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November 6, 1942  
9:00 a.m.

WAR BONDS

Present: Mr. Bell  
Mr. Graves  
Mr. Buffington

H.M.JR: This is the thing that worries these people, and I hope I didn't give you a bad night.

MR. GRAVES: You did; I had a bad night, but that is all right.

H.M.JR: Did I give you a bad night? Didn't you sleep?

MR. GRAVES: Not much.

H.M.JR: I am sorry; I shouldn't have called you at ten o'clock.

What these boys want to do is to start a campaign along about the 24th and between that time and the first of January sell between ten and thirteen billion dollars worth of securities - of which they credit war bonds with how much?

MR. BELL: I put in a billion eight hundred seventy-five. That is what is in my estimate.

MR. GRAVES: That is for that period?

MR. BELL: Yes, November and December, and I hope that that may be increased by enough to make it up to two and a half by a little drive.

MR. GRAVES: I think that war bonds can do four billion dollars during November, December, and January.

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MR. BELL: Well, that is about right.

MR. GRAVES: That is about our quota.

MR. BELL: I have already a billion seven for you in my estimates for January. That makes four, two, if we get this two and a half I am speaking of.

MR. GRAVES: Our estimate which I have given to Haas was a billion eight for November and December, but for January we were figuring on two billion.

MR. BELL: A billion seven--

H.M.JR: They have a billion eight hundred and seventy-five for Savings Bonds.

MR. BELL: The last estimate for January from Harold was a billion eight hundred and seventy-five.

MR. GRAVES: That didn't come from me.

MR. BELL: Yes, it did, from your force.

MR. GRAVES: I think that is the quota we had, Dan, which Mr. Haas' people computed, but we have been figuring all the time on two billion dollars for January.

H.M.JR: Two billion dollars for what?

MR. GRAVES: January.

H.M.JR: January does not interest me. In this figure here for November and December - for sixty days - you are down for one billion eight hundred and seventy-five.

MR. GRAVES: We ought to do it.

H.M.JR: And a possible two and a half, but at the minimum of one billion eight hundred and seventy-five.



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MR. GRAVES: That is our figure.

H.M.JR: Is that within the realms of possibility?

MR. GRAVES: That is right.

H.M.JR: Is that a minimum figure?

MR. GRAVES: No, I wouldn't say that it is a minimum figure. I would say that it is a fair figure to set for us.

MR. BELL: That is a billion eight hundred and seventy-five million in December.

H.M.JR: But these are your figures.

MR. GRAVES: That is right.

H.M.JR: This is what worried us, and this is why I called you. We will come down to facts, but I want to straighten out the record. We want to settle once and for all how much this Victory Fund Committee can do, how much we can rely on; and the only worry that they have, as far as saying they will deliver it, is that your people will be calling on members of their security salesmen's organization, which would interfere.

Now, I made a proposal which is entirely satisfactory to them, and then they said that they would have no alibi. They are all coming here Monday. If I simply say to the representatives of the securities salesmen in here Monday, "Now for November and December I want you to work exclusively for the Victory Fund Committee, I don't want you to work for any State administrator"--

MR. GRAVES: That is the way it is now.

H.M.JR: Well, it isn't--

MR. GRAVES: You remember your telegram?



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H.M.JR: Well, it isn't--

MR. GRAVES: You remember your telegram?

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H.M.JR: Well, it evidently isn't. Let me just run through my story; then we will break it down.

(Mr. Buffington entered the conference.)

H.M.JR: But when I say that to them, I am going to say to them, "I expect you to sell all the securities available that are for sale by the Treasury." In other words, when they go out, using my Crowell Publishing example - Crowell used to have seventy-five kinds of magazines, and the Crowell Publishing subscription salesmen would sell any one of seven or the combination. When the Victory Fund goes out, they will have in their portfolio every available security. If they sold an "E" or an "F" and "G," as far as the credit would go it would pile up to your organization. They don't care about the credit, but what they would like me to say - and nothing is settled, it is all fluid - to their group Monday is, "Now, as Secretary of the Treasury I am asking you, members of the securities organization of America, to devote yourselves exclusively to the Victory Fund for November and December." See?

MR. GRAVES: By that you mean they would not do any private business?

H.M.JR: No, no, that they wouldn't work for any State Administrator.

MR. GRAVES: That is the present status of things as a result of your telegram of the 27th day of August which I have here. They were told exactly that. That is Mr. Buffington's--

MR. BUFFINGTON: That is a little different. The Secretary is speaking now about them not working as individuals.

MR. GRAVES: Oh, as individuals. You see the Victory Fund Committees since that wire have not been working as committees.



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H.M.JR: No, but I am talking now as individuals.

MR. GRAVES: That would be perfectly all right.

