain an adequate level, in order that the present rate of exchange may not experience negative situations; and

d)

- 2 -

d) Facilitate to the Ecuadoran importers the difference in foreign exchange they may require, the difference between what they really need for their imports and the sums which the Exchange Control can grant to them under the present quota system.

These ends are of capital importance for Ecuador. The system of quotas for imports, in effect in Ecuador, has diminished notably the supply of imported goods which the country needs, precisely at the same time that exports coming from the United States become enormously more difficult to obtain, due to the requirements of the United States National Defense program.

The Government of Ecuador is ready to furnish and would desire to know what kind of information is required, in order to facilitate and cooperate with the decision of the United States Government with regard to the granting of the above-mentioned loan.

Any details concerning management, operation, guarantees, etc., necessary for obtaining the said loan, as well as for its use and application, will be given by the Government of Ecuador in accordance with such indications as the Treasury Department of the United States Government may see fit to suggest to the Government of Ecuador.

I avail (etc.)

VICENTE ILLINGWORTH
Minister of the Treasury of Ecuador

His Excellency
Cordell Hull,
Secretary of State,
Washington, D.C.

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8/27/41- 0 Enclosures

Record Section File No.

MILITARY INTELLIGENCE DIVISION

WAR DEPARTMENT GENERAL STAFF

MILITARY ATTACHE REPORT MOROCCO

SUBJECT Currency and Exchange in Tangier

Country Reported On

I.G. No. 5060

Source and Degree of Reliability:

Local bankers and personal observations

Summarization of Report:

Rise in gold against Moroccan francs.

Fall of franc against foreign currencies.

Local Bankers and internationalists report that Tangier is one of the largest trading centers in Western Europe and North Africa in gold. Practically all other free gold markets in this area except Lisbon have been closed by governmental intervention, and the local explanation for the amount of business is that gold is being bought both in Lisbon and Tangier for German account and for French account to be handed over to Germany.

It is reported that by an arrangement between the Reich and Vichy, the French government has agreed to pay part of the tribute due under the armistice arrangement in gold. There is no direct confirmation of this reported French-German arrangement. However this may be, the fact remains that gold is very firm and has a tendency to rise. This may only be due to private demand; for instance, when private accounts in the United States were frozen there was a sharp rise in gold on the Tangier market, and undoubtedly many private individuals were changing paper dollars for yellow metal. The movement does not get disorderly firstly because of the relatively small supply, and secondly because an embargo on the export of gold or even of its retention in private hands is feared from the Spanish authorities.

On these two remaining free gold markets of Europe and North Africa (Tangier and Lisbon, for Switzerland hardly counts as such owing to restrictions, if not operations, at least in exportation) there has been a steady rise in the price of gold within the last two months, from the beginning of May. Although the tendency was noticeable before this, the movement has become more evident since that date. The rise has not only been in

G-2 Distributions 4. _____ 5. _____ 6. _____

From U.S. Tangier Report No. 19 Date July 31, 1941

18

the local currencies (Moroccan francs and escudos, which can hardly be compared in intrinsic value) but also in dollars. The appreciation has been about ten percent in the case of bar gold, and at least fifteen percent in the case of U. S. gold coins and British gold sovereigns. French gold louis (which are 22 carats fine as against 22.45 fine for dollars and sovereigns) have risen less not only giving direct account of their lower gold content but also relatively, although the difference is not more than one or two percent. Other gold coins such as antique Turkish, Moroccan or even Spanish XVIIIth pieces, although quoting slightly higher than their gold content would warrant alone, have not risen so much; and this is noteworthy because some of them, such as fine examples of large Spanish gold coins of XVIIIth century, have a collection and antique value apparently not taken into account by the merchants in Tangier.

It is apparently felt that the gold coinages of the United States and Great Britain have some considerable latent premium value over the worth of their gold content, although as far as Great Britain is concerned they would only be exchangeable for paper at their gold content price. Therefore for gold purchases it is much more advantageous to purchase gold objects of recognized fineness (they are of course usually only 18 carats) than gold coins. The price of 18 carat bar gold has risen during the last two months (May, June and part of July 1941) from 60 to 68 Moroccan francs per gram. The price of gold sovereigns has appreciated during the same period from 640 to 775 Moroccan francs. In calculating the relative rise in the price of gold dollars it should be remembered that British sovereigns are 916 fine gold, whereas gold dollars are 900 fine gold. The tendencies of both gold dollars and gold sovereigns are very firm, and the maximum prices quoted in the Tangier exchange market on July 31, 1941, are 790 for sovereigns and 160 for gold dollars (in coins of five, ten dollars, etc.) but these prices are the highest for sale, and the average purchase-sale price is slightly lower. In using these figures it should be remembered that bar gold as bought and sold on the free Tangier market and above quoted at 68 francs today is 18 carat gold, and that both gold dollars and gold sovereigns are 22 carat fine (gold sovereigns slightly more than 22 carats), and that minted coin has an absolutely higher value than bar gold even of the same fineness.

On the Tangier bourse the Moroccan paper franc has fallen steadily during this period in relation to dollars, pounds, pesetas and escudos, as shown on the following page.

From M.A. Tangier Report No. 19 July 31, 1941.

	<u>May 31</u>	<u>June 30</u>	<u>July 31</u>
Francs per Lb.	265	265	280
Francs per \$1.00	69	73	86
Francs per 100 Escudos	305	315	360
Francs per 100 Pesetas	223	241	277

Wm. C. Bentley,
Major, Air Corps,
Military Attache
Tangier, Morocco.

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From M.A. Tangier Report No. 19 July 31, 1941.

Page 3

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 27, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£109,000
Purchased from commercial concerns	£ 9,000

Open market sterling was again quoted at 4.03-1/2. The only reported transaction consisted of £2,000 sold to a commercial concern.

The Canadian dollar, which closed at a discount of 10-13/16% yesterday, improved to a final quotation of 10-9/16% today. The improvement was attributed in part to Post Office demand for Canadian dollars.

The Cuban peso discount narrowed to 7/8%, as compared with 1% last night.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentina peso (free)	.2382
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4385
Venezuelan bolivar	.2765

There was a holiday in Shanghai, and no quotations were received from that center.

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us reporting the following shipments of gold from India, both of which are for sale to the New York Assay Office:

\$ 846,000 shipped by the Chartered Bank of India, Australia and China, Bombay to its New York office.

289,000 shipped by the National Bank of India, Bombay to the Chase National Bank, New York.

\$1,135,000 Total

A price of 23-1/2d was again fixed in London for both spot and forward silver, equivalent to 42.67¢.

CONFIDENTIAL

- 2 -

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made two purchases of new production silver amounting to 75,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.

The report of August 20, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$4,771,000, a decrease of \$79,000 in the short position since August 13. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>August 13</u>	<u>Short Position</u> <u>August 20</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$ 101,000	\$ 38,000 (Long)	- \$139,000
Europe	2,802,000	2,769,000	- 33,000
Canada	264,000 (Long)	154,000 (Long)	+ 110,000
Latin America	75,000	112,000	+ 37,000
Japan	60,000	71,000	+ 11,000
Other Asia	2,111,000	2,019,000	- 92,000
All others	35,000 (Long)	8,000 (Long)	+ 27,000
Total	\$4,850,000	\$4,771,000	- \$ 79,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
 Minus sign(-) indicates decrease in short position, or increase in long position.

** Combined position in registered and open market sterling.



British Embassy,
Washington, D.C.,
August 27, 1941.

PERSONAL
AND SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 25TH

Free French submarine Rubis previously reported disabled after ship off Norwegian coast has been safely escorted into harbour.

2. His Majesty's Submarine Tigris torpedoed and sank 3000 tons merchant ship off North Cape on 17th.

3. Italian squadron including 3 battleships, 4 cruisers and destroyer was operating to southward of Sardinia on August 24th.

4. 20th. H.M. Submarine Unique attacked convoy of 4 liners off Tripoli escorted by destroyers claimed 3 hits on S.S. Esperia (11,398 tons).

5. Naval units from Gibraltar successfully attacked cork forest and factories in Sardinia.

6. H.M.S. Wolsey was in collision with a Norwegian 2/3 trawler which sank. His Majesty's sloop Black Swan escorting coastal convoy, which was unsuccessfully attacked by aircraft, was damaged by near miss and has 2 unexploded bombs on board.

7. Early a.m. August 25th British forces entered Iran. Abadan Khorramshah and Bandar Shahpur seized. Iranian gunboats Palang and Gohr sunk. 2 patrol vessels captured and 2 more otherwise disposed of. At Bandar Shahpur floating dock and 2 out of 3 axis ships the German Hohenfels 7862 tons and Sturmfels 6299 tons were captured.

8. Corinth Canal. Recent 2 bombing attacks reported causing landslides which have closed canal to all traffic.

9. Night/

Regraded Unclassified

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9. Night 23/24 Royal Air Force heavily attacked Tripoli (L) causing large fire in supply dump and other fires dock area.
10. August 24th. Royal Air Force hit 2 800 ton schooners and an escort vessel in Gulf of Sidra. Latter and one schooner probably sank later.
11. Night of August 24th/August 25th 50 bombers despatched of which three are missing. Targets included Dusseldorf.
12. Russia. Germans continue to attack vigorously south of Lake Ilmen and north eastwards from Kerosten. South Kiev they are meeting with stiff opposition.

BRITISH EMBASSY,
WASHINGTON, D.C.,
AUGUST 27, 1941.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 27, 1941

TENTATIVE LESSONS BULLETIN
No. 150
G-2/2667-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

ITALY IN THE PRESENT WARSOURCE

This is the first of a series of three bulletins based on translations from connected articles written by a German war correspondent and published in separate issues of the Militär Wochenblatt, a semi-official periodical distributed to the German army.

This bulletin, which describes the British offensive against Marmarica, was taken from the issue of April 16, 1941.

As this account was written from the German point of view and was intended to bolster friendly feeling between the Axis partners, propagandistic tendencies should not be overlooked, particularly with regard to the size of the forces opposing the Italians.

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NO OBJECTION TO PUBLICATION IN SERVICE JOURNALSITALY IN THE PRESENT WAR

In the address which Mussolini delivered in Rome on February 23, 1941, to the Fascist battle units, he declared that the English attack on the Tenth Italian Army had preceded by some five or ten days the completion of Marshall Graziani's preparations. That completion was to have been followed immediately by a thrust at Mersa Matruh. Nevertheless the Italians were not altogether surprised by the attack. Since the first days of October, their pilots had been noticing a steady increase in the strength of the enemy forces. As those forces, however, had remained east of Mersa Matruh, it had seemed probable that their purpose was only to prevent a further advance by Graziani, and it was not until the seventh of December that there was any intimation of an English attack. On that day, a prisoner, brought in from an English reconnaissance troop which had gone to reconnoiter the 63d (Cirene) Division, stated that such an attack was to take place within ten days. British air reconnaissance over the terrain behind the Italian front was increased the next day, and strong enemy motorized troops were reported in the desert southeast of the Italian positions. Accordingly, the troops were ordered to hold themselves ready for an alarm. Since, however, nothing was known of the time or form of the English attack, that attack had, after all, the advantage of surprise.

For that advantage, General Wilson could thank the superiority of his air power, under Commodore Collinshaw - General Porro's Fifth Italian Air Fleet had already suffered considerable losses - and he could also thank the well coordinated plans and preparations of the Army of the Nile. Night after night British flyers attacked all the Italian flying fields in Libya within their range, and so limited the nocturnal reconnaissance activities of their enemy that the English counted on their night movements of December 7 remaining unnoticed; and this despite the fact that there was a full moon. On that day the fully motorized ground troops intended for the attack were still east of Mersa Matruh, for exercises; not until General Wavell's order to attack did they learn their real mission. The XIII Army Corps under General O'Connor, one Australian army corps under General Mackay - including some New Zealanders - and two tank divisions, were detailed for the task. During the night of the seventh, these forces were to advance 80 kilometers to the west; then they were to encamp for the day, pressed against the desert sand and protected by the air force. The next night they were to make a similar advance of 32 kilometers, and reach the positions from which, on December 9, the attack was to be made. And that is exactly what happened. Near the camp of the southernmost Italians - the Maletti group, composed largely of Libyan irregulars, which had been in the first encounter near Nibeiwa - were tanks and Indian infantry of the division of General de la Poer-Beresford, charged with starting the attack and completely encircling the camp. Like all

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other camps constructed by the Italians, this camp was big enough not only for the troops, but also for all their baggage, ammunition, and rations. It covered a bare plain which was some two and a half square kilometers in area. This plain was surrounded by a slight depression. The fortifications consisted of double walls made of desert stones. There was a dug-out every fifty meters or so. Only in the east and south were there tank obstacles mines, or wire entanglements; and in view of the large scale operations, the antitank artillery was insufficient.

On December 9, before daylight, British tanks made a surprise move against the fortifications, which were also being surrounded at the same time. The Italians did not even have an opportunity to man the thirty tanks that were available in the camp. Despite this they defended themselves most bravely under the leadership of General Maletti, who fell at the head of his troops. A Highlander regiment, following the tanks closely, met stiff resistance; the resulting close quarter fighting lasted two hours before the brigade was overcome. Reinforcements sent by the Second Libyan Division did not arrive in time. That division was occupying three small camps in the area between Nibelwa and Sidi-el-Barrani. It was late evening before the attackers were able to take any of these camps; then two were taken and the third was surrounded. The English, coming from the south, now found themselves before a strongly fortified position directly south of Sidi-el-Barrani.

Meanwhile the remaining Italian divisions had been held in check by other British troops. The British fleet had opened a heavy fire from the sea on the two groups which were encamped along the shore, the First Libyan Division near Mektila and the Third of January Blackshirt Division - with the headquarters of the XXIII Army Corps - near Sidi-el-Barrani. The First Libyan Division was also attacked from the east, and when it started to retreat toward Sidi-el-Barrani, it found the way blocked by British tanks which had broken through from the south to the sea, between the city and Mektila. In like manner, General Creagh, Commander of the tank troops, had dispatched a brigade to the coast between Sidi-el-Barrani and Bugbug. This brigade thrust forward between the two Italian groups, while other tanks held the Cirene Division from the neighborhood of Bir-el-Thalatha.

The British prepared during the night of December 9 for an attack on Sidi-el-Barrani. During that same night, warships bombarded the city continuously. Strong artillery was marching up from the south; infantry was beginning to reinforce the encirclement from the west and the east. The mass of the First Libyan Division, east of the city, after having offered stubborn resistance, faced on the evening of the tenth an attack from all sides. Earlier in that day, in the morning, a lively artillery duel had developed south of Sidi-el-Barrani - English reports put great emphasis on the splendid marksmanship of the Italian gunners - and Italian planes had attacked five or six times. Not until

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afternoon, after the Italian batteries had been silenced, did the British infantry move to the attack. The English brigade of the Indian Division was employed. It came up at 2 P.M., and broke into the foremost trenches. After a battle lasting four hours, Sidi-el-Barrani fell; but General Gallina, aided by a sudden sandstorm, continued to hold out until December 11. On that day native brigades, defending the third camp of the Second Libyan Division, surrounded by the Indian Division, laid down their weapons, though they had not been forced into doing so. Certain detachments, including some from the First Libyan Division, continued to offer resistance. The British recognized the heroism of this action by permitting General Gallina to address his assembled soldiers on that subject.

In the meantime, Marshall Graziani found himself confronted with the question of whether or not he should undertake a counter-attack with the two remaining divisions to liberate the front detachments. In view of the fact, however, that his forces were so much smaller than those of the enemy, he had to renounce this action, especially since the English tanks appeared to be preparing an encirclement in the south, and since the British fleet had been bombarding Bugbug on the tenth. The Marshall then decided to assemble the forces in the neighborhood of the frontier, forces that had not yet been employed, and with them to defend Libya between Sollum and Sidi Omar. General Bergonzoli, the commanding general of an army corps that had been particularly proven in the World War, in Somaliland, and in the Spanish Civil War, and a leader who had become an almost legendary figure in the eyes of the troops he led, had, in September, 1940, led the Libyan Army Corps in the attack on Sidi-el-Barrani. He was now entrusted with the Graziani plan of defense. Parts of the 63d Division and of the First Blackshirt Division were placed at his disposal, together with the two retreating divisions. On December 10, in the afternoon, these last two began the march back. The retreating Catanzaro Division, marching along the coast, arrived at Tischidida, where it rested, and then resumed its march. In the morning of the eleventh it was attacked by pursuing British tanks at a place not at all suited for defense, a narrow stretch between the sea and the high plateau which at this point comes quite near to it. Only by sacrificing the rear guard, which held until the twelfth, was it possible to move two-thirds of the division back to Sollum. The Cirene Division, on the other hand, proceeding farther south, on the plateau, returned to the vicinity of Sidi Omar, exhausted, but essentially intact, despite the fact that British tanks had tried to outflank it from the south.

General Bergonzoli held off the enemy in the specified area until December 15, though the fast British vanguards appeared before the Italian right flank as early as the evening of the twelfth. In the days that followed the English placed their chief emphasis on the flanks; their intention to surround the Italians became ever clearer.

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And General Wilson was pressing Sollum too. Bergonzoli attempted to repulse the enemy by counterattacks, but help from the Italian air force was limited by its numerical inferiority, as well as by sandstorms and unusually heavy rains which damaged flying fields, and under the circumstances, General Bergonzoli decided to retreat in full order during the night of the fifteenth, along the coast road north in the direction of Bardia. That town, the chief depot place of the Tenth Army, had been fortified in the last few months.

On the sixteenth the English entered the deserted cities of Sollum and Capuzzo. On the seventeenth and eighteenth they broke into the Italian frontier posts farther south. The Italians now held only the two great oases in the Libyan desert.

Because of its mosque, which contained the grave of the founder of the Senussites, Giarabub, across from Siwa, is a sacred place for Mohammedans. There the Commandant, Major Castagna, with a small garrison of white border defense troops and three Libyan brigades, had already repulsed various attacks of Australian mobile troops. Still farther south, the Kufra oasis had a special significance; it was a junction for the air transport line, the only regular line of communication with East Africa. Against it, General Wavell had repeatedly sent his desert group. This force, equipped with specially constructed caterpillar cars, foodstuffs and water for several weeks, radio apparatus, and reconnaissance cars, provided with water condensers which conserved water, had been ready for long desert trips since the end of August. So far, however, it had been able to execute only a few attacks on Italian transports. The oasis itself remained firmly in Italian hands.

At any rate, the principal fighting continued to take place along the coast. Mussolini ordered Bardia to be defended to the last. From the point of view of morale that order was essential, but there was another consideration as well; in this way the Italian command would be able to gain time.

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G-2/2657-220; No. 478 M.I.D., W.D. 11:00 A.M., August 27, 1941

SITUATION REPORTI. Eastern Theater.

Ground: German and Finnish forces continue to press on Leningrad from the north, west and south.

The Germans are closing in on Tallinn.

East of Valikie Luki, the German High Command states that the attacking Russian Army has been defeated and 30,000 prisoners captured.

Heavy but obscure fighting continues in the Gomel area.

Dnepropetrovsk, on the west bank of the Dnepr, is in German hands.

Air: Heavy German losses from combat and antiaircraft are reported from the bombing of Leningrad.

II. Western Theater.

R.A.F. planes carried out daylight offensive missions over northern France. Night raids were made on Cologne and harbor works at LeHavre and Boulogne. There was slight German bombing night activity over the British Isles.

III. Middle Eastern Theater.

Air: Tobruk was bombed the 25th. Tripoli was attacked by British planes on the same date.

British transport planes have been employed for carrying air-borne troops in the Iranian campaign.

Ground: Russian columns from the north have captured Shahpur (Dilman), Tabriz (second largest town), Ardebil and Lissor (on Caspian coast).

There is no word from the British Raiaat column. Shar-i-pul on the Kermanshah Road has been taken as has Khurram Shahr and Abadan, where the third largest oil refinery in the world is. British parachute troops were dropped at Haft Kel to protect British nationals there.

RESTRICTED



TREASURY DEPARTMENT
Washington.

ASSISTANT SECRETARY

August 28, 1941.

Dear Henry:

I am enclosing copies of the proposed silver and peso agreements and also two paragraphs which it is proposed to include in the State Department press release.

Sincerely,

Honorable Henry Morgenthau, Jr.,
Hopewell Junction, New York.

V. STABILIZATION OF THE MEXICAN PESO-U.S. DOLLAR RATE OF EXCHANGE

The Treasury Department is prepared to enter into an arrangement for monetary and financial cooperation with the Mexican Government and the Mexican Central Bank, which will provide among other things for the purchase of Mexican pesos with United States dollars. The U.S. dollars thus acquired by the Mexican authorities will greatly assist them in stabilizing the exchange value of the peso in terms of the dollar, to the mutual benefit and advantage of the two countries.

VI. MEXICAN SILVER

The Treasury Department has also indicated its willingness to purchase newly mined Mexican silver direct from the Mexican Government on a basis similar to that under which such purchases were made prior to March 1938.

Treasury Department
Division of Monetary Research

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Date.....August 7 1941

To: Mr. Cochran
From: Mr. Southard

Drafts as approved at the meeting
on August 6 and handed to Mr. Monteros
at 5:30 p.m., August 6.

- 1 Stabilization Agreement
- 1 Silver Agreement

DRAFT "A" - 8/6/41

Banco de Mexico, S.A.,
Mexico City, Mexico.

Dear Sirs:

Agreement to Purchase Silver

We refer to the conversations which the Secretary of the Treasury of the United States has had with Mr. Antonio Espinosa de los Monteros, representative of the Mexican Ambassador in Washington during relative to the purchase of Mexican silver by the United States. We beg to advise you that we, as fiscal agent of the United States, are now authorized by the Secretary of the Treasury to enter into the following arrangement with you:

We, as fiscal agent of the United States, will purchase from you during the month of , 1941, for delivery on board American steamer at Vera Cruz or for delivery on board train at Monterrey, up to 6,000,000 ounces of silver newly mined in Mexico in refined silver bars of the customary size, of the degree of fineness and carrying the marks required "for good delivery" in the New York market, which according to the production dates marked thereon were produced in Mexico during or , 1941 (hereinafter referred to as "silver"), as follows:

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(a) We will advise you daily during _____, 1941, by telegram, the price at which we, as fiscal agent of the United States, will purchase from you on that day such amount of silver as you may elect, within the foregoing limitations, to sell to us on that day. Such quotation will be in terms of United States cents per ounce of silver .999 fine delivered on board American steamer at Vera Cruz or on board train at Monterrey, which will be specified.

(b) If on any day during the month of _____, 1941, you elect to sell silver to us at the price specified in our telegram to you of that day, you shall so advise us by telegram dispatched from Mexico City not later than 4:00 p.m. your time of the same day, stating the amount of silver which you have so elected to sell to us.

(c) The receipt by us of any such telegram from you shall conclude a contract between us for the sale by you and purchase by us, as fiscal agent of the United States, of the amount of silver stated in such telegram, at the price specified for the day such telegram is dispatched.

(d) You shall, at your expense, cause the silver covered by each such contract to be shipped, consigned to us, to such United States mint or assay office as we may designate so that it will be delivered there within 30 days from the date of each such contract.

(e) You shall assume the risk of loss of the silver during transit, i.e., you agree to hold us harmless from any loss of or damage

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to the silver while it is in transit from the time it is delivered on board American steamer or on board train, as hereinabove provided, until it reaches its ultimate destination at a United States mint or assay office, as hereinabove in paragraph (d) provided, and from any costs and expenses arising from any such loss or damage.

(f) Payment for the silver purchased by us as aforesaid will be made by a credit to your account on our books at the contract price for each such purchase, such credit to be made upon the delivery of the silver to the United States mint or assay office designated by us. A full set of "on board" bills of lading or the express company's receipt, showing Federal Reserve Bank of New York as consignee and bar lists in duplicate, all in good order, to be forwarded directly to Federal Reserve Bank of New York. Any reasonable or necessary expenses incurred by us with respect to such silver will be debited by us to your account on our books.

If you wish to consider renewing this or entering into a similar arrangement for the month of _____, 1941, and for month-to-month thereafter, will you kindly so advise us on or before the fifteenth day of _____ 1941, and on or before the fifteenth day of each succeeding month, and we will advise you as soon as possible thereafter whether any such arrangement would be acceptable.

If you will confirm to us, by letter or tested cable, that the foregoing is acceptable to you, we shall place the arrangement in operation by advising you on _____ 1941, as contemplated by paragraph "(a)" above, of the price at which we, as fiscal agent of the United States, will purchase silver from you and we, as such fiscal agent, will thereafter purchase silver from you in accordance with the terms and conditions of this letter.

STRICTLY CONFIDENTIAL

DRAFT 8-6-41

AGREEMENT made as of the 1st day of September, 1941, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), the Banco de Mexico (hereinafter called the Bank) and the Government of the Republic of Mexico (hereinafter called Mexico).

WHEREAS, the monetary and financial cooperation of the United States of America and the Republic of Mexico and the stabilization of the United States dollar-Mexican peso rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal) shall, as hereinafter provided, purchase Mexican pesos from the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Mexican peso with respect to the United States dollar. The total amount of pesos thus purchased by the Secretary, exclusive of accrued interest thereon and of any pesos repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$40,000,000 computed at the rate at which such pesos are purchased as hereinafter provided. The pesos so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve

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Bank of New York of advice from the Bank by tested telegram that this account has been credited with a stated amount of Mexican pesos, the Federal will in turn, in payment therefor, credit the Bank in a special account to be opened by the Federal in the name of "Banco de Mexico, Special Account", in an amount in United States dollars equivalent, at the then prevailing buying rate of exchange in New York for telegraphic transfers payable in Mexican pesos on Mexico, D. F., to the amount in Mexican pesos so credited to the account in the name of the Federal on the books of the Bank.

2. The Bank shall credit interest to the special peso account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of 1-1/2% (one and one-half percent) per annum on the daily balance of such pesos in such special account as were purchased by the Secretary under this Agreement. The matter of the rate at which the Bank shall credit interest to such special peso account may be reconsidered at any meeting provided for in paragraph 8 of this Agreement.

3. (a) One hundred and eighty days after the receipt of notice from the Secretary or the Federal containing such request, the Bank shall repurchase, or cause to be repurchased (and in the case of accrued interest, purchase, or cause to be purchased), in six equal instalments at the end of each thirty-day period during the next succeeding one hundred and eighty days, in United States dollars (utilizing, if necessary, the gold resources of the Bank and Mexico), by payments at the Federal Reserve Bank of New York:

(i) Any or all of the pesos purchased by the Secretary through the Federal at the same rate or rates of exchange at which such pesos were purchased; and

(ii) Any or all of the pesos representing interest accrued on, and whether or not credited to, the special peso account on the books of the Bank in the name of the Federal at the average rate of exchange at which the pesos, upon which such interest has accrued, were purchased by the Secretary through the Federal.

(b) Notwithstanding the foregoing, in the absence of such a request by the Secretary or the Federal, pesos in the amount of such accrued interest shall be purchased or caused to be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the rate of exchange described in subdivision (a)(ii) of paragraph 3.

(c) The aforementioned special peso account, the pesos credited thereto (including interest), and all transactions respecting such account, and the other obligations of the Bank and Mexico under this Agreement shall, in so far as the rights, powers and privileges of the Secretary or the Federal may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Mexico or any political subdivision or taxing authority thereof.

4. The Bank may also at any time by making payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3, repurchase the pesos described in paragraph 3, with available funds from any source.

5. In the event of any failure to repurchase (or, in the case of interest, purchase) the pesos as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, the Bank shall, if and when the Secretary, acting directly

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or through the Federal, so elects by giving notice to the Bank and/or Mexico to such effect, becomes forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the pesos at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "Banco de Mexico, Special Account" shall be retained by the Federal and applied by the Secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of pesos under this Agreement or to the "Banco de Mexico, Special Account" which is received by the Federal in the name of the Bank and which is believed by the Federal to be genuine, and upon any cablegram, radiogram or telegram relating to the foregoing which is received by the Federal in the name of the Bank and which conforms to existing or future arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the Bank and the Federal with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms and telegrams shall be binding upon the Bank and Mexico.

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6. Mexico hereby unconditionally guarantees the full performance by the Bank of all the obligations, duties and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto.

7. Any notice given by the Secretary or the Federal either to the Bank or to Mexico shall be deemed and taken as full notice to both of them, and such notice may be given by the Secretary or the Federal to the Bank at its head office in Mexico, D. F., or to Mexico at the office of the Minister of Finance of Mexico at Mexico, D. F., or to the Mexican Embassy at Washington, D. C. The Bank and Mexico hereby waive diligence, protest, notice and demand of every kind, except as expressly provided for in this Agreement.

8. Mexico, the Bank and the Secretary agree that at periodic intervals of approximately six months from and after the date of this Agreement (the precise dates to be agreed upon) there shall be held a conference to be attended by the representatives of each of such parties to discuss and consider the United States dollar-Mexican peso rate of exchange, problems of mutual interest in connection therewith and all other monetary, financial and economic problems of mutual interest. The Bank and Mexico agree that, without providing the Secretary with an opportunity for consultation, no substantial change in the United States dollar-Mexican peso rate of exchange will be made, and no important exchange control measures will be introduced. The Bank and Mexico further agree that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Mexican peso with respect to the United States dollar, and that due diligence

will be exercised to prevent the permanent exhaustion of the fund. In particular, the Bank and Mexico agree to take all reasonable measures to prevent internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder.

9. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

10. Any obligation of the Secretary pursuant to this Agreement shall be conditional and dependent upon the prior performance by the Bank and/or Mexico of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.

11. Any obligation of the Secretary to purchase pesos under this Agreement shall terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or telegram from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal, or any of the duties, liabilities or obligations of the Bank or of Mexico hereunder, all of which shall continue in effect until the Bank and Mexico shall have fully performed their said duties and obligations and discharged said liabilities. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that the Bank and Mexico wish an extension of this Agreement, they will give the Secretary

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notice to that effect in writing or by telegram at least thirty days prior to the termination of the Agreement.

12. This Agreement shall come into operation and effect as between the parties hereto when Mexico shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of the Bank and Mexico under the constitution, laws, statutes, decrees and regulations of Mexico, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, to enter into this Agreement, or satisfactorily evidencing ratification of the action of the Bank and Mexico in entering into this Agreement. The Bank and Mexico each for itself represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees and regulations of Mexico, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

SECRETARY OF THE TREASURY OF THE UNITED STATES

BANCO DE MEXICO

By _____

GOVERNMENT OF THE REPUBLIC OF MEXICO

By _____

August 28, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Economic Defense Board meeting.

I attended the third meeting of the Economic Defense Board at Vice President Wallace's office in the Capitol at 9:30 A.M., Wednesday, August 27. Those present included:

The Vice President
Secretary of Commerce
Secretary of Agriculture
The Acting Attorney General
Under Secretary of War Patterson
Assistant Secretary of State Long
(In place of Assistant Secretary Acheson
who was out of the city.)
William Clayton, Metals Reserve Company,
and two representatives of the OPM

The Board discussed at some length the question of priorities for South America on restricted materials, particularly metals, rubber, cork and mica. Assistant Secretary Long presented a memorandum and tabulation, which is attached. Patterson questioned the accuracy of the figures, which State Department said it had obtained from OPM, Priorities Division. Representatives of that division admitted that they might not be fully up to date. I suggested that disregarding the figures for the moment, we might consider the question of whether this Government desired to establish the policy that South American customers should receive no worse treatment than the civilian market in the United States. The Vice President suggested that we might try to make some token shipments to South America. Discussion was terminated by the announcement by the Vice President that he would appoint a committee of the Economic Defense Board to appear before the new priorities authority to be set up by the President and discuss the South American question. The OPM representatives then left the

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meeting.

During the temporary intermission I told the Vice President that with all deference to him I thought this was the wrong procedure, that the Economic Defense Board ought to be supreme in its field and that when its field of economic defense touched on priorities the Board should summon the priorities organization to wait on it rather than the other way round. Biddle, who was sitting next to Wallace, said he agreed with me.

The Board then proceeded to discuss a memorandum and chart with respect to staff organization. Mr. Wallace announced that Milo Perkins had been chosen to be Executive Director, that he had been ill and that he would be ready to report soon. The memorandum and chart of organization (prepared by Win Riefler) was adopted.

The Vice President asked that the departments represented prepare reports for the staff of the Board outlining the activities of the department concerned that affected the problem of economic defense. He mentioned particularly desire for a report on export control from the State Department and on Foreign Funds Control from the Treasury Department.

I informed the Board of reports we had received from Port Arthur indicating the possibility of diversion to Germany of supplies of petroleum going to Spain. I said we were continuing our investigation, with the assistance of the State Department.

The Board adjourned at approximately 11:00 A.M.



August 28, 1941

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MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in the office of Mr. Francis Shea, Assistant Attorney General, at 2:30 p.m. on August 28, 1941, attended from time to time by the following:

Messrs. Shea (Chairman), Messrs. Swydler and Jurenev for Justice; Messrs. Pehle, E. Bernstein, and Timmons for the Treasury; Messrs. Fisher, Luthringer and Miller for State; and Mr. Knapp for the Board of Governors of the Federal Reserve System.

With further reference to the matter of Sterling Products, it was agreed by the Committee that Mr. Fisher should phone Mr. Thomas Corcoran today to say that Sterling Products' proposal of Mr. Rogers as chairman of such Company may be unacceptable to this Committee.

Mr. Pehle referred to a communication from the Chinese Embassy dated August 8, 1941 inquiring whether it would be possible to exempt certain governmental and semi-governmental accounts from the Executive Order. These accounts consist chiefly of the accounts of the Chinese Embassies and Legations in foreign countries and various organizations such as the National Resources Commission. It was agreed that the Treasury should confirm to the Bank of China, where such accounts are maintained, that such accounts should be treated as accounts of generally licensed nationals.

Reference was made to a letter received by the Treasury from Assistant Secretary of State Berle, requesting that a revised list of the program of purchases for North Africa be incorporated into the North African licensing system for the quarterly period, July 1 to September 30, 1941. The Treasury is to proceed with the preparation of the documents necessary to incorporate such schedule in the licensing

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system.

Reference was made to a proposed amendment to Confidential Circular No. 15, which would state that free dollars may not be established to effect remittances to China or Japan. It was agreed the proposed amendment should be withheld pending further consideration of this question.

Mr. Pehle reported to the Committee that Mr. T. V. Soong has through several emissaries requested that his personal accounts in the United States be freed. Mr. Kan Lee, Attache of the Chinese Embassy, stated to an officer of the Treasury Department that the Chinese Embassy was not prepared to make a formal request with respect to such freeing, and that Mr. Soong preferred not to file a formal application. Mr. Luthringer stated that the State Department is not prepared to free Chinese accounts except upon receipt of a formal request from the Chinese Embassy. It was agreed that pending receipt of such request, no action would be taken with respect to Mr. Soong's accounts.

Mr. Pehle reminded the Committee that the license over the French Government "B" account, from which payments are made for French diplomatic expenses in South America, would not be renewed for the month of September, in view of the fact that information has been received from Ambassador Caffery in Brazil to the effect that the French Embassy has available there the equivalent of \$1,400,000. Mr. Luthringer is also to check in the State Department the desirability of renewing license No. NY 83184, which permits the expenditure of \$100,000 per month for the expenses of the French State in China. Mr. Luthringer will report his findings at the next meeting of the Committee.

Mr. Pehle brought to the attention of the Committee an application filed on behalf of the Banque Nationale Suisse, requesting a license to ship \$2,000,000 in gold to Portugal. The Treasury Department has been informed by the

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Banque Nationale Suisse that gold may not be shipped from Switzerland direct to Portugal because the Swiss gold reserve in Switzerland cannot be reduced below the present figure, and that it is necessary to deliver the gold in question to Portugal in order to settle an adverse trade balance. The Bank of Portugal apparently will not accept gold under earmark in New York. It was unanimously agreed by the Committee that this application should be denied.

Mr. Fisher reported to the Committee that a letter has been addressed to Vice President Wallace, as Chairman of the Economic Defense Board, by Mr. Orville Harden of the Standard Oil Company of New Jersey relative to the sale of German interests of Standard Oil properties in Hungary. Mr. Wallace referred the letter to Mr. Welles, requesting a memorandum thereon. The Committee agreed that a reply should be prepared for Mr. Welles' signature from Mr. Acheson, stating that the matter had been carefully considered several times by the Inter-departmental Committee charged with administering the freezing control, and that in view of all the circumstances presented by such case, it has been denied. Mr. Acheson's memorandum to Mr. Welles will also state that should the matter be raised at the next meeting of the Economic Defense Board, a memorandum will be prepared discussing this case as well as the general problem involved, which can be read to the Board at the succeeding session.

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AUGUST 28, 1941

NOTE: The following statement and Executive Order are TO BE HELD IN STRICT CONFIDENCE UNTIL RELEASED.

Release is automatic for editions of all newspapers appearing on the streets NOT EARLIER THAN 8:00 P.M., E.S.T., TODAY, AUGUST 28, 1941.

The same restrictions apply to radio.

STEPHEN EARLY
Secretary to the President

The President today by Executive Order established machinery for fixing priorities and allocation of the supply of materials, fuel, power and other commodities of all kinds in the United States. The Executive Order takes cognizance of the fact that in many strategic materials, the priorities which must be given to the manufacture of materials for the Army and Navy and for the use of defense-aid to Great Britain, Russia, China and the other countries resisting aggression, will necessarily create a shortage for civilian use in the United States.

The machinery set up, therefore, is charged with the duty not only of dividing the available supply of materials between military needs, defense-aid needs, and the total civilian needs of the people of the United States; but also will equitably allocate the supply between the different civilian industries and users in the United States. It also will have the power to determine the amount to be allocated to the needs of economic defense recently assigned to the committee of which Vice President Wallace is Chairman.

The instrumentality for making these priority and allocation decisions, under general defense policies laid down by the President, is a board composed of the existing Board of OPM, namely the Secretary of War, the Secretary of the Navy, William S. Knudsen and Sidney Hillman, and three additional officials, namely the Price Administrator, Leon Henderson, the Special Assistant to the President supervising the Lend-Lease Program, Harry L. Hopkins, and the Chairman of the Economic Defense Board, Vice President Wallace. Donald Nelson will be the Executive Director of the board and also will serve as Director of the Priorities Division of OPM. Vice President Wallace will be the Chairman.

The name of the enlarged board will be the Supply Priorities and Allocations Board.

These seven men, subject to the general policies enunciated by the President, periodically and whenever necessary, will fix the amount of materials to be allocated to military needs, defense-aid needs, economic warfare needs, and total civilian needs.

In the general field of civilian needs, this group will make policies and regulations for the allocation of the available supply of materials between the different competing civilian industries and users. To illustrate, if the commodity involved is steel, this Board will determine upon policies and regulations under which steel

will be allocated, first for materials required by the Army and Navy of the United States, and then for the defense-aid needs, economic warfare needs and civilian needs. When the total amount determined for civilian needs is arrived at, this Board will determine the policies and make regulations for the amount to be allocated to automobiles, railroad cars, refrigerators, building, typewriters, etc. The actual administration of these policies by way of issuance of priority certificates for the various purposes, will be carried on through the appropriate divisions of OPM. It is, of course, not contemplated that this Board actually will pass on specific priority applications which are filed by the thousands every week. That will continue to be done in the Priorities Division under Donald Nelson. Only broad policies and general regulations for priorities and allocations will be determined by the Board; and pursuant to these policies and regulations the actual day-by-day administration of specific priorities will be carried out by the Priorities Division.

Donald Nelson has been appointed Director of the Division of Priorities of OPM, succeeding Edward Stettinius who has been selected by the President as Lend-Lease Administrator. In this capacity he will have administrative charge of the Lend-Lease Program. Harry L. Hopkins will continue to serve in a supervisory capacity, as Special Assistant to the President, over all defense aid by the United States.

There is also set up in OPM a separate division to be coordinate with the existing divisions of OPM (procurement, production, priorities and labor), to be known as the Division of Civilian Supply. The head of this division will be Leon Henderson. The function of this division will be to initiate the plans and programs for civilian allocation, which will be submitted through the Office of Production Management to the new Board of seven for final approval or amendment.

In this way there will be brought together around one table the agencies which have a major responsibility in distributing the available supply of materials in the United States. The supply of materials will be allocated among military needs, defense-aid needs, economic warfare needs and civilian needs. At the same time the work of the Board will be closely tied-in with production in OPM; for priorities and allocations are an essential part of the entire production process and cannot be regulated or administered independently of production.

The Board will have jurisdiction to determine the total requirements of materials and commodities needed respectively for defense, civilian, and all other purposes; and to establish policies for the fulfillment of such requirements, and, where necessary, make recommendations to the President relative thereto.

It is expected that from time to time this Board will sit with the President.

The Board, of course, will have no power to determine the division of finished material -- such as planes or guns or ships. Its jurisdiction will extend only to the materials, parts, machine tools, etc., required for their manufacture.

The function of price fixing will remain where it is now placed -- in the Office of Price Administration, and the name of the existing Office of Price Administration and Civilian Supply is changed to the Office of Price Administration. The personnel, records, etc. now in the Office of Price Administration relating to civilian allocation will be transferred to the Office of Production Management to be located in the Division of Civilian Supply in the Office of Production Management. In this way, the general policy governing civilian supply allocation has been placed in this new Board and the function of price administration has been left in the old office of OPACS.

John D. Biggers, Director of the Division of Production in OPM, is being sent to London to work with the rank of Minister with W. Averell Harriman in their task of facilitating and expediting material aid to the British Empire.

Regraded Unclassified

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Biggers' particular assignment will be in connection with synchronizing British and American production. His experience in OPM makes him uniquely equipped for this work.

He will return to the United States from time to time to report, and to collaborate with Harry Hopkins and Edward Stettinius in carrying out the results of his studies.

The various industry committees now existing in OPM and OPACS will be consolidated; so that on questions of priorities, allocation, and production, the various industries of the country will have one unified contact with the Government rather than a divided point of contact.

This new and expanded machinery has been worked out in conference, and with the voluntary cooperation of OPM, OPACS, the Secretary of War and the Secretary of the Navy.

The necessities of granting priorities in materials of which there are present shortages will result in some dislocation -- in some shut downs or curtailment of work in some factories which manufacture non-defense materials. The Office of Production Management is seeking to alleviate the resulting hardships in two ways: First, by promoting subcontracting and "farming out" of defense orders among smaller industries; and second, by helping non-defense plants place themselves in a position to take defense orders by minor changes in equipment and machine tools.

The Labor Division of OPM has set up committees consisting of representatives of management, labor and government to deal energetically with such situations, particularly the orderly transfer of workers from non-defense jobs to defense jobs. This program has already been put into effect among silk workers and is now being applied in the automobile industry.

EXECUTIVE ORDER

DELEGATION AND COORDINATION OF
PRIORITY AUTHORITY

By virtue of the authority vested in me by the Constitution and statutes of the United States, and in order to define further the functions and duties of the Office for Emergency Management with respect to the unlimited national emergency as declared by the President on May 27, 1941, and for the purpose of assuring effective coordination of the priority powers and supply allocation activities of the Federal Government in furtherance of and in conformity with the basic defense policies of the President, it is hereby ordered as follows:

1. The Office of Production Management, in addition to the responsibilities and duties described in paragraph 2 of Executive Order No. 8229 of January 7, 1941, is authorized and directed to discharge and perform the following responsibilities and duties, subject to such policies or regulations as the Supply Priorities and Allocations Board, hereinafter described, may from time to time determine:

- a. Serve as the coordinating center for the execution of the powers and activities of the several departments and agencies relating to priorities; in this connection, review, clear, and approve for execution all requests or proposals originating from other Federal agencies, private industry, or other sources for priority action with respect to the procurement, production, transmission, or transportation of materials, articles, power, fuel, and other commodities; issue or provide for the issuance of all priority orders, warrants, certificates, or ratings with respect to the supply, production, transmission, or transportation of materials, articles, power, fuel, and other commodities; and, with reference to specific priority authorities vested by law in established departments and agencies of the Government, certify to such departments and agencies, when the Office of Production Management deems such action necessary to national defense, that preferential treatment is essential for certain materials, commodities, facilities, or services.
- b. Perform the functions and exercise all the power, authority, and discretion conferred upon the President by Public No. 89, 77th Congress, 1st session, entitled "An Act to amend the Act approved June 28, 1940, entitled 'An Act to expedite the national defense, and for other purposes,' in order to extend the power to establish priorities and allocate material," approved May 31, 1941.
- c. In consultation with the United States Maritime Commission, determine when, to what extent, and in what manner priorities shall be accorded to deliveries of material as provided in section 2(a)(5) of Public No. 46, 77th Congress, First Session, an Act entitled "To make emergency provision for certain activities of the United States Maritime Commission, and for other purposes," approved May 8, 1941. Deliveries of material shall take priority as provided in said Act in accordance with such determinations and the orders issued in pursuance thereof by the Office of Production Management.

- a. Continue to perform the functions and exercise all the power, authority, and discretion conferred on the President by section 2(a) of the Act entitled "An Act to expedite national defense and for other purposes," approved June 28, 1940.

2. The Office of Production Management may exercise the powers, authorities, or discretion conferred upon it by this Order through such officials and in such manner as it may determine, subject to such policies or regulations as the Supply Priorities and Allocations Board may from time to time determine.

3. In order to assure unity of policy and coordinated consideration of all relevant factors involved in the supply and allocation of materials and commodities among the various phases of the defense program and competing civilian demands, there is hereby established within the Office for Emergency Management a Supply Priorities and Allocations Board. The Board shall consist of the Director General and Associate Director General of the Office of Production Management, the Secretary of War, the Secretary of the Navy, the Special Assistant to the President supervising the defense aid program, the Administrator of the Office of Price Administration, and the Chairman of the Economic Defense Board. The Chairman of the Supply Priorities and Allocations Board shall be designated by the President from among the members of the Board. The President shall also appoint an Executive Director of the Board, who will preside in the absence of the Chairman.

4. The Office of Production Management shall make available to the Supply Priorities and Allocations Board upon request, such staff, statistical, informational, fiscal, personnel, and other services and facilities as may from time to time be required by the Supply Priorities and Allocations Board to perform its duties hereunder.

5. Consistent with the basic defense policies of the President, the Supply Priorities and Allocations Board shall:

- a. Determine the total requirements of materials and commodities needed respectively for defense, civilian, and all other purposes; establish policies for the fulfillment of such requirements, and, where necessary, make recommendations to the President relative thereto.
- b. Determine policies and make regulations governing allocations and priorities with respect to the procurement, production, transmission, or transportation of materials, articles, power, fuel, and other commodities among military, economic defense, defense aid, civilian, and other major demands of the total defense program.

5. The Office of Production Management through its Division of Priorities or any other of its divisions or subdivisions shall formulate general plans and programs providing for allocations and priorities with respect to the procurement, production, transmission, or transportation of materials, articles, power, fuel, and other commodities among military requirements, economic defense needs, total civilian demands, defense aid needs, and other major elements of the total defense program. Such general plans and programs shall be submitted to the Supply Priorities and Allocations Board for approval or modification.

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7. There shall be within the Office of Production Management a Division of Civilian Supply to be in charge of a Director appointed by the Office of Production Management with the approval of the President. The Division of Civilian Supply shall represent civilian interests relating to the supply and priority activities of the Office of Production Management. It shall formulate plans and programs providing for the equitable distribution among competing civilian demands of the materials, articles, power, fuel, and other commodities made available by the Supply Priorities and Allocations Board for civilian use. Such plans and programs shall be submitted through the Office of Production Management to the Supply Priorities and Allocations Board for approval or modification.

8. The title of the Office of Price Administration and Civilian Supply, established by Executive Order No. 8734 of April 11, 1941, is hereby changed to Office of Price Administration.

9. Nothing in this Order shall be construed to include the power to determine the disposition or transfer of any defense articles to the Government of any country whose defense the President deems vital to the defense of the United States, as provided in Public No. 11, 77th Congress, 1st Session entitled "An Act further to promote the defense of the United States and for other purposes," approved March 11, 1941.

10. The Priorities Board of the Office of Production Management described in paragraph 5 of Executive Order No. 8629, establishing such Office, is hereby abolished.

11. Executive Orders No. 8629 of January 7, 1941, and No. 8734 of April 11, 1941, are hereby amended accordingly, and any conflicting provisions of these or other Executive Orders are hereby rescinded.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

August 28, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 28, 1941

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Airplane Deliveries to the British

Summary

1. A total of 61 and 48 planes, respectively, are reported as shipped in the last two statements received.

2. In the last three months, over 60 percent of all the planes shipped to the British forces have gone to the United Kingdom, whereas in the preceeding period only about 40 percent went to that destination. In the last three months the United Kingdom received 514 planes; the Middle East, 281; and the Far East only 45. No planes have been shipped to the Far East since June 21.

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Division of Monetary
ResearchAirplane Shipments to the British
(From February 1 to August 24 by air
January 11 to August 2 by sea)

Table A. - Shipments by Area

	Week Before Last	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>			
Light and medium bombers	43	29	774
Heavy bombers	0	1	43
Naval patrol bombers	0	0	72
Pursuit	<u>5</u>	<u>3</u>	<u>31</u>
Total to United Kingdom	48	33	920
<u>To the Middle East</u>			
Light and medium bombers	6	7	166
Pursuit	<u>7</u>	<u>8</u>	<u>516</u>
Total to Middle East	13	15	682
<u>To the Far East</u>			
Light and medium bombers	0	0	6
Naval patrol bombers	0	0	9
Pursuit	0	0	145
Trainers	<u>0</u>	<u>0</u>	<u>55</u>
Total to Far East	0	0	215
<u>Totals</u>			
Light and medium bombers	49	36	946
Heavy bombers	0	1	43
Naval patrol bombers	0	0	81
Pursuit	12	11	692
Trainers	<u>0</u>	<u>0</u>	<u>55</u>
Grand Total	61	48	1,817

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Division of Monetary
Research

Table B. - Shipments by Types

	Week Before Last	Latest Week	Total Reported To Date
Bell Airacobra (P-39)	5	3	22
Boeing B-17	0	0	21
Brewster Buffalo	0	0	145
Consolidated Catalina	0	0	81
Liberator	0	1	22
Curtiss Tomahawk	7	8	516
Douglas Boston I	0	0	1
Boston II	0	0	72
Boston III	23	18	173
Glenn Martin Maryland	0	0	150
Grumman Martlet II	0	0	9
Lockheed Hudson I	0	0	1
Hudson III	24	15	144
Hudson IV	0	0	18
Hudson V	0	1	344
North American Harvard II	0	0	55
United Chesapeake	<u>2</u>	<u>2</u>	<u>43</u>
Grand Total - All Types	61	48	1,817

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Division of Monetary
Research

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	22	-	3	-	-	25
Feb. 15 *	39	-	-	100	-	139
Feb. 22 *	35	-	-	27	-	62
Mar. 1 *	7	-	5	25	-	37
Mar. 8 *	16	-	3	10	-	29
Mar. 15 *	26	1	4	-	-	31
Mar. 22 *	17	-	2	22	-	41
Mar. 29 *	25	-	3	18	-	46
Apr. 5 *	21	-	7	73	-	101
Apr. 12 *	21	2	2	27	-	52
Apr. 19 *	20	3	4	5	-	32
Apr. 26 *	23	2	3	-	28	56
May 3 *	61	1	2	15	27	106
May 10 *	36	1	8	10	-	55
May 17 *	61	13	7	19	-	100
May 25 *	30	10	-	25	-	65
June 1 *	28	5	5	21	-	59
June 8 *	37	2	7	-	-	46
June 15 *	26	1	4	20	-	51
June 22 *	28	-	4	52	-	84
June 29 *	45	-	1	50	-	96
July 6 *	19	-	3	20	-	42
July 13 *	34	-	3	48	-	85
July 20 *	41	-	1	32	-	74
July 27 *	45	-	-	24	-	69
Aug. 3 *	45	-	-	11	-	56
Aug. 10 *	53	1	-	15	-	69
Aug. 17 *	49	-	-	12	-	61
Aug. 24 *	36	1	-	11	-	48
	946	43	81	692	55	1,817

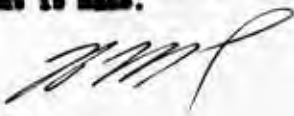
* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending August 24 would report the shipment of planes by water for the week ending August 2.

August 28, 1941

Files

Mr. Cochran

Mr. Fehle telephoned me yesterday morning to say that Mr. Barth of the Chase National Bank had hinted to him that Chairman Aldrich of the Chase was going to invite Mr. Fehle to the dinner on October 7 in New York of the National Foreign Trade Council, at which Under Secretary of State Welles will be one of the speakers. Mr. Fehle asked my advice about accepting the invitation. I told him that I thought he should not go to such a dinner as the guest of any one private bank. When he told me that he had not received an official invitation from the Council itself, I volunteered to see if I could not arrange for the Federal Reserve Bank people in New York to invite Mr. Fehle to their table, in case a group reservation is made by the Federal for this dinner. Later in the day I spoke with Mr. Knabe, who was definitely of my opinion as to the undesirability of Mr. Fehle going as the guest of the Chase or any other private bank. Mr. Knabe will let us know if the Federal plans to have a table and will naturally be happy to have Mr. Fehle as a guest if this arrangement is made.



HMC:lap-S/28/41

August 25, 1941

File

Mr. Cochran

When talking by telephone with Mr. Knake yesterday morning I told him that I would be very much interested if he could look over the recent cablegrams from China and give me his impression by the end of the week upon the set up and operations to date of the Chinese-American-British Stabilization Board in China.

Mr. Knake told me that to date there had been no use made of dollars in the Federal by the Chinese Stabilization Board. He would check with the Chase Bank and see whether this institution knew of any dollars being drawn from New York. When Mr. Knake had spoken with Mr. Fusch of the Chase Bank last Friday the latter was of the opinion that the Chase Bank in China had done nothing in support of the yuan. Incidentally, the Shanghai-Hong Kong Bank had on last Saturday been looking for \$400,000. At 9:15 this morning Mr. Knake again spoke to me and said that up until yesterday the Shanghai-Hong Kong Bank had not received the \$400,000.



HMG:lap-S/25/41

August 25, 1941

Files

Mr. Cochran

Upon coming to the State Department yesterday at 12 noon the draft cablegram to the American Consul at Hong Kong for Fox, I asked Miss Davis in the office of Mr. Feis to have cable No. 206 of August 26, 9 p.m., which had been addressed to the American Embassy at Chungking for Fox, also to be repeated to the American Consul at Hong Kong for Fox, since the latter is now in that city and might not have received the message intended for him at Chungking. Miss Davis was to check with the State Department code room to see whether the message in question might originally have been sent to the American Consul at Hong Kong for relaying to the Embassy at Chungking, in which event it would already be available to Mr. Fox.



HMC:lap-S/25/41

August 23, 1941

Files

Mr. Cochran

When in my office between 10 and 11 o'clock yesterday morning, Mr. Bernstein let me know that at the Foreign Funds policy meeting held the preceding afternoon in the office of Mr. Shea in the Department of Justice the decision had been taken to refuse the application of the Swiss National Bank for a license to permit the transfer of \$2,000,000 worth of gold from the Swiss Bank's earmarked deposit with the Federal Reserve Bank of New York to Lisbon. Mr. Bernstein had understood that Mr. Pehle would phone me about this transaction, since I had not been able to leave the Treasury to attend the meeting under reference. After Mr. Bernstein's departure, I spoke with Mr. Pehle by telephone. He confirmed that it had been the opinion of the meeting that the application should be refused. In answer to my inquiry, he stated that Mr. Acheson was not present. I recalled my memorandum of August 23, recounting my conversation with Mr. Gautier, which memorandum had been sent to Mr. Pehle and my other colleagues in the Treasury. Mr. Pehle stated that the refusal had not yet been sent to the Federal. I asked that this be held up until I could consult with Mr. Gaston on this proposition.

Later in the forenoon I showed Acting Secretary Gaston my memorandum of August 23. I told him that I had also spoken yesterday morning with Mr. Knake of the Federal concerning this application. After hearing my views, Mr. Gaston indicated that he did not feel that he should take the position of overruling an inter-departmental decision on such an important matter. He was of the opinion that an application such as the one under reference involving gold was of greater concern to the Treasury than to any other department and he could conceive of situations in which the importance of the Treasury's gold policy might transcend the importance of the funds control problem involved. At his suggestion I asked Mr. Pehle to continue to hold up an instruction to New York until we could submit this question directly to the Secretary upon his return.

Mr. Knake was very definitely of the opinion that the transaction should be approved. If there might be a whole series of transfers of this type requested by the National Bank of Switzerland, Mr. Knake said that he might become concerned. He did not think, however, that we should stand in the way of this one transfer, to which the Swiss attach much importance as a matter of principle. From Mr. Knake I ascertained that the Portuguese had already been approached with a proposal such as that recommended by Foreign Funds Control, namely, that they accept gold earmarked in the United States, and had definitely declined.

To Mr. Gaston I had explained the difficulties which certain European countries are now experiencing in settling their international trade balances since we have frozen accounts and made use of the dollar almost impossible for such purpose. They naturally attempt to resort to gold. Difficulties are also met, of course, in transferring gold, since so much of Europe is at war and gold will not be accepted for transportation over certain areas.

[Handwritten signature]

HMC:lap-8/28/41

August 25, 1941

Files

Mr. Cochran

When Mr. Ritchie of the British Embassy called on me at 12 o'clock yesterday he told me that his people would appreciate receiving any information which we may be able to provide concerning the report that the Banco Nacional de Mexico is controlled by the Banque de Paris et des Pays Bas and that the latter, in turn, is controlled by the Germans.

From my own knowledge, I was able to tell Mr. Ritchie that there is an important French ownership of stock in the Banco Nacional. The Germans, of course, do supervise the transactions of banking institutions in occupied France, such as the Banque de Paris et des Pays Bas. I recall no report, however, to the effect that the Germans have actually acquired stock in the Banque de Paris et des Pays Bas.



HMC:lap-5/26/41

August 28, 1941

Files

Mr. Cushman

At 3 o'clock yesterday afternoon Mr. Jay Crane telephoned me from the New York office of the Standard Oil Company of New Jersey. He referred to his company's Hungarian business. He stated that they had received a telephone call on August 26 from Mr. Fentzel, the German agent in Rio de Janeiro with whom Vice President Haden of the Standard Oil had conferred some weeks ago at Rio. Fentzel had indicated that the Germans desirous of purchasing the Hungarian holdings of the Standard could make the total purchase price of \$24,000,000 all available in gold at Lisbon.

Mr. Crane stated that, as he had told me in advance when we last talked, his company had about a week ago written a letter to Vice President Wallace as Chairman of the Economic Defense Committee, setting forth the Standard's negotiations with the prospective German purchasers of their Hungarian oil wells. No reply had been received as late as yesterday. Mr. Crane stated that the company now contemplated asking the Vice President to receive Mr. Haden in order that the latter may discuss this question orally, and particularly submit the latest information with respect to full gold payment.

J. M. S.

1 ap-8/28/41

August 28, 1941

Files

Mr. Cochran

At 3:15 yesterday afternoon Mr. Boies Hart, Vice President of the National City Bank in charge of Far Eastern business, telephoned me. He said that the New York bank had been exchanging cablegrams with their Manager in Shanghai, Mr. McKay, in regard to operations of the Chinese Stabilization Board. The National City Bank in Shanghai was acting for the Stabilization Board and was acquiring considerable amounts of Chinese currency. Since the Chinese currency notes are of small denomination, mostly ten yuan, and never above one hundred yuan, the work of counting and handling and detecting counterfeit notes involved quite a lot of work and responsibility. The question had arisen as to whether the National City Bank in China should not obtain a waiver from the Chinese Stabilization Board as to responsibility for the currency which the National City Bank handles for the Board. This question may become more serious as the business increases and the National City, as well as the Chase, may have Chinese currency in excess of the limited vault space, and be obliged to lease vaults outside of their own buildings for the storage of this currency. Mr. Hart pictured the situation which might arise if the Japanese seized such currency deposits.

As a second point, Mr. Hart said that his bank did not like the responsibility for buying Chinese currency for the Board and having a continuing responsibility for the transaction until such time as the Board may give its final approval thereto. Obligations on the part of the National City to reverse the transactions in question could involve serious consequences.

Mr. Hart did not request any definite advice from me on these points. He said that his bank would naturally take all ordinary precautions in China, but that the management both there and in New York should naturally consider the necessity of safeguarding National City interests. Mr. Hart assured me that his bank desires to cooperate completely with the Stabilization authorities. He volunteered to provide us with any information which we may require at this end concerning operations in China and hoped that we would let him know if there were any specific points on which we desired information or cooperation. I told Mr. Hart that we were also beginning to receive numerous questions in regard to the Board's operations in China. It might be that we would get in touch with him within the next few days on some of these questions.



HMC:lap-8/28/41

August 28, 1941

Files

Mr. Cochran

At 10:30 this morning I telephoned Mr. Lindholm in the Department of State to remind him that I was anxious to learn whether the Department of State had obtained a Clipper reservation for Mr. Gee on the plane leaving Lisbon September 20. Mr. Lindholm was not yet able to report definite results, but promised to press the matter and let me hear as soon as possible.

In response to my further inquiry, Lindholm said that he had not yet seen any cablegram from London reporting the arrival there of Gansday. He would look up the files, and let me know if such a report had arrived, or may come in the next few days.

Since dictating the above Mr. Lindholm telephoned me at 12 noon today to state that the Department of State had cabled London yesterday that reservations had been made for Gee to leave Lisbon on the Clipper September 20.



August 22, 1941

File

Mr. Coderre

By telephone yesterday Mr. Knabe referred to a report by Mr. Ritchie of the British Embassy to the effect that the Banco de la Provincia (Argentina) was pro-Axis. Knabe asked me whether I could find out how the British and American governments view the Banco Aries firm of Pascual Bermudez. This is a concern of many dealers, handling and shipping bank notes, currency etc. There have in past weeks been fairly important British States currency shipments from Banco Aries by these people. Knabe wondered whether any of such currency may have originated in Germany.

I telephoned Mr. Ritchie yesterday morning and asked him in regard to Pascual Bermudez. When Mr. Ritchie called on me at 12 o'clock noon he had with him copies of notes which he had provided me on Pascual Bermudez in the past. I had a list made of these and handed the copies back to Mr. Ritchie. From our own files I have taken out my copies of the listed reports, which are as follows:

August 15, 1941	- EX. 20/6/41	June 26, 1941	- EX. 19908
July 21, 1941	- V.F. 1039/295/41	June 2, 1941	- EX. 26/6/5/41
July 22, 1941	- EX. 16899	April 21, 1941	- EX. 6340
July 24, 1941	- EX. 6/24/7/41	April 5, 1941	- EX. 5961
July 21, 1941	- V.F. 1039/198/41	March 12, 1941	- EX. 2875
July 14, 1941	- EX. 00196/41	February 10, 1941	- V.F. 1037/47/41

Mr. Ritchie summarized his record on Pascual Bermudez as follows:

"Dealing in exchange and export of sterling notes. Intermediaries. F. Honors of Rio de Janeiro and B.O.I. of Camblason. Sending sterling notes Banco Aries and Aeroc of Lisbon."

When talking with Mr. Knabe by telephone this morning I gave him the above information. He did not desire that I forward the memoranda to him.

This morning I have also telephoned the office of Mr. Gohet in the Department of State asking for any information available there concerning Pascual Bermudez.

Since clearing the foregoing, the State Department called me back to report that there is nothing in the files of the Office of Commercial Affairs on Pascual Bermudez. There is a World Trade Directory report on Juan Pascual y Cia, 90 General Berner Street, Buenos Aires. The members of this firm are Juan (a banker), Antonio, (an Argentine) and Sebastian (also an Argentine). This firm is listed as importing and wholesaling cigars, cigarettes and tobacco. The commercial reputation is good. Nothing is stated as to political sympathies. The Department of State has no report on any other Pascual in Argentina.

- 2 -

I gave this information by telephone to Mr. Encke when he called me at 11:15 this morning. The firm on which the State Department has information is obviously not the one in which Mr. Encke is interested. I told him that I would ask Mr. Ritchie to learn confidentially from his colleague in Buenos Aires what he can concerning the possibility of Pascual Hernandez being active in carrying out currency shipments in behalf of Germany.



HMC:lsp-8/25/41

August 28, 1941

Files

Mr. Cochran

At 12:15 today I talked by telephone with Mr. Brown in Lend-Lease in regard to the letter of August 26 from Sir Frederick Phillips concerning the question of priority for gold mining machinery for the Belgian Congo. Mr. Brown was familiar with this letter, of which I had sent him a copy. He stated that Mr. Gordon Williams, mentioned in the letter under reference, was a member of the Lend-Lease staff whom the Belgians had consulted on this question. Since the receipt of the Phillips letter Mr. Williams has taken this matter up again with C.F.N. to present the British viewpoint. No new decision has yet been reached. If the matter is not decided in behalf of the British by Tuesday, Brown will let me know in order that this question may be submitted to Secretary Morgenthau.

Incidentally, Mr. Brown mentioned that he thought the new Lend-Lease Bill would be submitted to Congress soon after September 15 as possible, thus making urgent the compilation of data with respect to British resources and prospective receipts and disbursements.



HMC:lap-5/28/41

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Hong Kong, China.

DATE: August 28, 1941, 5 p.m.

NO. 257

THE FOLLOWING IS FOR FOX FROM THE TREASURY.

It is requested that this message be repeated to Chungking.

Lehman Aarons, Treasury attorney, will leave on August 28 from Manila via Clipper to Hong Kong. (This is in accordance with telegram No. 206 of August 26, 9 p.m., to Chungking.) Mr. Aarons can then take the next transportation to Shanghai that is available.

As soon as Aarons leaves Hong Kong, the Foreign Funds administrative man at Manila, Mr. Richard Aikin, will leave for Hong Kong from Manila.

It is assumed by the Treasury Department that you or your aides will arrange for consultation with these men upon their arrival, ^{also with} as the appropriate foreign service officers, and work out plans for dealing with problems concerning foreign funds control.

Should you desire to communicate with either Aikin or Aarons directly at Manila, the address should be in care of the High Commissioner, Sayre.

HULL
(FL)

EA:FL:PAK

EA:PAK

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
EA

August 28, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of telegram No. 207, dated August 27, 1941, 5 p.m., to the American Embassy, Chungking, China, transmitting a message to Mr. A. Manuel Fox in regard to the authorization of a country committee to study and report on the possibility of a trade agreement with China, such authorization being granted by the Trade Agreements Committee.

Enclosure:

To Embassy, Chungking,
No. 207, August 27,
1941. 5 copies.

Copy:hbr;8-29-41.

C O P Y

TELEGRAM SENT -- GRAY

AUGUST 27, 1941, 5 p.m.

AMEMBASSY,

CHUNGKING, CHINA, VIA N.R.

207

Your No. 353, August 18, 10 a.m.

Please communicate the following message to Fox.

QUOTE: The Trade Agreements Committee has authorized a country committee to study and report on the possibility of a trade agreement with China.

Trade agreement material is being sent to the Embassy for you. Mr. Cochran advises that in response to your telegram of June 24, he mailed you, care Consulate General, Hong Kong, on June 28, five copies of Tariff Commission report on foreign trade of Japan; on June 30 by airmail one copy Tariff Commission report on imports from Japan in 1939, and on August 4 by pouch four copies thereof. END QUOTE.

HULL.

TA/EA:JCR/FL:PAK

FE

PA/H

A-A

Copy: hbr: 8-29-41.

C O P Y

TELEGRAM SENT — GRAY

AUGUST 27, 1941, 5 p.m.

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HULL.

TA/EA:JCR/FL:PAK

FE

PA/H

A-A

Copy: hbr: 8-29-41.

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Hong Kong, China

DATE: August 28, 1941, 6 p.m.

NO.: 238

This telegram was sent to Chungking under date of August 26, 9 p.m., No. 206.

THE FOLLOWING IS FROM TREASURY FOR FOX.

The Department would like to have your reaction as to the questions listed below. (These questions were asked of Dr. T. V. Soong by the Department.)

1. To what extent can the United States be supplied with raw silk from Free China?
2. What is the Chinese Government's attitude on trade between Occupied and Unoccupied China?
3. Should the Chinese Government be desirous that the U.S. limit trade with China, the Embassy is requested to indicate the views of the Chinese Government as well as your own views as to methods; by type of transaction, by commodity, or by territory.

A report from you or from Taylor as to the economic and financial conditions in Shanghai, as affected by the foreign funds control, would be most helpful. It is hoped that this report will be forthcoming in the very near future.

The Department is endeavoring to make arrangements for one of the Treasury men in Manila to go to Hong Kong and one to go to Shanghai. Such individuals as may be assigned will serve as financial advisers to the Consulates

General

-2-

General of the two places just named to work with you on problems dealing with freezing. In the next day or two, you will be advised further about these. This Department assumes that you, Freese, and Taylor are keeping in close contact and are cooperating in so far as possible with the American consular officers at Hong Kong and Shanghai in connection with economic and financial problems and problems dealing with freezing control.

With regard to your telegram of August 12, No. 342, the Treasury Department, as yet, does not have the list of Chinese nationals who have dollar balances, securities, and other holdings in the U.S. compiled. Some such compilation, it is expected, can be prepared after the filing of the TFR-300 census reports. The time element involved in the filing of these reports by the public is until September 30.

HULL
(DA)

EA:FL:PAK

PARAPHRASE

A telegram of August 28, 1941 from the American Consul at Kunming reads substantially as follows:

There has been a marked decline in truck arrivals in Kunming for the first two-thirds of August following the high point in inward traffic over the Yunnan-Burma Highway reached during July. There has been out of use for some time a bridge near the border. However, it is said that the stream can be forded by automobiles. A reluctance on the part of the operators of commercial vehicles to carry aviation gasoline is believed by Mr. Baker to explain to a large extent this decrease. It seems that return trips have been begun by only a few of the proprietors of trucks instructed to do so.

Copy:bj:9-4-41

AF

~~CONFIDENTIAL~~

Tokyo

Dated August 28, 1941

Rec'd 8:05 a.m.

Secretary of State,
Washington.

1329, August 28, 6 p.m.

Embassy's 1326, August 28, 3 p.m.

ORAL

Any reciprocal agreement reached between the two countries concerning the payment of the operating expenses of Japanese and American Governmental establishments and the living and travel expenses of their personnel will not, so far as the Japanese Government is concerned, include Manchukuo and territory in China occupied by Japanese forces. However, if the American Government will approve the settlement in dollar exchange at New York of remittances from the Imperial Japanese Ministry of Foreign Affairs to Japanese Governmental establishments in Central and South America and the several countries of Europe, and will furthermore agree to endeavor to prevent the creation of a situation which would hinder the use of the funds of those establishments and their personnel, the Imperial Government

-2- 1329, August 28, 1941, 6 p.m. - from Tokyo.

Government is prepared to mediate with Manchukuo and the National Government of China so that American Governmental establishments in Manchuria and the areas of China occupied by Japanese forces will be given the same treatment as in Japan.

With respect to the definition ordinary expenditures mentioned in the first condition of the Minister's aide memoire, these are now in process of investigation, and it is desired that they be mutually exchanged at a later date.

GREW

NPL

TEM

~~Over~~

Tokyo

Dated August 28, 1941

Rec'd 8:45 a.m.

Secretary of State,
Washington.

URGENT.

1326, August 28, 3 p.m.

Department's 478, August 7, 6 p.m.

Embassy's 1320, August 27, 5 p.m.

In our immediately following three telegrams we are cabling the Embassy's translation of the aide memoire, the accompanying addendum, and the accompanying oral statement, dated August 26, 1941 received yesterday in reply to our aide memoire of August 9th concerning reciprocal unfreezing measures in respect to official funds and personal funds of Government officials.

In view of the straitened circumstances in which the Embassy and the several Consulates in Japan and the personnel thereof find themselves,, instructions in reply are urgently requested.

GREW

NPL

AF

~~CONFIDENTIAL~~

Tokyo

Dated August 28, 1941

Rec'd 9:45 a.m.

Secretary of State,
Washington.

1327, August 28, 4 p.m.

Embassy's 1326, August 28, 3 p.m.

Aide memoire

The Imperial Japanese Government refers to the aide memoire of the American Embassy in Tokyo under date of August 9 which states that under Executive Order no. 8389 necessary permits will be granted upon a reciprocal basis for the payment of official expenses of the Japanese Embassy, Consulates and other governmental establishments in the United States and of the living and traveling expenses of official personnel and replies as follows:

(1) On the condition of reciprocity the Japanese Government is prepared to exempt from their status as designated foreigners under the regulations controlling the transactions of foreigners the American Ambassador and official personnel of the Embassy, Consulates and other governmental establishments.

(2) If the

-2- 1327, August 28, 1941 4 p.m. - from Tokyo.

(2) If the American Government is not in accord with this plan and desires to adhere to the provisions of the memorandum of the American Government the Japanese Government on a reciprocal basis and on condition that the following amendments be added to the provisions of the above mentioned American aide memoire is prepared to grant the necessary permits for payment of official expenses of the American Embassy, Consulates and other governmental establishments and the living and traveling expense of official in accordance with the provisions of the foreign exchange control law and the regulations controlling the transactions of foreigners.

GREW

WSB

AF

~~CONFIDENTIAL~~

Tokyo

Dated August 28, 1941

Rec'd 1:50 p.m.

Secretary of State,
Washington.

1328, August 28, 5 p.m.

Embassy's 1326, August 28, 3 p.m. Addendum.

(1) With reference to the nature and purpose of the payments from the official accounts as specified in paragraph (a) of the above mentioned aide memoire, communications charges, wages for employees, rent, entertainment and other running expenses shall be combined and permission shall be given for a total sum for each quarterly period, taking into consideration the actual sum of expenditures in the past. Detailed itemization of such expenditures shall, however, be omitted reciprocally. In the case of the purchase of equipment for the use of government establishments, expenditures for major repairs to buildings, or other extraordinary expenditures involving large sums, application shall be made in each instance.

(2) No individual permits shall be necessary
for the

-2- 1328, August 28, 1941, 5 p.m. - from Tokyo.

for the receipt of funds to replenish official accounts.

(3) Permission shall be granted for the remittance to the Treasury of balances from running expense accounts and proceeds from the disposition of property of the Embassy, consulates and other governmental establishments, and of fees received by the consulates in the course of the execution of their official duties and for the remittance of funds to the United States by official personnel.

(4) With reference to item (c) of the aide memoire, as the maximum amount for living and traveling expenses for which permission is unnecessary is set at 1,500 yen per month in Japan and \$500 per month in the United States, applications need be submitted only by those Japanese officials requiring more than \$500 for living and traveling expenses and by American officials requiring more than 1,500 yen. Upon specification of the required amounts, combined permits shall be granted reciprocally. Permission however in the cases of both Japanese and Americans, shall be granted up to \$2,000 or its equivalent per month for ambassadors, to \$1,000 or its equivalent per month for financial commissioners, \$1,500 or its equivalent per month for counselors and military and naval attaches, \$1,000 or

-3- 1328, August 28, 1941, 5 p.m. - from Tokyo.

\$1,000 or its equivalent per month for first secretaries and \$750 dollars or its equivalent per month for officials of the rank of consul or second secretary.

If, due to exceptional circumstances, sums in excess of those permitted above are needed, the Embassy shall make application in each instance.

(5) As the salaries of officials of the Japanese Embassy and consulates above the rank of "chancellor" are remitted by the Foreign Office directly to the persons concerned through the Yokohama Specie Bank, the American Government shall give a general license to the bank for the payment thereof. (A list of officials above the rank of "chancellor" shall be submitted to the Department of State by the Japanese Embassy at Washington.) In case the total of traveling expenses and salary remitted by the Japanese Foreign Office through the Yokohama Specie Bank exceeds \$500 per month or the permitted amount mentioned under item (4), permission for payment shall be granted upon application by the Embassy.

GREW

HSM

C O N F I D E N T I A LPARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, Rio de Janeiro
TO: Secretary of State, Washington
DATED: August 28, 1941, 5:30 p. m.
NUMBER: 1178

CONFIDENTIAL - NOT FOR PUBLICATION.

Reference is made to a telegram of August 1, 10 p. m.
no. 990 from this Embassy.

According to information furnished by this Embassy the negotiations between the Brazilian Government and the French Embassy may be concluded shortly for the cancellation of French claims against the Sao Paulo - Rio Grande Railway. The credit will be used to purchase Brazilian products for export to France. Cotton is not necessarily included according to my informant. The Embassy is further informed that this operation may be the forerunner of negotiations for the complete repatriation of the French bonded debt of Brazil.

CAFFERY.

Copy:vec:9-12-41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 28, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£69,000
Purchased from commercial concerns	£95,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

The Uruguayan free peso, which has remained in the vicinity of .4380 for some time, improved today to close at .4425.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	10-5/8% discount
Argentine peso (free)	.2382
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2745
Cuban peso	15/16% discount

In the unofficial exchange market in Shanghai, the yuan was again quoted at 4-7/8¢. The sterling-dollar cross rate was unchanged at 4.04-3/4.

Having received a Treasury license under Executive Order No. 8389, as amended, the Federal Reserve Bank of New York purchased 300,000 Portuguese escudos by order and for account of the National Bank of Denmark. The escudos were bought from the Bank of Manhattan at the rate of .0402, as compared with the market rate of .0401 last quoted in New York on June 14.

We purchased \$1,125,000 in gold from the earmarked account of the National Bank of Mexico.

No new gold engagements were reported.

In London, spot silver was again fixed at 23-1/2d. The forward quotation was 23-7/16d, representing a decline of 1/16d. The U.S. equivalents were 42.67¢ and 42.55¢ respectively.

- 2 -

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made one purchase of new production silver amounting to 125,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.

B.M.F.
CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON.

Personal and Secret.

August 28th 1941.

Dear Mr. Secretary,

I enclose herein for
your personal and secret information a
copy of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 26th 1941.

NAVAL.

His Majesty's Minelayer "Southern Prince" flying Rear Admiral (M) torpedoed late night August 25th - August 26th but able to proceed. Free French submarine reports having attacked 2 Finnish ships escorted by trawlers off Norwegian coast on August 21st, 2 torpedoes fired at 500 yards; explosions damaged her machinery; she has arrived back safely.

2. MILITARY.

IRAN.

In south Navy landed force at Abadan which surprised the Iranian garrison in barracks. Refinery in our hands and undamaged. Isolated posts holding out but no organized resistance remains. 7 merchant ships captured and 1 sunk. 2 of these German "Hohenfels" 7,900 tons and "Sturmfels" 6,500 tons, undamaged and 5 repairable. Attempts made sabotage all by fire. 2 sloops sunk and 4 gunboats, a depot ship and 6,000 ton capacity floating-dock captured. Admiral Bayendor Commander-in-Chief Naval and Military forces in this area was killed. Naval personnel casualties negligible and military personnel casualties very slight. Number of German and Italian prisoners taken in addition to Iranian naval personnel. In the north our forces operating from Khanaqin area captured Sirt-I-Shan and Saar-I-Shirin according to plan. Some opposition encountered.

3. Royal Air Force. August 24th - August 25th.

Dinseldorf/

Regraded Unclassified

- 2 -

Dusseldorf. Aircraft dropped 49 tons H.B. and 4,600 incendiaries August 25th. A spitfire attacked wireless station near Cherbourg and caused violent explosion. August 25th - August 26th, more than 95 aircraft despatched targets included Mannheim and Karlsruhe 49 (12 heavy). Six bombers missing.

4. LIBYA.

August 24th - August 25th. Wellingtons attacked enemy camps in Solum and Bardia areas; others from Malta bombed Tripoli (L) starting fires in docks.

5. IRAN.

August 25th. Blenheims dropped leaflets over Tehran and Kazvin.

RESTRICTED

G-2/2657-220; No. 479 M.I.D., W.D. 11:00 A.M., August 28, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: The Russians appear to be offering stubborn resistance to the Germans along the entire front. No reliable information is available from either side as to the outcome of recent operations. Important battles are in progress in the Gomel area.

The Germans claim unofficially to have cut the Leningrad—Moscow railroad and to have crossed the lower Dnepr near Zaporozhe.

Air: German strategic bombing was largely directed against railways.

II. Western Theater.

Air: No information available.

III. Middle Eastern Theater.

Iran: Steady progress by the invading columns. According to the press the Iranian Government has decided to cease resistance.

Libya: Air: British attacks on Tripoli and Benghazi.

Ethiopia: The British apparently are intensifying their efforts to clean up the last Italian resistance in the Gondor area.

RESTRICTED

August 29, 1941.

Memorandum for the Secretary's Files

Secretary Morgenthau called me on the telephone at my home this morning and asked me to do the following:

(1) Instruct Mr. Bell's office to send out telegrams to banks asking for a report, as of the close of business Saturday, August 30, of the total amount of tax anticipation notes sold, the telegrams in reply to be on Mr. Bell's desk on Tuesday morning. (After arrival at the office I called Mr. Heffelfinger, who said that he would get out the telegrams.)

(2) The Secretary asked me to give instructions to Research & Statistics to confer with the staff of the Federal Reserve Board and to prepare for him, for not later than Wednesday, a report on the problem of excess reserves and money in circulation as they affect financing. This discussion was to be compiled in view of Chairman Eccles' statements to me, which I incorporated in a memorandum to the Secretary. (I gave these instructions to Henry Murphy, who said he would consult the Federal Reserve people and get up such a memorandum for the Secretary.)

(3) The Secretary asked me to direct Eugene Sloan to prepare a progress report on the work of the Defense Savings Staff for the last two weeks and mail it to the Secretary at Hopewell Junction before 1:00 P.M. today, so that he would receive it tomorrow. He also asked me to mention to Mr. Sloan that in visiting the Hyde Park Post Office he found no defense savings display in the outer lobby, but saw one poster on the wall in the work room. At the Rhinebeck Post Office there were two posters in the lobby. The Secretary asked that Mr. Sloan get in touch with the Post Office Department and see if there could not be some improvement in this respect, with special attention to the Hyde Park Post Office. (I gave this message to Mr. Sloan and he said that the report would go forward as requested.)



TREASURY DEPARTMENT

93

INTER-OFFICE COMMUNICATION

DATE August 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

At 12:50 yesterday noon Mr. Gaston called me to his office where he was speaking with the Secretary by telephone. Mr. Gaston had given the Secretary the information which I had provided with respect to the prospective consummation of American-Mexican negotiations, including Stabilization and silver purchase agreements. I had left with Mr. Gaston copies of the text, as revised by the Treasury, to go in a State Department press release, insofar as the Stabilization and silver arrangements were concerned.

I explained to the Secretary that there had been no important changes in the Stabilization and silver arrangements subsequent to the date before his departure when Mr. Bell and the rest of us on the committee had explained the proposed agreements to the Secretary. I recalled that at that time the Secretary had approved the increase of the Stabilization loan to Mexico from \$30,000,000 to \$40,000,000. He had also approved a silver arrangement which should be along the lines of the Canadian agreement which, in turn, was similar to the old Mexican agreement. The new agreement would, however, call for a purchase of 6,000,000 ounces of Mexican silver per month, whereas the old agreement covered 5,000,000 ounces per month. I explained to the Secretary that while the contract is month by month, the bidding by us on the Mexican silver, and the price offered therefor, is day by day.

I told the Secretary that I felt the text of the State Department's communique, as amended by us, would be satisfactory. The question was, however, as to whether the Mexican President could go ahead with his proposed announcement to the Mexican Congress on September 1 with respect to the status of his negotiations with the American authorities, and whether the Mexican Minister of Finance could plan to come to Washington between September 3 and 16 for the signing of the agreement with the Treasury. I explained further that there had been no changes other than of a very minor character in the draft of the Mexican agreements since the date on which our committee had agreed thereto, and as reported to the Secretary. The Mexican negotiator, Mr. Monteros, had approached us on one point, which I had refused to refer to the Secretary since I thought our position was so definite and firm, namely, that we require the signature of the Central Bank of Mexico, as well as that of the Minister of Finance, to the agreement. The Secretary said that he did not want to step into the arrangements now, and that I was free to go ahead.

Mr. Gaston spoke with the Secretary again after my conversation, and I provided Mr. Gaston with documents to send the Secretary, at the latter's request, by the 3 o'clock mail yesterday afternoon. This documentation consisted of the drafts of August 6 of the Stabilization agreement and the silver letter, together with the Treasury amended drafts of the State Department's communique on the two points of Stabilization and silver.

- 2 -

At 12 o'clock today Mr. Gaston told me by telephone that he had again spoken with the Secretary and there was no reason why I should not go ahead and give the State Department a clearance. I at once called Mr. Collado on the telephone and let him know that I was sending over the Treasury's suggested paragraphs on silver and Stabilization for substitution in the State Department's fifth draft of a press release. Furthermore, it was satisfactory to the Secretary of the Treasury that the Minister of Finance arrive here between September 3 and 16 for the signing of the agreement.

I gave the same information to Mr. Southerd, who will speak to Mr. Monteros.



5/29/91

Sta. Monument Station,
P.O.

95

Dear Mr. Secretary,

Knowing so well how
much Arthur valued his association
with you, and his deep regard for
you, it signified much to me that
you came to pay him tribute.

I am deeply grateful also, for
your kindness in calling on me
and for the many things you told me

5/29/41

about those early days. You built
 up to give him (Daddy) access to
 some of your files and aid in
 compiling the history of the British
 Indian Commission, is too much
 appreciated by both of us. You
 are in full go to Lexington soon
 for that purpose.

With kind regards to you and
 Mrs. McArthur, and again say
 many thanks for the great courtesy
 your department so kindly extended to
 Blake & me, in flying us to Lexington.

August 29, 1941

Dear Mr. McArthur

Yours sincerely,
 J. M. McArthur

COPY

Sta. Marguerite Station,

P. Q.

Dear Mr. Secretary,

Knowing so well how much Arthur valued his associations with you, and his deep regard for you, it signified much to me that you came to pay him tribute.

I am deeply grateful also, for your kindness in calling on me, and for the many things you told me about those early days. Your kind offer to give Miss Brady access to some of your files, and aid in compiling the history of the British Purchasing Commission, is very much appreciated by both of us. I'm sure she will go to Washington soon for that purpose.

With kind regards to you and Mrs. Morgenthau, and again my many thanks for the great courtesy your department so kindly extended to Blaikie and me, in flying us to Washington.

Yours Sincerely,

(signed) Margaret Purvis.

August 29, 1941.

Copy to Mrs. Morgenthau
9/2/41-

August 29, 1941

Files

Mr. Cochran

Mr. Opie, Acting Financial Advisor of the British Embassy, telephoned me at 12 noon today. He stated that the trip which he had just made to Bermuda with Mr. Hatchelder of the Treasury and with our Naval and Army officers had been highly successful. There were certain points discussed at Bermuda which he and Mr. Hatchelder agreed should be brought to the attention of Mr. Bell as soon as possible. It was understood that Mr. Hatchelder would speak to Mr. Bell on this subject next week, and Mr. Opie asked if I could say a word to hasten a conference with Mr. Bell, since Mr. Opie has received instructions to proceed to England at an early date. Mr. Opie also desires to discuss with us in the Treasury the long term problems upon which we should like to receive information currently from the British. I suggested that Mr. Opie raise this question with both Messrs. Bell and White while in the Treasury and also drop in to see me on this subject.



HMC:lap-S/29/41

RETAILERS-FOR-DEFENSE WEEK TO AID IN THE SALE
OF DEFENSE SAVINGS STAMPS

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
A PROCLAMATION

WHEREAS the Secretary of the Treasury, pursuant to the authority of the Public Debt Act of 1941, is offering Defense Savings Stamps, in small denominations, for sale to the people of the United States; and

WHEREAS national trade associations of our country representing more than one million retail stores have pledged the whole-hearted support of their members in assisting the Treasury Department to sell Defense Savings Stamps, and have agreed to observe the week of September 15 to 20, 1941, as Retailers-for-Defense Week to Aid in the Sale of Defense Savings Stamps, and to make an intensive effort during that time to acquaint the American shopping public with the advantages of buying Defense Savings Stamps:

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, do hereby designate the week of September 15 to 20, 1941, as Retailers-for-Defense Week to Aid in the Sale of Defense Savings Stamps, and do call upon the people of the United States to cooperate in making that week a period of outstanding achievement in the sale of Defense Savings Stamps.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

DONE at the City of Washington this twenty-ninth day of

August in the year of our Lord
nineteen hundred and forty-one,
and of the Independence of the
United States of America the one
hundred and sixty-sixth.

(S E A L)

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL,

Secretary of State.

August 29, 1941

To: Secretary Morgenthau

Subject: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALES OF BONDS

The actual cash receipts from sale of E, F and G bonds through August 26th, 1941 - \$228,787,000. For the same period in July the sales of bonds were \$283,495,000. This represents a reduction in sales for August against July of 19.3%. However, in percentage this reduction is lower than corresponding periods last year. For instance, the reduction for August over July of this year was 19.3%; last year (1940) August against July, reduction was 24.94%. It is significant that sales of Series E bonds have dropped off slightly less, the exact percentage being 18.5.

RETAILERS FOR DEFENSE WEEK

By a conservative estimate, more than 500,000 retail stores in every part of the United States will be selling stamps on or before September 15th, the date "Retailers For Defense Week" begins. Many states have already opened their

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drives. Oklahoma, Idaho, Texas and Missouri started August 18th; California, Oregon, Washington, and Colorado on August 28th.

To promote the sale of stamps in stores a very elaborate publicity and advertising campaign has been launched. Here are a few of the things being done:

Display material has been sent to 4500 population centers of over 2500; 14,000 newspapers (daily, weekly, foreign language, negro, shopper news, etc.) have received a double spread clip sheet with mats; 12,000 wholesalers have been bulletined; 3,800 retail trade associations have been bulletined; all radio stations have been supplied with five daily announcements, talks and other features for use September 12-20. In addition, Standard Brands has guaranteed distribution of display material to 300,000 grocers and 30,000 bakers by September 15th.

RADIO

In April (three days), May, June and July 352,799 announcements of defense bonds and stamps were made over the radio stations throughout the country. This represented a

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total of 7,853 hours and 30 minutes. In addition, there were a large number of station-break announcements, regional programs and others on which the Treasury has no definite information. It may be estimated that these will add about 15% to the total time on the air, making a total of 9,031 hours and 31 minutes on radio stations throughout the country promoting the sale of defense bonds and stamps.

The "Treasury Hour" will continue on the air for thirteen weeks beginning September 30th with the Bendix Corporation paying for the time. The show will be on Tuesday nights from 8 to 9 o'clock on the NBC blue network.

"America Preferred" will resume on Saturday, September 6th, over the Mutual network from 9:30 to 10 o'clock. Deems Taylor will be the master of ceremonies. There will be a forty piece orchestra conducted by Alfred Wallenstein. The first guest artist will be Efrem Zimbalist, violinist.

Survey by C. E. Hooper, Inc. shows the "Treasury Hour" as the number one program over the air.

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MOTION PICTURES

"America Preferred" has been shown in 6,813 theaters through July 15th.

DIRECT MAIL

Customer mailing to 2,000,000 names to go out about September 1st. Since these people have already bought bonds and are informed, they should be particularly receptive. Should produce substantial sales at low cost. Strongest advertising disclosed by previous tests is being used. Offers all three types of bonds.

Industrial mailing in production. To go to 375,000 corporations, associations, partnerships, etc., offering F and G bonds only. List includes both Customer and I. R. prospects.

Additional tests - Series III - to be mailed about September 1st testing four letters, I. R. names under \$5,000 income versus same number over \$5,000 income, various combinations of bond offers, and value of an advertising legend on the envelope versus a plain envelope.

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"Any Bonds Today?" - Of the two post card mailings, 10,000 and 2,000,000 names, 77,150 cards counted to date, 174,530 copies of songs sent and 17,483 cards returned undelivered.

FIELD FORCE

Through liaison officers, the Field Force has made a close tie-up with Federal Reserve Banks, State Bank Commissioners and Supervisors. The purposes are threefold: (1) To increase the number of banks acting as Treasury agents; (2) To get individual banks to adopt the salary allotment plan; and (3) See that banks are properly merchandising the sale of bonds and stamps in their individual institutions.

33,000 leading life underwriters are now giving one day each month to promoting the sale of defense bonds and stamps. The National Association of Life Underwriters has worked out details for guidance of members in carrying this plan through.

Reports continue to come in increasing numbers of employers arranging for payroll allotment plans and also for payment of bonuses in defense securities.

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As of August 21st, 32 State Administrators have been appointed; 29 Deputy State Administrators have been appointed; 31 Governors are serving as Honorary Chairmen of the State Committees; 33 Chairmen of State Committees have been appointed; 13 State Committees have been completed; and 13 State Committees have been partially organized.