H.M.JR: As individuals. But I want to go over it again so it is perfectly clear. When they call on the fellow and the fellow says, "I don't want your tap, but I want the 'F' and 'G,'" let them take that.

MR. GRAVES: We would welcome that.

H.M.JR: That is the result of last night's conference, subject to giving you ample time to think about it.

MR. GRAVES: I see no objection to that. That is, there would be instances, I suspect, of where one of these fellows would have to choose whether he is to remain a member of the Victory Fund Committee or a member of our shop, because there are instances where a fellow is in both organizations. Such a man, I should think, would have to decide--

H.M.JR: Well, it is a free country, and--

MR. GRAVES: ... whether he is going to continue to be a member of the Victory Fund Committee.

H.M.JR: ... it is getting freer every day. (Laughter)

MR. GRAVES: I see no objection to it at all. In fact, I think that would be welcomed.

H.M.JR: George said that if I said the word - so there can be no misunderstanding - on Monday to the "Union of Security Salesmen of America," "I want you to work exclusively for the Victory Fund," that means they will work exclusively for the Victory Fund.

MR. GRAVES: That is all right.



MR. BUFFINGTON: What is happening in Cleveland is that Percy Brown--

MR. GRAVES: There is a good example. Percy Brown, who is an investment man, is our county chairman for that very large community. That is, his activities include everything, payroll savings, women's activities, schools, everything comes under Percy Brown. I don't know whether he is a member of the Victory Fund or not.

MR. BUFFINGTON: He stands very well in the securities industry.

MR. GRAVES: I assumed he would go right on.

MR. BUFFINGTON: He is now, as I understand it, asking members of the industry to become a member of his "F" and "G" Committee for this drive. What I feel would be confusing would be to have these two bosses.

MR. GRAVES: Tell them not to invite members of the Victory Fund Committee under any circumstances to be members of your organization.

H.M.JR: No, I want to go further than that. I don't want your people to invite security salesmen who belong to the "Union of Security Salesmen--

MR. GRAVES: ... to be members of the War Savings. That is exactly what I was trying to say.

H.M.JR: That is, further - because a man could be very well a security salesman and not be a member of the Victory Fund Committee.

MR. GRAVES: I see what you mean.

MR. BUFFINGTON: But he would be utilized during this campaign by the Victory Fund Committee.

H.M.JR: You could very well, I am sure, go down Wall Street and go into security houses and find

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a lot of people that are members of neither Victory Fund nor yours. Now in your campaign for "F" and "G" and your campaign to sell all issues, we are going to call on an all-out effort of all security salesmen, and we want the "Union of Security Salesmen" to work exclusively for the Victory Fund Committee.

MR. GRAVES: That is all right.

H.M.JR: So we draw the line - I mean, there is a clean-cut thing. I want all security salesmen either to work for the Victory Fund Committee or for nobody - that is what it amounts to - plus, you said, certain banks.

MR. BUFFINGTON: Well, the banking people who are now actively working with the Victory Fund Committee.

H.M.JR: Now, to explain that so there is no misunderstanding--

MR. BUFFINGTON: The Victory Fund Committee has a series of members of regional and sub-regional committees who are now devoting all their time to the work of the committee. I think it would be too bad if those same men were asked to do the dual job, likewise.

MR. GRAVES: Illustrate, John; offhand I don't know of any.

MR. BUFFINGTON: Well, I don't know that I can, Harold. Take George Rand of Buffalo or Harriman of the Manufacturing People's Trust Company. His bank has been interested in doing a certain amount of work for War Savings. The main amount of his time is spent on activities of the Victory Fund Committee. If he were asked to work for the State Administrator on the "F" and "G" bond drive and at the same time were asked to do this over-all job, I think again he would be looking to two people.

H.M.JR: Excuse me - wouldn't this answer this question, if Harold Graves would send out instructions



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to his forty-eight State Administrators simply saying, "From now on, please do not solicit any members who are members of the Victory Fund Committee or men who are security salesmen to assist you in your work."

MR. GRAVES: That is all right. We can do that. That is no problem, except as to people who are already in our organization.

H.M.JR: Now, you do that. I mean, if you agree to send out such a telegram, then when these fellows come in Monday they will say that they will do that I want. Now, I will say, "All right, I want the security salesmen of America to devote themselves exclusively to the Victory Fund Committee. With that set up - and I want them to sell all Treasury securities--

MR. GRAVES: Yes.

MR. BUFFINGTON: Under the direction of the Victory Fund Committee.

MR. GRAVES: That is all right.

H.M.JR: Let me take a look. I can't look at more than one person at a time. Bell?

MR. BELL: I think that is fine. You say that you didn't put any time limit on it. You want that to hold from here on, or is it just for this drive? I take it that after the drive is over we won't have a drive every month.

MR. GRAVES: It would look a great deal better if only for this period.

H.M.JR: For November and December - why not let's say for the balance of this year?