PRESS

Yesterday, August 28th, was Baseball Defense Bond Day in more than 130 ball parks throughout the Nation. Local celebrations, pointing up the importance of the Defense Savings Program, were held at parks wherever baseball fans gathered to watch the national pastime.

In New York, newspapers carried stories and pictures about the Secretary's transcription, speeches by New York Officials and Bond sales made to leading baseball stars. News about the Polo Grounds and Brooklyn Ball Park celebrations were also carried over leading radio programs - Lowell Thomas', Bill Stern's, Stan Lomax's and other sports broadcasts.

In Philadelphia, the papers carried pictures and articles about the celebration, and advance spot announcements and the celebration itself were carried on the air over 14 Pennsylvania Stations.

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GENERAL

The "Treasury House" closed August 15th. The total sales were \$31,636, while 11,068 new albums started.

"Treasury Houses" will open within the next two weeks in New York and Boston.

The first major text book "Total Defense" is now in press. Arrangements for distribution of this book to nearly half a million high school students have been made in collaboration with the Office of Education.

Permission has been obtained to use the space in Grand Central Station above the gallery for a gigantic photo mural. Designers are now preparing a small model to be ready for review in a week or ten days.

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Treasury Department
Division of Monetary Research

Date Sept. 12 19 41.

To: Secretary Morgenthau

From: Mr. White

You may be interested in
glancing at the effect of the defense
program on the employment situation
in the United States.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 29, 1941

TO Mr. White

FROM Mr. Gass

Subject: Labor Supply and National Defense

1. In the first year of the national defense program, the number of persons employed in the United States -- including those employed in the armed forces -- increased by 4.3 million to 52.2 million.

	June 1940	June 1941
Agricultural employment	12.0	11.7
Civil non-agricultural employment	35.4	38.8
The armed forces	<u>4.5</u>	<u>1.7</u>
Total	47.9	52.2

2. With this increase in employment, there came a rise of about 19 percent in the national income and about 30 percent in the index of industrial production.

In June 1940 national income was being produced at an annual rate of about \$76 billion; a year later the rate had risen to about \$90 billion. In June 1940 the index of industrial production stood at 121; a year later it was 157.

3. However at the end of the first year of the defense program there was still in the United States an available labor supply of perhaps 9 million persons who were not being used either in civilian production or in the defense effort.

Were we merely to match the achievement of 1918, with our present population, we would have total employment of about 51 million. Actually, employment in June 1941 fell short of this by about 8.8 million -- or over twice as much as the achieved increase in employment during the first year of the defense program. The number of persons registered in the active files of the State employment offices on June 30, 1941 was about 5,126,000 -- only a slight decrease from the 5,738,000 of June 30, 1940. There can be no reasonable doubt that our population contains at least four million more employables than those registered with the State employment offices.

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Division of Monetary
Research

4. Nevertheless there were clear indications at the end of August 1941 that the rate of increase in employment and production was falling off rather than rising. The outlook was for a considerably smaller increase in total employment and production in the six months from September 1, 1941 to March 1, 1942 than had taken place in the preceding six months.

At the end of August 1941 there was evidence in almost all branches of manufacturing and construction that the further expansion of defense output was increasingly at the expense of other employment, rather than in addition to such employment. Both Mr. Leon Henderson and the American Federation of Labor issued warnings of "priorities unemployment" which, they said, might shortly affect two to three million workers. At the same time O.P.M. estimated the total expansion in demand for civil employees during the half year September 1, 1941 to March 1, 1942 at less than a million.

5. The failure of employment to expand more rapidly under the defense program has not been due primarily to quantitative or qualitative deficiencies in labor supply.

There has been no quantitative shortage, and qualitative shortages have been largely overcome by private and public training programs.

The primary obstacle to a more rapid expansion of the defense program has been the failure to enlarge plant capacity -- both capacity for the production of basic materials and capacity specifically designed to produce armaments. In the final analysis, therefore, any shortcomings in the rate of progress of the defense effort must be attributed either to a deficiency of planning and managerial ability in those charged with the execution of the defense program or to a failure to exercise such ability dispassionately in the public interest.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

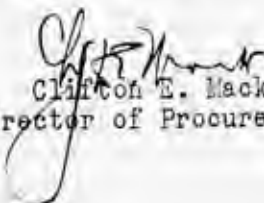
WASHINGTON

August 29, 1941

MEMORANDUM TO THE SECRETARY:

As of the close of business yesterday the Office of Production Management had allocated to smelters 7,910,143 lbs. of scrap aluminum collected by the Office of Civilian Defense and our State Procurement Officers have, in turn, requested the smelters to take deliveries. This represents the accumulations from approximately one-half of the 292 concentration points.

The smelters are taking delivery at concentration points and thus far have received, or have in transit to them, approximately 4,000,000 lbs. The State Procurement Officers have been requested to urge smelters to take delivery as promptly as possible.


Clifton E. Mack,
Director of Procurement

August 29, 1941

CONFIDENTIAL

Dear Mr. Knake:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of August 28, enclosing your compilation for the week ended August 20, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,


H. Marie Cochran
Technical Assistant to the Secretary

L. W. Knake, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-8/29/41

FEDERAL RESERVE BANK OF NEW YORK

COPY

August 25, 1941

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing our compilation for the week ended August 20, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knobe

L. W. Knobe
Vice President.

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

Enclosure.

COPY: lmp-8/29/41

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS (in millions of dollars)

Period Ended August 20, 1941. Strictly Confidential

PERIOD	Total Debits	Govt. Expenditures (a)	Other Debits	Total Credits	Expenditures of Sales of			(*) or (b) or (c) in Balance	Total Debits	Govt. Expenditures (d)	Other Debits	Total Credits	or (e) or (f) in Balance	Total Debits	Govt. Expenditures (g)	Other Debits	Total Credits
					Gold	Other (b)	Other (c)										
First year of war (8/29/39-8/29/40)*	1,793.2	806.6	1,187.61	828.2	1,356.1	52.0	420.1	+ 55.0	866.3 (a)	416.6 (a)	442.7	1,095.0	900.2	195.1 (a)	-	-	+229.0
1940																	
Aug. 29 - Oct. 2	316.6	244.8	72.8	308.9	271.6	6.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	-	-	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-	-	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.9	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	-	-	- 0.1
Nov. 28 - Dec. 31	234.8	206.6	27.8	198.0	111.4	28.0	60.6	- 36.6	2.1	-	2.1	0.6	-	0.6	-	-	- 1.5
Second year of war (8/29/40-8/27/41)	2,788.3	1,426.6	1,366.72	793.3	2,109.5	108.0	575.6	+ 10.8	678.3	421.4	456.9	1,098.4	900.2	198.2	-	-	+229.1
1941																	
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7	+ 52.5	1.7	-	1.7	0.5	-	0.5	-	-	- 1.2
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	26.0	48.8	- 55.2	0.2	-	0.2	0.2	-	0.2	-	-	-
Feb. 27 - Apr. 2	229.7	157.6	38.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	-	-	+ 0.9
Apr. 3 - Apr. 30	126.0	101.9	24.1	218.9	125.6	15.0	78.3	+ 92.9	0.9	-	0.9	0.9	-	0.9	-	-	-
May 1 - May 28	122.6	90.6	32.0	91.0	6.3	36.0	52.7	- 31.6	0.4	-	0.4	0.8	-	0.8	-	-	+ 0.4
May 29 - July 2	140.5	113.8	26.7	105.1	1.9	11.0	92.2	- 35.4	21.5	-	21.5	0.9	-	0.9	-	-	- 60.6
July 3 - July 30	101.4	75.6	28.1	61.5	-	6.0	55.5	- 39.9	0.5	-	0.5	0.3	-	0.3	-	-	- 0.2
July 31 - Aug. 27																	
Second year of war (8/29/40-8/27/41)																	
Aug. 28 - Oct. 1																	
Oct. 2 - Oct. 29																	
Oct. 30 - Dec. 3																	
Dec. 4 - 31																	
Week ended:																	
July 30	30.4	22.1	8.3	11.9	-	-	11.9	-18.5	0.1	-	0.1	0.1	-	0.1	-	-	-
Aug. 6	31.0	21.4	1.6	116.6	-	7.0	114.6	+81.6	0.1	-	0.6	0.2	-	0.2	-	-	-0.5
13	26.7	21.8	14.4	15.3	-	-	15.3	-20.9	0.2	-	0.2	0.2	-	0.2	-	-	-
20	26.0	16.5	9.5	12.1	-	2.0	10.1 (f)	-11.9	0.1	-	0.1	0.1	-	0.1	-	-	-

Average Weekly Expenditures Since Outbreak of War.
France (through June 19, 1940) \$19.6 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

(See footnotes on reverse side)

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 45.9 million

Week ended Aug. 20
Cumulation from July 6, 1940 162.7

million
million

* For monthly breakdown see tabulations prior to April 23, 1941.

Regraded Unclassified

	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347
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PERIOD	DEBIT CREDIT															
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Deccr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deccr. (-) in Balance
						For Own A/C	For French A/C									
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
1940																
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.8	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	15.7	4.4	+ 12.6	4.8	-	4.8	5.8	4.6	2.0	+ 2.0
War period through Jan. 1941	477.8	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	15.3	+ 4.5
1941																
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.6	- 14.9	5.6	0.8	5.0	13.7	12.5	1.2	+ 7.2
Apr. 3 - Apr. 30	34.9	-	36.9	35.9	12.5	-	10.5	12.9	+ 1.0	2.8	-	2.0	5.9	4.6	2.3	+ 3.1
May 1 - May 28	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 29 - July 2	45.2	-	43.2	48.2	16.3	-	-	31.9	+ 5.0	10.1	-	10.1	5.8	4.5	1.3	- 4.3
July 3 - July 30	30.6	-	30.6	21.8	15.2	-	-	6.6	- 8.8	6.4	-	6.4	6.3	4.8	1.5	- 0.1
July 31 - Aug. 27																
Second year of war (8/29/40-8/27/41)																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 29																
Oct. 30 - Dec. 3																
Dec. 4 - 31																
WEEK ENDED:																
July 30	12.1	-	12.1	6.3	4.7	-	-	1.6	- 5.8	0.4	-	0.4	0.3	-	0.3	- 0.1
Aug. 6	3.4	-	3.4	3.9	2.6	-	-	1.3	+ 0.5	2.6	-	2.6	0.2	-	0.2	- 2.4
13	10.4	-	10.4	6.9	2.9	3.4	-	0.6	- 2.5	0.3	-	0.3	0.4	-	0.4	+ 0.1
20	8.5	-	8.5	9.9	3.0	-	-	6.9	+ 1.4	0.2	-	0.2	7.0	6.4	0.6	+ 6.8

Weekly Average of Total Debits Since Outbreak of War

Through August 20 \$ 7.5 million

* For monthly breakdown see tabulations prior to April 23, 1941.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

August 29, 1941

MEMORANDUM TO THE SECRETARY:Weekly Report - Lease-Lend Purchases
(8/22 - 8/29/41)

<u>Requisitions</u>	<u>Estimated Cost</u>
Cleared by O.P.M.....	\$ 206,034,615.39
Awaiting clearance by O.P.M.....	21,158,927.00
Total Pending Requisitions.....	\$ 227,193,542.39
Less Requisitions for metals and textiles, where contracts will be made for term periods and allocations required from O.P.M.....	\$ 131,013,480.28
Total Pending Requisitions for Spot Purchases.....	\$ 96,180,062.11
Purchases to 8/22/41.....	\$ 114,918,725.16
Purchases 8/22 to 8/29/41.....	7,021,066.16
Total to 8/29/41.....	\$ 121,939,791.32

Discussions have been had with the Division of Defense Aid Reports representatives during this past week relative to the increasing total of "frozen" allocated funds due to future delivery schedules for which OPM clearances cover only one month ahead whereas British requirements specify shipments for several months to one year in advance, especially in the metal category. As a result of the discussions steps are now being taken to meet this situation.

Clifton E. Mack
Clifton E. Mack,
Director of Procurement

(Attachments-G)

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISI- TIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-444 (Adj.Ded.)	Winthrop Chemical Corp.	U.K.			\$ - 118,000.00
DA-TPS-993	The Torrington Co.	"	Bearings		2,218.60
DA-TPS-906	Eugene Donzelot & Sons	"	Leptandra Root	1200 lbs	288.00
DA-TPS-994	The Timken Roller Bearing Co.	"	Bearings		114,478.50
DA-TPS-995	Bower Roller Bearing Co.	"	Bearings		128,459.50
DA-TPS-745	The L. S. Starrett Co.	"	Buttons and Gages		1,014.30
DA-TPS-896	Associated Chemists, Inc.	"	Amidol	100 lbs	355.00
DA-TPS-762	Cleveland Twist Drill Co.	"	Reamers	6	39.40
DA-TPS-997	General Motors Sales Corp.	"	Bearings		1,841.32
DA-TPS-1001	General Motors Sales Corp.	"	Bearings		58,710.00
DA-TPS-680	International Harvester Export Co	"	Cranes	20	97,570.00
DA-TPS-925	Imperial Oil & Gas Products Co.	"	Carbon Black	78,450 lbs	5,188.92
DA-TPS-924	Carbon Black Export, Inc.	"	Carbon Black	6915 L.T.	884,510.00
DA-TPS-856	International Harvester Co.	"	Plows, Harrows, Drills, Balers etc.		75,003.70
DA-TPS-1015	American Pitch Pine Export Co.Inc.	"	Pitch Pine	20,000 Ft.	1,710.00
DA-TPS-897	Albertson & Co.	"	Reamers		103.90
DA-TPS-928	The Galion Iron Wks. & Mfg. Co.	"	Graders	16	86,066.01

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-910	Davey Compressor Co.	U.K.	Air Compressors	50	\$ 152,000.00
DA-TPS-911	Worthington Pipe & Mch. Corp.	"	Air Compressors	50	159,138.50
DA-TPS-912	Independent Pneumatic Tool Co.	"	Riveting Hammers	100	9,350.00
DA-TPS-913	Sullivan Mch. Co.	"	Air Hose	500	6,775.00
DA-TPS-914	Ingersoll-Rand Co.	"	Rock Drills, Pneumatic Diggers etc.		170,955.00
DA-TPS-1035	Stance Distributors, Inc.	"	Rubber Substitute	1000 lbs	700.00
DA-TPS-765	General Motors Sales Corp.	"	Bearings		9,647.07
DA-TPS-919	S. B. Penick & Co.	"	Slippery Elm Bark	12,000 lbs	2,640.00
DA-TPS-948	Eugene Donzelot & Son	"	Leptandra 1,000 #		240.00
DA-TPS-788	Stauffer Chem. Co.	"	Ground Sulphur	22,400,000 lbs	33,376.00
DA-TPS-938	F. E. Schundler & Co. Inc.	"	Bentonite	1,680 S.T.	15,960.00
DA-TPS-937	The Wyodak Chemical Co.	"	Bentonite	1,680 S.T.	16,128.00
DA-TPS-898	Timken Roller Bearing Co.	"	Rollers		17,050.00
DA-TPS-990	Maurice S. Dessau	"	Tools Diamond	194	2,738.00
DA-TPS-362 (Adj.Ded.)	Minneapolis-Moline Power Impl.Co.	"			- 192.00
DA-TPS-462 (Adj.Ded.)	Ford Motor Co.	"			- 43.92

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-999	Nathan Mfg. Co.	U.K.	Injectors	40	\$ 3,200.00
DA-TPS-978	Simmons Machine Tool Corp.	"	Drill & Planer		35,900.00
DA-TPS-888	The Mansfield Tire & Rubber Co.	China	Tires, Tubes & Flaps		531,065.00
DA-TPS-892	The Firestone Tire & Rubber Co.	"	Tires, Tubes & Flaps		15,360.00
DA-TPS-891	The Mohawk Rubber Co.	"	Tires, Tubes & Flaps		62,561.50
DA-TPS-895	The Dayton Rubber Mfg. Co.	"	Tires, Tubes & Flaps		9,210.00
DA-TPS-893	Dunlop Tire & Rubber Corp.	"	Tires, Tubes & Flaps		51,854.00
DA-TPS-894	The Kelly Springfield Tire Co.	"	Tires, Tubes & Flaps		75,578.50
DA-TPS-890	The Pharis Tire & Rubber Co.	"	Tires, Tubes & Flaps		99,597.75
DA-TPS-889	The B. F. Goodrich Co.	"	Tires, Tubes & Flaps		25,650.00
DA-TPS-843 (Adj.Ded.)	Wisconsin Steel Co.	U.K.			- 6,000.00
DA-TPS-527 (Adj. Add.)	The Mechanical Mold & Machine Co	"			960.00
DA-TPS-904	Crucible Steel Co. of America	"	Steel	335,208 lbs	70,695.83
DA-TPS-678	Lefere Forge & Machine Co.	"	Dop Forgings	4,884	6,837.60
DA-TPS-258-3	Republic Steel Corp.	"	Hi Carbon Moly Steel	600 GT	144,614.40
DA-TPS-258-4	Republic Steel Corp.	"	Hi Carbon Moly Steel	1,200 GT	278,476.80
DA-TPS-261-7	Copperweld Steel Co.	"	Hi Carbon Chr. Steel	35 GT	7,134.40

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-902	Steel Improvement & Forge Co.	U.K.	Drop Forgings	2,000	\$ 100,000.00
DA-TPS-903	Carboloy Co., Inc.	"	Tungston Carbide Powders	33,076#	252,039.12
DA-TPS-1012	The Halo-Krome Screw Corp.	"	Screws and Wrenches		6,072.22
DA-TPS-1013	Bethlehem Steel Corp.	"	Barbed Wire	728,000#	28,210.00
DA-TPS-1014	Continental Steel Corp.	"	Barbed Wire	1,120,000#	44,464.00
DA-TPS-1022	Wheeling Steel Corp.	"	Barbed Wire	64 GT	5,208.00
DA-TPS-1023	Pittsburg Steel Corp.	"	Barbed Wire	1,165 GT	103,862.08
DA-TPS-1024	Jones & Laughlin Steel Corp.	"	Barbed Wire	550 GT	47,740.00
DA-TPS-801 (Adj. Add.)	J. W. Valentine Co. Inc.	China			247.50
DA-TPS-807 (Adj. Add.)	Southeastern Cottons, Inc.	"			16.00
DA-TP S-308-2	Bethlehem Steel Export Corp	U.K.	Ingots	10,000 GT	355,100.00
DA-TPS-328 (Adj. Add.)	Jones & Laughlin Steel Corp.	"			13,000.00
DA-TPS-308-1 (Adj. Add.)	Bethlehem Steel Export Co.	"			50,000.00
DA-TPS-310-1 (Adj. Add.)	Great Lakes Steel Corp.	"			26,442.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1041	Standard Pressed Steel Co.	U.K.	Screws		\$ 2,053.50
DA-TPS-1042	Pacific Portland Cement Co.	"	Cement	187,660 BBls	347,171.00
DA-TPS-955	General Motors Overseas Operations	"	Drop Forgings		2,494.00
DA-TPS-956	Ditto	"	Drop Forgings		57,050.00
DA-TPS-957	Ditto	"	Drop Forgings		60,400.00
DA-TPS-958	Ditto	"	Drop Forgings		199,875.00
DA-TPS-959	Ditto	"	Drop Forgings		26,595.00
DA-TPS-954	Kropp Forge Co.	"	Drop Forgings		5,820.00
DA-TPS-1036	Parker-Kalon Corp.	"	Screws		22,143.95
DA-TPS-325-3	Crucible Steel Co. of America	"	Ni Chrome Tungsten Steel 212 GT		181,546.62
DA-TPS-325-4	Crucible Steel Co. of America	"	Ni Chrome Tungsten Steel 25 GT		23,648.80
DA-TPS-1037	United Drop Forge Div. of Fuller Mfg. Co.	"	Drop Forgings		31,440.00
DA-TPS-1044	The Singer Mfg. Co.	"	Needle Wire		20,442.24
DA-TPS-1051	Republic Steel Corp.	"	Steel Pipe	409,200 L.Ft.	360,014.16
DA-TPS-1049	The Timken Roller Bearing Co.	"	Ni. Moly Steel		218,463.40
DA-TPS-921	Youngstown Sheet & Tube Co.	"	Steel Pipe	250,800 L.Ft.	220,653.84
DA-TPS-316-1 (Cancelled)	Wickwire-Spencer Steel Co.	"			73,265.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1054	Dresser Mfg. Co.	U.K.	Couplings, Gaskets, Bolts	\$	80,465.91
DA-TPS-260-8	Bethlehem Steel Co.	"	Hi. Carbon Chromium Steel 315GT		61,264.00
DA-TPS-260-9	Bethlehem Steel Co.	"	Hi. Carbon Chromium Steel 35 GT		7,164.64
DA-TPS-260-11	Bethlehem Steel Co.	"	Chromium Carbon Moly Steel		785,209.60

Total Purchases 8/22 to 8/29/41.....\$ 7,021,066.16

August 29, 1941

Table for insertion in Section 400

If the gross income is over -		But not over -	The tax shall be -	
			Single person (not head of a family)	Head of family or married person
\$ 1	\$ 750	\$ 0	\$ 0	
750	775	1	0	
775	800	2	0	
800	825	3	0	
825	850	5	0	
850	875	7	0	
875	900	9	0	
900	925	11	0	
925	950	14	0	
950	975	16	0	
975	1,000	18	0	
1,000	1,025	20	0	
1,025	1,050	22	0	
1,050	1,075	24	0	
1,075	1,100	26	0	
1,100	1,125	29	0	
1,125	1,150	31	0	
1,150	1,175	33	0	
1,175	1,200	35	0	
1,200	1,225	37	0	
1,225	1,250	39	0	
1,250	1,275	42	0	
1,275	1,300	44	0	
1,300	1,325	46	0	
1,325	1,350	48	0	
1,350	1,375	50	0	
1,375	1,400	52	0	
1,400	1,425	55	0	
1,425	1,450	57	0	
1,450	1,475	59	0	
1,475	1,500	61	0	
1,500	1,525	63	1	
1,525	1,550	65	2	
1,550	1,575	68	3	
1,575	1,600	70	5	
1,600	1,625	72	6	
1,625	1,650	74	7	
1,650	1,675	76	9	
1,675	1,700	78	11	
1,700	1,725	80	13	
1,725	1,750	83	15	
1,750	1,775	85	17	
1,775	1,800	87	19	

Table for insertion in Section 400.
(Continued - 2)

If the gross income is over -	But not over -	The tax shall be -	
		Single person : (not head of : a family)	Head of family or married person
\$1,800	\$1,825	\$ 89	\$ 22
1,825	1,850	91	24
1,850	1,875	93	26
1,875	1,900	96	28
1,900	1,925	98	30
1,925	1,950	100	32
1,950	1,975	102	35
1,975	2,000	104	37
2,000	2,025	106	39
2,025	2,050	109	41
2,050	2,075	111	43
2,075	2,100	113	45
2,100	2,125	115	48
2,125	2,150	117	50
2,150	2,175	119	52
2,175	2,200	122	54
2,200	2,225	124	56
2,225	2,250	126	58
2,250	2,275	128	60
2,275	2,300	130	63
2,300	2,325	132	65
2,325	2,350	134	67
2,350	2,375	137	69
2,375	2,400	139	71
2,400	2,425	141	73
2,425	2,450	143	76
2,450	2,475	145	78
2,475	2,500	147	80
2,500	2,525	150	82
2,525	2,550	152	84
2,550	2,575	154	86
2,575	2,600	156	89
2,600	2,625	158	91
2,625	2,650	160	93
2,650	2,675	163	95
2,675	2,700	165	97
2,700	2,725	167	99
2,725	2,750	169	102
2,750	2,775	172	104
2,775	2,800	174	106
2,800	2,825	177	108
2,825	2,850	180	110
2,850	2,875	183	112
2,875	2,900	186	114
2,900	2,925	189	117
2,925	2,950	191	119
2,950	2,975	194	121
2,975	3,000	197	123

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 29, 1941

TO Ferdinand Kuhn, Jr.
FROM Herbert Merillat

PRESS OPINION ON TAXES:
THUMBS DOWN ON SOCIAL
SECURITY PLAN

Editorial opinion has become decidedly hostile toward the social security tax plan outlined by Secretary Morgenthau. In contrast with the more moderate tone of some Eastern metropolitan papers, the press as a whole has spoken very harshly of the proposed changes. Adverse criticism generally takes the form of a charge that it smacks of subterfuge to use increased social security contributions for current emergency expenditures.

In more detail, these are the objections:

1. It is unfair to workers to increase their contributions to social security funds without a commensurate increase in benefits. Workers should not be led to believe that their contributions will be used for old-age insurance when actually they will be used for current defense needs without any increase in old-age benefits. It would be more honest, says the press, to tax wage earners, through a separate payroll tax, broader income tax, or sales tax, than to cloak the tax as a social security contribution.

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2. The implied promise that increased payroll taxes would constitute a reserve for cushioning post-war deflation is illusory. Since it is planned to spend currently the revenue so raised, post-war benefits could be financed only by further taxes. Much of this criticism is a revival of attacks on the present system of earmarking social security funds. It is said that the Secretary's plan, like the Keynes plan, would mean high taxes now plus more high taxes after the war.

3. Employers' contributions would place an added tax burden on them. Such burden would have no relation to the employers' ability to pay and would seriously hurt many business concerns which have not benefited under the defense program.

4. The added tax on employers would become an element of production costs and tend to push prices upward. This is incompatible with the Administration's efforts to keep prices down. Press criticism shows a failure to differentiate between the proposal to increase the payroll tax earmarked for old-age benefits and the proposal to levy a distinct dismissal wage tax to be repaid in post-war benefits. Much of the criticism directed at the former is not relevant to the latter.

The Senate Tax Bill

Press comment has concentrated on the Finance Committee's decision to broaden the tax base. This step meets the last of

Notes on Inflation

The pro-labor press continues to doubt the need for heavy taxes on wage earners in order to curb inflationary trends. An article in The New Republic insists that present or potential production of such necessities as food and clothing is ample to take care of increased demands from low-income groups. Priorities and price-control, it says, can take care of any inflationary threat resulting from relative scarcity of particular items of consumer goods (automobiles, etc.).

Labor, the organ of the railroad brotherhoods, asserts that inflation is being used as a bogey to frighten workers into accepting lower living standards. There is no scarcity of necessities, it says.

An article in the Des Moines Register presents the farmers' case. It protests that the metropolitan press is playing up increases in farm income with the object of singling out farmers under price controls and taxes. It complains that fat industrial profits are not given publicity.

Labor and the farmers show little inclination to accept measures demanded by the press in the name of inflation-prevention, which they consider inimical to their interests.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 29, 1941

TO

Ferdinand Kuhn, Jr.

FROM

Alan Barth

STEALING A MARCHIran

The degree to which the American press has enlisted in the war against Nazism is graphically illustrated by its reaction to the invasion of Iran. In almost every editorial page, the Anglo-Russian move is fully justified -- as a rule on the candid, simple ground of expediency.

Most editorial writers choose to accept the British explanation that German "tourists" and "technicians" threatened the independence of Iran. Many, however, are inclined to regard this as mere window-dressing -- or as irrelevant to the strategic significance of Iran's geographical position. A few declare openly that the occupation was dictated by military necessity and therefore amply justified. They console the Iranians by observing that the present situation is vastly preferable to a German invasion and by reciting the British promise to restore Iran's sovereignty. It is very widely assumed that the British and Soviet governments moved only with the tacit approval of the United States.

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Almost all commentators take it for granted that the British and Russian forces will secure their objectives without difficulty. They rejoice in this evidence of cooperation and above all in the allied seizure of the initiative. A typical comment is that, for once, the Germans have been beaten to the punch.

Iran's importance is held by the commentators to lie in its oil resources, in its location athwart the gateway to India and, most of all, in its usefulness as an avenue of supply for the Soviet Union. It is the editorial belief that in allied hands Iran forbids the isolation of Russia toward which the Nazis appear to be striving. British and American aid for the Red Army can continue to flow through Iran, it is argued, even if the Japanese shut off the route to Vladivostok. An increased readiness to send American war materiel to the Russians seems implicit in this anxiety to maintain the vital line of supply.

The American press is tremendously heartened by the prospect, which the seizure of Iran fosters, that the Russians will be able to keep the Germans occupied on an eastern front throughout the Winter.

Churchill

The most common heading for editorial discussions of Prime Minister Churchill's latest broadcast is the phrase, "One by one."

- 3 -

The moral of the phrase for Americans was clear enough to all commentators over here. A few isolationist papers complained, of course, that the British leader had no business pointing out dangers to the United States. The bulk of the press, however, regarded the warning as effective and salutary, bewailing the fact that Americans have not yet fully awakened to the realities of Nazi strategy.

There was keen editorial interest in the Prime Minister's pledge of British collaboration with the United States in the event of hostilities in the Far East. Some commentators took note of the fact that British interests there are considerably greater than American. For the most part, however, it was felt that the announcement of a common Anglo-American front would constitute a healthy warning to the Japanese. It seemed apparent to the editorial writers that the Churchill declaration had been made through pre-arrangement with President Roosevelt and that the implications of the agreement would not be lost upon Japan. A showdown in the Far East is considered imminent and inevitable; the press is vehemently opposed to any temporizing or yielding either in regard to the shipment of war essentials to Japan or on the issue of freedom of the seas.

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The reaction to the eloquent message of hope which the Prime Minister delivered to the conquered peoples of Europe varied in accordance with the general attitude of newspapers respecting foreign policy. A few isolationists denounced it as an attempt to commit this country from Downing Street. Some others felt that Mr. Churchill had ranged the United States too confidently on the side of Britain. And at the other extreme, a minority of vigorous interventionists urged that the time had come for full American participation in the fight for freedom.

The bulk of the press fell between these two views. There was a considerable feeling that the Prime Minister had receded somewhat from his earlier attitude that America need furnish only the tools. Yet this was accompanied by an impression that he had been convinced in his talks with Mr. Roosevelt that nothing more could be expected from this country, for the present at least. The dominant editorial opinion is that the United States must redouble its efforts as the arsenal of all the countries fighting Hitlerism. At the same time there is a strengthened hope that the defeat of Hitlerism can be achieved short of shooting by the U.S.A.

Revolt

A great deal of encouragement has been engendered by the stories from France of sabotage and terrorism. Railroad accidents, the formation of a rump parliament under the leadership of Edouard

- 5 -

Herriot and the shooting of Pierre Laval have been given great prominence in news pages and have inspired a good deal of rather lyrical editorial comment about the existence of a new spirit of revolution among the French. The severity of German attempts at repression is held likely to fan the flames of rebellion. While most commentators concede that civilian uprisings cannot now be effective, they take cheer from the thought that the Germans will be compelled to immobilize sizeable police forces in the occupied countries.

There is some danger in the avidity with which the American public seems to grasp at this line of thought. It creates hope for an easy solution of the war problem and may tend to diminish the sense of urgency over here. Isolationists, naturally, are giving what impetus they can to wishful thinking.

An increasing number of commentators urge that the most effective way for America to encourage the French spirit of revolt is by withdrawing recognition from the Vichy Government. They reason that this may persuade the French people to follow suit.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 29, 1941

TO Mr. White

FROM Mr. Friedman

Subject: Recent developments in the Far Eastern situation.

The effect of American, British and Japanese freezing on the different areas in the Far East, problems arising in connection with the administration of the freezing controls and the commencement of operations by the Stabilization Board are the outstanding developments during recent weeks. The information received in our Division indicates the keen interest with which the latest American and British moves are being watched. The outburst of activity in the last few weeks may be the beginning of a new phase in the Far Eastern situation.

1. The Yhan-Dollar Stabilization Board has begun to operate and a foreign exchange agency has been established.

(a) The Board was officially organized on August 13, and on August 14, the Federal Reserve Bank of New York received \$20 million for the account of the Stabilization Fund. It was announced that five foreign banks and four Chinese banks in Shanghai would supply foreign exchange at rates fixed by the Board and the rate of 5 5/16¢ was adopted.

(b) On August 18, the Chinese National Government announced that on August 13 an exchange control agency was established consisting of 15 members with Kung as chairman. Neither K.P. Chen nor Fox expect much of this committee and doubt whether any program or plan has yet been formulated for handling exchange control. Because of its political character, K.P. Chen hesitates to serve on the agency.

(c) Fox reports that the Board is functioning satisfactorily, the cost of operations in the first week being \$2 million. The question of the relationship between the Board and the foreign exchange agency has been raised and the agency is being given a more prominent position than the Board. Fox says that the present plan is to turn over Hong Kong operations to the Agency unless word is received from Treasury to the contrary.

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Division of Monetary
Research

(d) Two Treasury officials now in the Philippines — Aarons and Aikins — have been assigned to the American Consulates at Shanghai and Hong Kong respectively, to investigate the operation of freezing control in the areas covered and to assist Fox.

(e) Much emotion aroused in Chungking over wide powers given to Central Bank of China, as this bank does not appear to command general confidence.

(f) Board hesitates to engage in general economic studies regarding suggestions for economic rehabilitation. Economic studies by a foreign group may be able to effectuate some change, but Fox doubts the desirability of joint Anglo-American help in such an undertaking.

2. The operation of freezing controls in Shanghai has raised diverse problems.

(a) A black market of considerable proportion is developing in Shanghai, particularly for the sale and purchase of local accounts of U. S. dollars and for import cover for articles in banned list issued by Chinese Government in July 1939.

(b) Chinese commercial banks in Shanghai have been informed by the Central Bank of China that the latter would purchase their frozen U. S. dollar holdings in the United States at market rate, if they would accept Chinese currency in exchange. The Chinese commercial banks were satisfied with the proposal as it would enable them to make use locally of their frozen assets.

(c) Severe criticism has been directed against the U.S. general licenses because licenses have been issued to three Sassoon banks and one obscure Russian bank, while reputable private commercial Chinese banks have been issued no licenses.

(d) American banks point out that the British banks are empowered to buy checks on Chinese accounts for moderate amounts to meet contractual obligations in China, such as salaries.

3. Arnstein reports to Generalissimo on Burma Road.

Arnstein has submitted his report to Chiang Kai-shek and in it he states that Baker is unable to handle the situation. Management and operations are bad beyond belief and are showing no improvement. Arnstein recommends appointment of Mr. Holmes as managing director with unlimited powers. At present, Holmes

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Division of Monetary
Research

is controlling officer in Lashio in charge of all trucks coming over the Burma Road to China and has had experience operating trucks on the Burma Road. The Generalissimo, however, wants the managing director to be an American — Holmes is British.

4. In occupied China, restrictions and discriminations against Americans continue.

Throughout the occupied territory, the additional measures promulgated after the freezing of Japanese assets are still enforced and, in some cases, even further steps taken. For example, in Manchuria, American nationals must obtain permits to leave Manchuria and may not travel outside of the city in which they reside and, in Chefoo, all business operations by Americans have ceased.

5. In Japan, the press continues to emphasize Japan's economic encirclement by the United States and Great Britain.

This, they claim, is the significance of the freezing orders and export bans. All foreign trade business outside the yen bloc remains at an absolute standstill with no early prospects of improvement. The press reports that the Government has appropriated ¥ 500,000,000 to compensate losses incurred by Japanese subjects from the freezing of assets in the United States and British Empire.

6. British arrangements on administration of freezing of Japanese assets have resulted in rumors of negotiations for a Japanese-British trade agreement.

Where imports from Japan are regarded essential and Japan willing to supply them on a quasi-barter basis, payments for such will be made to a new clearing account of the Yokohama Specie Bank with the Bank of England. Japan will be able to use the resulting credits to pay for those exports from the United Kingdom and Colonies which they may agree to license. The suggestion has been made that the Dominions, India and Burma open similar clearing accounts.

7. Hong Kong Chinese bankers request permission for certain number of Chinese commercial banks to deal in foreign exchange.

The Hong Kong Bankers Association submitted a petition to the Ministry of Finance to this effect, pointing out that only two of the eleven licensed banks in Hong Kong were Chinese, in spite of the great importance of the Chinese community in this Colony.

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Division of Monetary
Research

8. Administration of foreign funds control in Philippines progressing satisfactorily.

Aarons reports that they are about current on applications and are receiving about 50 applications a day. He suggests that a general license be issued covering trade between blocked nationals in the Philippines and Continental United States. Mr. Bernstein has suggested that the people in the Philippines draft such a license and forward it to Washington. Aarons also reports that two bank examiners are working together in the Chinese and Japanese banks and recommends that two more bank examiners be sent.

9. Indo-China prohibits exports from Colony except under special licenses but ban does not apply to trade with Japan.

Action probably taken to execute treaty with Japan.

SECRET

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TREASURY DEPARTMENT

United States Coast Guard

Washington

29 August, 1941.

From: Spagent, Shanghai, China.
To: Secretary of the Treasury.

(Part II, "Urgent" of August 29)

The board may call a conference in Hongkong with a group of leading Shanghai business men and bankers in order to place plan and objectives before them personally. If it is decided to hold such a conference, I shall recall Taylor from Shanghai to Hongkong for a short period. It is most inconvenient to function effectively in Chungking, in spite of long hours devoted to work, without a confidential secretary and without other help; even ordinary stenographic assistance is scarce. Now that the board has started operations, Free should return to accounting phases of work. What are the chances of getting at least one competent person for a short time to observe conditions in Shanghai? It is quite important to have a technically trained observer in Shanghai and, if possible, one in Hongkong.

I should know at an early date what the attitude of the Treasury Department would be toward a new application from the Chinese Government for an additional contribution to the board's fund of fifty million U.S. dollars or a smaller sum. There is no hurry about this. Some of the uncertainty here, for which the United States Government is blamed, in part arises from the slowness in formulating plans for exchange control in China. The Finance Ministry relies the power which it has through the Stabilization Board, which it tries to domi-

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note, and the agency which it does control. The Ministry is not handling the present task in an intelligent and effective manner. There is unmistakable evidence of incompetence in the Central Bank of China. It is a haven for political and other hacks. The Bank of China, on the other hand, appears competent and, among private commercial banks, commercial and savings banks of Shanghai, and the Bank of East Asia, appears to stand out. This is not intended as a complete list.

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NW

PLAIN

Shanghai via N. R.

Dated August 29, 1941

Rec'd. 7:45 p.m.

Secretary of State,

Washington.

INFO: AMCONSUL HONG KONG AND AMCONSUL MANILA

1184, 29th (SECTION TWO)

Public has impression that henceforth black market exchange trading may no longer be done. Shanghai paper gold bars market closed today and tomorrow as compromised set off rate will be determined for September delivery outstanding contracts. October delivery trading will be commenced September first, but new set off bases has not yet been announced. Physical gold bars quoted yesterday at yuan one three hundred. Shanghai fictitious American bank notes forward delivery rates closed yesterday at five five thirty seconds and trading suspended today. Shanghai spot American banknotes closed yesterday at four nineteen thirty seconds cents, and were traded in at around four nine sixteenths cents this morning. Other quotations this morning: Bank Japan notes yen one four Chinese yuan two point four seven, military scrip yen one for Chinese yuan two point fifty, hua shing yuan redeemable at Chinese yuan two point naught six, central bank gold

unit

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unit rate unchanged, Shanghai customs gold unit at Chinese yuan five point eight seven two. Other closing quotations yesterday: Chinese domestic bonds higher average seven naught point three due renewed peace rumors, Shanghai general stocks higher average three one seven point naught eight, Shanghai rubber shares up average three two four point six naught, Tientsin exchange rates five seven sixteenths cents and three one quarter pence, Tientsin FRB five three point two five for Chinese yuan one hundred, Hong Kong exchange rates and twenty five one sixteenths cents and fifteen pence. Shortage of small notes and aluminum coins growing acute in Shanghai affecting public transportation service and retail business as premium of seven percent is charged by exchange shops for fractional note change and forty percent for aluminum coins as apparently some operators have been depleting market of such currency. Fractional notes issued by Nanking regime's Central Reserve Bank are now to be seen in circulation in Shanghai foreign controlled areas. Nanking regime's Central Reserve Bank continued this morning to exchange at par its notes for Chinese yuan in small amounts, some exchange shop deals were concluded yesterday at premium

- 3 -

premium of seven percent for GEB due over Chinese yuan. Merchants are anxious to acquire GEB notes in order to pay customs duties as from September first at Shanghai. Inform Commerce and Treasury.

Sent to Department, repeated to Hong Kong and Manila for Fox.

END OF MESSAGE.

LOCKHART

CSB

Copy:bj:hbr:9-8-41.

P A R A P H R A S E

A telegram of August 29, 1941 from the American Embassy at Peiping reads substantially as follows:

Customs revenue constitutes about fifty per cent of the revenue of the North China Political Affairs Commission and normally is the largest source of revenue of the Commission. Other important sources of revenue are the consolidated tax on wine, tobacco and other commodities, the tax on salt and the tax on opium. North China's foreign trade outside the yen bloc has dropped considerably as a result of freezing regulations promulgated by the British, the Americans, and the Japanese and the North China Political Affairs Commission are searching frantically for new revenue measures to make up the loss. Early in the month of August an increase in the consolidated tax of from twenty to one hundred per cent was announced. This measure has, no doubt, been a contributory cause in the marked cost of living increase which occurred recently in North China. According to reports it has been decided to institute in the near future the collection of an income tax.

Even before the freezing regulations were put into effect, it was reported that the Japanese authorities in North China were exerting continuous pressure on the local regime to create new revenue sources in order that greater assistance might be had in defraying military occupation costs. The Embassy at Peiping is of the opinion that the decreasing revenues of Japanese sponsored regimes in China may in the end contribute materially to the disintegration of those regimes. The Embassy suggests, therefore, that the consuls in China watch developments along this line and report them.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Peiping, China

DATE: August 29, 1941, 11 a.m.

NO.: 240

The Embassy has been asked by the Yenching University--American--if it would be acting contrary to any law or policy of the U.S. if it paid certain sums to German firms which are owed for goods that were delivered during the months of July and August of the current year and the final payment (in the amount of U.S.\$1,000) for the installment of machinery a year ago; such installment being made under a contract.

The Embassy would appreciate receiving a brief resume of the extent to which U.S. freezing and black-listing regulations apply to Americans and American firms in transactions of this nature with the Axis (Italian, German, Japanese) firms in this extraterritorial jurisdiction. This information would enable the Embassy to answer inquirers and advise them accordingly.

The Embassy has informed Yenching University that the matter is being considered and that they may expect a reply in the near future.

BUTRICK

EAPAE

240.51 Frozen Credits/2276

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina

DATE: August 29, 1941, 3 p.m.

NO.: 900

The Embassy has been requested by the manager of the Buenos Aires branch of the First National Bank of Boston to intervene with the Treasury Department with respect to the matter which follows.

The First National Bank of Boston in Boston opened irrevocable letters of credit (Nos. 99,182 and 99,640) on April 8, 1941, and June 2, 1941, in favor of Standt and Company at Buenos Aires. These letters of credit were for shipments of wool to the United States of America.

The Banco de la Provincia de Buenos Aires on July 21, 1941, negotiated^N drafts for \$10,000.16 U.S. currency under the first letter of credit. Under the second credit, and on the same date, a draft was negotiated for \$6,397.92. At first, the Treasury Department refused to grant the necessary license. The Treasury Department now consents to allow the payment in blocked funds. The Banco de la Provincia is unwilling to accept such payment.

It is urgently requested by the First National Bank of Boston that the necessary license to pay the drafts in unblocked funds be issued in order that it may comply with a contract which was made prior to the June 17 restriction with regard to the Proclaimed List.

Moreover,

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Moreover, these drafts were negotiated by the Banco de la Provincia in good faith. The Banco de La Provincia has full legal recourse against the First National Bank of Boston in Argentina.

Aside from the legal liability, the losses caused by the delay and the repudiation of the existing contracts by U.S. banks in Buenos Aires would probably cause a serious loss of prestige and would create doubt as to the good faith of the contractual obligation of the banks.

ANNOUN

EAIPM

840.51 Frozen Credits/JSTV

TRB

GRAY

Zurich

Dated August 29, 1941

Rec'd 10:15 a.m.

Secretary of State,
Washington.

419, August 29, 4 p.m.

This office is receiving inquiries as to reports that new United States currency restrictions now prohibit American citizens and aliens who, entering United States have in their possession more than one thousand dollars United States currency. Please cable whether such regulations now exist and if so whether applicable to both citizens and aliens.

STEWART

PEG

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£65,000
Purchased from commercial concerns	£56,000

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

The Argentine free peso declined to a closing quotation of .2373, as compared with .2382 last night.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	10-9/16% discount
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.4425
Cuban peso	15/16% discount

In the unofficial exchange market in Shanghai, the yuan remained unchanged at 4-7/8¢. The sterling-dollar cross rate again worked out to 4.04-3/4.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made one purchase of new production silver amounting to 125,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.

CONFIDENTIAL

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We also purchased 543,000 ounces of silver from the Bank of Canada under our regular monthly agreement. Today's purchase raises the total amount of silver bought from that source during August to 1,200,000 ounces, or the agreed monthly limit.

During the month of August, our purchases of silver under the Silver Purchase Act amounted to 4,759,500 ounces, the sources of which were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	2,984,500
2. From Canada under agreement . . .	1,200,000
Inventory silver	<u>575,000</u>
Total	4,759,500



PERSONAL

AND SECRET

August 29, 1941.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 27, 1941

1. H.M. Submarine Torbay sank large Italian schooner off C. Matapan August 16th subsequently returned to port with one hundred and thirty British Allied troops from Crete.
2. Night of 25th/26th eight enemy aircraft attacked Alexandria starting fire in Native quarter. Night of 25th/26th Royal Air Force made further successful attack on Tripoli (L), two Blenheims sank vessel of four thousand tons H.T. Kerkenah. One Blenheim striking mast is missing. On 25th Royal Air Force also attacked Bardia. Hurricanes near Malta shot down three Italian fighters and probably destroyed two others. During day-light August 26th British bombers with fighter escort attacked shipping with following results - one three thousand ton left burning, two two thousand ton, two four thousand ton all hit, one seven thousand ton sunk. Two five hundred ton reported vessels hit, one sunk. Seven Blenheims missing. Fighters attacked seven Minesweepers left one on fire, two others smoking. Royal Air Force claim to have destroyed on ground six JU 88, seven JU 87, and damaged four JU 88 and one JU 87. During further operations Royal Air Force claim one ME 109 destroyed, 2 ME 109's probably destroyed and 3 others damaged. Our own losses, 4 fighters. One JU88 shot down off Scottish coast 26/27. Total of bombers despatched over 175. Targets included Cologne; Havre, Boulogne. 3 aircraft missing day of 27th. Blenheims attacked aerodromes and power house in France. Preliminary reports are six ME 109's and 2 ME 109Fs destroyed; 3 ME 109's probably destroyed and 3 ME 109's damaged. Our losses 12 fighters, 3 pilots safe.

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3. U.S.S.R. Baltic Front.

German thrust eastward north of Novgorod advance sufficient to be extremely dangerous to Moscow-Leningrad Railway. German drive southward Smolensk area appears advanced beyond Gomel-Bryansk railway and becoming serious threat to Russian forces to the south. Occupation of the whole of Ukraine west of River Dnieper almost complete and Germans claim entered Dniepropetrovsk.

BRITISH EMBASSY,

WASHINGTON, D.C.,

AUGUST 29, 1941.

NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 29, 1941

TENTATIVE LESSONS BULLETIN
No. 151
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350,05 (9-19-40) M-B-M.

ITALY IN THE PRESENT WARSOURCE

This is the second of a series of three bulletins based on translations from connected articles written by a German war correspondent and published in separate issues of the Militär Wochenblatt, a semi-official periodical distributed to the German Army.

This bulletin, which describes the British offensive against Bardia and Tobruk, was taken from the issue of May 23, 1941, and is a continuation of the article published in Tentative Lessons Bulletin, No. 150.

As this account was written from the German point of view and was intended to bolster friendly feeling between the Axis partners, propagandistic tendencies should not be overlooked, particularly with regard to the size of the forces opposing the Italians.

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NO OBJECTION TO PUBLICATION IN SERVICE JOURNALSITALY IN THE PRESENT WAR

The defense of Bardia was entrusted to General Bergonzoli. He had no fresh troops at his disposal. The garrison was composed of the remnants of the divisions which had been used in the fighting at Sidi-el-Barrani and Sollum - the 62d and 63d Infantry Divisions, and the 1st and 2d Blackshirt Divisions. Around the little harbor had been erected, in a great semi-circle, three rows of field fortifications, containing in all some forty major strong points and some sixty minor ones. The outer defense had a radius of thirteen kilometers; the innermost lay close to the harbor, on the heights which rise a hundred and fifty meters above sea level and reach their greatest elevation in the east. Some of the strong points had concrete bunkers; the others were constructed to suit the terrain, a few being cleverly placed in the depressions leading from the sea, inland. There were no tank obstacles in front of the outer defense; but between it and the middle defense, tank traps and several kinds of obstacles had been built in various places. Beyond the Bardia fortifications, and complementing them, lay a fortified flying field.

Impressed with its previous successes, and with the fact that 30,000 prisoners had been taken, the Army of the Nile thought it could take Bardia quickly, especially in view of the fact that the fleet had bombarded the harbor city heavily between October 15 and October 18, and had laid it in ruins. The two 380-mm. cannon of the 7200 ton monitor Terror - detailed during the World War by Churchill, along with others, for service opposite the Flemish coast, and now transferred to North Africa - had assisted in that bombardment.

On the 18th, the British did, in fact, take possession of the flying field just mentioned, and they did penetrate the first line of fortifications in the south. But after that, a stubborn Italian resistance made itself felt, and the British were forced to use heavy artillery in preparing their attack. Great difficulties were encountered in putting this artillery into position, particularly those caused by the steep heights west of Sollum. An Italian long-range gun, the range of which included that city, had all roads of approach under fire, and not until December 29 was the march to Bardia completed. The infantry meanwhile was in front of the middle line of defenses, about two kilometers from it. Italians repeatedly made sorties from this middle line, and their artillery fire interdicted the roads leading to Tobruk. But the garrison at Tobruk was not capable of relieving the defenders of Bardia.

Thirty miles west of Bardia, British troops, particularly light tanks, were completing the city's encirclement. An army flight squadron was busy reconnoitering the terrain and ranging the English batteries.

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British fliers bombed the Italian flying fields at El Gubbi, Gassala, Taini, Martuba and Derna, as well as at Tripoli. By the beginning of January they had undertaken seven hundred flights against Libya. Meanwhile, the British fleet had been carrying reinforcements, rations, and water to Sollum. It was evident that despite its heroic sacrifices, the Fifth Italian Air Fleet was no longer equal to the enemy air force.

Even so, General Wilson did not risk an attack until after a most careful preparation, which began January 1 with an artillery bombardment from land and from sea. In the meantime, by means of fire concentration, the English were trying to direct the defenders' attention to the western front, while the Australian Division, strengthened by the tank division's heavy units, was being assembled under cover in front of the southwestern front. One detachment, composed of Free Frenchmen who had deserted from Syria, was given the task of blocking the road from Bardia to Tobruk.

The infantry attack was scheduled for January 3. The Australian group, which started at 5:30 A.M., was the first to go into action; its heavy tanks led, and raised a huge cloud of dust. The tanks penetrated the southwestern front, though some of them were stopped in antitank trenches, unable to break through those obstacles until the infantry behind had helped them out. The Australians had instructions to swing out to the right toward the lagoon, in order to prepare the way for the main attack which was to begin at eight o'clock from the west, and the old fort and the heights east of it therefore escaped attack at first. The English reports speak of the wonderful resistance of the Italians, but the superiority of the enemy, and of the enemy's fire power, caused the Italians to evacuate their lines little by little, and by five in the afternoon, the camp by the lagoon, completely destroyed, and the old fort, were in British hands. The breakthrough between the two flanks of the inner circle of fortifications was complete.

The Italians held the harbor district until evening, and detachments continued to fight through the night on the foothills east of the harbor and on the mountains in the northwest. General Bergonzoli was last seen there, fighting with an automatic pistol in his hand; his chief of staff, Colonel Meneghini, had fallen shortly before. The brave defender of Bardia had held the place entrusted to him for three weeks. Not until later was it learned that he and a group of officers had performed the fantastic feat of fighting a way through to Tobruk. Wilson's hopes had been deceived by the unexpected resistance. However, it was clear that the Italians lacked the forces for a counterattack.

For this reason the British, after the fall of Bardia, proceeded at once against the next strong point, Tobruk, 120 kilometers westward. That city, the capital of Marmarica, possessed of one of the finest

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harbors in North Africa, was held by a garrison of some 20,000 men under the General commanding the XXII Army Corps - composed of the 61st Division - and of some 1500 sailors. In the harbor the school-ship, San Giorgio, dating from 1905, acted as a floating battery. The ship was no longer fit for active naval service, but its 254-mm. and 100-mm. cannon were a valuable aid to the defense.

The British tanks proceeded against Tobruk immediately after the fall of Bardia. They did not, however, attack the city; instead they went around it, in order first to take possession of the flying fields of El Gubbi, Acroma, El Adem, and two others, and then to cut off communications with Derna. On January 7, they were west of Tobruk, but the encirclement was not completed until the twelfth. Great sandstorms, which had begun to rage on the eleventh were so bad by the fourteenth that all operations had become impossible. Indian pioneers had to repair the coastal road blown up by the Italians; and this also cost time. Accordingly, the artillery was not in position until the eighteenth. Meanwhile the harbor had been attacked by the fleet and by planes. The San Giorgio had lived through 325 alarms by the time the battle was ended, and had opened fire 181 times with its cannon and antiaircraft artillery - its 100-mm. cannon had fired 15,000 rounds. Its heavy cannon, however, were not used until the last days of the battle; then they fired on both land and sea objectives.

On January 21, General Wilson commenced the attack, which was again supported by the navy and by planes. A nocturnal air thrust of major proportions began at 2:30 A.M., and at 6:20 A.M. the British artillery opened destructive fire, which dropped off at dawn. Then the Italian barrage fire started in expectation of the main attack. But it was not until 9:30 A.M. - at which time the sandstorm suddenly stopped - that the Australians charged, the tanks leading. They came out of the southeast, where the chief emplacement of the Italian artillery was, and by noon they had penetrated eight kilometers over a wide front and had overcome a number of batteries. The 380-mm. guns of the British fleet were having an annihilating effect. The garrison counted more than two thousand wounded, but still it continued to hold in the south-west section of the city and on the heights north of the harbor; and the coastal batteries of Rear Admiral Bietino continued to fire seaward. The antiaircraft artillery - extraordinarily well handled, according to English reports - held planes at a respectful distance and even fired on the British guns that were firing on the slits of the bunkers. Not until evening was the city itself lost. At 11:30 P.M., the Commandant of the San Giorgio gave the order to abandon ship and prepare to scuttle it, and at 5:05 A.M., on January 22, it was blown up. The artillery officer saved the flag and took it to Italy in a small boat.

In the early morning of this same day the last defenders of Tobruk also laid down their arms, and the entire Marmarica coast was

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NO OBJECTION TO PUBLICATION IN SERVICE JOURNALS

in English hands. The English claimed that they captured in this attack 70,000 prisoners, 200 tanks, several hundred cannon, 589 machine guns, and 1700 motor vehicles. In consequence of this invasion, the Italians declared all of Libya a war zone.

German aid, however, was now beginning to make itself felt. On January 3, in an order of the day, the Chief of Staff of the Italian Air Force greeted the air corps of General Geissler, in Sicily. In its first significant action this German unit succeeded in breaking an English attempt to bring a convoy through the Sicily Channel. Italian torpedo boats ascertained, on January 10, that a fleet detachment coming out of the west was in the neighborhood of Pantelleria. The battleships Renown and Malaya, an airplane carrier, and several cruisers and destroyers were accompanying the transports. Despite the size of the British force, the little Italian torpedo boats, at the cost of one of them, attacked and severely damaged a cruiser and two destroyers. On the tenth and eleventh Italian and German planes attacked the detachment coming from the east. The airplane carrier Illustrious and a destroyer were heavily hit, and the cruiser Southampton received such damage that it later sank. The Illustrious made the port of Malta; but there, on the sixteenth, it sustained new hits from German pilots. Nevertheless, it managed to reach Alexandria, although in such condition that it would be unfit for service for some time to come.

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RESTRICTED

G-2/2657-220

No. 480 M.I.D., W.D.

11:00 A.M., August 29, 1941

SITUATION REPORTI. Eastern Theater.

Ground: According to the Berlin official communique of August 28th, German and Finnish troops have defeated two Russian divisions at an undesignated point east of Salla on the Finnish Arctic front.

German troops have captured Tallin and Paltiski in Estonia. Russian forces continue to hold the Estonian islands of Oesel and Dago.

Official private advices from Berlin confirm the fact that, on the Leningrad front, German troops hold a considerable section of the Leningrad - Moscow railroad line including the towns of Ljuban and Tjudowa. To the southwest of Leningrad other German units advancing in a northeasterly direction have crossed the Kingisepp - Krasnogvardeisk (Gatchina) railway. The town of Krasnogvardeisk itself is in Russian hands.

On the central Moscow front, German troops hold defensively, a line extending from north to south approximately as follows: Bely, Yartsevo, Velnya, Roslavl, point west of Bryansk.

Strong Russian counterattacks have been in progress for some days against this German defensive position.

Under the protection of this German defensive position, a considerable portion of the German Central Army Group of Field Marshal von Bock have launched a strong attack to the southeast on the general axis of attack: Orel - Kharkov.

The leading armored division of the wedge of armored units forming the spearhead of this drive reached Novograd - Severski on the evening of August 26th. Very heavy fighting is continuing to the west of this point in an area south of Orel and to the west and northwest of Chernigov. German units of the Army group of Field Marshal von Rundstedt have driven deeply into the northern portion of Kiev bridgehead and have reached the Irpen river, 15 miles northwest of Kiev. German troops have captured the town of Zaporozhe on the east bank of the Dneper, south of Dnepropetrovsk. However, the present German bridgehead is a small one and it is not certain that the Germans will be able to retain it.

Air: Heavy German strategic bombing to the East of Dnepropetrovsk. The Russians report attacks on German airdromes near Leningrad.

II. Western Theater. Air. British. Normal day and night offensive operations. Last night's attacks centered on Duisberg. Loss of nine planes is admitted.

III. Middle Eastern Theater. Iran. Persian resistance practically ceased. Elsewhere, nothing of importance.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, August 30, 1941.
8/29/41

Press Service
No. 27-30

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated September 3 and to mature December 3, 1941, which were offered on August 27, were opened at the Federal Reserve Banks on August 29.

The details of this issue are as follows:

Total applied for - \$383,608,000
Total accepted - 100,369,000

Range of accepted bids: (excepting one tender of \$25,000)

High	- 99.986	Equivalent rate approximately	0.055 percent
Low	- 99.975	" " "	0.099 "
Average			
Price	- 99.977	" " "	0.090 "

(35 percent of the amount bid for at the low price was accepted)

-000-

August 30, 1961

File

Mr. DeLoach

Shortly before 9 o'clock yesterday morning the operator told me that Mr. Fox was calling from Manila and desired to speak with Messrs. Bernstein, White and myself. I told her to let the Manila operator know that Mr. White was on leave of absence and that Mr. Bernstein would be in later. The Manila operator replied that Mr. Fox would wait until we gave him the signal after Mr. Bernstein came in. The call from Manila was accepted at 10 o'clock in the Secretary's office, with Messrs. Gaston, Bernstein, Southard, Platorich and myself present. A record was automatically taken of the conversation.

At around 11 o'clock yesterday morning Mr. Eakin telephoned me from New York to report the progress in the study which I had asked him to make earlier in the week of the messages which we have been receiving from Glim. I told Mr. Eakin that we had just received a call from Mr. Fox at Manila. In the conversation Mr. Fox had probed the cooperation which the Chase Bank had just begun to give the Stabilization Board, and asked that we thank the Chase for taking this helpful position. On the other hand, Mr. Fox criticized the National City Bank for lack of cooperation. I had asked Mr. Fox if he had had an opportunity before leaving Hong Kong to consult with Mr. Holley of the National City. Mr. Fox said that he was expecting Mr. Holley at Hong Kong, but had left before he arrived. Mr. Fox did not make it clear on the telephone just what cooperation he expected of the American banker. Mr. Bernstein had asked Mr. Fox to send us a full report from Manila setting forth his question and specific recommendations.

Mr. Eakin had been in touch with both the Chase and National City Banks since I had spoken with him last. He said that the National City had received from the Board \$250,000 through the Bank of China in New York and had been advised that they would receive \$200,000 from some other source, as yet unknown.

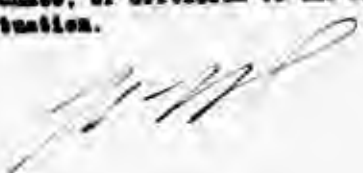
Mr. Stern of the Chase had told Mr. Eakin that his bank had instructed the officers in China to get orders from the Stabilization Board and cooperate with the Board. Stern also reported that Mr. Holley was to go from Shanghai to Hong Kong to represent both the National City and Chase Banks in conversations with Mr. Fox.

I asked Mr. Eakin for his understanding of Fox's request for "90-50 cooperation" from the American banks. Eakin said that this was not clear, but might mean that Fox expected the American banks to assume a fifty percent risk on the operations which the banks carry out as agents for the Board. Mr. Eakin of the National City had indicated to Mr. Eakin that the National City felt that the responsibility should not fall on it when the operations are for the Fund, as long as it exercises the usual business precautions such as it would in its own operations. In this connection Eakin and I talked of the arrangements whereby the Federal Reserve acquires fiscal agents. Eakin thought that the situation was particularly difficult in the Far East where a unilateral clearing system is still followed. Then the banks

- 2 -

not for the Board in providing dollars they get in return a mass of yuan currency notes. Since the yuan is worth only around five cents, a million U.S. dollar transaction would mean the receipt of twenty million yuan. The compensation of 1/32 of a point which the Board gives the Bank does not cover the cost involved in receiving, checking against counterfeit, and storing the currency. The Chase Bank has little storage capacity. The National City is a little better provided. The big question is whether the Board should oblige these operating banks to assume as much as fifty percent of the risk that would be involved if, for example, the Japanese should walk in and loot the vaults in which currency belonging to the Board is stored. In discussing this 50-50 question further, Knake said that he could not conceive that the Board was asking the banks to limit their operations in the free yuan market. The official rate at which the Board is offering dollars is applicable only to certain imports. This leaves a wide range of operations still to be taken care of on the unofficial market, and there have been no measures, legislative or otherwise, against transactions on the free market. Knake said that he intended to continue to study the mass of cablegrams which we had received from China, and that he would welcome a copy of our memorandum of the conversation with Fox. He said the messages so far did not give a clear picture of what has taken place or what Fox expects from the American banks and the Treasury. When I mentioned Fox's particular concern over the possibility of the Chinese Exchange Committee overshadowing the Stabilization Board, Knake said he had, of course, noted this in two or three cablegrams received this week. Knake was at a loss to say right off, however, what we could do in the circumstances. He recalled that it was our desire to help a country engaged in a long and costly war and that our friendship with that country should not be endangered by too much quibbling over the mechanism through which our assistance is extended.

In conclusion I suggested to Mr. Knake that neither of us should express any commendation or thanks to the Chase, or criticism to the National City, until we have a clear picture of the situation.



STABILIZATION BOARD OF CHINA
Central Bank Building
Taomenkou, Chungking

Manila, August 30, 1941.

The United States Treasury Department,
Washington, D. C.

Attention: Messrs. E. M. Cochran and B. Bernstein.

My dear Cochran and Bernstein:

In accordance with your suggestion I am writing this letter and enclosing a memorandum of our telephonic discussion. I am very sorry White could not be reached and would greatly appreciate it if you would make a copy available to him for his information. It would be most helpful to get his reactions.

It was most reassuring to be able to have the talk, for operating conditions in China are at best most difficult. This is illustrated by the fact that the cable to the Chinese Consul General in the Philippine Islands informing him of my visit to the Islands arrived about five hours after I did. It is not unusual for telegrams to take four days between Shanghai and Chungking and two days between Hong Kong and Chungking. It is for this reason especially that I have made my cables full and have endeavored to anticipate problems which may arise in order to get the Treasury's reaction in ample time. I came to Manila especially to be able to communicate with you more freely. In preparing for our telephone talk I outlined briefly the more important problems which I had cabled you about in the past two months. It would be rather helpful if someone could be assigned to review my cables to Washington so as to make certain that I receive replies to at least the more important problems as early as is convenient. I believe that I covered most of them with you last night.

You may be interested to know that the bombing which has recently been almost continuous, especially during moonlight nights, adds greatly to the difficulties in China as during the bombing all business operations cease and decoding and other activities come to a standstill. One therefore feels isolated and for that reason it was particularly reassuring to be able to speak to both of you and to be able to carry away assurances of continued cooperation. The Agency problem is particularly pressing and must really receive immediate attention. I have been most fortunate in my contacts generally in China and in the close relationship which is growing up between my associates on the

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Board and me. I have every reason to be satisfied with the progress and, with your cooperation in solving the Agency problem and the few other questions I am raising, I have every reason to be most hopeful for the future.

With kindest personal regards, I am,

Very sincerely yours,

(1) A.M. Fox

A. Manuel Fox

COPY

STABILIZATION BOARD OF CHINA
Central Bank Building
Taoanankou, Chungking

VIA AIR MAIL

August 30, 1941.

MEMORANDUM TO U. S. TREASURY, WASHINGTON, D. C., of Telephonic
Conversation Between Cochran, Bernstein and Fox.

I. American Banks in the Far East.

United Press reports of Chase Bank's announcement that it will handle exchange only at official rates has caused considerable excitement in Shanghai and has been the best break the Board has had for some time. Cochran was asked to please convey to Chase my personal thanks for their cooperation.

Saturday morning I received a telegram from my associates on the Stabilization Board, from Hong Kong, to the following effect:

"1. Bank just handed us following telegram addressed to the Chase Bank Shanghai from Chase National Bank New York 'Referring to our cable of yesterday regarding Stabilization Board please stop immediately operating in free market same as National City Bank and Bank of China. All our orders must be covered by sale of dollars to Stabilization Board....'

"2. Bitting [of National City] informs us that he has received telegram from his Shanghai office that they have suspended free market operations pending further instructions."

It would be well in view of this telegram for Cochran also to convey my thanks to National City for their cooperation.

Real difficulty in the Far East is that the officials of the Hongkong and Shanghai Bank are in the position to take immediate advantage of opportunities whereas the officials of the American banks seem obligated to refer all matters to home office. Cochran can make vital contribution to American banks in Far East by getting across to them the fact that there is a real opportunity for them in the Far East but that they cannot possibly take full advantage of such opportunity unless their managers in Hong Kong and Shanghai have more leeway. I am willing to do everything I can to assist them in developing their opportunity, which is particularly great by reason of the fact that the Chinese Administration dislikes the British banks in the Far East, especially the Hongkong Bank.

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II. Position of Agency With Respect to Stabilization Board.

In the exchange of letters of April 25, 1941 provision is made for an Agency to handle and control exchange and it is vested with powers that spell trouble unless immediate action is taken to clarify the situation. Unquestionably a Frankenstein has been created which if not properly handled will work out badly for China. There is great danger of having, as I pointed out in a recent cable, two parallel conflicting exchange organizations.

There is convincing proof of the fact that Dr. H. H. Kung had not had available copies of the April 25 letters until the Board supplied him with a set on August 11. Immediate advantage was taken to set up an agency the complexion of which is clearly highly political. All members of the Board are greatly worried about the situation especially in view of the fact that if the Agency develops along the lines prescribed for it in the April 25 letters all overseas remittances and foreign exchange accruing from exports are apt to go to the Agency and not to the Board, making the Board's operations most difficult.

There seem to be two methods of handling the situation:

- (1) The Board might continue to carry on its operations as at present and wait until a clash ensues--as it surely would very soon--between it on the one hand and the Agency and the Ministry of Finance on the other. If this develops the Board and especially the Chinese members will be in a very uncomfortable position and Washington Treasury will be faced with an ugly situation.
- (2) Washington could immediately take the following steps to help, preferably in collaboration with the British Treasury:
 - (a) Advise the Board and perhaps the Chinese Embassy that in the opinion of the Treasury General Counsel the decree issued by the Chinese Government creating the Board needs to be modified and that it should be set up by the Executive Yuan, a new decree being issued as of August 12; no difficulty in China in having decrees predated;
 - (b) That it is Treasury's considered opinion that it would be best for the Agency to concentrate on policy matters, and particularly because of the Board's technical competency, reserve exchange operations for the Board. In order to save the Agency's face you could recommend that the Agency pass a resolution to have all actual exchange operations handled by the Stabilization Board. Hall-Patch, the British member, was greatly

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worried also by the political setup of the Agency and would, I am certain, welcome such action by the British and American treasuries.

I cannot too earnestly stress the importance of this and the immediacy of action. Chinese members within a few days after reaching Hong Kong were summoned back to Chungking for an initial organization meeting of the Agency. I have urged my Chinese associates on the Board in a cable from Manila to delay their return. Your immediate action in this matter would be both timely and most helpful.

III. Banks Granted Generally Licensed National Status.

Severe criticism has been directed against the U. S. Treasury on the ground that highly efficient banking institutions, such as the Shanghai Commercial and Savings Bank unquestionably is, have not been granted the status of generally licensed national, while the Sassoon group, whose operations are not those of a bank, the American Express, Underwriters Savings Bank and Thomas Cook's have.

One of the Dutch banks (Nederlandsch Indische Handelsbank) has been raising particular havoc by undercutting the Board's rates and those offered by all other banks in Manila while at the same time applying to the Board for large cover, some of it for what appeared to be rather doubtful imports. Would it be feasible to withdraw general license privileges from Nederlandsch Indische Handelsbank without causing too great embarrassment? It would have a very helpful effect if it could be done.

IV. Family Remittances.

Pending arrangements being made by the Chinese Government with respect to family remittances, all of such funds have been accumulating. It is most desirable to have them ultimately reach the Board. There is some hope of their so doing if Washington will take some measures to clarify the Agency-Board situation. It would also help if collection of all family remittances is centered in one bank in each important region. In Manila I am arranging to have this done through the Philippine Bank of Communications in accordance with the wish of the Chinese Government. In the United States I understand it is to be the Bank of China, which, by the way, I find to be a very efficient organization. Anything you can do to help the sending of these remittances through directed channels and to have them ultimately reach the Board would facilitate the Board's operations.

Remittances through Hong Kong alone from United States and sterling area are estimated to be the equivalent of about US\$60,000,000 a year. Remittances from the Philippine Islands are estimated to be about US \$10,000,000 a year.

V. Export Control.

The following brief notes have a bearing on the trade situation in China:

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- (1) All trade between China and the United States via Rangoon is desirable.
- (2) As far as exports to Shanghai are concerned,
 - (a) Shanghai imports while which are smuggled into Free China are of great assistance, and
 - (b) Imports of rice and other essentials of which there is a shortage in Shanghai should not be discouraged,
 - on the other hand
 - (a) There are already large stocks of many goods in Shanghai. With the recent uncertainty with respect to the foreign exchange situation there has been a speculative flight from money into goods. Thus the stocks which have been built up for speculative purposes do not relieve the high price situation and at the same time constitute a strong temptation to the Japanese.
 - (b) Further imports of goods other than rice and essentials constitute a drain on Chinese foreign exchange resources while, at the same time, conferring little, if any benefit on Free China.
 - (c) Moreover, their shipment absorbs valuable shipping space which can be advantageously diverted elsewhere.
 - (d) The Chinese Government itself favors more drastic treatment of Shanghai.
- (3) Trade with Chinese ports other than Shanghai needs even more stringent control than trade with Shanghai. All these ports are more or less completely dominated by the Japanese. As some smuggling from these ports occurs and as there is also a severe food shortage on the South China Coast, some trade should be allowed, but it should be subjected to close scrutiny and regulation.
- (4) Hong Kong occupies a somewhat different position. Together with Macao, it is the most important smuggling base. In addition, control over its external trade is already exercised by the British. Therefore, there is much less need to restrict trade between the United States and Hong Kong, and between the Philippine Islands and Hong Kong, particularly if the British controls and ours are effectively coordinated.

RECOMMENDATIONS:

Closer control over trade with China is urgently needed. This can be achieved by either of the following methods:

- (1) Extension of export control by requiring export licenses on the lines of the British system (Board of Trade Order of August 25, 1941) for all exports, other than foodstuffs and certain other essentials, to China not being transhipped via Rangoon. The export license requirement need not cover trade with Hong Kong.

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- (2) The revocation of General Licenses 58 and 64 except for trade via Rangoon, handling all trade with China on an F.F.C. specific license basis. Hong Kong could, of course, be left in the same position as at present by making the appropriate additions to General License No. 57.

Procedure (2) has much to recommend it:

- (a) It could probably be effected more expeditiously than an extension of export control.
- (b) The administration of trade with China on a specific license basis would be efficiently centralized in the Treasury. Needless back and forth consultations with the office of the Administrator of Export Control and the resultant delays would consequently be avoided.
- (c) Trade with Japan has already come to a standstill. General Licenses 58 and 64 are thus a dead letter as far as Japan is concerned. In any case, even if trade with Japan revives, more stringent control over it might be desirable, and such control could be effectively exercised by handling the trade on a specific license basis. Moreover, while this is not an important consideration, there would be some diplomatic advantage in introducing the control in this way, as ostensibly revocation of General Licenses 58 and 64, applying both to China and Japan would not be as discriminatory against Japan as a measure affecting Japan alone.

From this end, therefore, revoking General Licenses 58 and 64 would appear to be the preferable procedure. But you are in a better position to make the final decision in Washington, because I am not in touch with the latest political developments vis-a-vis Japan and because you know the administrative pros and cons better than I.

VI. List of Depositors in China and Hong Kong.

Chinese officials have repeatedly indicated desire to obtain a list of all Chinese depositors in the United States and the possibility of assistance from the U. S. Treasury in requisitioning such Chinese funds. From our telephonic discussion I learned that such an inventory is being made now and will be available September 30, 1941. It is highly desirable to make available to me for use by the Chinese Government any general published statistics that may now or later become available bearing upon this subject; but I most earnestly recommend that serious thought be given to the question before turning over any confidential list of depositors to the Chinese Government. Such a list might be made available to me or to the Stabilization Board for such study and suggestions as we can make, but even then it is my recommendation it be furnished us in confidence. I am convinced that such a list would be used in a most political manner by the Chinese Government and might lead to annoying and disagreeable complications.

VII. The Need for an Economic Survey.

Now is the psychological moment for us to initiate economic studies on the lines I have already recommended. The freezing order puts us in a very strong position to make positive recommendations to the Chinese Government and particularly the Ministry of Finance. The Chinese are in a more receptive mood to listen to and—perhaps I am being over-optimistic—at least to some extent accept American economic and financial advice. Recommendations on the basis of specific investigations by American experts furnished by Washington would carry much greater weight, and the backing of such recommendations by Washington would at this time be particularly influential.

As I have already indicated by cable, in view of the favored position of the United States, an American rather than a joint U. S.-U. K. survey is to be preferred if at all possible. The Board would prefer not to have the survey made for it officially as a Board but to have them conducted directly under my supervision and responsibility.

There is a wide range of problems of which studies serving as the basis for recommendations for action could profitably be made. These include among others:

- (a) The best methods of gradually eliminating the differential exchange rates for the Chinese national dollar existing between different points in the interior.
- (b) A study of China's foreign trade with particular reference to China's foreign exchange position and the possibilities of expanding smuggling.
- (c) The internal price situation, the need for tightening up existing price controls and restrictions and introducing new ones.
- (d) Ways and means of increasing the flow of goods through increased production, the improvement of transportation facilities, extension of industrial cooperatives, etc.
- (e) The governmental financial structure and the tax system—or rather lack of system. The Third National Financial Conference held in Chungking at the end of June made a number of recommendations, but again American backing would help a lot.
- (f) Chinese Government expenditures. The Ministry of Economics has informed me that there is room for savings of 25 per cent in Chinese Government expenditures. A recommendation based on a specific study and supported by Washington would carry a lot of weight and would have a much better chance of being acted on than would be the case if the Ministry of Economics acted alone. Savings of this order of magnitude would of course enormously improve the fiscal position of the credit of the government, help keep the mounting note issue in check and thus relieve the upward pressure on prices, strengthen China's foreign exchange position and at the same time have significant favorable internal political repercussions.

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The Board itself needs studies on these lines for its own information and use even if they are made on a limited and modest scale. So far we have been so busy that I have not been able to spare Taylor from his other duties in Shanghai and Hong Kong and he has not had the chance to initiate or direct the needed research. This is all the more unfortunate because he is a first-rate economist and researcher and while there are a number of capable Chinese economists, they definitely need direction and supervision. If Taylor could devote part of his time to this work, it would, I am sure, make substantial progress.

Adler, because of his familiarity with Far Eastern problems and freering setup is particularly fitted for research and other economic work in China, and will serve Treasury much more effectively in China than in the Philippines. Please send him along on first clipper or boat.

VIII. Transfer of Funds to Board.

The first ten days' actual operation of the Board cost it in the neighborhood of US\$5,000,000 and pretty nearly 800,000 pounds sterling. I have not the report for the last few days but I do not expect that they continue in the large volume that took place for a few days preceding the holiday (Confucius's Birthday) in Shanghai. The Bank of China has been advancing the funds for the Board's operations. These should be returned to the Bank of China at the earliest opportunity. I was very much impressed with Bernstein's suggestion that only so much of the funds be turned over to the Board as are necessary until the Agency matter has been straightened out. I shall recommend along this line to the Board upon my return to Hong Kong and would appreciate your support in this position. Withholding the funds until the Agency muddle is straightened out is an excellent suggestion.

IX. Aarons and Aikin.

I very much appreciate your sending Aarons and Aikin out to Shanghai and Hong Kong for a short time, and if any legal questions arise in the near future I assume that I can take advantage of Aarons' presence and have him work on them. But if we are to cooperate effectively with Foreign Funds Control, especially in view of complicated situation in Shanghai and Hong Kong, it would be advisable to have two or more people--people with some background and knowledge--available for a longer period. Freese must get to his accounting work at once and Taylor, as I have already indicated, is needed for economic research.

(1) A. M. Fox

A. M. Fox

Copy:lgshr:wclbj

August 30, 1941

Files

Mr. Cochran

At 10:50 this morning Mr. Eacks telephoned me from the Federal Reserve Bank at New York. He had been studying further the correspondence with respect to stabilization operations in China. He thought that the exchange of letters with the Chinese definitely gave the power to control exchange to the Chinese agencies. This left Eack power to make the Stabilization Board what he might wish. Eacks remarked that this was one agreement which Eack apparently was carrying out. He thought there should be opportunity for coordination of the two bodies, but realized the inherent difficulties. He appreciated that there were diplomatic and other reasons why we should not desire to interfere too much with the domestic affairs of China. He raised the question as to whether the Board might recommend policy and the Exchange Committee carry out the management. Another suggestion was that we might ask Eack to explain just what the set up and plans of the agency may be.

Eacks made the observation that our system of general licensing has made it difficult to effect real exchange control. Stabilization operations under the present system are entirely one way. That is, the Board offers to give dollars at a fixed rate to take care of certain imports, but has no means for collecting the exchange resulting from the sale of Chinese exports, or remittances in foreign exchange to China. Thus there will be a steady drain on the funds of the Board, with no probable recuperation of dollars.

WPA

RMC:lap-8/30/41

August 30, 1941

Files

Mr. Cochran

After consultation with Acting Secretary Easton this morning, I telephoned Mr. Livesey in the Department of State at 11 o'clock and referred to cablegram No. 3952 dated London August 28, in which Mr. Cox asked the Treasury, at the instance of Mr. Valley of the British Embassy, for information concerning a possible R. F. O. credit to Russia.

I told Mr. Livesey that the Treasury was not informed as to the present status of any negotiations with the R. F. O. for a credit to Russia. We suggested that Mr. Livesey provide Mr. Jones with a copy of the message under reference, and let him know that the Treasury prefers that any answer to the message come from the R. F. O.



RMC:lap-8/30/41

AF

GRAY

London

Dated August 28, 1941

Rec'd 6:25 p.m.

Secretary of State,
Washington.

3952, August 28, 11 p.m.

CONFIDENTIAL FOR TREASURY FROM COE

There have been newspapers accounts here of a possible credit by the United States to Russia. Today Waley of the British Treasury asked whether we had any information on this. He said that the British Treasury in view of their financial negotiations with Russia would appreciate being informed by the United States Government of the nature of any contemplated arrangements. Waley mentioned that in some R. F. C. credits there were restrictions upon the use of the dollars. He asserted that the British arrangements with Russia would involve the transfer to Russia of goods which had involved or would involve the expenditure of dollars. For this and other obvious reasons he believed that financial arrangements by the two countries with Russia were of mutual interest.

WINANT

NPL

August 30, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in the office of Mr. Francis Shea, Assistant Attorney General, at 3:00 p.m. on August 29, 1941, attended from time to time by the following:

Messrs. Shea (Chairman) Jurenev, and Swydler for Justice; Messrs Pehle, B. Bernstein, E. M. Bernstein, Carre, and Timmons for the Treasury; Messrs. D. Hiss, Luthringer, Fisher, Miller, and A. Hiss for State; and Mr. Knapp for the Board of Governors of the Federal Reserve System.

The Department of State has requested the Treasury Department to approve a plan whereby payment would be allowed out of blocked French Government funds for a schedule of goods to be shipped to Madagascar. Such goods consist of, among other things, cables, kerosene, cotton goods and dynamite. In exchange, the S. S. "West Hardaway", which is now at Madagascar, will be allowed to load additional amounts of flake graphite and mica. The French have agreed that the funds advanced to the Special "A" account of the Bank of Madagascar out of blocked French funds will be repaid to blocked accounts when the proceeds of the sale in the United States of the graphite and mica are paid into the clearing account. In addition, the British have agreed that quantities of vanilla beans and raffia might be exported from Madagascar, provided that the proceeds of the sale thereof are placed in a blocked account not to be utilized until after the war. To this the French have agreed. The funds resulting from the sale of vanilla beans and raffia will in the first instance be paid into the special "A" account, and then transferred to a new blocked account. The Committee agreed that the requested action should be taken.

Mr. Carre outlined to the Committee the facts contained in application Number NY 222623, filed by the Italian Superpower Corporation. This Corporation, 50% of the voting stock of which is owned by an Italian semi-governmental agency, has been unable to meet January and July, 1941, interest payments on its debentures. The proposed transaction would involve the transfer by Italian Superpower of 21,000,000 blocked lire and \$19,500,000 of securities (physically located in Italy) of various Italian utilities companies to an Italian governmental agency and the receipt by Superpower of \$1,110,000 from blocked Italian accounts in the United States having no relation to the transaction, and \$3,870,000 of Superpower debentures believed to be held in United States for Italian interests, as well as 50,000 shares of preferred stock. The transaction would deplete the assets of Superpower by 45%. In view of all the facts and circumstances of this case, and the general policy adopted by the Committee in other such cases, it was unanimously agreed that the application should be denied. A press release stating the action was to be released immediately.

Mr. Alger Hiss stated that the Department of State has had several conversations with Mr. Walden, Chairman of the Board of Standard Vacuum Oil Company, relative to shipments of petroleum products from the Netherlands East Indies to Japan. Mr. Walden has stated that Standard Vacuum will not ship any products which would be prohibited if shipment were being made from the United States. It also appears that neither Shell nor Standard Vacuum will make further shipments to Japan unless their present blocked yen balances are paid out. Standard Vacuum has recently received a message from their Japan office stating that a permit has been received to take up the August remittance in the amount of \$557,000. Mr. Hiss further said that Mr. Walden had been told that if this remittance was to be made from free funds, it would appear that State had no objection. Mr. B. Bernstein pointed out that the term "free funds" was not entirely clear, inasmuch as either cash or dollar deposits in Latin America were not now frozen but might be at

- 3 -

some future time. Mr. Singer of Standard Vacuum has already been told that when they are advised as to the form the remittance will take, an application may be made. Mr. Shea summed up the discussion by saying that he understood Standard Vacuum had been told that existing yen balances should be liquidated and that if such balances were to be liquidated it was obviously preferable that it should be done either from Japanese cases or dollar deposits in South America.

Mr. Pehle referred to an application (NY 222968) filed by an American firm for permission to exchange 350 bales of cotton waste which has been detained in Japan for equivalent merchandise to be received from Mitsui in New York. The cotton waste in Japan has already been paid for. Inasmuch as this transfer in fact involves the export of cotton to Japan, it was agreed that this application should be held without action pending a general policy decision.

Mr. Pehle reported to the Committee that he had this morning received a telephone call from Mr. Feis of State to the effect that the French authorities in Indo-China were prepared to sign a contract with the Rubber Reserve Company for the delivery of 10,000 tons of rubber, provided that the proceeds of the sale were paid into a special account, to be used for the purchase of merchandise in the United States to be sent to Indo-China. After discussion of this proposal, Mr. Shea talked to Mr. Feis and learned that a cable had been sent to Indo-China a week ago. It was later ascertained that this cable had been cleared with Mr. Acheson before despatch and that Mr. Acheson felt that this Government was committed to the proposal. The Treasury thereupon indicated that it would interpose no further objection.

MEMORANDUM

August 30, 1941

To: PRICE ADMINISTRATION COMMITTEE
From: R. K. Thompson, Secretary

Attached are the following:

1. Minutes of the meeting of August 26.
2. Excerpts from Mr. Henderson's testimony before the House Banking and Currency Committee on wage control. ✓
3. Civilian allocation program for material used in the manufacture of radio tubes and electrolytic condensers for replacement use. ✓
4. Amendment to price schedule No. 11. ✓
5. Supplement to price schedule No. 16. ✓
6. Price schedule No. 22. ✓
7. Price schedule No. 23. ✓
8. Price schedule No. 24. ✓
9. Amendment to price schedule No. 4. ✓
10. Table of fair maximum retail prices for "regular" gasoline.

2000-A

CONFIDENTIALSUMMARY OF STENOGRAPHIC TRANSCRIPT OF MEETING OF
PRICE ADMINISTRATION COMMITTEE

August 26, 1941

11:25 a.m.

Present: Mr. Henderson, Chairman; Miss Elliott, Messrs. Eichor, March, Lubin, Nelson, Clayton, O'Connell, Ezekiel, Whitcomb, Barnes, Whitaker, Harris, Galbraith, Weiner, Wallace, Cobb, Cox, Plummer, Thompson

1. Automobile curtailment

Mr. Henderson reported that on August 20 a joint OPM-OPACS meeting with the automobile industry had been held to discuss the rate of production in the early months and the distribution of the allotted production per month among the various companies. There was complete agreement that the schedule for this year should be based upon 50 percent of the passenger car schedule for last year, or about 2,100,000. However, in order to prevent any greater increases in price than absolutely necessary, it was thought desirable to allocate 300,000 cars among the five small companies instead of 250,000, as proposed by OPM, and the total was increased to 2,150,000, leaving the number of cars for the large companies about the same.

As to the rate of production, Mr. Knudsen felt that 230,000 per month should be produced in the early months, while OPACS believed that 180,000 was all that could be justified in the light of the acute situation, particularly in steel and copper. The higher schedule was adopted with the understanding that Mr. Henderson would make a pessimistic statement as to the likelihood of materials being available and indicate also that it was based on the necessity of a very much intensified inventory control and allocation program on essential items.

OPACS requested, and it was agreed, that on the 15th of each month a joint meeting be held with the industry to assess, among other things, what had been the recovery of excess inventories from concerns with too great a stock on hand at present and to revise the four months' schedule on the basis of any new information.

In connection with the higher production schedule allotted to the smaller companies, Mr. Henderson pointed out that Nash prices would have been increased at least twice their present increase if it had not been for the higher amount assigned to them.

2. Copper

Mr. Henderson reported that Mr. Knudsen had requested that the price of copper be increased to 13 cents and that OPACS has prepared a memorandum setting forth its disagreement with the idea that a general increase in price would call forth any substantial increase in production,

and indicating that the desired result can be obtained at considerably less cost by using the differential price method. He pointed out that a one-cent increase in price would mean an additional cost of \$20,000,000 to consumers at the fabrication line.

Mr. Wallace pointed out that at least 90 percent of the total domestic copper production can be produced at 12 cents at present and that the balance can probably be produced at between 13 and 14 cents. Recommendation has been made to the Metals Reserve Company that this high-cost copper on current account be purchased at one-cent premium above the average out-of-pocket costs except for Michigan, where the premium should be 2½ cents to allow for a necessary wage increase.

Discussion followed of the possibility of maintaining present high-cost marginal production, of the negotiations with the large companies for increased production where government financing or some special pressure is required to get new plant facilities, and of the possibility of paying a premium for additional production brought in by the various companies. Mr. Galbraith called attention to the pressing 24-hour strike situation at Quincy. Mr. Henderson pointed out that if the recommendation for increasing the substandard wages in Michigan a dollar a day were met, the formula of a cent above the out-of-pocket costs would not cover the situation since a price nearer to 15 cents would be necessary. If the Metals Reserve Company cannot see its way clear to purchase this copper at 15 cents, OPACS would be faced with the question of whether or not to fix the price at the level and permit the amount of copper involved to be sold in the open market. The consensus seemed to be that the preferable way of handling the situation was for the government to purchase the higher cost copper and that the copper price ceiling should not be raised to 13 cents.

3. Zinc

Mr. Wallace reported that Mr. Knudsen had recommended raising the price of zinc from 7½ cents (at East St. Louis with appropriate geographical variations) to 9 cents, the objective being primarily to raise the miner's price for zinc concentrates. Pending the results of a field trip which an OPACS representative and a consulting engineer made in the Tri-State area last week, it was felt that no decision could be reached as to whether the suggested increase in price would stimulate the maximum additional production and whether it is necessary in order to hold the labor in the mines there.

4. Scrap steel

Mr. Henderson reported that the price of scrap steel, which is \$20.00 at Pittsburgh, has been violated from \$3 to \$5 a ton in the normal channels and as much as \$18 a ton by the government. In connection with this extremely serious question of lack of compliance, Mr. Henderson suggested that he appoint a subcommittee to consider whether or not the time has come to use some of the available sanctions in the scrap steel situation and if necessary, in the sugar futures trading situation or any other situation.

In accordance with the general approval of this suggestion, Mr. Henderson appointed a committee consisting of representatives of the Federal Trade Commission, the Treasury Department, the Department of Agriculture, the Securities and Exchange Commission, and the Tariff Commission. He requested Colonel March to act as chairman and Mr. O'Connell to act as secretary of the subcommittee. It was agreed that members of the OPACS staff would prepare memoranda on the types of non-compliance problems confronting OPACS at present for use of the subcommittee and that they would in addition supply any additional information needed by the subcommittee.

5. Compliance under other price schedules

Mr. Galbraith reported that the great majority of price schedules are working quite well. For example, a first check-up on the plywood schedule showed that compliance was 100 percent since every concern has issued new price lists conforming to the schedule and is selling plywood on schedule prices. He stated that about one-third of the entire cotton and rayon industry is now under the price ceiling, and that the industry's acceptance has on the whole been good.

6. Retail gasoline prices

Mr. Galbraith reported that OPACS is about ready to publish for all the major consuming centers in the States affected by the 10 percent gasoline curtailment program the tank wagon prices for gasoline, which are steady under an informal agreement between OPACS and the major oil companies, plus the taxes, and the normal service stations' differential of four cents. He added that the first list to be published would apply to Massachusetts where there is a runaway market situation at the retail level. Consumers by this medium will be informed concerning what the prices of gasoline should be and will be invited to advise OPACS of all cases of profiteering.

The committee adjourned at 1:00 p.m. to meet on Wednesday, September 3, at 11:00 a.m.

WAGE CONTROL

Excerpts from Leon Henderson's testimony before the House Banking and Currency Committee.

MR. HENDERSON. Well, in the first place, it is obvious, of course, that a price inflation cannot be curbed if wages or any other cost is allowed constantly to rise. And I would like to add to that that, in my opinion, no group in a community ought to take advantage of this special situation created by the Government's extra demand, amounting now to about \$50,000,000,000, to get unwarranted and indecent rises in mechanisms for controlling commodity prices and legislation are completely unsuitable to the control of payments for personal services, wages, and salaries. And I rely for that on our studies of other countries. No country has combined any of its wage control with its price control. That goes for totalitarian states and for democratic states. And when the President appointed me to the Defense Commission — and what I am doing now in my present office, of course, is a continuation of the assignment he gave me then — he did not assign to me the question of wage control. He appointed a labor representative, Mr. Hillman, who is still the labor representative in the defense effort. . . .

. . . the system of determination of wages in this country rests on bargaining and there are many agencies of the Government that have to do with the proper compensation of labor. There are acts administered by the Department of Labor, such as the Bacon-Davis Act, the Walsh-Healey Act; there is the Wage and Hour Administration; then, as you know, the railroads and industry generally have, in the mediation boards and in the National Labor Relations Board, the mechanisms for the consideration of collective bargaining.

Now, wage control is quite a different thing from a price control. That is really a control of income. That would be similar to a profit control, in my opinion. And if you undertook to control wages, you would be controlling the employers also, and the situation in which Mr. Weir and Mr. Ford moved out in the field of increased wages would have to come within that kind of control.

Now, in a time of stress — and that is the reason why we are asking for the price-control bill — the normal free markets on which we rely, and the collective bargaining in commodities, of course, is set aside. The same thing is true in an emergency as far as wage negotiations are concerned. You set up, incidentally, a member of the Defense Advisory Commission in the person of Sidney Hillman as a recognition of the special situation there and, later, as the disputes multiplied, you have the Mediation Board. In addition, one of the early things done by the Labor Division of O.P.M., and that was begun in the old Defense Commission by Hillman, was an attempt to get an area agreement, that is, an agreement for all shipbuilding rates, for all airplane rates. That is, you put a ceiling on what would be paid in those areas to the same identical classification of employees. And these are special things. In other words, instead of permitting a situation which, in ordinary times, would be well justified, namely, the bidding of one employer against another through wages for a man's services, in the area agreement in the airplane industry, as it is contemplated, or as it exists in the shipbuilding industry to a certain extent, there is a ceiling.

WAGE CONTROL, page 2

Now, the mechanism by which a wage rate for these ceilings is determined is quite a different thing and calls for a different expertise and calls for standards of determination that are not present in a commodity price regulation.

Now, it is highly possible — in fact, I think we should not blink it — that as we go forward in the program, as the demand for skilled workers and workers with special classifications increases, the emergency will call for more rather than less special kinds of treatment — legislation — that would for the emergency period limit what a wage could be a take it out of the area of bargaining.

In the last war, if I remember correctly, at the end of the war, the pressure had gotten to such an extent that the War Labor Policies Commission — I think ex-President Taft, Frank Walsh, and the present Justice Frankfurter were in that group — were considering entirely apart from any price regulation something like area agreements and something like a standardization of wages. (pages 113-117)

* * * * *

MR. OIFFORD. . . . You have testified here that they have done nothing in other countries about controlling wages.

MR. HENDERSON. No, Mr. Oifford. Let us get that straight again. I said they had not controlled wages under the price legislation. There is a wage control in Germany. There is a wage control in Italy. (page 109)

* * * * *

MR. PATMAN. Looking at this bill purely from an inflation standpoint, to try to prevent inflation, it is more important to have wages in here than agricultural products, is it not?

MR. HENDERSON. No. (page 590)

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MR. HENDERSON. . . . Now, I may be guessing wrong, but my feeling has been all along that if we could keep the nose of the level pretty well in line, and if we could keep the supply of goods up fairly well, that the American laborers had such a big interest in this thing — they suffer so much by reason of inflation — that you could preserve something which to me is extraordinarily important, something of the highest democratic value, that is the voluntary wage-negotiation system. Now, some of this may be wishful thinking on my part, going back to my own attitude and instincts apart from my being an economist, but I just have to believe that labor will not be in favor of looking to any other program. And then when you look at the example in England, with the pressure we knew existed there, and see what they have done in the way of production, see the sacrifices which they have made, and when Beveridge took over what was done in the all-out program of production, but in all of that they preserved the voluntary wage-negotiation system. (page 580)

OFFICE FOR EMERGENCY MANAGEMENT
Office of Price Administration and Civilian Supply

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For Immediate Release
August 22, 1941

PM 986

Metals required for the manufacture of replacement tubes and condensers needed to keep in operation the bulk of the 50,000,000 radio sets in the United States are allocated to that use in a program announced today by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

Since the maintenance of existing communications is considered essential to morale, the replacement of burned-out radio tubes and defective condensers in radio sets is a matter of prime importance. Manufacturers of tubes and condensers have found it difficult to obtain metals in the face of increasing demands from the defense program and competing civilian industry.

The program stipulates that during the period from August 30 through November 30, 1941, the highest civilian rating shall be given to specific amounts of nickel, steel, aluminum, copper, chromium, tin, brass and other metals required to manufacture radio tubes and electrolytic condensers for replacement purposes. Supplies of Tubes and Condensers that can be produced from the metals allocated are estimated sufficient to take care of normal demand during the months of October, November and December.

Apportionment among the various manufacturers of the metals allocated is keyed in the program to the ratio of each maker's dollar sales of tubes and condensers in 1940 to the aggregate industry dollar sales of the same respective items in that year. Tubes made with metals provided under the program must be marked for replacement use only.

The allocation program, which will expire on November 30, 1941, will be administered by the Office of Production Management. Applications for adjustments in the amounts of metals allocated may be made by manufacturers to the Director of Priorities, Office of Production Management.

Text of program is attached.

TITLE 32 - NATIONAL DEFENSE

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

PART 1336 - Radio, Telephone and Telegraph

CIVILIAN ALLOCATION PROGRAM FOR
MATERIAL USED IN THE MANUFACTURE
OF RADIO TUBES AND ELECTROLYTIC
CONDENSERS FOR REPLACEMENT USE.

Increasing demand for critical materials from all sources and the priorities granted to defense requirements have made it difficult for manufacturers of radio tubes and electrolytic condensers for replacement use to obtain the necessary critical materials. The maintenance of existing communications is essential to the functioning of our economy and to the morale of our people. Replacements, therefore, must be made available to the users of radio sets in this country.

Accordingly, pursuant to and under the authority vested in me by Executive Order No. 8734, particularly Section 2(a) thereof, the following program is announced for the allocation of materials necessary for the manufacture for replacement purposes of radio tubes and electrolytic condensers:

1336.1 Allocation of Materials for the Manufacture
of Radio Tubes and Electrolytic Condensers for Replacement Use.

During the period beginning on the date of issue of this Civilian Allocation Program and ending November 30, 1941 the materials listed below shall be allocated as required, in quantities not to exceed those stated below, to the manufacture, for replacement use, of radio tubes and electrolytic condensers.

When necessary, manufacturers shall be given the highest civilian preference rating in ordering such materials.

(a) Radio Tubes:

<u>Material</u>	<u>Pounds</u>
Nickel	36,000
Cold rolled steel	144,000
Barium	8
Aluminum	16
Chromium	2,700
Manganese	230
Copper	11,500
Silver	100
Iron	16,500
Molybdenum powder and wire	1,600
Tungsten powder and wire	180
Steel wire	1,200
Tin	3,300
Lead	2,200
Cobalt	310
Brass	43,500
Magnesium	35

(b) Electrolytic Condensers:

Aluminum	23,000
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To the extent that allocations of materials for the manufacture of radio tubes and electrolytic condensers are made by the Office of Production Management for the period of this program, the allocations for replacement purposes included therein shall be the quantities stated above.*

*1336.1 to 1336.8, inclusive, issued pursuant to the authority contained in Executive Order No. 8734.

1336.2 Allocation Among Manufacturers. (a) The materials allocated in 1336.1 for the production of radio tubes for replacement use shall be apportioned to each manufacturer of such radio tubes in accordance with the ratio of

his dollar sales of radio tubes during the calendar year 1940 to the aggregate industry dollar sales of radio tubes during the calendar year 1940. (b) The materials allocated in 1336.1 for the production of electrolytic condensers for replacement use shall be apportioned to each manufacturer of such condensers in accordance with the ratio of his dollar sales of electrolytic condensers during the calendar year 1940 to the aggregate industry dollar sales of electrolytic condensers during the calendar year 1940.

The Director of Priorities of the Office of Production Management may, with the concurrence of the Director of Civilian Allocation of the Office of Price Administration and Civilian Supply, grant adjustments deemed necessary or appropriate upon the application of any manufacturer of such replacement radio tubes or electrolytic condensers complaining of inequity or hardship in the aforesaid allocation of materials.*

1336.3 Scope of Program. This program refers only to radio tubes and electrolytic condensers to be used for replacement purposes.*

1336.4 Identification of Replacement Radio Tubes. All radio tubes manufactured with materials allocated under this program shall carry a visible, non-removable marking designating such tubes as radio tubes available for replacement use only. Failure to comply with the terms of this provision may be a basis for prohibition of further allocation of materials.*

1336.5 Reports. Each manufacturer of electrolytic condensers receiving materials under this program shall file

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with the Director of Priorities, Office of Production Management, at the end of each month in which materials are used, an affidavit to the effect that such electrolytic condensers, to the best of his knowledge, are being sold for replacement purposes only.*

1336.6 Avoidance of Excessive Inventories. Allocations of material or preferences granted under this program shall not be used to accumulate excessive inventories.*

1336.7 Enforcement. The foregoing program is to be administered and enforced by the Office of Production Management.*

1336.8 Effective Date and Expiration. This program shall take effect on August 20th, 1941 and shall, unless sooner terminated by the Administrator of the Office of Price Administration and Civilian Supply, expire November 30, 1941.*

Issued this 20th day of August, 1941.

Leon Henderson
Administrator

Certified to be a true copy of the original.

John E. Hamm
Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT

Office of Price Administration and Civilian Supply

For Immediate Release
Friday, August 22, 1941

PM 993

Extension of the cotton grey goods price schedule to cover principle types of fine goods was announced today by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

By this action, OPACS brings under ceiling prices combed lawns, dimities, voiles and two constructions of high-grade combed broadcloth not previously subject to the schedule. The new prices will go into effect Saturday, August 23.

This is the first major extension of the cotton textile schedule, Mr. Henderson pointed out, and is in line with his earlier statement that all principal fabric types will be brought under maximum prices as quickly as possible. A meeting of the Cotton Textile Advisory Panel, created about a month ago, will be called by OPACS for the first week in September to consider ceiling prices for cotton fabrics still outside the schedule, as well as a number of technical questions.

Mr. Henderson also announced that a price schedule covering carded cotton yarns will be issued shortly in order to restore carded yarn prices to their normal relationship with the prices for combed cotton yarns, now under a ceiling. A meeting with carded yarn producers will precede the issuance of this new schedule.

The present cotton textile schedule had a top price of 61 cents a pound for combed broadcloth, 40" and narrower, 136 sley and below. Using this as a base and expressing combed broadcloth prices in cents per yard, the amendment sets top prices of $10\frac{1}{4}$ cents a yard for 40" 76 x 72 lawns; $10\text{-}3/4$ cents per yard, 36" 96 x 68 dimity, and 9 cents a yard for 39" 60 x 52 black voiles.

A ceiling price of $14\text{-}7/8$ cents a yard is established for the 37" 136 x 60 and 126 x 68 constructions of combed broadcloth, for which the present schedule stipulates a price of 61 cents a pound. The conversion from a poundage to a yardage basis represents but a fractional change in the ceiling price and completion of

sales made under contract at prices computed on the former poundage basis is allowed.

Two finer constructions of combed broadcloth, 37" 144 x 76 and 37" 152 x 80, are assigned maximum prices of 15 7/8 cents and 17 cents a yard respectively.

The amendment also provides that the price of "seconds" and "shorts" of all fabrics covered by the schedule shall not exceed 95% of the ceiling price for such goods.

Other constructions of high-grade cotton grey goods, such as piques, satens and pongees, will be added to the schedule upon completion of studies as to appropriate differentials in the light of the new ceiling prices on the constructions now included.

The latest amendment takes note of the fact that combed broadcloths are always made with "feeler motion", and hence makes clear that the one-cent "feeler motion" premium allowable under the schedule does not apply to these goods.

Deliveries of goods added to the schedule by the latest amendment at prices above the maximums in completion of contracts previously made will not be permitted. To obviate any actual monetary loss, however, persons who acquired actual goods and contracted to sell them at prices above the ceiling prior to issuance of the amendment may apply to OPACS for permission to complete deliveries at the contract prices.

Text of the amendment is attached.

TITLE 32 - NATIONAL DEFENSE

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION
AND CIVILIAN SUPPLY

Part 1316 - Cotton Textiles

Amendment to Price Schedule No. 11 -
Cotton Grey Goods

Part 1316, Price Schedule No. 11, issued June 27, 1941, is hereby amended in the following respects:

Subsections (a) and (a)(1) of Section 1316.2, Maximum Prices Established for Cotton Grey Goods, are hereby amended to read as follows:

(a) On and after June 30, 1941, ^{1/} regardless of any commitment theretofore entered into, no person shall sell or deliver, or offer to sell or deliver, any Cotton Grey Goods, and no person shall buy or accept delivery of, or offer to buy or accept delivery of, any Cotton Grey Goods at a price exceeding the maximum prices set forth in Section 1316.7, except that:

(1) Any person who prior to June 30, 1941, ^{1/} acquired Cotton Grey Goods at a price higher than the applicable maximum price set forth in Section 1316.7, and prior to that date entered into a firm commitment for the sale of such Cotton Grey Goods to any person, may upon approval of the Office of Price Administration and Civilian Supply of an application filed on or before July 31, 1941, ^{1/} on Form No. 111:1 ^{1/} (copies of which may be obtained upon request made to the Office of Price Administration and Civilian Supply, Washington, D.C.) be permitted to deliver and accept payment for Cotton Grey Goods at the price contracted for, provided that such deliveries are ^{1/} completed on or before September 2, 1941.

^{1/} See footnote to Section 1316.7, infra.

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Section 1316.7, Schedule of Maximum Prices, is hereby amended to read as follows:

1316.7 Schedule of Maximum Prices

(a) Maximum Prices for Cotton Gray Goods

(1) Group I

<u>Type of Cloth</u>	<u>Price per pound, f.o.b. seller's point of shipment</u>
Standard print cloth, 40" and narrower	\$ 0.43
Carded broadcloth, 40" and narrower, 100 sley and below	.43
Sheetings, 40" and narrower	
A. Yarn numbers up to 15s, inclusive	.355
B. Yarn numbers 16s to 21s, inclusive	.365
C. Yarn numbers above 21s	.38
Part waste osnaburgs, 40" and narrower	
Yarn numbers up to 9s, inclusive	.29
Yarn numbers above 9s	.32
Tobacco cloth, 40" and narrower	.46

For fabrics of the above types made with feeler motion, a premium of one cent per pound over the above prices may be charged. For shade cloth quality of the above types of fabrics, a further premium of one cent per pound (in addition to the feeler motion premium) may be charged.

(2) Group II. 2/

Type of ClothPrice per yard, f.o.b.
seller's point of shipmentCombed Broadcloth made of single-ply yarn

37" - 136x60	14-7/8¢ 3/
37" - 128x68	14-7/8¢ 3/
37" - 144x76	15-7/8¢
37" - 152x80	17¢

Combed Lawns

36" - 76x72	9-3/4¢
36" - 88x80	10-3/4¢
40" - 68x56	9¢
40" - 72x68	10¢
40" - 76x72	10-1/4¢
40" - 88x80	11-1/4¢
40" - 96x92	12-7/8¢
40" - 96x100	13-1/2¢
40" - 108x112	16-3/8¢
45" - 76x72	11-7/8¢
45" - 88x80	12-7/8¢

Pimities

36" - 96x68	10-3/4¢
36 1/2" - 114x64	11-3/4¢
36 1/2" - 116x76	12-5/8¢

Voile

39" - 60x52, slack	9¢
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2/ The prices for the cloths listed in subsection (a)(2), Group II and for seconds and shorts of all Cotton Gray Goods (see *infra*), are effective on and after August 23, 1941. With respect to these fabrics (other than combed broadcloth of 136 sley and below), Section 1316.2 should be read with the following substitutions:

In place of "June 30, 1941," read "August 23, 1941";

In place of "September 2, 1941," read "October 25, 1941";

In place of "Form No. 111:1," read "Form No. 111:4"

3/ Contracts made between June 30 and August 23, 1941, both inclusive, for sale of 37" 136x60 or 37" 128x68 combed broadcloth at prices not exceeding the previously established maximum price of 61 cents per pound may be carried out at contract price

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(b) Seconds and Shorts

The price for seconds and shorts of all Cotton Grey Goods shall not exceed 95 per cent of the prices herein established for such goods. 4/

(Executive Order No. 8734)

Issued this 21st day of August, 1941.

/s/ Leon Henderson

Leon Henderson
Administrator

Certified to be a true copy of the original

John Hamm
Deputy Administrator

4/ See supra, footnote 2.

OFFICE FOR EMERGENCY MANAGEMENT

Office of Price Administration and Civilian Supply

For Immediate Release
August 22, 1941

PM 1002

Pursuant to its price schedule of August 14 fixing the maximum price of raw sugar, the Office of Price Administration and Civilian Supply today issued a supplemental provision covering the settlement of forward delivery contracts entered into by the sugar trade before the schedule became effective.

The ceiling price established in the schedule was 3.50 cents a pound for raw sugar, New York duty paid basis. Persons or firms with bona fide contracts calling for future delivery of sugar above this price are now given permission to file application on the basis of which permits would be granted to carry out the sale at the original price except in those cases where failure to grant such permits would not cause hardship.

Simultaneous with the issuance of this supplementary provision to its ceiling price schedule, OPACS announced that refiners were being invited to a meeting in Washington on Thursday, August 28. The refiners are being called in to discuss problems of refiners growing out of the establishment of a ceiling price for raw sugar.

OPACS officials also stated that conferences with grower representatives, sugar processors, and other interested groups would be held in the near future to consider viewpoints and administrative problems in connection with the ceiling price schedule.

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

PART 1334 - SUGAR

Supplement to Price Schedule No. 16 - Raw Cane Sugars

1334.10 Application to carry out certain forward delivery contracts. To provide for carrying out certain forward delivery contracts in accordance with Section 1334.1, any person who, prior to August 14, 1941, entered into a forward delivery contract calling for the delivery or transfer, after that date, of raw cane sugars at prices higher than the maximum prices established by Price Schedule No. 16 may make application to the Office of Price Administration and Civilian Supply on form 116.1 which will be furnished upon request, for permission to carry out such contracts at the contract price. Such permission will be granted if it is found that hardship will result from a denial thereof. Such applications shall be filed with the Office of Price Administration and Civilian Supply on or before September 15, 1941.

(Executive Order No. 8734)

Issued this twenty-second day of August, 1941.

Leon Henderson
Administrator

Certified to be a true copy of the original

John E. Hamm
Deputy Administrator

OFFICE OF EMERGENCY MANAGEMENT

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Office of Price Administration and Civilian Supply

For Immediate Release
Saturday, August 23, 1941

PM 1003

Ceiling prices which restore quotations for Pennsylvania grade crude oils to levels prevailing before the 23-to 25-cent a barrel increase of August 14th were announced today by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

The Office of the Petroleum Coordinator for National Defense concurs in the desirability of maximum prices for these crudes.

The schedule sets a ceiling price of \$2.75 per barrel for Bradford crude; \$2.40 per barrel for Southwest Pennsylvania crude; \$2.34 per barrel for Eureka crude, and \$2.30 per barrel for Southeastern Ohio crude. Top prices for the various qualities between Oil City and Titusville, Pa., range from \$2.63 to \$2.69 per barrel.

Production of Pennsylvania grade crude oil approximates 76,000 barrels a day, or about 2% of the total daily output of crude oil in the United States. The description "Pennsylvania grade" has reference to the special qualities possessed by this crude oil, rather than the State of its production. While most of the total output flows from wells in Pennsylvania, substantial quantities are recovered from wells in New York State, Southeastern Ohio and northern West Virginia. "Bradford crude" refers to Pennsylvania grade oil produced from the Bradford and Alleghany pools; "Southwest Pennsylvania" to oil coming from wells in that area; "Southeastern Ohio" is similarly self-descriptive. "Eureka" crude is the Pennsylvania grade produced by wells in West Virginia and run by the Eureka Pipe Line. "Oil City-Titusville" oils come from wells in that general vicinity in Pennsylvania.

From the limited production of Pennsylvania grade crude oils are recovered high-grade lubricants of special value to the defense program and civilian in-

dustry. Acceleration of defense activity and civilian industry over the past year has stimulated demand for these high-grade lubricants to an abnormal degree. This pressure on supplies of Pennsylvania grade crude oils has been reflected in a series of price increases aggregating about 50% over the past nine months and quotations currently are at or near the highest levels in 10 years.

Even before the general increase of August 14th, prices had risen 90 cents a barrel above those in effect in November, 1940. Thus, Bradford crude had gone up from \$1.65 to \$2.75 a barrel, or more than 50%, and Eureka crude from \$1.44 to \$2.34 a barrel, or over 60%. The increases over 1940 prices were greater on a percentage basis than any advances in the prices of any other grades of crude oil in the United States over the same period.

An inquiry into Pennsylvania grade crude oil prices was initiated by OPACS, and conferences with producers, purchasers and refiners followed. An advance of 25 cents a barrel on August 1 was proposed, but action was deferred at the request of OPACS pending the submission of evidence to justify the raise. Before submission of supporting data was completed a 25-cent per barrel price increase was put into effect as of August 14th.

"The difficulties and delays involved in developing new supplies of Pennsylvania grade crude oil are such that even the substantial price increases of the past nine months have not called forth additional supplies in great volume," Mr. Henderson said. "Higher prices which do not serve to increase supplies appreciably and which cannot be justified by higher costs are inflationary."

How much additional production would have been developed were the latest 25-cent raise allowed to remain in effect is extremely questionable, Mr. Henderson stated. The producers of Pennsylvania grade crude oil will be given every opportunity to demonstrate to his office that higher prices are justified in the public interest, the administrator said, but in the meanwhile the recent 25-cent increase will not be permitted.

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION
AND CIVILIAN SUPPLY

Part 1340 - Fuel

Price Schedule No. 22 - Pennsylvania Grade Crude Oil

Petroleum products are widely used throughout the nation by the armed forces, and for many civilian purposes, including the carrying on of industrial processes essential to national defense. Pennsylvania grade crude oil, a distinctive crude oil, includes Bradford crude, Southwest Pennsylvania crude and West Virginia, or Bereka crude. The total daily production for these oils is about 76,000 barrels. Due to the defense program, and national defense production, there has been a greater demand for these oils in recent months.

The Office of Price Administration and Civilian Supply has recently instituted an inquiry into the price of these oils. Since November, 1940 and up to July 31, 1941, or during the past nine months, Pennsylvania Bradford grade crude oil has increased in price from \$1.85 to \$2.75 a barrel, or a total of 90¢. The Southwest Pennsylvania and West Virginia crude oil prices have also increased in price 90¢ or from \$1.50 to \$2.40 and \$1.44 to \$2.34, respectively, during the same period.

A proposal was made to this Office further to increase these prices 25¢ as of August 1. The prices proposed were higher than any prior prices for these oils during the past 10 years. They also represented percentage increases over 1940 prices higher than for any other crude oil produced in the country.

However, the proposed increases were deferred when this Office asked that supporting evidence justifying them be submitted. The South Penn Oil Company, principal producer, purchaser and price leader, then agreed to submit data showing the economic justification for the price increase. After some information had been submitted and pending the furnishing of other data, the prices were increased. These increases, posted as of August 14, resulted in an increase in the price of Bradford crude from \$2.75 to \$2.98 a barrel, or a further increase of 23¢ per barrel, and Southwest Pennsylvania was increased from \$2.40 to \$2.65 a barrel, and the West

Virginia crude from \$2.34 to \$2.59, both increases amounting to 25¢.

In response to usual pricing and trade practices, the foregoing increases were followed by corresponding price increases of 25¢ for the Southeastern Ohio crude oils, and 23¢ for the various grades of Oil City-Titusville crude oils.

The inquiry thus far conducted has failed to demonstrate an adequate economic basis for these increases. No showing has been made that labor or material cost increases, if any have occurred, have not already been met by the prior increases in prices. It has been contended that the higher prices would in a small measure stimulate drilling. But the anticipated amount of new drilling was uncertain and was one of the facts under investigation by this Office. Moreover the increased prices would apply to the entire present production of 75,000 barrels per day, as well as to the small volume which new drilling would yield in the future.

No sound basis having been established for these price increases, they therefore appear inflationary in character. Such an inflationary movement in the price of commodities tends to weaken the defense effort by causing economic dislocations and price spiraling and profiteering.

The opportunity which has been granted to the producers to demonstrate that price increases are warranted remains open to them.

Accordingly, under the authority vested in me by Executive Order No. 8734, and after consultation with the Office of the Fuel Coordinator, it is hereby directed that:

1340.21 Maximum Price for Pennsylvania Grade Crude Oils.

On and after August 23, 1941, regardless of the terms of any contract of sale or purchase, or other commitment, except as provided in Section 1340.22, no person shall sell, offer to sell, deliver or transfer, and no person shall buy, offer to buy, or accept delivery of, Pennsylvania grade crude oils at prices higher than those set forth in Appendix A, incorporated herein as § 1340.29.*

*1340.21 to 1340.29 inclusive, issued pursuant to the authority contained in Executive Order No. 8734.

1340.22 Commissions Allowed on Resales Above Maximum Prices.

The price limitations set forth in Appendix A shall prohibit the addition of commissions above said maximum prices except persons who buy Pennsylvania grade crude oils for resale under contracts and who have contracts in existence on the effective date of this Schedule which provide that the price on resale shall be the "posted price" plus a specified commission may receive the maximum price plus said commission specified in the contracts: Provided, That (a) said contracts were entered into in writing prior to August 14, 1941; (b) said contracts are binding and valid in character; (c) certified copies of each such contract are filed with the Office of Price Administration and Civilian Supply within ten (10) days after the effective date of this Price Schedule; and (d) no such contract has been extended or amended without the approval of this Office. Persons who buy for resale and wish to enter into contracts, or wish to extend or amend contracts, providing for prices on resale higher than the maximum prices listed in Appendix A may make application to this Office for permission to receive such higher prices.*

1340.23 Less Than Maximum Prices.

Lower prices than those set forth in this Schedule may be charged, demanded, paid or offered.*

1340.24 Evasion.

The price limitations set forth in this Schedule shall not be evaded whether by direct or indirect methods in connection with the purchase, sale, delivery or transfer of Pennsylvania grade crude oil, alone or in conjunction with any other material, or by way of any commission, except as provided in Section 1340.22 herein, service, transportation, or other charge, or discount, premium, or other privilege, or by tying-agreement or other trade understanding, or otherwise.*

1340.25 Enforcement.

In the event of refusal or failure to abide by the price limitations or other provisions contained in this Schedule, or in the event of any evasion or attempt to evade the price limitations or other provisions contained in this Schedule, the Office of Price Administration and Civilian Supply will make every effort

to assure (a) that the Congress and the public are fully informed thereof, and (b) that the powers of the Government are fully exerted in order to protect the public interest and the interests of those persons who comply with this Schedule. Persons who have evidence of the offer, receipt, demand or payment of prices higher than the maximum prices, or any evasion or effort to evade the provisions of this Schedule, are urged to communicate with the Office of Price Administration and Civilian Supply.

1340.26 Modification of the Schedule.

Persons complaining of hardship or inequity in the operation of this Schedule may apply to the Office of Price Administration and Civilian Supply for approval of any modification thereof or exception thereto.*

1340.27 Definitions.

When used in this Schedule the term (a) "person" means an individual, partnership, association, corporation, or other business entity; (b) "Pennsylvania grade crude oil" means the crude oils listed in Appendix A.*

1340.28 Effective Date of the Schedule.

This Schedule shall become effective August 23, 1941.*

Issued this 22nd day of August, 1941.

CERTIFIED TO BE A TRUE COPY OF THE ORIGINAL

Leon Henderson
Administrator

John E. Hamm, Deputy Administrator

APPENDIX A

1340.29 Maximum Prices for Pennsylvania Grade Crude Oil.

<u>Grade of Oil</u>	<u>Maximum Price Per Barrel</u>
Pennsylvania Bradford Grade Crude Oil	\$2.75
Southwest Pennsylvania Crude Oil	2.40
Eureka Crude Oil	2.34
Southeastern Ohio	2.30
Oil City-Titusville Crude Oil:	
GROUP A - \$2.68, including Cochran, Franklin, Hamilton and Doolittle Districts;	
GROUP B - \$2.67, Titusville District;	
GROUP C - \$2.66, including Turkey and Tidicut;	
GROUP D - \$2.65, including Bear Creek and Porkey Districts;	
GROUP E - \$2.63, including Eideneau, Bowl Creek, Rough Run, Carbon, Ditner, Bredin, McJunkin, Jameson, Kennerdall, Emlenton, Tiona, Lacy and Kinsua Districts.	

OFFICE FOR EMERGENCY MANAGEMENT
Office of Price Administration and Civilian Supply

201

For Sunday AM's
August 24, 1941

PM 1004

Maximum prices averaging about 10% below recent levels are established for the most important types of rayon gray goods in Price Schedule No. 23 announced today by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

This action, plus the broadening of the cotton gray goods schedule announced Friday, extends a price ceiling over most of the primary textiles required for women's dresses, men's shirts, underwear, coat and suit linings, handkerchiefs, sheetings and a multitude of other items of consumers' goods made of cotton and rayon.

"Rayon gray goods" is a term applied to cloth woven of rayon yarn and sold in an unfinished state to converters. The converters dye, print or otherwise "finish" the goods for sale in turn to the underwear, cloak and suit and dress-cutting trades.

During the past few months prices of rayon gray goods have risen sharply. Fear of shortage in an expanding retail market has caused the apparel trades to bid up converters' prices and the converters, in their turn, to bid up gray goods prices. The need to provide rayon yarns to mills which formerly used silk, now unavailable, has imposed an additional strain on rayon supplies and more pressure on the rayon gray goods price structure.

The voluntary agreements obtained by OPACS with leading weavers in mid-July to maintain temporarily the then-existing prices for certain standard fabrics have been adhered to by the participants. However, it was stated at that time that the prices for a number of types of rayon gray goods were considered too high.

Prices of fabrics not included in these agreements have continued to increase. Sales by mills not parties to the understanding, and particularly resales, have been made at excessive prices in many cases. The need for prompt action to stabilize the market is apparent.

By imposing maximum prices on rayon grey goods, CPACS has removed the main cause for higher finished goods prices. In this connection, Mr. Henderson said his office will observe closely the price action of the finished goods markets. Should finished goods prices not be brought into line with the lower levels established for grey goods, appropriate action will be taken to bring about an equitable adjustment.

Similarly, the CPACS Administrator stated, constructions of rayon grey goods not presently covered by the schedule should assume their normal market differentials to the prices of fabrics now under the ceiling. If this does not follow, the schedule will be broadened to whatever extent necessary to establish a fair price relationship for all rayon grey goods. Variations in constructions which have the effect of an avoidance of the ceiling, should they occur, will be covered by supplements to the ceiling.

Mr. Henderson emphasized that the maximum prices apply to all sales or resales of rayon grey goods included in the schedule, whether by the weaver, converter or any other person. Second-hand sales at exorbitant prices have been one of the most disturbing features of recent markets.

Some of the leading constructions covered by the new schedule, their uses, and their maximum prices follow:

Linings - Viscose twill, 38" - 112 x 68, 20 cents a yard; pigment taffeta, 40½" - 92 x 68, 18 cents a yard.

Dress goods - Spun rayon, 10% blend, 41" - 66 x 38, 15 cents a yard; 2-ply alpaca, 48" - 44 x 36, 30 cents a yard.

Underwear fabrics - Acetate satin, 42" - 200 x 72, 25½ cents a yard; acetate taffeta, 42" - 180 x 60, 23½ cents a yard; French crepe, 43½" - 150 x 94, 28½ cents a yard.

Contracts calling for delivery of grey goods at higher than ceiling prices may not be completed except at the maximum prices or below, under the provisions of the schedule.

The schedule contains a provision requiring that full details of the constructions sold be included in each contract of sale and that invoices contain similar detail or an identifying style number or symbol.

Manufacturers of rayon grey goods must report monthly to OPACS on the manufacture of all constructions not covered by the schedule, where such goods were made in quantities in excess of 25,000 yards per month, and the highest prices at which such constructions were sold during the month.

On or before October 10, 1941, and monthly thereafter, purchasers and sellers of rayon grey goods are required to submit affirmations of compliance, accompanied by sworn statements that during the month all such purchases or sales were made at prices in compliance with the schedule.

Text of the schedule is attached.

PM 1004

TITLE 32 - NATIONAL DEFENSE
CHAPTER XI - OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY
PART 1337 - RAYON
PRICE SCHEDULE NO. 23 - RAYON GREY GOODS

Recent events have further disturbed a market situation in rayons which was already unsettled. A shortage of rayon yarns for some time past has forced chemical firms producing these yarns to make deliveries in amounts far under their customers' requirements. Concurrently, the restricted supply has forced prices of both grey goods and finished goods up to levels which are unwarranted by such minor cost increases as have occurred.

To check these rises, leading weavers entered into a voluntary agreement with the Office of Price Administration and Civilian Supply on July 16, 1941, to refrain from further price advances on certain specified standard constructions. Among primary producers these voluntary sellings were successfully maintained, but the market continued to be disturbed by second-hand sales at inflated levels.

Now that civilian supplies of silk are unavailable, the diversion of rayon yarns to silk manufacturers inevitably will aggravate the existing shortage of rayon for weaving and disrupt price stability unless remedial action is taken.

Accordingly, under the authority vested in me by Executive Order No. 8734, it is hereby directed that:

1337.11. Maximum Prices for Rayon Grey Goods. On and after August 25, 1941, regardless of the terms of any contract of sale or purchase, or other commitment, no person shall sell, offer to sell, deliver or transfer, rayon grey goods of the constructions enumerated in Appendix A herof, incorporated herein as Section 1337.22, and no person shall buy, offer to buy or accept delivery of, rayon grey goods of such enumerated constructions, at prices higher than the maximum prices set forth in Appendix A.*

*Sections 1337.11 to 1337.22, inclusive, issued pursuant to authority contained in Executive Order No. 8734.

PM 1004

1337.13. Less than Maximum Prices. Lower prices than those set forth in Appendix A may be charged, demanded, paid or offered.*

1337.13. Evasion. The price limitations set forth in this Schedule shall not be evaded, whether by direct or indirect methods in connection with a purchase, sale, delivery or transfer of rayon grey goods, alone or in conjunction with any other material, or by way of any commission, service, transportation, or other charge, or discount, premium, or other privilege, or by tying-agreement or other trade understanding, or otherwise.*

1337.14. Records. Every person making purchases or sales of rayon grey goods after August 25, 1941, shall keep for inspection by the Office of Price Administration and Civilian Supply for a period of not less than one year (a) complete and accurate records of each such purchase or sale, showing the date thereof, the name and address of the buyer or the seller, the price paid or received, and the quantity in yards of each construction purchased or sold, (b) copies of each contract of sale containing the details required in Section 1337.15 hereof, and, in the case of manufacturers, (c) the quantity in yards of each construction of rayon grey goods produced during each calendar month.*

1337.15. Details Required in Contract of Sale and Invoice. (a) Every seller of rayon grey goods shall, with respect to each sale thereof, deliver to the purchaser a contract of sale which shall contain, in addition to the terms thereof, a full description of each construction of rayon grey goods sold, including (i) the width, specifying whether in or off the loom, (ii) the cloth count, i.e., the number of end and picks per inch, specifying whether in or off the loom, and (iii) a full description of the yarn both in the warp and in the filling, specifying in each case the denier and number of filaments, the process by which made, the twist or combination, if any, and, if a blend, the percentages of each type of yarn so blended.

(b) With each delivery of rayon gray goods there shall be transmitted to the purchaser an invoice or similar document which shall contain either the information required by paragraph (a) above or a style number or symbol, making reference to the contract of sale, sufficient to identify the details of each construction so delivered.*

1337.16. Reports. On or before October 10, 1941, and on or before the 10th day of each month thereafter, every manufacturer of rayon gray goods shall submit to the Office of Price Administration and Civilian Supply a report on Form 123:1 setting forth in the detail required by the Form all the constructions of rayon gray goods, other than the constructions enumerated in Appendix A, manufactured by such person in quantities in excess of 25,000 yards per month, and the highest prices at which each such construction was sold, both for immediate and future delivery, during such month. Copies of Form 123:1 can be procured from the Office of Price Administration and Civilian Supply.*

1337.17. Affirmation of Compliance. On or before October 10, 1941, and on or before the 10th day of each month thereafter, every person who, during the preceding calendar month has purchased or sold rayon gray goods of the construction enumerated in Appendix A, whether for immediate or future delivery, shall submit to the Office of Price Administration and Civilian Supply an affirmation of compliance on Form 123:2, containing a sworn statement that during such month all such purchases or sales were made at prices in compliance with this Schedule or with any exception or modification thereof. Copies of Form 123:2 can be procured from the Office of Price Administration and Civilian Supply, or, provided that no change is made in the style and content of the form and that it is reproduced on 8x10 $\frac{1}{2}$ " paper, they may be prepared by persons required to submit affirmations of compliance hereunder.

1337.18. Enforcement. In the event of refusal or failure to abide by the price limitations, record requirements, or other provisions contained in this Schedule, or in the event of any evasion or attempt to evade the price limitations or other provisions contained in this Schedule, the Office of Price Administration and Civilian Supply will make every effort to assure (a) that the Congress and the public are fully informed thereof, and (b) that the powers of the Government are fully exerted in order to protect the public interest and interests of those persons who comply with this Schedule. Persons who have evidence of the offer, receipt, demand or payment of prices higher than the maximum prices, or of any evasion or effort to evade the provisions hereof, or of speculation, or manipulation of prices of rayon grey goods for which maximum prices are herein established, or of the hoarding or accumulating of unnecessary inventories thereof, are urged to communicate with the Office of Price Administration and Civilian Supply.*

1337.19. Modification of the Schedule. Persons complaining of hardship or inequity in the operation of this Schedule may apply to the Office of Price Administration and Civilian Supply for approval of any modification thereof or exception therefrom.*

1337.20. Definitions. When used in this Schedule, the term

(a) "person" means an individual, partnership, association, corporation, or other business entity;

(b) "rayon grey goods" means fabric manufactured from chemically produced fiber or yarn made from cellulose or with a cellulose base, woven, but not printed, dyed, or finished.*

1337.21. Effective Date of the Schedule. This Schedule shall become effective August 25, 1941.*

1337.22. Appendix A. Maximum Prices for Rayon Grey Goods.

The maximum prices for the enumerated constructions of rayon grey goods established by this Schedule are applicable to all sales of rayon grey goods whether made by the manufacturer or by any other person.

Type of Fabric	Off loom Width	Cloth Count (Grey)	Wrap	Filling	Prices per yard P.O.B. Manufacturer's Mill	
Viscose Twill	38"	112 x 68	150 denier viscose	150 denier viscose	20	cents
	40 $\frac{1}{2}$ "	92 x 64	150 denier viscose	150 denier viscose	18 $\frac{3}{4}$	
	40 $\frac{1}{2}$ "	84 x 64	150 denier viscose	150 denier viscose	18	
	40 $\frac{1}{2}$ "	72 x 46	150 denier viscose	150 denier viscose	14	
	42 $\frac{1}{2}$ "	108 x 64	150 denier viscose	150 denier viscose	20 $\frac{1}{2}$	
Viscose Taffeta	39"	110 x 44	150 denier viscose	150 denier viscose	16 $\frac{1}{2}$	
	39"	96 x 44	150 denier viscose	150 denier viscose	15 $\frac{1}{2}$	
	39"	88 x 44	150 denier viscose	150 denier viscose	14 $\frac{1}{2}$	
	39"	68 x 42	150 denier viscose	150 denier viscose	12 $\frac{3}{4}$	
	40 $\frac{1}{2}$ "	84 x 60	150 denier viscose	150 denier viscose	17	
Acetate Twill	37"	120 x 72	150 denier acetate	150 denier viscose	22	
	42"	112 x 68	150 denier acetate	150 denier viscose	22 $\frac{1}{2}$	
Acetate Taffeta	39"	110 x 48	150 denier acetate	150 denier acetate	17 $\frac{1}{2}$	
Pigment Taffeta	40 $\frac{1}{2}$ "	92 x 68	100 denier pigment viscose	150 denier pigment viscose	18	
	43 $\frac{1}{2}$ "	92 x 64	100 denier pigment viscose	150 denier pigment viscose	18 $\frac{1}{2}$	
	40 $\frac{1}{2}$ "	72 x 56	150 denier pigment viscose	150 denier pigment viscose	15 $\frac{1}{2}$	
Viscose Satin	40"	140 x 64	100 denier viscose	150 denier viscose	22	
	40"	140 x 56	100 denier viscose	150 denier viscose	21	
	40"	110 x 48	150 denier viscose	150 denier viscose	17	
	42 $\frac{1}{2}$ "	180 x 72	150 denier viscose	150 denier viscose	28 $\frac{1}{2}$	

<u>Type of Fabric</u>	<u>Off Loom Width</u>	<u>Cloth Count (Gray)</u>	<u>Warp</u>	<u>Filling</u>	<u>Price per yard F.O.B. Manufacturer's Mill</u>
<u>Spun Rayon</u>					
Twill	40½"	128 x 60	30 s/1 spun viscose	30 s/1 spun viscose	19½ cents
Challis	40½"	68 x 62	30 s/1 spun viscose	30 s/1 spun viscose	13½
Oneway Flake	40½"	68 x 44	30 s/1 spun viscose	18 s/1 average spun flake viscose	14
Poplin	40½"	104 x 44	30 s/1 spun viscose	14 s/1 spun viscose	18½
File Challis	41"	66 x 38	30 s/1 spun viscose	14 s/1 spun viscose	14½
10% Blend	41"	66 x 38	30 s/1 spun 10% acetate 90% viscose	14 s/1 spun 10% acetate 90% viscose	15
20% Blend	42½"	52 x 36	14 s/1 spun 20% acetate 80% viscose	14 s/1 spun 20% acetate 80% viscose	17½
30% Blend	40"	60 x 52	20 s/1 spun 30% acetate 70% viscose	20 s/1 spun 30% acetate 70% viscose	18½

<u>Type of Fabric</u>	<u>Reed Width</u>	<u>Cloth Count</u>			<u>Warp</u> (combined & twisted)	<u>Filling</u> (combined & twisted)	<u>Price per yard</u> F.O.B. Mfgs. Mill
		<u>Ends in Loom</u>	<u>Picks off Loom</u>				
<u>Combination Yarns</u> <u>(twist on twist)</u>							
2-ply Alpaca	48"	44	x	36	150 denier acetate 150 denier viscose crepe twist	150 denier acetate 150 denier viscose crepe twist	30 cents
"Magic Hour" type	48"	54	x	44	150 denier acetate 100 denier viscose crepe twist	150 denier acetate 100 denier viscose crepe twist	34½
"Cynara" type	47"	52	x	40	150 denier acetate 100 denier viscose crepe twist	150 denier acetate 100 denier viscose crepe twist	32
"Tricolido" type	48"	44	x	38	150 denier acetate abraded 150 denier viscose crepe twist	150 denier acetate 150 denier viscose crepe twist	31½
"Mock Romaine" type	47"	52	x	46	150 denier acetate 100 denier viscose crepe twist	200 denier acetate	29½

Price per yard
F.O.B. Manufacturer's
Mill

<u>Type of Fabric</u>	<u>Off Loom Cloth</u>	<u>Cloth Count (Gray)</u>	<u>Warp</u>	<u>Filling</u>	
Acetate Satin	42"	200 x 72	75 denier acetate	100 denier acetate	25½ cents
	42"	180 x 72	75 denier acetate	100 denier acetate	24½
	42"	180 x 64	75 denier acetate	120 denier acetate	24
	42"	225 x 90	55 denier multi- filament acetate	75 denier multi- filament acetate	27½
Acetate Taffeta	42"	180 x 60	75 denier acetate	150 denier acetate	23½
French crepe	41"	104 x 72	100 denier multi- filament vis- cose	150 denier multi- filament vis- cose voile twist	23½

	<u>Reed Width</u>	<u>Ends in loom</u>	<u>Picks off loom</u>		
French crepe	43½	150 x 9½	75 denier acetate	75 denier viscose voile twist	28½
Acetate suiting	43½	102 x 48	150 denier acetate	300 denier acetate	23½
Spun rayon filled poplin	43½	108 x 48	150 denier acetate	14s/1 spun viscose	23½

Type of Fabric	Reed Width	Cloth Count		Warp	Filling	Price per yard F.O.B. Manufacturer's Mill
		Ends in loom	Picks off loom			
<u>Crepe</u>						
Acetate Warp	45"	110	x 64	120 denier acetate	100 denier viscose crepe twist	27 cents
	45"	135	x 64	100 denier acetate	100 denier viscose crepe twist	28½
	48"	90	x 48	150 denier acetate	150 denier viscose crepe twist	23½
All-Viscose	44"	150	x 76	75 denier pigment viscose	75 denier viscose crepe twist	29
	45"	114	x 68	100 denier multi- filament pigment viscose	100 denier viscose crepe twist	27½
<u>Sheers</u>						
		Off-loom				
		Ends	Picks			
Cuprammonium triple-sheer	46"	104	x 72	75 denier cuprammonium crepe twist	75 denier cuprammonium	27
Viscose	46"	104	x 72	75 denier viscose crepe twist	75 denier viscose	25½
Cuprammonium triple-sheer	48"	104	x 72	75 denier cupram- monium crepe twist	75 denier cuprammonium	28
Viscose triple-sheer	48"	104	x 72	75 denier viscose crepe twist	75 denier viscose	26½
Viscose georgette 50"		80	x 72	75 denier viscose crepe twist	75 denier viscose crepe twist	28

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Issued this 23rd day of August, 1941.

/s/ Leon Henderson
Leon Henderson

Certified to be a true
copy of the original

John E. Hamm, Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT

Office of Price Administration and Civilian Supply

For Tuesday A.M.'s
August 26, 1941

PM 1012

Ceiling prices on three types of domestic animal hair used in high-grade mattresses are established in a price schedule announced today by the Office of Price Administration and Civilian Supply.

Maximum prices of 45 cents a pound and 8 cents a pound, respectively, are set for domestic washed cattle tail hair and domestic processed winter hog hair, while a top price of \$60 a ton is fixed for domestic coil dried winter hog hair.

The schedule does not apply to hair of these types when imported from a foreign country.

Domestic cattle tail hair and winter hog hair, processed and curled, are used in mattresses by the Navy and by numerous public institutions. Stimulated by heavy demand, prices for this hair have become excessive. The OFACS price schedule, arrived at after consultation with Navy Procurement officials and members of the industry, is designed to correct this situation.

Text of the schedule is attached.

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION AND
CIVILIAN SUPPLY

Part 134 - Animal Hair

Price Schedule No. 24 - Washed Cattle Tail Hair
and Winter Hog Hair

Recent expansion of United States Navy personnel has resulted in a heavy demand by the Navy for curled hair mattresses. These mattresses are composed in large part of cattle tail hair, more than two-thirds of the annual production of which was required for the mattresses purchased by the Navy during the last fiscal year. Cattle tail hair is thus a commodity of considerable importance in the defense program. The quantity of winter hog hair used by the Navy is relatively small in proportion to the country's total output, but hog hair is being used increasingly as a substitute for several scarce materials, and the market situation is also complicated by a large potential demand for hog hair to supply essential requirements under the Lease-Lend Act.

As a result of the much increased demand and the temptation to speculation which this has provided, prices of cattle tail hair and winter hog hair have shown sharp increases which are not warranted by any increase in cost of production and which can have little effect in augmenting the supply. While there is no established market price for either commodity bids recently received by the Procurement Division of the Treasury Department for winter hog hair ranged from 10¢ to 13 1/3 ¢ per pound, whereas last winter and spring price quotations on this commodity ranged between 6-3/4¢ and 8 1/2¢ per pound. Such inflationary price increases, if continued, would unjustifiably increase the cost of Naval mattresses and supplies purchased under the Lease-Lend Act, as well as privately consumed products requiring curled hair.

Accordingly, under the authority vested in me by Executive Order No. 8734, it is hereby directed that:

1342.1. Maximum Price Established for Washed Cattle Tail Hair, Processed Winter Hog Hair and Coil Dried Winter Hog Hair. On and after August 27, 1941,

regardless of the terms of any contract of sale or purchase, or other commitment, no person shall sell, offer to sell, deliver or transfer washed cattle tail hair, processed winter hog hair or coil dried winter hog hair and no person shall buy, offer to buy, or accept delivery of washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair at prices higher than the maximum prices set forth in Appendix A, incorporated herein as Section 1342.10.*

*Sections 1342.1 to 1342.10 inclusive, are issued pursuant to the authority contained in Executive Order No. 8734.

1342.2. Less than Maximum Prices. Lower prices than those set forth in Appendix A may be charged, demanded, paid or offered.*

1342.3. Evasion. The price limitations set forth in this Schedule shall not be evaded whether by direct or indirect methods in connection with a purchase, sale, delivery, or transfer of washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair, alone or in conjunction with any other material, or by way of any commission, service, transportation, or other charge, or discount, premium, or other privilege, or by tying-agreement or other trade understanding, or otherwise.*

1342.4. Records. Every person making purchases or sales during any calendar month of 500 pounds or more of washed cattle tail hair, or 10,000 pounds or more of coil dried winter hog hair, or 5,000 pounds or more of processed winter hog hair, shall keep for inspection by the Office of Price Administration and Civilian Supply for a period of not less than one year, complete and accurate records of each purchase or sale of washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair made during such month and thereafter, showing the date thereof, the name of the buyer or the seller, the prices paid or received, and the quantity of washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair so purchased or sold.*

1342.5 Affirmation of Compliance. On or before October 10th, 1941, and on or before the 10th day of each month thereafter, every person who, during the preceding calendar month, has purchased or sold, whether for immediate or future delivery, 500 pounds or more of washed cattle tail hair, or 10,000 pounds or more of coil dried winter hog hair, or 5,000 pounds processed winter hog hair, shall submit to the Office of Price Administration and Civilian Supply an affirmation of compliance on Form 124:1, containing a sworn statement that during such month all such purchases or sales were made at prices in compliance with this Schedule or with any exception or modification thereof. Copies of Form 124:1 can be procured from the Office of Price Administration and Civilian Supply, or, provided that no change is made in the style and content of the form and that it is reproduced on 8 x 10 $\frac{1}{2}$ " paper, they may be prepared by persons required to submit affirmations of compliance hereunder.*

1342.6. Enforcement. In the event of refusal or failure to abide by the price limitations, report requirements, or other provisions contained in this Schedule, or in the event of any evasion or attempt to evade the price limitations or other provisions contained in this Schedule, the Office of Price Administration and Civilian Supply will make every effort to assure (a) that the Congress and the public are fully informed thereof, and (b) that the powers of the Government are fully exerted in order to protect the public interest and the interests of those persons who comply with this Schedule. Persons who have evidence of the offer, receipt, demand or payment of prices higher than the maximum prices, or of any evasion or effort to evade the provisions hereof, or of speculation or manipulation of prices of washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair, or of the hoarding or accumulation of unnecessary inventories thereof, are urged to communicate with the Office of Price Administration and Civilian Supply.*

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1342.7. Modification of the Price Schedule. Persons complaining of hardship or inequity in the operation of this Schedule may apply to the Office of Price Administration and Civilian Supply for approval of any modification thereof or exception thereto.*

1342.8. Definitions. When used in this Schedule, the term

- (a) "person" includes an individual, corporation, association, partnership, or other business entity;
- (b) "winter hog hair" means hair removed from hogs slaughtered during the months of November, December, January, February and March;
- (c) "coil dried winter hog hair" means winter hog hair which has been washed and dried indoors by artificial heat;
- (d) "processed winter hog hair" means winter hog hair which has been washed, treated, re-washed, and dried, but does not include winter hog hair which has been dyed;
- (e) "washed cattle tail hair" means hair clipped or otherwise removed from cattle switches or tails, which has been washed and dried.

1342.9 Effective Date of Schedule.

This Schedule shall become effective August 27, 1941.

1342.10 Appendix A -- Maximum Prices^{1/}

- (a) Maximum Prices For Washed Cattle Tail Hair and Processed Winter Hog Hair.

	Maximum Price Per Pound, f.o.b. <u>Point of Shipment</u>
Washed Cattle Tail Hair (10% moisture content Basis)	\$.45
Processed Winter Hog Hair (10% moisture content Basis)	\$.08

- (b) Maximum Prices For Coil Dried Winter Hog Hair.

	Maximum Price Per Ton, f.o.b. <u>Point of Shipment</u>
Coil Dried Winter Hog Hair (10% moisture content Basis)	\$60.00

- ^{1/} The maximum prices set forth herein are gross prices before discounts of any nature and include all commissions. They are not applicable to washed cattle tail hair, processed winter hog hair, or coil dried winter hog hair imported from a foreign country.

Issued this 25th day of August, 1941.

/s/ Leon Henderson
Leon Henderson

Certified to be a true
copy of the original

John E. Hamm, Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT

Office of Price Administration and Civilian Supply

For Immediate Release
August 27, 1941

FM 1024

Amendments which add Cincinnati as a basing point, establish net f.o.b. line prices for "rerolling" rail on certain railroads, and provide uniform shipping point prices at various Gulf ports were announced today to the iron and steel scrap schedule by the Office of Price Administration and Civilian Supply.

By adding Cincinnati, OPACS now has provided basing points for the major scrap consuming areas in the United States.

The amendment having to do with "rerolling" rail permits railroads not operating in a basing point to sell such rail f.o.b. lines at the average price of their f.o.b. lines sales during the period from September 1, 1940, to January 31, 1941. Rerolling mills may absorb all transportation charges necessary to obtain delivery of the rail. This permission to absorb freight applies to rerolling mills only, since in no case may rails of rerolling quality be diverted for melting purposes.

The term "rerolling" is applied to a type of scrap rail which is reprocessed by the mills into reinforcing bars. This product is in great demand for heavy construction of all kinds.

In specifying uniform shipping points prices at various Gulf ports, OPACS has kept the parity of domestic and export prices attained in the amendment of August 8, while raising the ceiling to a level sufficient to stimulate greater collection of scrap in this region.

Text of the amendments follows:

TITLE 32--NATIONAL DEFENSE
CHAPTER XI -- OFFICE OF PRICE ADMINISTRATION AND
CIVILIAN SUPPLY

PM 1024

Part 1304 - Iron and Steel Scrap

Price Schedule No. 4 Amended

It has been found necessary to amend Price Schedule No. 4 in the following respects:

Section 1304.16, Appendix A, MAXIMUM PRICES FOR IRON AND STEEL SCRAP OTHER THAN RAILROAD SCRAP, of Price Schedule No. 4 is hereby amended by adding to Paragraph I thereof the following Basing Point and footnote:

GRADES	BASING POINTS	Cincinnati, Ohio e/
No. 1 Heavy Melting Steel		19.50
No. 1 Hydraulic Compressed Black Sheet Scrap		19.50
No. 2 Heavy Melting Steel		18.50
Dealers' No. 1 Bundles		18.50
Dealers' No. 2 Bundles		17.50
Mixed Borings and Turnings		14.75
Machine Shop Turnings		15.00
Shovelling Turnings		16.00
No. 1 Busheling		19.00
No. 2 Busheling		15.00
Cast Iron Borings		15.00
Uncut Structural & Plate Scrap		18.50
No. 1 Cupola		21.00
Heavy Breakable Cast		19.50
Stove Plate		17.50
Low Phos Billet & Floom Crops		23.50
Low Phos Bar Crops & Smaller		21.50
Low Phos Punchings & Plate Scrap*		21.50
Machinery Cast, Cupola Size**		22.00
No. 1 Mach. Cast, drop- broken, 150 lbs. & under		22.50
Clean Auto Cast		22.50
Punchings & Plate Scrap***		20.50
Punchings & Plate Scrap****		19.50
Heavy Axle & Forge Turnings		18.00
Medium Heavy Electric Furnace Turnings		16.50

a/ The Cincinnati Basing Point includes the switching district of Newport, Kentucky.

Section 1304.17, Appendix B, MAXIMUM PRICES FOR IRON AND STEEL SCRAP ORIGINATING FROM RAILROADS, of Price Schedule No. 4 is hereby amended by striking out Paragraph II thereof and inserting in its stead the following:

"II.

SCRAP ORIGINATING FROM RAILROADS NOT OPERATING IN ANY OF THE BASING POINTS NAMED ABOVE.

Except in the case of Rails for Re-rolling, the maximum price of any grade of such scrap delivered to consumers located on and off the line of the railroad shall not exceed:

(1) For the grades listed above, either of the following, whichever is less:

(a) The average price per gross ton at which the railroad originator of the scrap sold any such grade to consumers located on and off the line of the railroad during the period commencing September 1, 1940 and ending January 31, 1941; or

(b) The price at the Basing Point nearest, in terms of transportation costs, to the consumer's plant; and

(2) For the grades not listed above, either of the following, whichever is less

(a) The average price per gross ton at which the railroad originator of the scrap sold any such grade to consumers located on and off the line of the railroad during the period commencing September 1, 1940 and ending January 31, 1941; or

(b) The average price per gross ton as determined in subparagraph (a) hereof, minus the amount by which the average price of No. 1 Railroad Grade Heavy Melting Steel scrap, as determined in (a), exceeds the price of No. 1 Railroad Grade Heavy Melting Steel scrap at the Basing Point nearest, in terms of transportation costs, to the consumer's plant.

In the case of Rails for Re-rolling, the maximum price of such scrap f.o.b. the lines of the railroad originator thereof shall be the average price per gross ton at which the railroad originator sold such grade f.o.b. its line during the period commencing September 1, 1940 and ending January 31, 1941. The maximum price of Re-rolling Rails shall be the f.o.b. lines price thus established plus the lowest actual charge for transporting the rails from the railroad's lines to the specific re-rolling mill consumer of the rails.*

* In Subsection (b) of Section 1304.7 of this Schedule the following statement appears: "... re-rolling rails scrap must be diverted to re-rolling mills and not cut for melting purposes."

FM 1034

This exception for Rails for Re-rolling applies only in the case of railroads not operating in a Basing Point named in Paragraph I, A, 1 hereof."

Section 1304.16, Appendix A, MAXIMUM PRICES FOR IRON AND STEEL SCRAP OTHER THAN RAILROAD SCRAP, of Price Schedule No. 4 is hereby amended by adding after subparagraph 2. in Section (b) of Paragraph II thereof the following paragraph 3.:

"3. Scrap shipped from Tampa, Florida, Pensacola, Florida, Gulfport, Miss., Mobile, Alabama, New Orleans, Louisiana, Lake Charles, Louisiana, Port Arthur, Texas, Beaumont, Texas, Galveston, Texas, Texas City, Texas, Houston, Texas, Corpus Christi, Texas, shall have a maximum Shipping Point price as great as, but not exceeding, \$14 per gross ton f.o.b. cars for No. 1 Heavy Melting Steel. For other grades at these points the price differentials established in Paragraph I hereof for Birmingham, Alabama, shall apply."

Issued this 26th day of August, 1941.

Leon Henderson
Administrator

CERTIFIED TO BE A TRUE COPY OF THE ORIGINAL.

John E. Hamm, Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT
Office of Price Administration and Civilian Supply

For Thursday AM's
August 28, 1941

PM 1035

Moving to provide price standards for the protection of motorists and service station operators during the period of curtailed gasoline supply in the Northeastern and Middle Atlantic States, a table of fair maximum retail prices for "regular" gasoline in 40 major cities in this area was made public today by Leon Henderson, administrator, Office of Price Administration and Civilian Supply.

Action was taken following widespread increases in retail prices. These increases, which have ranged from one to two cents per gallon, result from a widening of dealers margins and not from increases in the tank wagon prices at which suppliers sell to service stations. The situation developed as an outgrowth of the 10% curtailment of gasoline supplies in the Atlantic Coast area. This curtailment, in turn, has resulted from increased use of tankers moving oil products from the Gulf for transport of gasoline destined for Great Britain.

The retail prices tabulated by OPACS are designed to serve as a guide to both motorists and service station operators. They are the maximum prices which motorists should pay. It is expected that in many cases initial prices will be below those listed, particularly over the Labor Day weekend.

On the one hand they will enable motorists buying gasoline in these 40 cities to determine whether advantage is being taken of them by dealers. It is hoped that motorists will protest vigorously against prices higher than those listed for these cities. Motorists are invited to report by letter to OPACS any cases in these cities where they are charged more for "regular" gasoline than the prices listed. Prices for grades other than "regular" gasoline

are expected to be maintained at their normal differentials.

It is planned to extend coverage of the table of prices as rapidly as possible to smaller cities in the Atlantic Coast area though for the most part these will conform to the prices for the nearest large city. This will be done first for cities in Massachusetts where prices have risen more generally in the past few days than in other areas.

On the other hand, the prices listed by OPACS are expected to establish standards which can be followed by service station operators in these 40 cities listed initially, as well as in the smaller cities to follow, in determining what is a maximum price to be charged during the emergency.

The retail prices set forth in the table range from 20.1 cents, including tax, in Manchester, New Hampshire to 16.6 cents in Washington, D. C. The retail prices listed for each city are the aggregate of the following three cost factors: (1) the tank wagon price now being charged by major oil companies; (2) state and Federal taxes now in effect; and (3) a uniform dealer margin of four cents per gallon.

For most of these cities the retail prices listed are those which prevailed August 1. The current upswing had not started on that date. In a few cities the prices listed are higher than those prevailing August 1. In these cities price wars were causing unusually low prices and correspondingly reduced dealer margins on that date. It is not the policy of the Office of Price Administration and Civilian Supply to insist on the continuation of such distress prices. This is in line with the policy of helping the small operator to remain in business during the present difficult period.

The prices listed for Richmond, Philadelphia, New York City, Boston, and most other Massachusetts cities are lower than those now being charged by most dealers. In those cities motorists may properly expect service station operators to bring prices down to those listed and should urge the operators to do so.

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The tank wagon prices used in making up the retail prices are those which have prevailed for the past several months. The major companies have an informal agreement with OPACS not to raise these tank wagon prices without prior consultation with that agency. The companies, in accordance with that understanding, have not raised their tank wagon prices.

State and Federal gasoline taxes added in determining the retail prices are fixed by statute and are not affected by the current demand-supply situation.

The dealer margin, or the difference between what the dealer pays and what he sells for, of 4 cents per gallon is considered reasonable at this time. This margin is lower than that now prevailing in most areas where increases in retail prices have occurred in the last few days, but is higher than the margin prevailing in many cities prior to curtailment of supplies.

This margin of four cents is believed justified by the lower volume of sales on which stations will have to operate as long as supplies are curtailed. However, it is not intended to serve as a standard when the emergency is over.

Mr. Henderson urged all motorists to familiarize themselves with the prices for their area as listed. Those traveling between cities along the Eastern seaboard should carry with them a copy of the attached price list. "The first step in preventing unjustified increases," he said, "is a properly informed consuming public." Today's action places in the consumers hands the information essential for his own protection."

SCHEDULE OF FAIR MAXIMUM RETAIL SERVICE STATION PRICES

"REGULAR" GASOLINE

<u>Location</u>	<u>Tank Wagon Price</u>	<u>Taxes State & Federal</u>	<u>Dealer Margin</u>	<u>Fair Maximum Retail Service Station Price</u>
Portland, Maine	9.6¢	5.5¢	4.0¢	19.1¢
Manchester, N.H.	10.6	5.5	4.0	20.1
Burlington, Vermont	10.2	5.5	4.0	19.7
Boston, Mass.	9.2	4.5	4.0	17.7
Worcester, Mass.	9.8	4.5	4.0	18.3
Springfield, Mass.	10.1	4.5	4.0	18.6
Cambridge, Mass.	9.2	4.5	4.0	17.7
Fall River, Mass.	9.3	4.5	4.0	17.8
New Bedford, Mass.	9.7	4.5	4.0	18.2
Somerville, Mass.	9.2	4.5	4.0	17.7
Lowell, Mass.	9.7	4.5	4.0	18.2
Pittsfield, Mass.	9.8	4.5	4.0	18.3
Providence, R.I.	9.3	4.5	4.0	17.8
Hartford, Conn.	9.9	4.5	4.0	18.4
New Haven, Conn.	9.3	4.5	4.0	17.8
Bridgeport, Conn.	9.3	4.5	4.0	17.8
New York, New York	9.4	5.5	4.0	18.9
Buffalo, New York	9.5	5.5	4.0	19.0
Rochester, New York	10.1	5.5	4.0	19.6
Syracuse, New York	9.8	5.5	4.0	19.3
Yonkers, New York	9.4	5.5	4.0	18.9
Albany, New York	9.2	5.5	4.0	18.7
Utica, New York	10.2	5.5	4.0	19.7
Newark, New Jersey	9.0	4.5	4.0	17.5
Jersey City, N.J.	9.0	4.5	4.0	17.5
Paterson, N. J.	9.0	4.5	4.0	17.5
Trenton, New Jersey	9.0	4.5	4.0	17.5
Camden, New Jersey	9.0	4.5	4.0	17.5
Elizabeth, New Jersey	9.0	4.5	4.0	17.5
Philadelphia, Pa.	9.0	5.5	4.0	18.5
Pittsburg, Pa.	9.5	5.5	4.0	19.0
Scranton, Pa.	9.5	5.5	4.0	19.0
Erie, Pennsylvania	9.5	5.5	4.0	19.0
Reading, Pa.	9.5	5.5	4.0	19.0
Haseltine, Pa.	9.5	5.5	4.0	19.0
Wilmington, Del.	9.0	5.5	4.0	18.5
Baltimore, Maryland	8.75	5.5	4.0	18.2
Washington, D.C.	9.0	3.5	4.0	16.5
Richmond, Va.	9.5	6.5	4.0	20.0
Norfolk, Va.	9.25	6.5	4.0	19.75

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty-five Business Days of June, July, and August, 1941
(June 1-30, July 1-30, August 1-29)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	August	July	June	August over July	July over June	August over July	July over June
Series E - Post Offices	\$ 39,554	\$ 48,989	\$ 40,788	-\$ 9,435	\$ 8,201	- 19.3%	20.1%
Series E - Banks	<u>74,721</u>	<u>91,650</u>	<u>61,729</u>	- <u>16,929</u>	<u>29,921</u>	- <u>18.5</u>	<u>48.5</u>
Series E - Total	114,275	140,639	102,517	- 26,364	38,122	- 18.7	37.2
Series F - Banks	19,616	25,920	28,876	- 6,304	- 2,956	- 24.3	- 10.2
Series G - Banks	<u>121,932</u>	<u>161,610</u>	<u>183,134</u>	- <u>39,678</u>	- <u>21,524</u>	- <u>24.6</u>	- <u>11.8</u>
Total	<u>\$255,822</u>	<u>\$328,169</u>	<u>\$314,527</u>	- <u>\$72,347</u>	<u>\$13,642</u>	- <u>22.0%</u>	<u>4.3%</u>

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

August 30, 1941.

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

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

Daily Sales - August 1941
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series M	Series F	Series G	Total	Series E	Series F	Series G	Total
August 1941									
1	\$ 1,467	\$ 3,296	\$ 1,163	\$ 7,586	\$ 12,045	\$ 4,763	\$ 1,163	\$ 7,586	\$ 13,512
2	1,500	3,030	726	6,101	9,857	4,530	726	6,101	11,357
4	3,606	4,376	1,892	10,092	16,361	7,983	1,892	10,092	19,967
5	1,278	2,822	928	7,334	11,084	4,099	928	7,334	12,362
6	1,810	4,195	1,156	10,782	16,103	6,005	1,156	10,782	17,912
7	1,789	3,473	652	5,636	9,763	5,264	652	5,636	11,552
8	1,812	3,069	999	3,362	7,430	4,881	999	3,362	9,242
9	1,492	3,195	958	4,101	8,295	4,688	958	4,101	9,747
11	2,683	3,686	1,187	4,308	9,181	6,370	1,187	4,308	11,865
12	873	2,281	488	4,908	7,676	3,153	488	4,908	8,549
13	1,430	3,491	639	2,949	7,079	4,921	639	2,949	8,509
14	1,246	2,833	697	4,594	8,124	4,079	697	4,594	9,370
15	1,385	2,876	566	2,972	6,413	4,261	566	2,972	7,799
16	1,020	2,140	365	2,914	5,418	3,159	365	2,914	6,437
18	2,333	3,534	1,099	4,266	8,899	5,866	1,099	4,266	11,232
19	768	1,629	466	2,986	5,082	2,398	466	2,986	5,850
20	1,495	3,191	554	4,058	7,802	4,685	554	4,058	9,296
21	1,540	2,585	646	4,779	8,010	4,125	646	4,779	9,550
22	1,372	3,496	628	4,001	8,126	4,869	628	4,001	9,498
23	1,236	2,143	489	3,731	6,364	3,380	489	3,731	7,600
25	2,213	2,660	680	3,473	6,815	4,873	680	3,473	9,028
26	973	2,153	496	4,931	7,579	3,126	496	4,931	8,553
27	1,379	2,941	643	5,526	9,110	4,321	643	5,526	10,490
28	1,414	2,579	749	2,580	5,909	3,993	749	2,580	7,322
29	1,438	3,046	750	3,989	7,785	4,484	750	3,989	9,223
Total	\$ 39,554	\$ 74,721	\$ 19,616	\$121,932	\$216,269	\$114,275	\$ 19,616	\$121,932	\$255,822

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

August 30, 1941.

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

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

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Regarded Unclassified



FIELD ORGANIZATION *News Letter*

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



August 30, 1941 NUMBER 15.

TO THE FIELD STAFF:

In a recent survey of a cross-section of employed Americans, this question was asked, "Why do you like to work?" Among the many replies, the word "security" appeared at the head of the list in more than ninety per cent of the answers. This is but an indication of the overwhelming desire on the part of our citizens for security of home, Nation, and way of life, as well as the willingness to work for that protection.

Our work in Defense Savings is to promote a great program of national thrift, and to urge the building of reserves against a personally unpredictable future. We are concerned not only with the security of individual families, but with the security of the sum total of all these families, the American Nation, and the American form of Government.

There is much inward compensation that comes of being an agency through which American families can reach so important a goal. You must have had this feeling of compensation in the task you are performing in the field. There is no assignment in America today that is more vital than ours — that of providing the reserves upon which to base this country's continuing security. That thought is spurring you on in your Defense Savings work, and, no doubt, it is behind the very substantial accomplishments which have resulted from that work.

Sincerely yours,

GALE F. JOHNSTON

Field Director, Defense Savings Staff

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FIELD ORGANIZATION NEWS

New Honorary Chairmen

The following Governors have accepted Secretary Morgenthau's invitation to serve as the Honorary Chairman of the Defense Savings Committees now being organized in their states:

ARIZONA—The Honorable Sidney P. Osborn, Governor of Arizona

COLORADO—The Honorable Ralph L. Carr, Governor of Colorado

KANSAS—The Honorable Payne H. Ratner, Governor of Kansas

WISCONSIN—The Honorable Julius P. Heil, Governor of Wisconsin

State Leaders Appointed

IN COLORADO, Richard J. Osenbaugh, General Sales Manager of the Denver Sewer Pipe and Clay Company, has accepted Secretary Morgenthau's invitation and is serving as Chairman of the Colorado State Committee. Mr. Osenbaugh is a past president of the Denver Chamber of Commerce and a past president of the Lions International.

IN ILLINOIS, General William I. Westervelt of Winnetka has accepted the chairmanship of the Illinois committee; and Norman B. Collins, President of the National Security Bank of Chicago, has been appointed State Administrator.

IN NEVADA, William S. Boyle, attorney at law in Reno and former United States District Attorney for Nevada, is serving as Chairman of the Nevada Committee.

The DISTRICT OF COLUMBIA Committee will be formed under the chairmanship of H. L. Rust, Jr., prominent Washington realtor.

The Committee for the Territory of HAWAII is to be headed by Philip E. Spalding, President of C. Brewer & Company, Ltd., Sugar Factors of Honolulu.

Maine Committee Organizes

First meeting of the Defense Savings Committee for the State of Maine was held in Augusta, August 20, with Field Director Gale F. Johnston in attendance. State Administrator Clinton A. Clauson presided. A feature of the meeting was the display arranged by Deputy Administrator Earnest L. Wellman of the publicity, bank draft plans, payroll allotment plans, et cetera already in use in the State of Maine.

Governor Sumner Sewall, Honorary Chairman of the State Committee, pledged his full cooperation and indicated that in conjunction with State Treasurer Belmont Smith and State Auditor William D. Hayes, plans would be worked out to make an allotment plan available to State Government employees.

Another News Letter

Michigan is now publishing an attractive News Letter for the members of its state and local Defense Savings Committees, called "Save for Safety."

MISSOURI

Activity In All Parts Of State

3,500 PEOPLE in all parts of Missouri are now serving on the Defense Savings Committees which have been organized in 183 cities and towns. In addition, more than 7,500 other persons are serving on various group committees and sections organized under the auspices of these committees. This would mean approximately one volunteer Defense Savings worker for every 350 persons in the State.

COUNTY FAIRS AND RALLIES throughout Missouri are hearing much about Defense Savings. State Administrator Dan Nee and Deputy Administrator Earl H. Shackelford have both been busy this summer addressing large meetings of this kind and have a full schedule for the month of September:

A parade six blocks long featured the Defense Bond rally in Cape Girardeau which was addressed by Administrator Nee. Twelve bands took part in this parade.

Home-Coming week celebrations in Clarence, a town of some 2,000 population in Shelby County, featured the Defense Savings Program. Administrator Nee addressed a gathering of more than 4,500 people on one evening during this week and it is reported that the post office sold out completely its supply of both Series E Bonds and Defense Savings Stamps of the 10 and 25 cent denominations. Dr. Frank H. Roy is the chairman of the Defense Savings Committee in this community.

Rallies in Bethany, Cainsville, Mansfield, Fulton, Liberty, Sedalia and other places have brought the message of Defense Savings home to thousands of Missourians.

750,000 UTILITY CUSTOMERS in Missouri are being reminded each month of the Defense Savings Program when they receive their monthly statements. The Union Electric Company of St. Louis, the St. Joseph Water Company, the Laclede Gas Light Company of St. Louis, are recent additions to the list of Missouri utilities which have made arrangements to boost Defense Savings in this way.

EVERY CIVIC CLUB in the state has been asked by Administrator Nee to:

- (1) Make sure that its membership is participating 100 per cent in the Defense Savings Program;
- (2) Offer its services to the Defense Savings Committee in its community;
- (3) Encourage members who are employers to offer payroll allotment plans to their employees;
- (4) Urge those members who are retailers to place Defense Savings Stamps on sale and instruct their clerks to boost their sale;
- (5) Urge all members who advertise to include some reference to Defense Savings in their newspaper advertisements, radio announcements, bill boards, etc.

PHYSICIANS IN ST. LOUIS have been asked by Dr. Alphonse McFahon, chairman of the Physicians, Dentists, and Hospitals Sub-committee of the Defense Savings Committee for Metropolitan St. Louis, to place Defense Bond Posters and Defense Savings literature in their waiting rooms. All doctors have received a postcard on which to re-order Defense Savings material when their initial supplies have been distributed.

PAYROLL ALLOTMENT

Many Developments Which Augur Well
For This Phase of Program

Life Underwriters Stand Ready to Help

Formation of the "Life Underwriters Committee for National Defense Savings" by the National Association of Life Underwriters (See NEWS LETTER, August 9) has now led to the establishment of similar committees in states and cities throughout the country. This development was recently reported to the field division, Defense Savings Staff, by Harry T. Wright, President of the Association and Chairman of the committee.

Mr. Wright reports that state committees of life underwriters are being set up under the direction of state chairmen and that, as rapidly as possible, these committees are appointing similar bodies in the cities and towns of their states. The chairmen of all these committees are being instructed to get in touch with state and city chairmen of Defense Savings Committees and to offer the services of life insurance men in carrying out various phases of the Defense Savings educational program.

State Administrators have received copies of the document prepared by the Association's committee, called "Plan and Promotion for Sale of National Defense Bonds by Life Underwriters." (See Field Memo #114.) In this, various ways in which life underwriters can cooperate with the program are outlined in considerable detail. It has been suggested that these men can be particularly helpful in explaining payroll allotment plans and in assisting with the follow-up educational and service work which will be required if these plans are to be successful to the highest possible degree.

The cooperation of life underwriters can do much to forward the educational work of Defense Savings Committees. Their services will be welcomed and appreciated by the entire field organization of the Defense Savings Staff.

All Major Railroads Now Have Allotment Plans

Practically all of the country's major railroads and a large number of the "Short Lines" have now installed payroll allotment plans to make it as convenient and simple as possible for their employees to invest in Defense Bonds systematically. These plans are being well received by rail workers and the percentage of participation is increasing steadily.

HOWEVER, there is much that the field organization can do to increase the sale of Defense Bonds among this large (there are more than one million railroad employees) and important group of workers. Perhaps largely because of the wide distribution of railroad employees, "key men" able to help educate and stimulate participation in Defense Savings among railroad workers have not as yet been designated, except perhaps in a few cases.

Local committees at each railroad division point should establish contact with representatives of the railroad employees and enlist them as Defense Savings "missionaries" among their fellow workers.

PAYROLL ALLOTMENT (Continued)

Labor Section Organized in New Jersey

The Labor Section of the State Defense Savings Committee for New Jersey was organized on August 5th in a meeting held in the office of the Honorable John J. Toohey, Jr., State Commissioner of Labor and member of the State Defense Savings Committee. At this meeting, Samuel L. Rothbard, State Attorney for the GIO; William Egan, counsel for the New Jersey State Federation of Labor; and Charles H. Carr, State Chairman of the Brotherhood of Railroad Trainmen, gave assurances that organized labor would back the Defense Savings Program. Plans are now being made for the formal approval of Defense Savings by state executive bodies, county and municipal labor boards, local labor unions, et cetera.

Deputy Administrator Paul Canada is scheduled to make a number of talks before labor groups in the near future to present the salient facts about Defense Savings and the salary allotment procedure for making systematic saving as convenient and simple as possible. Copies of resolutions of approval and endorsement adopted by state and local labor unions are to be transmitted to employers and plant managers.

The Labor Section of the State Committee includes representatives of the New Jersey Building Trades Council as well as the labor groups mentioned above and a representative of organized labor from each of New Jersey's 21 counties.

Other Developments in New Jersey

Approximately 105,344 workers are employed in New Jersey plants which, by the middle of August, had adopted a Defense Savings salary allotment plan. This does not include any of the railroad employees in the state, most of whom have also been given an opportunity to participate in the Defense Savings Program through salary allotment.

Among the larger New Jersey companies which have payroll allotment plans in effect (and which have not been previously mentioned in this NEWS LETTER) are

- Ballentine Brewing Company (1,900 employees)
- Botany Worsted Mills (6,543)
- Clark Thread Company (3,120)
- Congoleum-Nairn, Inc. (3,400).

The City of Newark, with some 6,700 employees, has installed an allotment plan, being the first city in New Jersey to make this plan available to its employees.

In Missouri

Payroll allotment plans have been explained to every Missouri employer of eight or more persons in two letters from State Administrator Nee. The first letter resulted in the adoption of allotment plans by several hundred Missouri firms. A second "follow up" letter has recently been sent to all firms which did not reply to the first.

CITY AND STATE GOVERNMENT EMPLOYEES
HAVE SALARY ALLOTMENT PLANS

AMONG THE FIRST state and local governments to make it possible for their employees to participate in the Defense Savings Program, through the now familiar salary allotment plan, are the following:

State of New Mexico
 State of Washington
 City of Hartford, Connecticut
 City of Newark, New Jersey
 City of Seattle, Washington
 Port of Seattle, Washington
 City of Spokane, Washington
 City of Wenatchee, Washington

COPIES of the State of New Mexico and City of Seattle plans are available to state administrators on request to the Field Director's Office, Defense Savings Staff, Washington, D. C.

IN MANY OTHER city, county and state government offices and departments, systematic purchasing plans have been installed, modeled after the "group agent" plan now in operation in most Federal departments and agencies. However, in the cities and states named above, it is possible, according to reports received at the Washington office of the Defense Savings Staff, for an employee to authorize a regular allotment of his pay toward the purchase of Defense Savings Bonds, and to have the entire transaction handled by the regular, official finance officers of the governmental agency for which he works.

FARMERS & MECHANICS SAVINGS BANK
DEFENSE BOND PLAN DESCRIBED

The Farmers & Mechanics Savings Bank of Minneapolis has put into operation an interesting plan for stimulating the regular purchase of Defense Bonds. Under this plan an individual opens a "Defense Bond Savings Account" (there is an attractive red, white and blue envelope for the bankbooks used for these accounts) and then authorizes the bank to purchase for him a Series E, \$25 denomination, Defense Bond each time his account reaches \$20.

The bank is prepared to cooperate with employees who install salary allotment plans by taking the companies' checks each pay period for the total amount of Defense Savings allotments for that period and depositing these allotments in separate accounts to the credit of each individual employee.

Among the Minneapolis companies which have set up allotment plans in cooperation with this bank are:

Pillsbury Flour Mills Company
 Minneapolis Brewing Company
 Cedar Lake Ice & Fuel Company
 B. F. Nelson Manufacturing Company
 Russell Miller Milling Company

MORE PAY ROLL ALLOTMENT PAMPHLETS AVAILABLE

Prominent business firms, a state and a city government have recently issued pamphlets describing in detail their plans for employee participation in the Defense Savings Program through pay roll allotment. The following list supplements the list given on page 11 of the NEWS LETTER, July 26:

AMERICAN AIRLINES, New York, N. Y.

"Voluntary Pay Roll Allotment Plan for the Purchase of Defense Savings Bonds"

CAPITAL TRANSIT COMPANY, Washington, D. C.

"Voluntary Pay Roll Deduction Plan for the Purchase of U. S. Defense Savings Bonds, Series E"

CITY OF SEATTLE, Seattle, Washington.

"Voluntary Pay Roll Allotment Plan for Purchase of United States Defense Bonds, Series E"

ELI LILLY AND COMPANY, Indianapolis, Indiana.

"Plan for Pay Roll Deductions for United States Savings Bonds"

LACLEDE GAS LIGHT COMPANY)

LACLEDE POWER & LIGHT COMPANY) St. Louis, Missouri.

"Pay Roll Deduction Plan for Purchase of Defense Savings Bonds"

METROPOLITAN EDISON COMPANY, Reading, Pennsylvania.

"A Savings Plan for the Purchase of U. S. Defense Savings Bonds"

NATIONAL BANK OF DETROIT, Detroit, Michigan.

"Voluntary Pay Roll Deduction Plan for Purchase of United States Savings Bonds, Series E"

NEW JERSEY LIGHT & POWER COMPANY, Dover, New Jersey.

"A Savings Plan for the Purchase of U. S. Defense Savings Bonds"

NEW MEXICO STATE AUDITOR, Santa Fe, New Mexico.

"Voluntary Pay Roll Allotment Plan for the Purchase of Defense Savings Bonds"

RCA MANUFACTURING COMPANY, Camden and Harrison, New Jersey.

"You and I and RCA in 1941"

R. J. REYNOLDS TOBACCO COMPANY, Winston-Salem, North Carolina.

"Announcement of Voluntary Systematic Savings Plan for the Purchase of United States Defense Savings Bonds, Series E, \$25 Denomination"

SEATTLE-FIRST NATIONAL BANK, Seattle, Washington.

"Voluntary Pay Roll Deduction Plan for the Purchase of Defense Savings Bonds, Series E"

TRANSCONTINENTAL AND WESTERN AIR, INC., Kansas City, Missouri.

"Pay Roll Deduction Plans for the Purchase of U. S. Defense Savings Bonds"

EVERY BANK IN NEVADA
NOW QUALIFIED TO ISSUE DEFENSE BONDS

All banks in Nevada (six national and five state) have now qualified as issuing agents for Defense Savings Bonds, reports W. W. Hopper, President of the First National Bank of Nevada in Reno, and member of the State Defense Savings Committee.

Nevada thus gains the distinction of being the first state in the country in which all banks have qualified as issuing agents. Previously, it had been reported (See NEWS LETTER, August 16) that all District of Columbia banks had qualified and that several states were nearing the 100% mark.

The final report on the number of qualified issuing agents, as of the end of August, is not available at the present time, but reports which have been received during the past month from officers of state banking associations and other leaders of the banking fraternity indicate that considerable progress was made during the month in lining up banking support for the Defense Savings Program.

NEWS LETTER readers will be given a detailed report from the banking front as soon as the August statistics become available.

FEDERAL RESERVE BANKS APPOINT
DEFENSE SAVINGS LIAISON OFFICERS

Each of the 12 Federal Reserve Banks has designated a Defense Savings liaison officer to cooperate with bankers in securing 100% participation in the Defense Savings Program and to work with banks in solving problems which arise in connection with the distribution of Defense securities.

The newly-designated liaison officers:—

Roy Van Amringe, Assistant Cashier, Federal Reserve Bank of Boston.	Alfred T. Sihler, Asst. Vice Pres., Federal Reserve Bank of Chicago.
Robert G. Rouse, Vice President, Federal Reserve Bank of New York.	C. M. Stewart, Cashier and Secretary, Federal Reserve Bank of St. Louis.
Leonard E. Donaldson, Asst. Vice Pres., Federal Reserve Bank of Philadelphia.	Otis R. Preston, Assistant Cashier, Federal Reserve Bank of Minneapolis.
George H. Wagner, Vice President, Federal Reserve Bank of Cleveland.	J. W. Helm, Vice President & Cashier, Federal Reserve Bank of Kansas City.
J. S. Walden, Jr., 1st Vice President, Federal Reserve Bank of Richmond.	E. B. Stroud, First Vice President, Federal Reserve Bank of Dallas.
Malcolm Bryan, First Vice President, Federal Reserve Bank of Atlanta.	Ira Clerk, First Vice President, Federal Reserve Bank of San Francisco.



A pair of gigantic hands meet in a mighty handshake on the billboard, four stories high, on the northeast corner of Fifth Avenue and Forty-Second Street in New York City. The hands, symbolizing Uncle Sam and the working population of his United States, are the most striking features of the poster by John C. Atherton which won first prize in the poster competition held by the Museum of Modern Art. The winning poster has been reproduced on the billboard on the world's busiest corner by three New York banks—Union Dime, Bowery, and Emigrant Industrial Savings Banks—which have placed the space at the disposal of the Treasury Department for this purpose.

STARS IN DEFENSE VARIETIES

MUSICIANS INVEST FOR DEFENSE



Sheila Barrett, well-known mimic artist, appeared recently on "Defense Varieties," the radio program heard each Sunday in the Boston area which boosts Defense Bonds and Stamps. She is shown here with the producers of this radio show, Pat La Selva, left, and Edward A. Cronin, right, deputy collectors of Internal Revenue, Boston.



George Gibbs, President of the Boston Musicians Protective Association, Local 9 A. F. of M., purchasing Defense Savings Bonds on behalf of the Union. From left to right: Thomas Buckley, Assistant Collector of Internal Revenue; Daniel J. Dolerty, State Administrator, DSS; Mr. Gibbs; and Thomas B. Hassett, Collector of Internal Revenue, Boston.

MEET THE CHIEFS



Eugene W. Sloan, executive director, Harford Powell, information director, and Gale F. Johnston, field director, Defense Savings Staff (from left to right), as they listen to the time signal announcements of the First National Bank of St. Louis, Mo., boost defense savings.

(A GOVERNMENT PRINTING OFFICE, 1942-10-10)

DEFENSE SAVINGS ON THE AIR
Leading Programs for the Coming Week

Tuesday, Sept. 2

FOR AMERICA WE SING

7:30-8:00 P. M. (EST)
 NBC Blue Network

Musical program featuring Dr. Frank Black's 44-piece NBC symphony orchestra conducted by Victor Arden and the NBC chorus.

GUEST STARS: Lucy Monroe and Jan Peirce.

* * *

AMERICA'S MOST POPULAR RADIO PROGRAM*

Wednesday, Sept. 3

MILLIONS FOR DEFENSE

8:00-9:00 P. M. (EST)
 CBS Network

GUEST STARS: Alfred Lunt, Ken Murray, Oscar Levant, Juanita Hall Choir, and Tod Duncan and Ann Brown (Porgy and Bess) with Al Goodman and his band, Barry Wood, and Ray Block's choir.

*The Treasury Hour program now holds top place on the Hooper "National Ratings" report, which is based on the size of the listening audience as estimated by a scientific telephone canvass.

* * *

"It is now 4:15 and time to buy Defense Bonds" is the way in which radio stations KGBX and KWTG in Springfield and KCMO in Kansas City, Missouri, are now boosting the Defense Savings Program.

* * *

Boston's "Defense Varieties" program may be credited with the sale of at least \$51,000 worth of Defense Bonds. Interest aroused by participating musicians, all of whom are contributing their talent to the program, resulted in the purchase by the Boston Musicians Protective Association of a \$1,000 Defense Savings Bond. On page 10 of this News Letter is a picture of George Gibbs, president of the Musicians Union, as he made the purchase. As a result of the publication of this picture in Boston papers, James Pettrillo, national president of the Musicians Union, wired Harry E. Brenton, national secretary-treasurer of the Union, to invest \$50,000 of the Union's funds in Defense Bonds.

* * *

On August 19, Fred C. Martin, Vermont State Administrator, was the special guest on Governor William H. Wills' Tuesday radio program over Station WDEV.

PREMIUMS, GIFTS, PRIZESA Few Recent Reports of the
Use of Defense Savings Bonds
and Stamps in This WayBirthday Celebration

Sanford Adler, postmaster at Baker, Oregon, devised this ingenious way to celebrate his birthday: He had announcements made in the schools and over the radio that any school child who purchased a 25¢ Defense Savings Stamp on his birthday would receive another Stamp as a present. He reports that 60 new Defense Bond stamp albums were opened that day. He plans to repeat the offer next year.

Aluminum Drive

The Younglove Grocery Store Company of Olympia, Washington paid \$1,000 in Defense Bonds and Stamps to the 365 individuals turning in the largest amount of aluminum between July 21 and August 23.

Rodeo

Traditional silver belt buckles, which have heretofore served as extra prizes for winners of the four major events in the Sun Valley (Ida.) annual rodeo, were this year supplanted by Defense Bonds. The change was made in order to promote Bond sales among "buckaroos" and their families, according to R. J. Miles, rodeo manager.

Guessing Contest

In Atlanta, patrons of the Euclid and Palace theatres recently had an opportunity to win a \$25 Defense Bond by guessing the weight of the theatre company's 17th annual birthday cake.

Employee Picnic

Wisconsin State Employees received \$350 worth of Defense Bonds and Stamps as prizes at various contests held at the recent annual picnic of their Association.

Baseball Game

The Wilkes-Barre - Elmira, Pa. baseball game was made more interesting by the awarding of twenty \$25 Defense Bonds to the holders of lucky coupons.

Golf Tournament

Defense Bonds were prizes in St. Petersburg (Fla.) Lakewood Country Club's annual golf tournament. More than 300 golf clubs throughout the country were notified by the Lakewood Club of this use of Defense Bonds.

Regatta

No trophies were given this year at the annual Ocean City, N. J. Motor Boat Regatta! Defense Bonds and Stamps were given instead.

Your Country's
calling YOU!

BUY DEFENSE BONDS AND STAMPS

...A DUTY
WHICH NO
CLAIM EXCUSE

THE TRENTON BANKING
COMPANY

DEFENSE BONDS

Issue price	Maturity
18.75	will increase in 10 years to 50
37.50	will increase in 10 years to 100
75.00	will increase in 10 years to 500
375.00	will increase in 10 years to 1000

DEFENSE STAMPS

10¢ - 25¢ - 50¢
\$1.00 and \$5.00

Start an album
be exchanged
Defense
ive to



The "Spirit of '76," a feature of the colorful ceremony which marked the opening of the out-of-door stand for the sale of Defense Bonds and Stamps on the grounds of the Trenton Banking Co., Trenton, N. J.

RAIL EXECUTIVES DISCUSS ALLOTMENT



Salary allotment for defense savings was the subject of discussion at this meeting of heads of the Central of Georgia Ry. and Ocean Steamship Co. in Savannah. A salary allotment plan is now available to the 7,000 employees of these companies. Seated, left to right: J. D. McCartney, assistant to the trustees; R. R. [unclear], general manager; Judge A. B. Lovett, co-trustee; Arthur Cheatham, deputy administrator, DSS [unclear]; K. M. Sistorhenm, treasurer; M. J. Parr, C. L. Chapman, C. L. Dickert. Standing, left to right: T. J. [unclear], Robert S. Fennell, port agent of the O. S. S. Co.; D. W. Brantley, H. F. Sharpley, James L. [unclear], W. E. Stewart, H. Lee Fulton, Jr., B. F. Kuhlke, J. F. Jackson, and M. B. Nichols.

SECRETARY WICKARD LAUNCHES PROGRAM IN DEPARTMENT OF AGRICULTURE

"In the kind of world we live in today we have no choice but to arm as speedily and as effectively as possible. Everything we possess and everything we have fought for so fiercely throughout our history is menaced by the Nazi war machine.

"But if we are all prepared to do our part in the true spirit of America we will not only survive this world debacle but will emerge a stronger and better Nation.

"Some of our younger men have left their jobs in the Department to join the armed forces. They are making a contribution to the National Defense that those who cannot go are unable to match. But those of us who are staying in our jobs can do much to strengthen our Nation's defenses.

"Right now one of the best ways for each individual to help is to invest in Defense Bonds and Stamps.

"One of your co-workers will call on you soon and ask you what investment you wish to make. I urge each one of you to determine what amount in bonds or stamps you can afford to purchase each pay day and then to make that contribution every two weeks so long as the national emergency exists. Certainly there is no better and safer investment than Defense Bonds and Stamps."

Hon. Claude R. Wickard
Secretary of Agriculture.

* * *

CCC ENROLLEES BUYING DEFENSE STAMPS

Lt. Col. K. S. Whittemore, commanding officer of the Civilian Conservation Corps in Oklahoma, has issued a special memorandum to his district and company commanders instructing them to get in touch with the representatives of the State Defense Savings Committee nearest to their camps and to make arrangements for the sale of Defense Savings Stamps at each company headquarters on pay days.

"Each individual must be made to feel that he is making a personal effort in the defense of his country," Col. Whittemore wrote. "I would be greatly pleased if each person in the Oklahoma CCC would participate in a systematic savings program by purchasing Defense Bonds."

At the same time, State Administrator H. C. Jones asked his county administrators to appoint three-man committees to work with local CCC Camps:

- One Committeeman to make initial contacts and arrangements,
- One to appear as a speaker at the camps and distribute Defense Savings folders,
- And a third to purchase stamps from local bank or post office and to be on hand each pay day at the camps to re-sell them to enrollees.

FLORIDA CHILDREN USE DEFENSE STAMPS TO GET INTO MOVIES

Children in many Florida cities can now see their favorite movies by simply showing a Defense Savings Stamp of either the ten-cent or higher denomination!

The 110 motion picture theatres, operated by Florida State Theatres, Inc., inaugurated this plan on August 9. On that day, more than 35,000 Florida children were reported to have gained admission to special children's matinees by showing that they had one or more Defense Savings Stamps.

J. L. Cartwright, public relations executive of the theatre chain, has explained the plan in detail to all motion picture exhibitors throughout the state and urged them to undertake similar plans to arouse and sustain interest in Defense Savings among children.

At these weekly "Defense Savings matinees," in many theatres, persons experienced in talking to children speak to them about the importance of buying Defense Stamps regularly; special patriotic prologues are staged; and passes and bonus Stamps are given to children who present completely filled Defense Bond stamp albums.

Pictures of children lining up to buy Defense Stamps in theatre lobbies, post offices, banks, and other places where Stamps are on sale, and hundreds of columns devoted to stories about these matinees, have been featured in many Florida newspapers during the past month. Radio stations enthusiastically contributed time for announcements of the plan.

* * * * *

TREASURY HOUSES OPEN IN BOSTON AND NEW YORK

Arrangements have been completed to open Treasury Houses in Boston and New York City on September 3 and September 4, respectively.

Boston's Treasury House will be located on the historic Boston Commons. In New York, the location will be on the famous Radio City Plaza.

At both places, military displays, band concerts, personal appearances of notables of all kinds, organizational demonstrations—in short, a full schedule of activities similar to the program conducted at Treasury House in Washington, D. C. are planned.

The Washington Post, in a story dealing with the closing of Treasury House in Washington, credited this center with providing the greatest free entertainment ever seen in the Capital during its six weeks of operation. A total of 63,131 Stamps were sold and 11,068 new Defense Bond albums started there during this period.

ANY BONDS TODAY?

All American Legion "champion bands" will break out with "Any Bonds Today" during the Legion's National Convention in Milwaukee, September 15-18.

TANK REPLICA BOOSTS BOND SALES

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The miniature tank was on display for 2 weeks in the lobby of the Hartford, Connecticut, Trust Company during which time Defense Savings Bond sales tripled as compared with the 2 weeks immediately before the exhibit. Henrietta Spring was the "defense girl" on duty when this picture was taken. A different girl manned the tank each day during the campaign, dispensing information on defense savings to all comers. The girl on duty the day the bank sold the most bonds received a prize of a \$25 Defense Bond.

COUNTY HEADQUARTERS



H. K. Warner, defense savings administrator for Craig County, Oklahoma, has erected on the grounds of the tax hall in Vinita the building shown above as the headquarters of the defense savings program in his territory. Plans are now being made to open similar headquarters offices or buildings in every Oklahoma county.

LABOR UNION INVESTS



Harry W. Acersman, executive of the Texas Federation of Labor (left) hands Frank Seifield, Texas State Administrator, his union's check of \$3,700 for the purchase of Defense Savings Bonds.

PHOTOGRAPH BY AP FOR THE NEW YORK TIMES

BASEBALL FANS BESIEGE TREASURY HOUSE



Joe DiMaggio, star New York Yankee outfielder, autographs defense bond stamp albums at Treasury House, Washington, D. C.

MOORE DOLLARS FOR DEFENSE



Miss Nan Moore of Carbondale, Ill., Miss June Moore of Santa Rosa, Calif., and Miss Ethelene Moore of Wadesboro, N. C., employees in the office of the Quartermaster General, War Department, Washington, D. C., line up to buy Defense Savings Stamps from Lt. Col. H. A. Barnes, head of the defense savings program in the office of the Quartermaster General.

PLANE BUILDERS BUY BONDS



Henry J. Cudworth, oldest employee of the United Aircraft Corporation, East Hartford, Conn., and the first to enroll in the company's defense savings pay-roll allotment plan, returns his authorization card to H. Mansholt Horner, general manager, Pratt and Whitney Aircraft Division.

NEWSBOYS SAVING SYSTEMATICALLY



Delivery boys of the Greenville (Texas) Evening Banner are 100% for the defense savings program. Note the stamp albums.

U. S. GOVERNMENT PRINTING OFFICE: 1942—O—40077

EDITORIAL COMMENT--

"Every family should make defense bond purchases an integral part of its budget for as long as the emergency endures. Buy as many bonds as you can."

--Charlotte Observer.

"Series E Defense Bonds, now being sold through banks, savings and loan associations and post offices, represent both a good buy to the investor and astute financing on the part of the government. . .

"In the first place, they provide cash for the government to make this country strong enough to stand off all comers and thereby to provide protection for every American against the gangster nations.

"In the second place, they help to avert runaway inflation. . . .

"In the third place, they will help the individual to establish a reservoir of capital. . .

"From the triple standpoint, therefore, of individual investment, government welfare and broad economic policy, the defense issues offer so much to the people of this country that they deserve the full strength of each and everyone's buying power."

--Oregon Journal.

"The voluntary purchase of the bonds and stamps is the finest testimonial that we can have, as it indicates that our people want to invest in America. They want to have a bond, yes, several of them, not only from an investment standpoint but because they believe in their country."

--Sheboygan Press.

"When you buy a Defense Bond, you are doing more than perhaps you realize to help your country, your children and yourself:

"In the first place, you are temporarily reducing your capacity to purchase commodities and to that extent you are equalizing demand with supply and therefore preventing price increases.

"Next, you are building up a reserve in purchasing power. . .

"Third, you are reducing by just the number of dollars you invest, the number of dollars which must be borrowed by Government through banks. . .

"Finally, you are making more certain and easy the repayment of all monies borrowed by Government, lightening the load your children will have to bear, and doing your part to insure that such repayment will be in dollars having real purchasing power."

--Salt Lake City Deseret News.

" . . . These securities, which are fully guaranteed by the United States Government, offer the citizen the opportunity to do his individual part to finance defense. They offer him at the same time the opportunity to place what earnings and capital he can spare into an investment which provides the highest attainable degree of safety. . ."

--Times-West Virginian.

THE FOOD SITUATION IN CONTINENTAL EUROPE

U. S. Treasury Department
Division of Monetary Research
August 30, 1941

REPORT TO SECRETARY MORGENTHAU:

There is attached a report on THE FOOD SITUATION IN CONTINENTAL EUROPE, prepared in this Division by Mr. L. Felsenthal under the supervision of Mr. O. Cass. The following conclusions were drawn from the study:

1. Are present food supplies on the European Continent sufficient to feed the European peoples this winter?

The European food situation is precarious, but it will not become critical this winter. Indications are that sufficient food reserves exist to carry Europe at least up to the 1942 harvest at present rations.

This year's harvest of grains, root-crops and vegetables was good, in some parts even excellent—in contrast to the poor crops of 1940. But there is not enough current production of fats, meats and grains to maintain the present rations. These deficiencies must be met by further depletion of previously accumulated reserves.

Food supplies and reserves vary widely from one Continental country to another. The situation is very bad in Poland, Spain, and Belgium, fair in Italy, France, Switzerland, Holland and the Danubian basin and quite adequate in Germany, Denmark and Sweden. If a more adequate exchange or pooling of stocks could be achieved in the Continental area, present differentials in nutrition could be considerably reduced, and local shortages within countries whose over-all supplies are satisfactory could be avoided.

2. Is it possible for the Nazis to maintain the health and morale of the German people under the present rationing system?

There are no signs of a break in morale due to hunger or even serious undernourishment in Germany. Present rations are adequate from the viewpoint of maintaining health, efficiency and morale.

In terms of physical requirements, the various groups of the population receive an adequate amount of calories and other essentials. The rations are adjusted to the different physiological needs of the consumer-groups, depending upon the nature of their occupations. In terms of pre-war consumption, the soldiers and workers engaged in hard physical labor actually receive larger rations now than they consumed before the war. The professional worker, business man and housewife bear the brunt of the restrictions in consumption. They receive much less than their pre-war consumption, both in quantities and in caloric content.

- 2 -

Division of Monetary
Research3. Will the Continent outside Germany starve this winter?

There need be no starvation if available supplies are distributed with a fair degree of equity. Central Poland, Belgium, and Spain will suffer widespread hunger this winter. A fairly adequate food situation is to be expected in Denmark, Switzerland, Holland and Sweden. But Finland and Norway will experience shortages in grains, meat and fats. The predominantly rural Danubian basin will have sufficient supplies for its own consumption — provided there are no forced exports to Germany. Italy and France will experience shortages in certain districts, due to deficiencies in the organization of food supply, inadequate transportation facilities, and food levies imposed by the Germans.

4. Would Germany's conquest of Russia solve the problem of the present European food deficiencies?

Early harvests of crops in Southern Russia have cheated the Germans out of this year's Ukrainian grains. These grains were, for the greater part, moved or destroyed before the arrival of the German armies, according to Russian reports.

5. Will intensified agricultural production on the Continent prevent a food shortage in 1942?

Undoubtedly the Germans will attempt to intensify agricultural production in all potential surplus areas. But these efforts cannot make Europe self-sufficient in 1942. More is to be expected in the short run from progress in the West than from the Danubian and North African areas.

The conquest of Western and Southern Russia would give the Germans a large surplus producing area which might be brought back to production within one or two years.

The development of all these supply areas will depend largely upon the progress of hostilities and the consequent margin provided to Germany for attention to problems of agricultural development, for production of agricultural machinery and fertilizers, and for maintaining the supply of agricultural labor.

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A. THE FOOD SITUATION IN GERMANY

Germany's food situation is not critical at the present time. There are no indications that it will become critical this winter.

The war has not as yet interfered seriously with agricultural production in Germany. The periods of active warfare have been brief. The drain on manpower has been slight, and mobilized manpower has been replaced in large part by prisoners of war. Through special government efforts, seasonal farm workers, fuel, fertilizers, and draft animals have been made available for the peak work of planting and harvest. Weather conditions during the present crop year have been moderately favorable.

German food rations have been maintained on a virtually unchanged level since the outbreak of war. Despite a 20 percent reduction in the meat rations introduced in June, 1941, the German people continues to be considerably better fed than it was in the last war. Soldiers, workers engaged in heavy labor, and children are particularly favored. Soldiers and heavy workers actually receive larger rations during the war than they consumed in peacetime. The normal consumers' wartime diet, however, is below peacetime standards.

1. Germany's pre-war deficiencies.

Germany has been a net importer of practically all important food-stuffs, her consumption being larger than her domestic production, in spite of persistent efforts to raise agricultural output. The major deficiencies in the German food economy were, and still are, fats and oils for human consumption, and oilcake, oilseeds and protein feed concentrates, which are of absolute necessity for livestock production. Germany's dependence on imported fats was however reduced from 52 percent of total demand in 1933 to 44 percent in 1939. Fully 93 percent of the German requirements of meats could, according to official statistics, be met out of domestic production. Of other protein foods, she produced 84 percent of her egg consumption and 71 percent of her fish consumption.

Among the protective and luxury foods produced within Germany, vegetables take first place. About 95 percent of the pre-war consumption was covered by domestic sources. About 86 percent of her fruit consumption was also domestically produced. Subtropical fruits, coffee, tea and cacao were wholly imported.

The Nazis paid particular attention to these deficiencies. They were successful in raising Germany's self-sufficiency in caloric requirements from 65 percent in 1927-28 to 83 percent in 1938. For the important sources of carbohydrates, bread and feed grains, potatoes and sugar, Germany had almost reached the goal of complete self-sufficiency in 1939.

At the outbreak of war, however, the German food economy had not reached the total self-sufficiency which the Nazis intended to achieve in the pre-war period. The limiting factors were not lack of time but the scarcity of new land which could be brought into agricultural uses and the costs involved in obtaining the additional labor and equipment which a further expansion of agricultural production would have required.

2. Wartime requirements.

By means of rationing and other direct controls, the Germans found it possible to shift consumption from protective and luxury foods and foods of less energy yield per unit of arable soil to foods with higher energy yield per unit of land. But the total food required by the population for health and efficiency during wartime is greater than during peace. Total caloric consumption in Germany has in fact risen, not fallen, since the rationing system went into effect.

The reasons for such a development are not difficult to see. During war the average working day is considerably extended; the nervous strain due to air raids is great; poor clothing, lack of fuel supplies, and destruction of houses put extraordinary strains on the physical and psychological conditions of the population. The needs of soldiers and of workers engaged in heavy physical work are considerably above their normal peacetime consumption. The only area in which it is possible actually to reduce caloric consumption is the group of sedentary workers, such as office, business and professional people, housewives, and other so-called "normal" consumers.

The following computation ^{1/} demonstrates both the shift from the relatively more expensive to the cheaper sources of energy and the increase in total caloric consumption during war. Caloric consumption is, of course, not the only criterion of food requirements but it is the most important single factor entering into the evaluating of the diet. It is, therefore, used here as a very rough indication of the general shift in requirements.

^{1/} Based on Frederick Strauss, Food Problem in the German War Economy, Quarterly Journal of Economics, May, 1941.

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The data for quantities consumed during war are based on present German rations, with the assumption that army rations go to five million soldiers, that there are 10 million workers engaged in extra heavy, and 10 million engaged in heavy physical work. Adjustments for night workers' and children's special rations have also been made. On this basis, it has been estimated that increased soldiers' and workers' rations have raised the requirements of bread grains and potatoes. On the other hand, requirements of fats, meats and milk have declined because of severe general restrictions of their consumption.

Germany's food and energy requirements in peace and war.

Germany's food and energy requirements in peace and war.					
	Requirements per year				Percentage change
	: Million tons		: 1000 billion calories		:in energy
	:	:	:	:	:requirements
	: Peace	: War	: Peace	: War	:during war
Bread grains	9.0	11.0	33	40	+ 21
Potatoes	12.0	17.0	8	12	+ 50
Meat	3.0	2.5	8	7	- 13
Fat	1.5	1.2	12	10	- 17
Milk	7.5	4.5	<u>5</u>	<u>3</u>	- 40
Total			66	72	+ 9.1

The remarkable aspect of the German food situation is that, so far at least, the additional requirements have been met in spite of war conditions.

3. Measures to increase Germany's self-sufficiency in foodstuffs.

The procurement of adequate food supplies, an important part of the Nazi war preparations, was attacked both from the producers' and consumers' side.

(a) Farm production program during the war.

Germany's wartime farm production program is a continuation of the "battle of production" of the past 6 years. Continued emphasis is placed on expansion of the oil-seed crops in order to alleviate the most crucial shortage, that of fats and oils. Other important points of the wartime farm program are further expansion of the root-crop acreage (potatoes, sugar beets, etc.), increased cultivation of vegetable and fiber crops, maintenance of a satisfactory feed and fodder basis for livestock, and maintenance of the dairy industry.

The Government has announced that it will pay a \$40 premium for each acre ^{1/} of hitherto unused meadow or grazing land that is plowed up and devoted to arable crops. It has issued an urgent appeal to farmers to reduce milk consumption on the farm by about two-thirds in order to increase the available supply of butter, and to preserve supplies of skimmed milk which has found considerable use in casein-fiber production.

The shortage of farm labor has been an acute problem throughout the "battle of production" period. Various pre-war measures were taken in order to prevent, and possibly reverse, the flow of labor from the rural areas to the city. But with hundreds of thousands of farmers drafted for military service since the outbreak of war, the problem has assumed serious proportions. Farm laborers were recruited in the countries under German control, particularly in Poland, Italy, the Netherlands and Denmark. The number of these foreign farm laborers is at present estimated at 1 to 1.5 million. Many of them were forced to work in Germany against their will.

Of those prisoners of war who are available for work, 92 percent were employed in agriculture in the summer of 1940, and 60-70 percent in 1941. The total number of employable war prisoners in July 1941, shortly after the invasion of Russia, was 1.3 million, according to German sources ^{2/}.

The prisoners are organized in "flying work details" which are serving several farms at the same time. They are placed according to a farm-labor priorities schedule.

The intensive cultivation of the German soil requires large quantities of fertilizers. Since the increased production program of the past years had previously depleted the soil of many essential plant nutrients, the immediate need for fertilizers is particularly great. But certain fertilizers are available in limited quantities only due to the cessation of imports. The most important fertilizer shortage is that of phosphate rock which was imported from overseas. There are possibilities that this fertilizer may be imported from French North Africa, from which Continental Europe received 45 to 50 percent of its requirements. Requirements of potash and nitrogen fertilizers can be satisfied out of German domestic production.

Mechanization of farm operations was encouraged throughout the period before the war. In view of the stringent farm labor situation, every labor-saving device was welcomed. Mechanical equipment was thus rapidly introduced in the pre-war years. But the mechanization of German

^{1/} 240 reichsmark per hectare.

^{2/} Deutsche Bank, June 30, 1941.

agriculture is definitely limited by the small size of the farm unit. The war has added difficulties in the supply of fuel and farm machinery. The production of farm equipment cannot successfully compete with that of war equipment in a war economy.

On balance, the possibilities of intensified agricultural production in Germany are limited by the lack of reserves in land, labor and the capacity of the machine industries.

(b) Consumption planning.

In view of Germany's definite limitations in food supplies, planning of her consumption was as necessary as the effort to increase production.

Under German conditions of climate, soil and technology, the productivity per unit of land in terms of calories is greater for vegetable products than for animal products. The transformation of grains and potatoes into animal products entails a loss of food calories. It was estimated that the following yields of food calories per unit of arable land are produced in Germany:

Yield of Food Calories per Hectare in Germany

From plant sources	Millions of calories
Sugar beets	16.5
Potatoes	9.0
Grains	5 - 6
From animal sources	
Milk	1.8
Pork	1.4
Eggs	0.5

Source: Hans v. d. Decken, *Verbrauchsstatistiken, Vierteljahrshefte zur Wirtschaftsforschung*, April 1, 1938

The Government has therefore tried to increase the consumption of vegetables and to reduce the consumption of animal products. The effects of this effort became apparent in a survey of working class food consumption made in 1937. Comparison of these figures with a similar survey made in 1927 revealed an increase in consumption of bread by 3 percent, of potatoes by 7 percent. The consumption of meat declined

by 16 percent, that of all fats combined by 7 percent, of milk by 20 percent. Thus the diet of the German workers was not only following the lines of greatest efficiency with respect to calorie yield. It was also gradually approaching the wartime diet which was ultimately established by decree in form of a rationing system.

(c) The rationing system.

The German system of rationing is based on the differential physiological requirements of various consumer groups. Soldiers and workers engaged in heavy physical work receive the largest rations, while the group of "normal" urban consumers, composed of office workers, professional people, business men, housewives, students, unemployed old people, etc., obtains the smallest quantities. "Heavy" workers and workers engaged in night or regular overtime work make up the intermediate groups. Self-supplying farmers enjoy special privileges. Their food consumption is less strictly controlled, chiefly because a complete rationing system would meet with administrative difficulties in the rural areas. Children and adolescents receive special additional rations of certain foods, particularly milk.

Though the classification of the German population into consumer groups is officially based on physical requirements, the Nazis have used it to dish out favors by promotion, and to discriminate against "inferior" groups. When the first basic change in rations was announced in May 1941, one of the justifications given was that the number of hard, very hard and overtime workers had increased by several millions ¹/₂. The larger rations that went with the increase in the number of privileged consumers were an excellent means of bolstering morale. William Shirer, the American newspaper correspondent, reports that foreign correspondents received very hard labor allowances ²/₃. On the other hand, Jews receive special ration cards and are restricted as to the number of stores in which they may buy and the hours at which they may conduct their purchases. They receive smaller quantities and are frequently excluded from the additional allowances given to the rest of the population.

The food rations during the first 18 months remained remarkably stable. The changes made since then were not significant, with the exception of a 20 percent cut in the meat ration, which became effective on June 2, 1941. There have been seasonal fluctuations in the available amounts of certain foods such as butter, eggs, vegetables, fruits. The butter ration was increased in the summers of 1940 and 1941, but at the expense of the margarine rations. The total fat ration remained the same.

¹/ New York Times, May 16, 1941.

²/ William Shirer, Berlin Diary.

The quantities assigned by rationing do not represent actual consumption of the rationed commodities by the various population groups. There are, at times, special additional rations of certain foods of which there is a temporary or seasonal surplus. Fruits, butter, meat and milk are, at times, given out in larger than the basic amounts. On the other hand, rationed quantities are not at all times available at the retail stores.

Comparison of present rations with the pre-war consumption level of the German worker of the low-income group ^{1/} shows that soldiers and workers are better fed now than the low-income workers before the war. Their bread and potato consumption is larger now than it was before the war. Soldiers and extra heavy workers receive larger fat rations and almost the same meat rations as they were used to consume previously. In terms of calories their present food consumption contains about as much energy as they used to consume before the war.

On the other hand, the increased consumption of bread and potatoes has introduced a lack of variety and palatability into the diet. And in view of larger physiological requirements during war, the present food consumption of the preferred groups does probably not exceed their actual needs. But there is no indication that the members of the preferred groups suffer privations which would lower their morale and efficiency.

The normal urban consumer suffers the most serious deficiencies in his diet. He received 9 percent less bread, 47 percent less meat and 37 percent less fat than the low-income worker of 1937 (who represents roughly the lower third of the working class income receivers of 1937). Since the urban "normal" consumers on the average belong to a considerably higher income group than that of the low-income worker of 1937, their food deficiencies in terms of pre-war consumption are much more serious than these figures indicate.

In the following table comparisons between present rations and the pre-war consumption level of the low-income worker are given. In the German study on workers' budgets and consumption in 1937, the consumption unit was a household composed of 4.1 persons including children. In order to achieve comparability, the household consumption is divided by 3, assuming that it corresponded to that of 3 adults.

If morale is affected by deprivations in the diet measured in peacetime standards, the morale of the German workers engaged in heavy physical work and of soldiers probably does not suffer. How does the present German diet compare with generally recognized physiological standards?

^{1/} Wirtschaftsrechnungen von 350 Arbeiterhaushaltungen, 1937,
Wirtschaft und Statistik, April 1939, p. 323.

Weekly Food Consumption in 1937 and in July and August, 1941
Quantities in grammes

Rations July and August, 1941											
1937		Normal Consumer		Long & Night Worker		Heavy Worker		Extra Heavy Worker		Soldier	
% of		% of		% of		% of		% of		% of	
Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:	Workers' Ration:
Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:	Consumption:
tion		tion		tion		tion		tion		tion	
Bread, flour	2,742	2,250	82	2,850	104	3,650	133	4,650	170	5,250	191
Farinaceous foods	96	150	156	150	156	150	156	150	156		
Meat	756	400	53	600	79	800	106	1,000	132	1,260	167
Fats	406	269	66	289	71	394	97	738	182	525	129
Sugar	308	225	73	225	73	225	73	225	73	420	136
Marmalade or sugar		40		40		40		40			
Milk	237	—		—		—		—		500	211
Cheese	96	62.5	65	62.5	65	62.5	65	62.5	65	350	365
Eggs (no.)	1.6									3.5	219
Potatoes	3,390									8,050	237
Vegetables	754	Not rationed but available in limited quantities only.								(2,100	180
Fruits, nuts	415										
Fish	140									480	342

- 1/ Data for soldiers' rations are not published during wartime. The following weekly consumption data for soldiers in active wartime duty were published in 1939, but are probably still in force. Soldiers' diet from Kittel, Schreiber, Ziegelmayr, Soldatenernaehrung, 1939.

Does the German consumer receive enough energy, proteins, fats and vitamins to retain health and efficiency?

Energy requirements.

The energy requirements of man vary considerably with total physiological make-up, age, type of work of the individual. However, a certain basic requirement for the maintenance of health can be established.

In the following table, the present German rations are compared with the energy requirements as they were established by the Health Organization of the League of Nations ^{1/}, and accepted by the United States Department of Agriculture ^{2/}.

Daily Energy Requirements Compared with
Calorie Content of Rations

Individual:	: Basic : energy	:Supplementary allowance: :No. hours:No. of calories:	: Total : energy	: Energy : supplied	:Energy de- :ficiency
Adult man	:allowance:	: worked : : per hour	: allowance:	:by ration:	:of ration :in percent
Type of work:					
Sedentary	2,400	0	-	2,400	-
Light work	2,400	10	35	2,750	1,916 31
Moderate work	2,400	10	75	3,150	2,312 27
Hard work	2,400	10	150	3,900	2,857 27
Very hard work	2,400	8	300	4,800	3,885 19

In comparing the caloric energies derived from rations with the total caloric needs, an important qualification must be made: non-rationed foodstuffs, such as potatoes, vegetables, fish and eggs made up about 20 to 25 percent of the caloric sources in the pre-war diet ^{3/}. We must allow for a decline in the consumption of these non-rationed foods, since they are no longer available in pre-war quantities. We assume that only 15 to 20 percent of additional energy is derived from them.

^{1/} League of Nations, Health Organization, Report by the Technical Commission on Nutrition on Work of Third Session, Bull. 7 (1938), p. 502.

^{2/} U.S. Yearbook of Agriculture, 1939, p. 152.

^{3/} Hans v.d. Decken, Vierteljahrshefte zur Wirtschaftsforschung, September 1937, p. 180; April, 1938, p. 419.

On balance, the energy deficiency of the "normal" consumer is, therefore, 11 to 16 percent, that of the moderately and hard working person, 7 to 12 percent. Only extra-heavy laborers receive a supply of calories which corresponds to their needs. Compared with the German optimum standards, which were set up by a commission of German nutrition experts, actual caloric consumption is insufficient.

Whether the energy deficiency will seriously impair the health of the German people, cannot be predicted with any degree of definiteness. That serious deficiencies are already in existence is apparent from the above calculations.

Proteins and fats.

There is much greater uncertainty as to protein and fat requirements than as to caloric needs. In the following table, British ^{2/} and German ^{1/} standards are compared with actual rations in Germany.

Consumption and Requirements in Proteins and Fats (in grammes)

	Adult Man	Proteins	Fats
Physiological needs	German standards	70 - 80	50 - 70
	British standards	68	75
Wartime rations	Normal consumer	50	38
	Heavy worker	79	56
	Very heavy worker	100	105

The comparisons indicate that from a physiological point of view the heavy and extra heavy workers receive sufficient quantities of proteins and fats in their diet, while the normal consumer is below standards with respect to both proteins and fats.

Both in protein and fat consumption there exists a large tolerance. Diets with very small fat content but sufficient in carbohydrates may be satisfactory from a physiological viewpoint though they are coarse and unpalatable.

- ^{1/} Hans v.d. Doeken in Vierteljahrshefte zur Wirtschaftsforschung, September 1937, p. 180; April, 1938, p. 419.
- ^{2/} John Boyd Orr, Food, Health and Income, London, 1936. Also: Article on Diet in Encyclopaedia Britannica.

Vitamins.

The vitamin deficiency of the German war diet has been recognized by the Nazis as a serious menace to health. Professor Wirtz of the Central Office for Public Health of the National Socialist Party has shown that the diet of the average German fills less than half of the vitamin C needs of an adult.

In order to forestall injurious vitamin-deficiency effects, the German authorities are distributing synthetic vitamin preparations to certain consumer categories which are most likely to be affected by the lack of vitamins, such as miners, pilots and soldiers. Berlin school children were fed large quantities of vitamin preparations in the winter 1940 and 1941.

The social effects of rationing; bootleg food.

The German food rationing system has led to a significant levelling out of food consumption between the various income groups. Rationing has reduced the consumption of the upper brackets most severely, since here the restriction of former consumption habits was most pronounced. On the other hand, scant as the rations may appear from the viewpoint of the upper income classes, they have brought about actual increases or at least no reductions in the consumption of the lower and lowest brackets.

It is difficult to determine what extent the bootlegging of food outside of rationing has assumed. According to reports of the American diplomatic representatives in Berlin ^{1/}, there is less bootlegging in this war than in the World War, because of much closer supervision, a more refined system of checks on producers' deliveries, and the draconic penalties which the Nazis are accustomed to impose on evaders of their controls.

This does not mean that there is no illicit trade whatever, particularly since Nazi officials are known to be easily bribed. But apparently the quantities which are illicitly traded, do not add up to considerable amounts.

^{1/} Annual Economic Review - Germany 1940, March 24, 1941.

B. THE FOOD SITUATION IN OTHER CONTINENTAL EUROPEAN COUNTRIES

Germany's political and military domination of the Continent has assured her a preferred position with respect to food supplies. The Germans are receiving better nourishment than most other peoples on the Continent, with the exception of the Swedes, the Danes and the Swiss. Such reserve stocks in other countries as were not looted by the invading armies, as well as currently accruing surpluses, are now largely shipped to Germany. The German army of occupation lives on local supplies in the occupied areas, thus relieving the domestic food problem in Germany, and aggravating the food problem of the subject country. Shipments to conquered and neutral territories are few, and seem to occur only when starvation is imminent, or as part of a particular political strategy, as in the case of France.

The situation in countries with large agricultural populations is much more favorable than that of urban industrial areas. Food deficit areas, such as Belgium, Poland, and Norway, have at times experienced serious local shortages. The countries which normally have a food surplus suffer greatly from the lack of transportation, shortage of labor, feeds and equipment.

Before the war, Continental Europe imported a moderate percentage of its grain and sugar requirements. Imports in oil-cake and vegetable oils were heavy. The Continent had small export surpluses in meat, butter, cheese and eggs, most of which came from Holland, Denmark and Sweden. These surpluses went exclusively to Great Britain. Exports of animal products were entirely dependent upon imports of oil-cake and vegetable oils. Without the vegetable oil imports, Continental Europe would have been a net importer of all of these animal products. It was self-sufficient only in potatoes, fish, milk and various vegetables.

The following table gives a picture of the deficiencies and surpluses of food materials in pre-war Continental Europe.

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Peacetime import and export surpluses, Continental Europe, average
for 1936 to 1938 (- indicates export surplus)

Product	Million Tons	Percent of Peacetime Consumption
Grains	8.3	6.7
Oil-cake	4.7	87.0
Vegetable oils	1.7	63.0
Sugar	0.6	9.1
Potatoes	- 0.2	- 0.1
Meat	- 0.1	- 0.8
Butter	- 0.2	- 13.3
Cheese	- 0.1	- 6.7
Eggs	- 0.1	- 4.3

Source: Hans v.d. Decken, Intensivierung der deutschen Landwirtschaft,
Vierteljahrshefte zur Wirtschaftsforschung, April 21, 1941.

With the outbreak of war, a major part of these imports became inaccessible. While some countries, particularly Germany, foresaw the emergency which the war would bring, and prepared for it by building up reserve stocks and mapping out a rationing system, other countries were caught unawares. Today every European country has established a system of rationing and control of agricultural production.

It has been shown in the case of Germany that the carbohydrate deficiency was relieved by diverting grains and potatoes from animal feeds to human consumption. Fat and oil consumption was reduced at the same time by about 20 percent, milk consumption by 40 percent, meat consumption by 17 percent. The energy value of German food consumption was thereby increased by 9 percent, though the diet was made less attractive. Similar shifts have taken place in most other Continental European countries. Their food problems are briefly considered in the following:

Italy's present food situation presents a highly unsatisfactory picture, though she normally has a sizable degree of food self-sufficiency, estimated at 94 percent on a calorie basis. Distribution appears to be less efficiently organized than in Germany. The army must live largely on home supplies. Precautionary reservation of stocks for the armed forces and for future contingencies is cutting deeply into the flow of food supplies to civilians. The accumulation

of reserves before Italy's entry into the war had never assumed a large scale. There have also been indications that certain foodstuffs vital to the Italian diet are being exported to Germany in quantity.

Recent reports have indicated low rations, high prices, inequitable distribution, and a very unfavorable food position in some regions, with resulting popular discontent. Meat is particularly scarce. Regular general meat rations now average about 1.4 ounces per person per "meat day," or about 2.8 ounces per person per week. Reports regarding this year's wheat crop were conflicting. An early estimate placed the crop at 268 million bushels, or about the same as in 1940. Other observers believe that the crop fell below that of 1940. But even in the case of Italy it is unlikely that total available food supplies will be reduced to dangerously low levels in the near future.

Italy has a complete control over grain production, which extends to all supplies whether produced in Italy or imported. Beginning with the 1941 harvest, producers must declare to local authorities, within 10 days after harvesting, the total quantities of the various grain crops. At designated dates all crops must be delivered to collection centers, except for a certain allowance for the producers' own needs. This allowance is determined by the control authorities.

In Switzerland, as in all other European countries, a rationing of foodstuffs has been necessary. However, the 1941 outlook for domestic crops was quite good, especially in cereals and potatoes. A large increase in the cultivation of potatoes was necessary because of compulsory admixture of potato flour in wheat bread, and because of the partial substitution of potatoes for grains in feeding livestock.

The Swiss livestock had to be reduced to the smaller fodder basis. A further reduction, already perceptible in a drop of milk production, appears to be necessary. Further shrinkage is expected in the fall.

The purpose of the reduction in livestock is the preservation of the present fodder supplies, and a more extensive usage of grazing land for the cultivation of grains and root-crops.

Since the Swiss cannot possibly exist without some imported supplies, it was necessary for them to enter into negotiations with both Germany and Great Britain with respect to imports. In a Swiss-German agreement of September 20, 1940, arrangements for merchandise movements between Switzerland and Belgium, the Netherlands and Norway, to be conducted under German supervision, were made. A similar arrangement for the movement of commodities between Switzerland and Germany proper was reached at the same time.

In October a British-Swiss agreement was reached, designed to alleviate Swiss trade difficulties due to the blockade without aiding Germany or Italy. The British agreed to issue navicerts and export licenses for certain commodities which cannot benefit the enemy, provided that the stock of these commodities held in Switzerland does not exceed a 2 months' supply. The Swiss have chartered a number of Panamanian boats to facilitate such imports.

Present food conditions in Belgium, Norway, and to a lesser degree, the Netherlands, are unfavorable. Their prospects hold out little hope for substantial improvement. Rations are lower than in Germany. Transportation difficulties are acute. Widespread industrial unemployment — with resultant reduction in buying power — and high prices further aggravate the problem of equitable food distribution. In all these countries, Germany's requisitions of food, particularly of reserves, have intensified the existing problems.

Conditions in Belgium are critical, since the country is heavily dependent on imported foods and feeds. Without intensive imports, Belgium must remain greatly deficient in fats, bread grains, and meats. The country's position has been aggravated by the military occupation, since a large number of German troops subsist on local stocks and supplies.

With the cessation of feed-imports, the domestic fat supplies are expected to cover not more than one-third of the normal requirement. There will probably be no immediate shortage in meats since forced slaughter has increased reserves. The total grain crop of the country in normal times could only cover about two-thirds of consumption, not taking into account the amounts fed to livestock.

In view of the scarcity of supplies, Belgian rations, particularly those of the urban consumers, are extremely scanty. The rural population is slightly better off.

The Netherlands are suffering from curtailed consumption of meats, fats and sugar. Both the dairy and meat production of the country are adversely affected by the lack of imported feeds and a shortage in feed grains. Food reserves were accumulated before the war, but were largely shipped to Germany. However, Holland's food position is not nearly as critical as that of Belgium or Norway. Norway's food position is very unsatisfactory. Basically, the country depends on imports for about four-fifths of its bread grain consumption. Under conditions of blockade and German occupation, even such typically native products as fish are no longer available to the Norwegians in unlimited quantities. The whaling industry, an important source of oils and fats, has practically ceased operations.

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The war in France, with its disorganization of agriculture, industry, and transportation, has created a serious food situation. The existing barrier between the occupied and unoccupied zones has added to its severity, as normally the two zones complement each other and the occupied zone is by far the more productive. German requisitions of food, livestock and draft horses have intensified the country's difficulties. Large numbers of farmers and farm workers are prisoners of war in Germany, while others have fled to the unoccupied zone.

Under these conditions, the reconstruction of French agriculture has made little progress. Supplies from French Africa, particularly important in regard to grain and vegetable oils, are received only in small quantity and are partly reexported to Germany and Italy. The problem of fats is serious. There may be some relief of the food situation from the 1941 harvest, since the basic producing capacity of French agriculture is large, and a higher crop production, compared with 1940, is expected for 1941. A certain exchange of produce between the two French zones now seems to be provided for.

The French food situation has been aggravated by enforced deliveries to Germany. Continued deliveries of foodstuffs from France to Germany are expected for the coming winter season, according to statements of French officials,^{1/} unless Germany can obtain adequate supplies from Russia.

The picture in the Scandinavian countries shows considerable differences. Denmark's and Sweden's food situation is the best in Continental Europe, in spite of heavy exports to Germany. Norway and Finland suffer much from their loss of imports.

Denmark should be in a position both to feed its people at a relatively satisfactory standard and to produce some genuine surpluses of livestock products for export. Similarly, the situation in Sweden, despite an unfavorable 1940 crop, promises to remain fairly satisfactory, since the country is almost self-sufficient in foodstuffs, except fats. Both Denmark and Sweden should be able to feed their people adequately, unless there should be forced exports due to German pressure. Finland at present reports a considerable deficiency in fats, meat, bread grains, fruits and vegetables. Particularly in bread grains, Finland expects a deficiency of 43 percent of her needs for 1941. Although some improvement may be expected during the new crop year, deficiencies in all essential foodstuffs will remain unless they are relieved by imports. Fats will remain a serious problem.

^{1/} Cable from American Embassy, Vichy, August 16, 1941.

The food situation in Portugal will depend largely on the extent to which this country will be permitted to import supplies. Portugal has so far been able to continue her imports and to maintain her consumption close to the pre-war level.

Spain, on the other hand, is today perhaps the hungriest country in Europe. The weekly bread ration in Spain is 43 ounces, but very often even this minimum quantity is unavailable. The weekly bread rations of 56 ounces in Belgium, 59 ounces in France (occupied and unoccupied), 80 ounces in Denmark, 85 ounces in Germany, are large in comparison with those in Spain--and in no other country does the diet today consist so largely of bread.

The severity of the food shortage in Spain was partially relieved by imports of wheat and corn from Argentina this spring. A fairly plentiful supply of spring vegetables and fruits could somewhat make up for the general shortage in grains. Towards the end of June 1941, potatoes, eggs and meats were distributed in fair quantities. However, food prices in Spain are still very high. The wage earning classes in the cities find it frequently impossible to purchase the small quantities stipulated by their ration cards at the established official prices. Exorbitant bootleg prices have placed many commodities beyond their purchasing power. On the other hand, the wealthy classes have found little difficulty in supplying their food needs.

Conditions in the Danubian countries have been unfavorable throughout 1940-41, due to reduced crops in 1940, mobilization, civil strife (Rumania), and pressure on the part of the Axis powers for exports. Food prices have risen considerably. Conditions in 1941-42 in Hungary, Rumania, and Bulgaria may improve, but surpluses of grain and livestock products are likely to remain below normal. Such surpluses will, to a considerable extent, be consumed locally and by the German Army. No improvement is to be expected in the Yugoslav situation, because of military operations and expulsions of large numbers of Serbian peasants from the northern surplus-producing areas.

C. PRESENT SUPPLIES AND OUTLOOK FOR 1941-42

During the crop year 1940-41, it has been necessary in all countries of the Continent to draw on reserve stocks accumulated before the war to maintain rations. There is no indication that the harvest of 1941 will bring a substantial increase in available quantities of food-stuffs. Reserves will have to be depleted further if rations are to be maintained.

- 20 -

Division of Monetary
ResearchGrains.

Official data on the results of the European harvest in grains have not been published recently. We must therefore rely on estimates of non-official observers for information on present supplies and the outlook for 1941-42.

According to recent reports from Berlin ^{1/} and forecasts of the United States Office of Foreign Agricultural Relations ^{2/}, the aggregate production of grain on the Continent in 1941 will probably be slightly larger than that of 1940. But since the 1940 wheat crop of the German-controlled area was exceptionally poor (roughly about 18 percent below the 1939 level ^{3/}, the increase in 1941 still leaves grain production below the pre-war level.

Bread Cereals: Production in Continental
Europe, excluding U.S.S.R. in million
bushels

	1933 to 1937 Average	1939	1940	1941 Expected
Wheat	1,439	1,562	1,175	1,350
Rye	755	824	660	725

Source: Foreign Crops and Markets, May 26, 1941

In a fairly normal year such as 1937 the European Continent consumed roughly 10 percent more in total grains than it produced. Since both the 1940 and 1941 crops were below the pre-war standards, Europe will have to rely on previously stored reserves in grains if she wants to maintain her present bread-rations. It has been previously pointed out how small the present bread-rations are in some of the grain deficit countries, particularly Spain, Belgium and Norway.

^{1/} New York Times, July 7, 1941.

^{2/} Foreign Crops and Markets, May 26, 1941, page 773.

^{3/} Wheat Studies (Stanford University) January 1941, page 224. Official German reports referring to Greater Germany admitted a mere 2 percent decline over 1939. The New York Times estimate (July 7, 1941) was a 10 percent deficit in comparison with the 1939 harvest.

More detailed data on bread grain production and reserves are available for Germany. The present German ration of 85 ounces of bread per week for normal consumers can probably be maintained throughout the winter. Present reserves are ample to satisfy Germany's needs at least until the end of 1941, and possibly until the middle of 1942.

Germany's total bread grain production in 1940 was estimated at about 400 million bushels. After deductions from this total for quantities fed to livestock, the amount available for human consumption was about 315 million bushels. The German and Austrian total requirements in bread-grain consumption are about 425 million bushels; thus a deficit of 110 million bushels was created before the 1941 crop came in.

At the beginning of the crop year 1940-41, the available German bread-grain reserves were estimated as exceeding 220 million bushels. The deficit of 110 million bushels could therefore easily be met out of the reserves, with a carry-over of at least 100 million bushels at the beginning of the crop year 1941-42. The recent reduction of the percentage of wheat-flour and the admixture of corn and potato flour in bread will further stretch existing supplies.

The decline of wheat production in 1940 and 1941 below the average of the pre-war level led to an important change in the composition of bread rations in Germany during April and May 1941. While before that date the consumer was entitled to purchase either wheat or rye bread at his option within the total ration, a certain percentage of the total ration now must be rye bread. This rule was applied on a regional differential basis, granting a larger portion of wheat to consumers in the large cities and in urban and rural parts of Southwestern Germany. The zones were chosen on the basis of pre-war consumption habits.

Another sign of the relative shortage in bread grains was the strict penalties meted out to farmers who fed more bread grains to cattle than they were permitted by regulations. The sentences received wide publicity. Such measures would not be taken against the farmers, who are important in the war effort, if the shortages were not serious.

Total available bread-grain supplies will meet German needs presumably until the 1942 harvest comes in. After the middle of 1942, domestic production and available imports will fall short of the requirements, unless Russia can furnish large supplies and the production of grain in Southeastern Europe can be increased. But both of these possibilities are rather unlikely to be realized. Thus the bread-grain outlook is not bright for a war lasting beyond 1942.

Potatoes and sugar.

Potatoes and sugar beets are, to a certain extent, supplementary to bread and feed grains in both human and animal nutrition as alternative sources of carbohydrates. Their 1940 production in Continental Europe reached record levels, but for 1941 a somewhat smaller crop is expected. Consumption of potatoes and root crops has increased considerably above pre-war levels, since in many countries of the Continent potatoes are the only important non-rationed staple food with which the relatively small rations can be supplemented. In addition, potatoes and other root crops have become of increasing importance as livestock fodder. The incorporation of Austria, Czechoslovakia and Poland has increased the potato crop acreage of Greater Germany considerably, but none of these countries in pre-war years had a substantial export surplus in root crops.

The sugar beet crop of 1940 was excellent. With the Eastern European beet sugar areas, Germany will not face any sugar shortage in this war. Apart from securing an adequate operation of the sugar factories, the record sugar beet crop has permitted the use of a larger portion of the crop for manufacture of sugar beet flakes and other fodder which has been gaining in importance in the German feed balance since 1933. The German sugar beet acreage has doubled since 1932. It not only provides more sugar, but each acre yields from five to eight times as much cattle feed as it would if sown to grain. Recently, the sugar feed basis has been further improved by artificial production. German and Scandinavian plants are producing artificial sugars from chemically treated wood pulp on a commercial scale. Since Europe has rich timber resources, the raw materials of this process are abundant.

Fats and oils.

The fat problem is undoubtedly the weakest link in the German food economy. How serious the fat problem is may be illustrated by a few figures compiled by experts.

Karl Brandt, formerly director of the Agricultural Marketing Research Institute in Berlin, believes that before the war the "fat gap" was around 60 percent of national consumption of fats ^{1/}. This figure includes indirect imports in the form of feeds. The Commercial Attache of the American Embassy arrived at a similar result ^{2/}. Omitting indirect imports in form of feeds and taking into account direct human requirements only, he stated that only 52 percent of the total German fat consumption was derived from domestic supplies. The gap was 48 percent, if the indirect needs in form of feed concentrates are not included.

Since the blockade prevents further imports of oilseeds, whale oil and tropical fats, the gap must have widened. At the outbreak of war,

^{1/} Karl Brandt, *The German Fat Plan and Its Setting*, page 220.

^{2/} "Annual Economic Review - Germany 1939", page 24.

But it is not likely that the fat gap can be closed even by these measures. The shortage is one of animal fats for which vegetable oils are not a complete substitute. The extension of the oilseed area is therefore only of limited value. Livestock is a competitor for foodstuffs needed for human consumption, particularly bread-grains, potatoes and root-crops. Whether or not the increase in hog production can be sustained, is therefore dependent on the total food situation. And while the diversion of whole milk to butter production, the emergency slaughter and the unexpected supplies from the conquered areas may have provided temporary relief in the fat situation, the outlook is not good.

Dairy products 1/.

While the present situation in dairy products is rather good, a shortage in the winter of 1941-42 is indicated.

The butter rations in Germany have actually increased since the beginning of war, indicating that the Government had accumulated a large reserve stock. Starting with .08 kg. in September 1939, rations for normal consumers were increased to 0.112 kg. on October 18. Further increases were granted on June 2, 1941 and announced for July 27, 1941. At the same time, however, milk consumption was reduced and finally restricted to use for children only. Margarine and other fats were restricted in proportion to the increase in the butter ration, so that the total fat ration remained the same.

However, the continued shortage of oilseed and cake has led to some forced slaughter of milk-cows in Germany, Denmark and the Netherlands and will probably lead to more in the coming months. What the effect of the German drive for a greater domestic oilseed production for the dairy industry will be, cannot yet be predicted.

Denmark in particular will reduce the number of milk-cows by 6 to 13 percent of the July number this summer, because of the feed shortage. Butter production declined by 9 percent in 1940 as compared with 1939. The Danish butter exports of 1940 were 28 percent less in 1940 than in 1939. Practically the entire export went to Germany. Exports in 1941 are expected to continue declining. In the first quarter of 1941, the butter exports were 59 percent less than in the corresponding months of 1940.

A similar decline of dairy production occurred in the Netherlands, prior to the war the largest European exporter of dairy products. The number of milk cows in 1941 was reduced by almost 20 percent over 1940. Holland is today rationed in the consumption of butter, milk, cheese, and fats. The fat and butter rations are below the German levels.

1/ Foreign Crops and Markets, June 23, 1941.

Meat.

Before the war, the European Continent produced sufficient meat supplies to meet its own needs. But this self-sufficiency was largely based upon imported feeds. Today it is more important to make the grain stocks available for immediate human consumption than to convert them into meats, fats and milk.

A good deal of forced slaughter has taken place in Denmark, Belgium, Holland and France. Chicken flocks in Denmark have shrunk from 15 to 7 million, in Holland from 28 to 20 million. Hog populations were reduced in a similarly drastic fashion. Denmark exported the slaughtered hogs to Germany, while Holland and Sweden cannot park for reserves. However, the chicken flocks and hog populations can be restored relatively easily after the war, as soon as feeds are again plentiful.

Cattle herds have also been reduced, but in much smaller proportions. According to Karl Brandt's estimates, the reduction of the European cattle stocks has not yet seriously impaired its reproductive capacity. "Up to date nothing has occurred which would indicate any dangerous depletion in this great capital asset of Europe" ^{1/}. Even the reduction by 18 percent of Holland's cattle stocks is not considered critical by Brandt. At any rate, the slaughter is not a loss in food supplies since it will increase available meat reserves for a long time to come.

On balance, the total European meat situation is not serious, though rations are small. Though Germany has recently found it necessary to cut her meat ration uniformly by 20 percent, a further reduction is not expected at this time. Present available reserves seem satisfactory, and the future productive capacity of the livestock herds is not yet seriously impaired.

D. THE DEVELOPMENT OF POTENTIAL SUPPLY AREAS

Though Germany's conquests have opened a number of potential supply areas such as the Danubian basin, Poland, and French North Africa, it is doubtful whether the production of these areas can substantially influence the food supply situation in the next two or three years. Even the conquest of the richest of all existing European food supply areas, the Ukraine, will not relieve the deficiencies of the present situation, though it may have some effect a year hence.

Their pre-war level of surplus production was not sufficient to meet the food deficits of the Continent. Intensification of their present production may possibly relieve the deficiencies in the long run, but it cannot solve the immediate problem.

^{1/} Karl Brandt, How Europe is Fighting Famine, Foreign Affairs, July, 1941, page 806.

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1/ Karl Brandt, How Europe is Fighting Famine, Foreign Affairs, July, 1941, page 806.

At their pre-war level of agricultural production, the Danubian Polish and North African areas were net exporters of grains, both for human consumption and feeding purposes. But their combined net exports in a typical pre-war year, 1937, covered only 39 percent of the total net imports of the whole Continent (excluding Russia and the Baltic) in grains. Poland and North Africa were net importers of vegetable oil, while the surplus of vegetable oil of the Danubian countries was insignificantly small. It must be remembered that war conditions have even increased the present grain requirements of the Continent beyond the net import quantities of 1937.

Net imports of grain and vegetable oil to Continental Europe
and net exports from surplus producers, 1937

	Grains	Vegetable Oils
	(- indicates net imports)	
Continental Europe	- 11,628	- 1,845.2
Danubian countries	4,215	0.2
Poland	315	- 17.9
Soviet Russia	1,351	-
North Africa, excluding Egypt	50	- 31.8

Based on International Yearbook of Agricultural Statistics,
1938/39.

The Danubian basin

Of the potential supply areas, the Danubian basin is the most promising. For the immediate future, the ability of the Danubian countries to adjust themselves to war-time production is of considerable importance for the German war economy. Crop conditions, the extent to which domestic consumption can be cut, the efficiency of the transportation system and the effects of the military operations upon farmland and equipment will be the determining factors. Intensification of production in the Danubian countries must be considered a long-run project, however. At the present time, their output per unit of land is less than that of any other Continental country with exception of Spain.

Poland

Similarly, Poland is a potential surplus producer of certain agricultural commodities, particularly bread and feed grains, potatoes, sugar beets and hogs. The pre-war grain export surplus was small,

only about 315 million metric tons in 1937, 416 million in 1938. German agricultural experts claim that an increase in production area of a mere 20 percent could raise the surplus to more than $2\frac{1}{2}$ times this figure $\frac{1}{2}$, sufficient to cover a large part of Germany's import deficit in grains. On the other hand, Poland is a net importer of maize, rice, oil seeds, fats and fish. The import needs in oil are the most important item; on their maintenance, the Polish hog and cattle production is dependent. On balance, the Polish agriculture may be of promise as a surplus producer if intensified and made independent of oil-seed imports by domestic oil-seed production. But it cannot overcome the immediate shortages which will develop in the Continental food economy in the coming winter and in the next year.

The following table summarizes the present conditions of agricultural output per unit of land in the highly developed and in the potential supply areas of Continental Europe. It suggests that the Danubian countries and Poland could probably be made much more productive in the long run, if brought to the Western European level of farming technique:

Output per hectare, in quintals, average over the last
years preceding the war

	Wheat	Rye	Potatoes	Sugar Beets
Belgium, Denmark, Holland	29.1	21.8	191	336
Germany, Sweden	23.0	18.7	159	315
Bulgaria, Hungary, Poland	11.8	10.6	90	206
Yugoslavia, Rumania	9.6	9.0	60	167

Source: Hans v.d. Decken, *Intensivierung*, Vierteljahrshäfte zur Wirtschaftsforschung, April 21, 1941.

Recently, Professor Wagemann, Director of the German Institute of Business Research, has discussed the question of intensified production on the Continent in the German press $\frac{2}{2}$. If all of the European countries, particularly Poland, Rumania, Yugoslavia and Spain, could be brought to the level of agricultural production prevailing in Germany, the Continent would at least be able to support its present population even without Russia.

$\frac{1}{1}$ H. v.d. Decken, in Vierteljahrshäfte zur Wirtschaftsforschung, December 22, 1939.

$\frac{2}{2}$ New York Times, August 14, 1941.

He admitted, however, that an improvement of agricultural techniques in Eastern and Southeastern Europe to the German level is highly problematical. Mechanization of agriculture at this moment would compete with the demand for war equipment and chemicals. Europe's industrial capacity could not satisfy both of these demands at the same time. Furthermore, fuel stocks are limited. There are very few reserves which could be used for mechanized agricultural production. Nor does the farming population of the European East and Southeast have the skill or the educational facilities to operate a modern mechanized agriculture successfully. It would require years of peaceful development to reach the level of farming technique which, in Professor Wagenmann's own estimate, is the condition of future European self-sufficiency.

North Africa

The inclusion of French North Africa and Libya (but not Egypt) in the German orbit has proved to be disappointing from the viewpoint of agricultural imports. North Africa was a net exporter of grains, meat and a few semi-tropical products in 1937 and 1938. But in vegetable oils she imported more than she exported in these years. Both export surpluses and import deficits of North Africa in the past were too insignificant to affect the European food situation materially.

A long-range development of the whole African Continent would, of course, present a different picture. In a recent publication ^{1/}, devoted entirely to the potentialities of Africa, German experts have calculated that it would be possible "without difficulties" to raise the African grain export surplus from 27 million bushels to 270 million bushels, which approximately represents the Continental grain deficit. "Particularly favorable conditions prevail for oil-products, meats and animal products, . . . but the development of the African reserves requires labor, time and money."

It should be noted that this alluring prospect of an intensified agricultural development refers to the African Continent as a whole, not just to North Africa.

Western Europe

Thus, since intensification of agricultural production in the Eastern and Southeastern areas offers only limited possibilities in

^{1/} Halbjahresberichte, Institute for Business Research, May 21, 1941

the short run, more reliance must be placed on the intelligence and equipment of the farmers of densely populated countries like Belgium, Holland, Germany, Denmark, Switzerland and France, particularly since the war caused remarkably little destruction of farms, livestock and implements in the West.

An expansion in the West would, of course, depend to a large extent on the degree of collaboration offered by the populations of the Western countries. One sample of it comes from Vichy, via Berlin 1/. Mr. Lehideux, General Director in the French Ministry of Finance and Economics, recently announced a ten-year plan of intensified agricultural production which, he proposes, would eventually make Europe independent of agricultural imports from the Western Hemisphere. The plan envisages a reduction of French industrial activities and a shift of industrial workers to farming. As is usual for Nazi announcements on long-range plans, generalities instead of details are given. But if the announcement is anything more than propaganda, it would indicate an important trend of Nazi policy in conquered and vassal countries.

Soviet Ukraine

The Soviet Ukraine is one of the richest prizes which the Nazis could seize on the European Continent. The region is an important producer of grains, sugar beets, oilseeds, cotton, vegetables, potatoes, fodder crops, and livestock. In recent years, emphasis has been placed on the planting of early ripening winter grains, which are harvested in the first half of July. Present reports indicate that this year's crop could either largely be harvested before the German invaders arrived, or could be destroyed in time. The Nazis will therefore not benefit from their conquest in terms of food stocks and supplies in 1941. How much of the crop could be removed to other parts of Russia before the invading armies moved in cannot be estimated. It is dependent on the transport facilities which are not too good.

Farming in the Ukraine is thoroughly collectivized and mechanized. Of a total of about 63 million acres under cultivation, only 1 million was operated by non-socialized peasants. This high degree of centralized organization and mechanization is the basis of the present productivity of Ukrainian agriculture. How much of the equipment and facilities were destroyed is unknown at this time.

1/ American Embassy, Berlin, Weekly Economic Background Report
No. 46, May 19, 1941.

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Division of Monetary
Research

If the destruction of facilities has been carried far enough, the process of reorganizing and reconstructing agricultural production under German direction will be a long and difficult one.

The potentialities of developing agricultural areas depend not only on their natural resources but to a large extent on the available capital assets of farming, such as implements, power and transportation facilities, and livestock, and on the skill of the farming population. The success of the German efforts to intensify European agricultural production will be limited by the lack of capital assets in the East and Southeast, by their probable destruction in Soviet Russia and by the high degree of illiteracy and backwardness in farming methods among the Eastern and Southeastern European peasants. The potentialities of development in the West are much more promising at this moment since for the Nazi war machine time is of the essence.

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SAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C.,

August 30th, 1941.

Dear Mr. Cochran,

I enclose a memorandum upon the difficulties which have arisen in Hong Kong owing to the difference between the local Defence (Finance) Regulations and the U. S. Freezing Order.

I have sent a copy of this letter to Mr. Fehle.

Yours sincerely,

W. Ritchie.

Mr. Merle Cochran,
U. S. Treasury Department,
Washington, D.C.

WR:TMI

Copy:wec:9-2-41

MEMORANDUM

Some difficulty has arisen for China Banks in Hong Kong who have wished to sell U. S. dollars to meet Hong Kong dollar liabilities. The assets of these Banks, including those incorporated in Hong Kong, are blocked since they are treated in the same way as Chinese "nationals" under the U. S. Freezing Order. They can sell only to the Central Bank of China under General License No. 60.

Two difficulties arise:-

- (a) The Central Bank of China has no office in Hong Kong. It is suggested that this difficulty might be overcome by the Central Bank of China remitting the Hong Kong dollars through the Bank of China in Hong Kong.
- (b) The local Defence (Finance) Regulations in Hong Kong require the sale of all U. S. dollars to the Government. Under the U. S. Freezing Order such a sale cannot be effected without a license. Also a sale to the Central Bank of China would constitute an infringement of the Hong Kong Defence (Finance) Regulations.

It is considered that as the Banks concerned have been long established in Hong Kong and are in many cases incorporated there, there is no reason why the Hong Kong Government should waive its right under the Defence (Finance) Regulations to call for the surrender of U. S. dollars.

WASHINGTON, D.C.,
August 30th, 1941.
WR:TMI

Copy:wec:9-2-41

BRITISH EMBASSY,

SAFE HAND

WASHINGTON, D.C.,

August 30th, 1941.

Dear Mr. Acheson,

In Mr. Hall's absence I am writing to give you some information which we have received from London upon our policy with regard to China.

It has been decided that to prevent the Japanese benefiting from our exports to occupied China, it is necessary to control by licensing all exports to China except those going via the Burma Road. To avoid injury to legitimate Chinese interests pending the making of detailed arrangements, it is intended to grant licenses freely within the limits of normal trade for exports other than -

- (a) those not available for supply reasons
- (b) those contained in the annexed list which has been called the "Nil List".
- (c) any specific consignments where there are strong reasons for refusing on grounds of economic warfare.

Action on the above lines is being taken forthwith by the United Kingdom and the Colonies. India, Burma and the Dominions are being invited to take similar action. The Government of Hong Kong, however, is being given some latitude in the application of the abovementioned policy.

It will be appreciated that although the same export licensing machinery is being used both for China and Japan.

it/

Mr. Dean Acheson,
Assistant Secretary of State,
State Department,
Washington, D.C.
RJS:WR:TMI

- 2 -

it is intended to apply the machinery to China in accordance with the principle of giving assistance to China, which has already been declared.

It is intended to tighten up the procedure mentioned above without injury to friendly interests. It is proposed to collect as much information as possible about the trustworthiness of the individual consignees so that exports may be confined to those of which, so far as may be judged, the potential advantages to free China are likely to outweigh the danger of leakage to Japan. In particular, it is intended to take advantage of the advice of friendly banks in Shanghai who are being asked to avoid (where possible in conformity with the policy of U.S. banks) any financial transactions likely to benefit Japan. In the interim period until the necessary administration machinery can be organized, we propose that Empire Governments will issue licenses without reference in cases where the danger of leakage to Japan does not seem to be over-riding and where delay must be avoided in order to prevent trade being brought to a standstill.

In addition to the consignee control on the lines mentioned above, it is suggested that it may be desirable to super-impose quantitative control of exports of particular commodities. Trade in such goods is to be separately examined in the light of the quantities generally required by reliable consignees, and their value to Japan if they were seized.

The arrangements mentioned in this letter do not apply to petroleum products.

I am sending a copy of this letter to Mr. Cochran for his information.

Yours sincerely,

(Sgd) R. J. Stopford

Copy:wec:9-2-41

"NIL" LIST FOR CHINA

1. Oil seeds and vegetable oils.
2. Fish and fish liver oils and whale oil.
3. Tallow.
4. Acid oils and Fatty acids.
5. Sausage casings.
6. Animal fodder of all kinds including all oil cakes.
7. Iron and steel and iron, steel and other metal scrap.
8. All non-ferrous ores and metals, other than manufactures and excluding lead and zinc and all ferro-alloys including special alloy steels.
9. Infusorial and diatomaceous earth; monazite sand and ilmenite.
10. Mica, other than manufactures.
11. Diamonds.
12. Raw asbestos, other than manufactures.
13. Raw graphite, other than manufactures.
14. Cryolite and fluorspar.
15. Ethyl alcohol and tetra-ethyl-lead.
16. Benzol, toluol, phenol.
17. Raw hemp and kapok, ramie and phormium.
18. Hides, skins and leather.
19. Raw and scrap rubber.
20. Rubber tyres and tubes, whether solid or pneumatic, for cars, bicycles and rick-shaws.
21. Glycerine.
22. Molasses.
23. Industrial alcohol.
24. Tin-plate including wasters and scrap.
25. Iodine, crude and resublimed.
26. Carbon black.
27. Ball bearings.
28. Abrasives, natural and artificial and grinding wheels.

BRITISH EMBASSY.

SAFE HAND

WASHINGTON, D.C.,

August 30th, 1941.

Dear Mr. Acheson,

In Mr. Hall's absence, I am writing to inform you that it has been decided in London that control of exports from the British Empire to Japan will be exercised by export licensing machinery and not by financial machinery under the Freezing Order. If an Export License is granted for a transaction, the necessary financial licenses for the payments involved will be granted more or less automatically. In practice, trade will be confined to specially approved transactions.

I am sending a copy of this letter to Mr. Cochran for his information.

Yours sincerely,

(Sgd) R. J. Stopford

Mr. Dean Acheson,
Assistant Secretary of State,
State Department,
Washington, D.C.
RJS:WR:TMI

Copy:wec:9-2-41

BRITISH EMBASSY,

WASHINGTON, D.C.,

August 30th, 1941.

URGENTBY SAFE HAND

Dear Mr. Acheson,

You will remember that Mr. Hall wrote you on August 18th about the status of trade between India and Japan under the Freezing Order. In his absence, I am writing to inform you that we have now heard from London that the Government of India have no reason to suspect that any heavy withdrawal of notes was made from Japanese accounts before the introduction of the Freezing Order.

I am sending a copy of this letter to Mr. Cochran for his information.

Yours sincerely,

(Sgd) R. J. Stopford

Mr. Dean Acheson,
Assistant Secretary of State,
State Department,
Washington, D.C.
RJS:WR:TMI

Copy:wec:9-2-41

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YBy Safe HandBRITISH EMBASSY,
WASHINGTON, D.C.
August 30, 1941.URGENT

Dear Mr. Acheson,

In Mr. Hall's absence I had written to you the attached letter in reply to your letter to him of the 25th of August regarding the Franco-Brazilian negotiations with regard to the purchase by the Brazilian authorities of their State Bonds held in France. Since writing it, however, I have received a telegram from our Embassy at Rio which says that the agreement for the liquidation of the claims of French bondholders of the San Paulo-Rio Grande Railway was expected to be completed yesterday. The proposal with regard to the investment of the proceeds of the cotton was to have been shelved and it is believed that the French bondholders' claims will be liquidated in milreis which will be used for the purchase of such Brazilian exports as they may select. The agreement may even include a clause permitting the French to expend a portion of the milreis on the official expenses of their diplomatic representation in Brazil.

I do not know whether it is possible at this late stage to do anything to secure that either the milreis to be received by the French or the commodities to be purchased by them should be retained under Brazilian control until the end of the War, but I have received instructions from London to inform you how anxious His Majesty's Government is that the movement of these funds and commodities should, if possible, be restricted.

Yours sincerely,

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

RJS:RS

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By Safe Hand

BRITISH EMBASSY,
WASHINGTON, D.C.
August 30, 1941.

My dear Mr. Acheson,

In the absence of Mr. Hall, I write to thank you for your letter to him of August 25th with regard to the proposed purchase by Brazil of their State bonds held in France against Brazilian cotton for delivery after the War. It is difficult to ascertain the full story of what is happening, but there is evidence that the proposed transaction was originally under discussion between the Brazilian and the Allied Governments before the French Armistice, the negotiations between Brazil and France were concluded the day before the occupation of Paris. In spite of the changed situation, the Franco-Brazilian agreement appears subsequently to have been approved by the Petain Government and negotiations for implementing it were re-opened in the early summer of this year. In this connection, I enclose copies of two reports which we have received from a delicate source (TIN. 12187 and BIN. 40085).

Since then, we have been informed by our Embassy at Rio that they believed that the only deal under negotiations was for payment by the Brazilian Government to the French Government of a sum of 52,000 contos (U.S. \$2.5 million) against the complete discharge of Brazilian liability to the French bondholders of the San Paulo-Rio Grande Railway. The French Government would be responsible for satisfying French bondholders and cancelling bonds in France. The rate of exchange would be 450 reis to one franc, thus cancelling approximately fcs. 115,000,000 of debt. The 52,000 contos received by the French Government would be placed at the disposal of Girco (French cotton importers) who were believed to be negotiating with Monteiro y Arana and with Numa de Oliveira for the purchase of cotton in Brazil. The only bank concerned was the Banco do Comercio e Industria de San Paulo, of which the President is Numa de Oliveira. Our Embassy added that they understood that the present intention of the French Government was to keep the cotton blocked in Brazil until after the War, but that it was by no means certain that the deal would go through or be followed by others.

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

August 30, 1941.

-2-

From other sources, however, it appears that this may be only a first transaction and that the total amount involved may amount to as much as 500 million French francs.

In view of the information contained in paragraph 1 of TIM. 12187, it would not, I think, be safe to assume that no attempt would be made to ship the cotton to France.

Yours sincerely,

/s/ R. J. Stopford

Mr. Dean Acheson.

RJS:TMI:RS

Copy:lg 9/2/41

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RECORD OF A CONFIDENTIAL TELEGRAM

From: Chungking
 To: Secretary of State
 No: 372
 Date: August 30, 1941, 2 p.m.
 Subject: Concerning the Burma Highway.

In an interview with General Chiang Kai-Shek yesterday, I made known the views of Mr. Currie and the arrangement proposed with regard to Mr. Wilson. The Generalissimo evidenced no desire to discuss the matter, but he merely indicated his assent. It is however expected that he may at a later date desire to discuss the subject, when I shall, unless I receive instructions to the contrary, explain tactfully that although expert technical advice and assistance will be made available from America in every practicable way, still the responsibility and the authority in regard to the operation and management of the road rests finally in the hands of the Chinese Government. It is my intention further to state that the measure of American aid under the provisions of the Lend-Lease Act, which arrives in China will of course depend upon the effectiveness of the road as an artery of transport. I will express confidence in the ability of China to effect diplomatic immunities.

At the time of my interview General Chiang was preoccupied and anxious concerning the conversations with regard to the Far East being held between the Americans and the Japanese. The Foreign Minister was present at the meeting, and together they endeavored to instigate a discussion of that subject. Rather definite reports which the Chinese Ambassador in Washington had sent were referred to by the Foreign Minister. I informed them that I had no advice whatever on the subject. Our conversation might be characterized as restrained.

FE:RPF:WJF

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TELEGRAM RECEIVED

PLAIN

Shanghai via N.R.

Dated August 30, 1941

Rec'd 4:09 a.m., 31st

Secretary of State

Washington

1123, August 30, (SECTION TWO).

Purchasing power Chinese yuan August eleven point two nine registering decrease ten percent from July or decrease fifty one percent from August last year. Shanghai International Settlement bus operators after five days strike for higher wages resumed work this morning employers granting twenty percent wage allowance increase for September and placing future allowance percentage on basis of living cost index as compiled by Shanghai Municipal Council. Other strikes involving other services and newspapers not yet settled. Two Shanghai leading American petroleum distributors beginning September first have placed all sales of gasoline and oils on cash basis, credit basis to be discontinued as from that date. Beginning September first Japanese Central China Railway Company is to operate on its Nanking Shanghai and Shanghai Hanchow lines night passenger express services which have been suspended since August 13, 1937. China National Aviation Corporation beginning September first to operate once fortnightly air passenger mail service between Hong Kong and Kweilin Kwangsi Province. Shanghai radiogram and cable companies beginning September first are to compute rates on basis of one gold franc equivalent to yuan five point fifty, representing increase of thirty one percent as present basis is gold franc equivalent to yuan four point twenty.

Inform Commerce and Treasury.

(END MESSAGE).

LOCKHART

MLP

eh:copy

Hong Kong, August 30, 1941

CONFIDENTIAL

Subject: Hong Kong Banking Organization.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

1/ I have the honor to transmit herewith a list of banks operating in Hong Kong, together with certain facts about their organizations, managements and methods of doing business. This report has been prepared by Consul John H. Bruins.

Consonant with the importance of Hong Kong as a financial clearing point for the trade of South China, banking in this Colony is noteworthy for its international character and for the firm establishment of the principle of branch banking. Seven nationalities are represented in the Hong Kong banking fraternity namely, Belgium, China, France, Great Britain, Japan, Netherlands and the United States. Practically all of Hong Kong's forty-three banks are either locally organized banks with numerous branches abroad, or else they are branches of foreign banks which also have similar branches elsewhere throughout the Far East. For this reason it is pointless to attempt any estimate of the capital or resources employed in the Colony.

It will be noted that the enclosed list includes data on nationality, and indicates which banks are authorized to deal in

foreign currency under wartime restrictions at present in force, whether they are members of the Hong Kong Bankers' Clearing House (if not, the names of the banks through which they clear) and additional information about capitalization and number of branches. Some of the banks listed will be observed to have no clearing arrangements. It is customary to collect items on any such banks in cash by messenger. It may be assumed that these either do very little commercial business, or that they are what may be termed "private enterprise" banks (for example: E. D. Sassoon Banking Co. Ltd.) or that they are "refugee banks" from nearby Japanese occupied ports and maintaining a nominal corporate life within the Colony.

Generally speaking, the functions of the active commercial banks are varied. They deal in foreign exchange and are interested in real estate, shipping and manufacturing. They offer trust services and safety deposit facilities. Nearly all have the functions of a savings bank since they accept interest savings accounts in several different currencies. They also conduct an active remittance business between South China and the outside world. The main flow of such business is from the United States, Canada and the West Indies toward China, and it constitutes an important support to the Chinese National Currency. However the favorite form of business of the Hong Kong banks is the financing of trade to and from China, namely the handling of bills payable, a liquid and lucrative form of investment.

The three banks of issue and the average amounts of Hong Kong dollar banknotes outstanding according to the last official

report of July 31, 1941, are as follows:

Chartered Bank of India, Australia & China	HK\$25,476,135
Hong Kong & Shanghai Banking Corp.	210,757,328
Mercantile Bank of India, Limited	4,081,050
Total	HK\$240,315,013

At present, one American dollar is equivalent to about four Hong Kong dollars. The above three British banks are the only ones authorized to issue Hong Kong dollar banknotes. These notes circulate widely throughout China, and constitute almost all of the issue of Hong Kong currency, the balance being a small amount of one-dollar notes and some token coinage issued by the local Government. Neither are any of the other banks in Hong Kong permitted to issue any other type of banknotes. The size of the above issue of banknotes remains fairly steady, having varied between about HK\$220,000,000 and HK\$240,000,000 in recent years.

The financial life of the Colony is dominated by the Hong Kong and Shanghai Banking Corporation which is by far the largest bank having headquarters here. Its branches cover the Far East including India. Not only does it engage in every form of banking activity, but through mortgage or direct ownership it exercises effective control over a great deal of property as well as over British trade and shipping enterprises. It takes a leading part in floating Hong Kong Government bond issues, and as above noted, issues 90% of the Hong Kong banknotes in circulation. Its rates of exchange,

published every morning are accepted as the official rates. Its board of ten directors is made up of the heads of ten important British firms in Hong Kong. The Chairmanship of the Board is normally held for only one year and rotates among the directors. Effective control is in the hands of the chief manager who has long-term tenure. The present incumbent, Sir Vandeleur M. Grayburn, exercises the traditional positive style of leadership, and typifies British financial imperialism in the Far East. The bank's modern building dominates the Hong Kong skyline and symbolizes its position of financial leadership.

Next in importance are the Chinese banks. As indicated on the attached list, four Chinese Government banks are represented in Hong Kong. They engage principally in financing transactions between the Chinese Government and the outside world, although two of them, the Bank of China and the Bank of Communications also do a general public banking business in the Colony. All of the normal head office functions of these two banks (except policy matters) are now temporarily carried on at Hong Kong because of the war situation in China. The outstanding Chinese bank having headquarters in Hong Kong is the Bank of East Asia, Ltd. which has twenty-nine branches or agencies including agencies in Honolulu, London, Melbourne, New York, Paris, Seattle and San Francisco. The Oversea-Chinese Banking Corp. Ltd. also does a large amount of trade financing, its headquarters being in Singapore. The Bank of Canton, Ltd. is understood to be the personal property of Dr. T. V. Soong.

It is said to operate mainly by obtaining funds from the Chinese Government at low interest and to loan them out at higher rates. This bank is managed by Mr. M. Y. Tang, a trusted and capable minion of Dr. Soong. The Manufacturer's Bank of China is similarly dominated by Dr. H. H. Kung, at present Chinese Minister of Finance. Other Chinese banks doing important trade financing include the China and South Sea Bank, Ltd., the Kinchong Banking Corporation, the Kwangtung Provincial Bank, and the Shanghai Commercial and Savings Bank, Ltd. The other banks listed are mainly branches of Chinese provincial banks having offices in Hong Kong or else are private concerns having very little to do with the general public. For example, the Chu Hsin Chen Bank, Ltd. is the local name of the Young Brothers Banking Corporation which is said to have large interests in North China but very little in Hong Kong.

Three of the American banks play a fairly important role in Hong Kong's financial set-up. The Chase Bank and the National City Bank of New York engage mainly in trade financing, foreign exchange, remittance business, and savings accounts. The American Express Company, Ltd. engages actively in all of these functions in addition to its travel business. The Underwriter's Bank for the Far East, Inc. does very little commercial business. It is one of Mr. C.V. Starr's varied interests which are concentrated around Shanghai, and in Hong Kong is mainly engaged in financing shipments of automobiles and trucks into China. The National City Bank of New York has an attractive building of its own which dominates Hong Kong's exchange district.

The functions of the other banks can almost be guessed from their names. The Banque Belge at present does only a small commercial business, while the Belgian "Credit Foncier d'Extreme Orient" is practically a building and loan association, owning large blocks of tenements and houses in Hong Kong as it does in other cities of the Far East. The French bank's business in financing trade with Indo-China is now greatly curtailed, but it also is interested in the production of tin and other metals in Yunnan Province. The headquarters of the Dutch banks have recently been shifted from the Netherlands to Batavia. The two Japanese banks formerly did a rather important business in financing trade not only with Japan but also with the west coast of South America. The recent reduction in Japanese shipping has curtailed this business, and the local order of July 30, 1941, freezing Japanese assets has impaired the clearing facilities of these banks.

Audit control over Hong Kong banks is not exercised by the local Government. There is no official here comparable to the National Bank Examiner in the United States. In general, banks are subject to the control of their head offices. However, banks having their headquarters in Hong Kong are not subject to Government audit. All banks in Hong Kong must be duly recorded with the Registrar of Companies who requires the names of the directors and a copy of the balance sheet once a year. This balance shows the status of the entire bank including all branches, and the only way in which the operations of the Hong Kong branch are reported is for war taxation purposes under the War Revenue Ordinance of 1940. The American banks in Hong Kong are subject to examination under the United States banking

laws. In practice this occurs about once in five years.

Banking practice in Hong Kong has been affected recently by the American Executive Order of July 26, 1941, freezing certain Chinese and Japanese assets, by a similar Hong Kong Ordinance of July 30, 1941, and by a London order placing Hong Kong in the "sterling area" effective August 2, 1941. These enactments greatly restrict the exchange activities of Hong Kong banks, and also reduce their commercial financing because of the curtailment of Hong Kong's transit trade incidental to the inclusion of the Colony in the sterling area. These developments are discussed more fully in confidential despatch No. 998, of August 23, 1941.

Respectfully,

Addison E. Southard
American Consul General

Enclosures:

- 1/ List of Banks operating in Hong Kong.

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JHB:bp

Distribution:

In quintuplicate to
the Department;
Copy to Embassy,
Chungking;
Copy to Consulate
General, Shanghai.

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10-15-41

BANKS IN HONG KONGAMERICAN(F) American Express Co. Inc.

Headquarters 65 Broadway, New York City
 Capital (Dec. 31, 1939) US\$6,000,000
 Surplus US\$2,296,617
 Clears through Mercantile Bank of India, Ltd.

*(F) Chase Bank (The)

An affiliate of The Chase National Bank
 of the City of New York
 Capital of The Chase Bank (Dec. 30, 1939)
 US\$5,000,000
 Surplus US\$1,000,000.

*(F) National City Bank of New York (The)

Headquarters, New York City
 Capital (March 31, 1941) US\$77,500,000
 Surplus & Undivided profits US\$80,993,446

Underwriter's Bank for the Far East, Inc.

Incorporated in Connecticut
 Headquarters in Shanghai
 Capital (Jan. 30, 1941) US\$150,000
 Reserve US\$60,000
 Surplus & Undivided profits US\$44,548

BELGIANBanque Belge pour l'Etranger (Extreme Orient) S. A.

Headquarters in Brussels.
 No data on capital available since invasion
 of Belgium
 Clears through Chartered Bank of India, Aus-
 tralia & China

Credit Foncier d'Extreme Orient (Mortgage Bank)

Limited Company registered in Belgium.

-2-

BRITISH

- *(F) Chartered Bank of India, Australia & China
 Headquarters in London (Royal charter of 1853)
 Paid up capital (Dec. 31, 1940) £3,000,000
 Reserve fund £3,000,000
 Reserve liability of proprietors £3,000,000
 Offices in London, New York and thirty-six
 in Far East.
- *(F) Hong Kong and Shanghai Banking Corporation
 Headquarters in Hong Kong (Ordinance No. 2
 of 1866 as amended by companies ordinance
 No. 58 of 1911 and No. 39 of 1932)
 Branches in London, New York, Lyons, San
 Francisco and thirty-four throughout the
 Far East including India
 Paid up capital (Dec. 31, 1940) HK\$20,000,000
 Reserve funds: Sterling: £5,500,000
 Hong Kong currency reserve HK\$10,000,000
 Reserve liability of proprietors HK\$20,000,000.
- Hong Kong Savings Bank
 Subsidiary of Hong Kong & Shanghai Banking
 Corporation.
- Hong Kong Trust Corp. Ltd. (Sassoon interests)
- *(F) Mercantile Bank of India, Ltd.
 Head office in London
 Twenty-four branches in the Far East
 Paid up capital (Dec. 31, 1940) £1,050,000
 Reserve fund £1,075,000.
- E. D. Sassoon Banking Co., Ltd.
 Registered in Hong Kong in 1930 to take over
 business of E. D. Sassoon & Co., Ltd.
 Paid up capital (Dec. 31, 1940) £500,000
 Reserves £275,000
 Branches in Shanghai & London.
- (F) Thomas Cook & Son (Bankers) Ltd.
 Incorporated in Great Britain
 Capital issued (Dec. 31, 1940) £125,000
 Reserves £125,000.

-3-

CHINESE

*Bank of Canton, Ltd.
 Registered in Hong Kong
 Reorganized in 1936
 Paid up capital HK\$7,761,220. (See text)

*(G) (F) Bank of China
 Paid in capital (Dec. 31, 1939) CN\$40,000,000
 Branches throughout China. (See text)

*(G) (F) Bank of Communications
 Paid up capital (Dec. 31, 1938) CN\$20,000,000
 Branches throughout China. (See text)

*Bank of East Asia, Ltd.
 Headquarters in Hong Kong. Established 1919
 Has twenty-nine branches or agencies including
 Honolulu, London, Melbourne, New York, Paris,
 San Francisco and Seattle
 Paid up capital (Dec. 31, 1940) HK\$5,598,600
 Reserve and undivided profits HK\$3,145,921.

Bank of Kwangsi
 Branch in Hong Kong of Kwangsi Provincial
 Government Bank
 Capital (Dec. 31, 1939) CN\$5,210,000
 Formerly known as Kwangsi Provincial Bank
 Clears through Bank of China.

(G) Central Bank of China (Canton)
 Central Bank of China (Swatow)
 Capital CN\$100,000,000
 Clears through Bank of China

China and Southsea Bank, Ltd.
 Headquarters in Shanghai. Established 1921.
 Capital (Dec. 31, 1940) CN\$7,500,000
 Clears through Bank of Communications.

CHINESE (Con't)

China State Bank

Headquarters in Shanghai
Capital (Dec. 31, 1938) CN\$3,050,000
Clears through Bank of Communications.

China Trust Company, Ltd.

Established in Hong Kong in 1930
Capital paid up Dec. 17, 1938 CN\$435,800
Not a commercial bank. Act as trust and
remittance agents.

Chu Hein Chen Bank, Ltd. (Young Brothers Banking Corp.)

Head office: Chungking
Private bank
Capital (Dec. 31, 1940) CN\$4,000,000.

Directorate General of Postal Remittances & Savings
Banks

Chinese Government institution under control
of Ministry of Communications.

(G) Farmers Bank of China

(G) Farmers Bank of China (Canton)
Headquarters in Chungking
Authorized capital CN\$100,000,000

Hong Kong & Swatow Commercial Bank, Ltd.

Headquarters in Hong Kong
Capital paid up (Dec. 31, 1937) HK\$250,000
Clears through Oversea-Chinese Banking Corp.

Industrial Bank of China, Hong Kong

Headquarters in Shanghai
No recent data on capital.

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CHINESE (con't)

Minsheng Banking Corporation

Head office: Shanghai

Capital (Dec. 31, 1936) CN\$7,000,000.

Clears through Bank of Communications.

Kwantung Provincial Bank

Head office: Kulong, Kwantung Province, China

Capital (Dec. 31, 1939) CN\$1,000,000

Clears through Bank of China

National Commercial & Savings Bank, Ltd.

Headquarters: Hong Kong

Capital paid up (Dec. 31, 1940) HK\$1,125,160

Clears through Hong Kong & Shanghai Banking Corporation.

Manufacturer's Bank of China (The)

Head office in Shanghai

No data on capital at hand

Clears through Bank of Communications.

*Oversea-Chinese Banking Corp., Ltd.

Headquarters: Singapore

Paid up capital (Dec. 31, 1940) S\$10,000,000

General reserve: S\$1,750,000

Successor to Ho Hong Bank, Ltd.; Overseas Chinese Bank, Ltd. and Chinese Commercial Bank, Ltd.

Provincial Bank of Fukien

No data available on capital

Clears through Oversea-Chinese Banking Corp.

Shanghai Commercial & Savings Bank, Ltd.

Head office: Shanghai

Capital paid up (Dec. 31, 1939) CN\$5,000,000

Reserves: CN\$7,600,000

Clears through Bank of China.

CHINESE (con't)

Wing On Bank, Ltd.

Headquarters: Hong Kong

Paid up capital (Dec. 31, 1939) HK\$2,295,288

Clears through Hong Kong & Shanghai Banking Corp.

Yien-Yieh Commercial Bank (The)

Head office: Shanghai

Capital CN\$7,500,000

Clears through Bank of China.

DUTCH

*(F) Nederlandsch Indische Handelsbank, N. V.

*(F) Nederlandsch Handel-Maatschappij, N. V.

Headquarters of both of these banks recently removed from the Netherlands to Batavia, Java. Both are local branches of comparatively large parent banks. No recent data on capital available.

FRENCH

*Banque de l'Indo-Chine

One of several branches in the Far East

Headquarters: Paris

No data on capital since invasion of France.

JAPANESE

*Bank of Taiwan, Ltd.

Head office: Taipeh, Formosa. Chartered 1899

Thirty-seven branches throughout the Far East

Subscribed capital (June 30, 1940) ¥15,000,000

Reserves: ¥10,000,000

-7-

JAPANESE (con't)

*Yokohama Specie Bank, Ltd.
 Head office: Yokohama
 Numerous branches in Far East
 Capital (June 30, 1940) ¥100,000,000
 Reserves ¥140,900,000

* * * * *

Reference marks:

Currencies:

£ - pounds sterling
 US\$ - United States dollars
 HK\$ - Hong Kong dollars
 SS\$ - Straits Settlements dollars
 CN\$ - Chinese National dollars
 Y - Yen

(F) Banks authorized to deal in foreign currency
 in HongKong under Defense (Finance) Regulations
 (1940) as amended July 31, 1941.

(G) Chinese Government Banks

* Member banks of Hong Kong Bankers Clearing
 House

Authorized banks of issue for Hong Kong
 currency.

* * * * *

Copy:hr:10-14-41.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 30, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£16,000
Purchased from commercial concerns	£31,000

The Federal Reserve Bank of New York purchased £30,000 in registered sterling from one of the New York banks. It was reported that this sterling represented steamship rental payments by England.

Open market sterling was quoted at 4.03-1/2, and there were no reported transactions.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	10-5/8% discount
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.4425
Cuban peso	7/8% discount

In the unofficial exchange market in Shanghai, the yuan advanced 5/32¢ to 5-1/32¢. The sterling-dollar cross rate worked out to 4.06-3/4, representing a gain of 2¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

BRITISH EMBASSY,
WASHINGTON.

August 30th, 1941.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your personal
and secret information a copy of the latest
report received from London on the military
situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated August 28th.

1. British merchant vessel returning from Malta to Gibraltar shelled by submarine north west of Pantellaria on 27th.
2. Night 26th/27th. Outward bound Atlantic convoy twice attacked by U boat in north west approaches. One Norwegian and two British ships reported sunk.
3. Soviet merchant vessel was torpedoed near Murmansk on 26th. 5,000 ton ammunition ship and 2,000 ton merchant ship torpedoed by Russian submarine in Petsamo harbour.
4. Royal Air Force. 26th/27th. Over 90 tons H.E. and 6,500 incendiaries dropped on Cologne. Large fires started. Successful attacks also made on docks at Havre and Boulogne. 27th. Fighters provided escort for bombers over Northern France, 10 enemy fighters destroyed; we lost 13, 3 pilots safe. 27th/28th. Total bombers despatched 15. Targets including Mannheim swimming, all returned.
5. Libya. 25th/26th. Railway sidings in Benghazi harbour successfully bombed. 26th. 6 Marylands dropped 5 1/2 tons bombs on concentration of enemy armoured fighting vehicles 46 miles east of Tobruk. 26th/27th. More than 14 tons of H.E. dropped on Tripoli (L) causing large fires in military stores.
6. Persia. 26 Hurricanes and Gloucesters machine gunned aerodromes and hit six enemy aircraft on the ground.
7. Aircraft casualties in operations over and from British Isles. German: destroyed August 25th one August 25th/26th one August 27th ten total twelve probable, August 27th, three damaged August 27th five. British thirteen.
8. U.S.S.R. fighting continues in Gomel area. No confirmation of report of Russian recapture of Gomel. Main German effort still concentrated in this area, Spearhead drive South Eastwards apparently making progress. In Ukraine fierce fighting/

-2-

fighting continues Dniepropetrowsk. Germans probably entered the town and attempting to establish bridge head across River Dnieper. Northern Sector. Finnish drive reported area Kiestinki, capture of Suojarvi claimed.

RESTRICTED

G-2/2657-230; No. 481 M.I.D., W.D. 11:00 A.M., August 30, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Finnish troops have captured Vipuri. Unofficial reports from Helsinki also report the capture of a village about 35 miles north of Leningrad.

German troops are advancing from Tjudowa, a town located to the northeast of the Moscow-Leningrad railroad of Novgorod, towards Kirigi, an important rail junction on the Leningrad-Jaroslavl railroad. These troops had reached the village of Grysino on August 27th.

The German armies continue their advances in the areas south and southeast of Gomel. Armored Divisions established, on August 27th, two bridgeheads on the southeast bank of the Desna river in the vicinity of Novograd-Severski.

A strong Russian line of fortification along the Irpen river has checked the German advance toward Kiev. This river is about 15 miles northwest of Kiev.

No further information had been received as to the fighting along the lower Dnieper river.

Strong Russian forces continue to hold an enclave of considerable size at and around Odessa.

Air: The Germans claim destruction of numerous ships engaged in the evacuation of Tallinn.

II. Western Theater.

Air: Normal British day and night operations. Principal targets last night were Frankfurt and Mannheim.

III. Middle Eastern Theater.

Ground: No important developments.

Air: Axis. Attacks on Tobruk and Jarabub.

British. Raids on Catania (Sicily) and Benghazi.

RESTRICTED

(Handed by Mr. Bewley to Mr. Cochran in the Treasury at 12:30 noon, September 4, 1941)

Telegram of August 31st

Following for Treasury from Patch, Shanghai.

Chase Bank on instructions from New York withdrew from open market on August 29th and only quoted official rates. It was expected that National City Bank would follow suit but they did not. On August 30th the Chase Bank were again operating on open market but in an underhand manner.

2. Hong Kong and Shanghai Bank is now the only foreign bank not operating on open market. As competitors are taking all his business Ben... will enter open market on September 1st.

3. Flow of export bills to foreign banks tends to increase. This week Jardine Matheson & Co. alone sold silk (sic) bills value U.S. dollars 300,000 to Chartered Bank of India, Australia, and China at open market rates.

4. There is great difference of opinion as to amount of United States dollar local deposits in foreign banks which feed open markets. The best estimate I can give at present is about U.S. dollars 20,000,000 made up as follows:

British Banks	10	(of which Hong Kong
and Shanghai Bank	6)	
American Banks	8	
Others	2	

5. For some time before freezing, American banks on instructions from their head offices were encouraging transfer to America of local U.S. dollar deposits. This explains the small figure for American banks. Now in order to build up again these deposits (which facilitate free market operations) American banks are discreetly recommending conversion of Fapi deposits into (74 ?) U.S. dollar deposits as a (grp. undec. - hedge?) against depreciation of Fapi.

(We also had a message that this telegram had been drafted after discussion with Taylor and that Fox will probably cable on similar lines after Taylor has reached Hong Kong.)