MR. BUFFINGTON: The balance of this calendar year.



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H.M.JR: Let's say for between now and the first of January. How is that?

MR. BUFFINGTON: Fine.

MR. GRAVES: Mention the reason, which is that these fellows are going to be busy on this other.

H.M.JR: Here is the trouble. You can't say they are busy on the drive for us, because we have not even talked to Eccles about this drive of ours. Do you see what I mean?

MR. BUFFINGTON: I rather agree with the Secretary that if at his instructions they are going to do this for November and December, that is sufficient reason.

MR. BELL: Yes, but that either throws some onus on the War Savings Staff, or it gives away the drive. Now, which do you want?

MR. GRAVES: You see my point, if you just send out a naked wire, people will say, "Oh, more trouble."

H.M.JR: How about if we wait until we are ready to announce the drive?

MR. BUFFINGTON: Just a second. They are now in the process in these different states of actively - yesterday and today - getting these people and talking to these people about assisting the State Administrators. I think the sooner that can be done, the more completely it is clarified and there will be less confusion.

MR. BELL: Would Monday be too late?

MR. GRAVES: I think we had better have our people get on the telephone and explain it to our people.

H.M.JR: There are only ten States.

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MR. GRAVES: That is right, we can do it in those places that are crucial and explain exactly why, and tell them that we wouldn't like anything to be said about this until this drive is determined. In that way we assign a reason, and it makes it a whole lot better looking than if we just send out instructions like that which many people would say is evidence of further trouble. That would be much better.

H.M.JR: Will you set me straight as to when I said this "F" and "G" drive was going ahead?

MR. GRAVES: Yes, sir, here is the agenda of your Kansas City meeting, and you will notice there under "F" and "G" what is said. Then you remember, too, that Mr. Harrison came in to see you, I would say--

H.M.JR: But, Harold, there is nothing here about a drive,

MR. GRAVES: Yes, canvassers--

H.M.JR: That means something to you, but even now - I mean, there is nothing there about there being a drive from the 15th of November.

MR. GRAVES: At that time we hadn't set any precise time for this except we have asked our people to complete it by the end of December, and they started as soon as they could, but we fixed no beginning date, except that the New York people have established their beginning date as the 15th of November. In connection with this Harrison came in here to offer to you--

H.M.JR: I thought it was the "E" Bonds.

MR. GRAVES: No, no, "F" and "G." You remember, you brought him down to my office.

H.M.JR: Then I followed through. Something came up and nothing happened.



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MR. GRAVES: There is your memorandum to me and mine to you.

MR. BUFFINGTON: Is that industrial men?

MR. GRAVES: That is underwriters. Harrison is chairman of the Industry Committee.

MR. BUFFINGTON: There are two groups, the miscellaneous underwriting group and the industrial insurance salesmen.

MR. GRAVES: This is the whole insurance industry.

H.M.JR: But this does not - you see, all I am doing now is to sum up once more so we understand each other. The only difference is that the security salesmen ask to work for the Victory Fund, and let the Victory Fund Committee sell all securities, which I don't think they have done before.

MR. GRAVES: They sold "F" and "G" for the period May through August.

H.M.JR: I mean on this thing for November and December.

MR. GRAVES: I will be delighted with that.

H.M.JR: Fine; and as we get along Monday, we come to some decision; and before I once more decide anything, you sit in and talk with me personally; and then when we do decide, you will go down there with me and I will make the announcement. Then I thought it would be very nice if you followed up and said that this was pleasing to you and you would be more than pleased to have them sell everything, and that your organization is available to cooperate, and so forth, and so on. But, as I say, before anything becomes definite, as far as I am concerned it will have to be in writing, because there has been so much discussion about this, you see.



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MR. GRAVES: There are some, as I mentioned a minute ago, who have something to do with our present personnel. Percy Brown was an illustration. Nevil Ford is another one, and John Richards in Los Angeles is another one, and Howard Knowles is another. In other words, we have in our regular organization quite a number. Ford is a partner in the First Boston Company.

MR. BUFFINGTON: But quite a number of those people are also working for the Victory Fund Committee.

MR. GRAVES: I suppose you wouldn't want this arrangement to affect people who have been in our organization for many months.

H.M.JR: No, I don't want Nevil Ford to resign.

MR. BUFFINGTON: I am thinking of the volunteer worker and the members of the Victory Fund Committee.

MR. GRAVES: As to those, they are all right; we will accept them if they want to stay.

H.M.JR: Supposing a half a dozen men that have important positions - I take it that they would stay, but the thing that Buffington--

MR. BUFFINGTON: The solicitation of volunteers.

H.M.JR: Let's for heaven's sake, in this room lay all the cards - if there is anything in your (Buffington) mind, say so.

MR. BUFFINGTON: It will take the confusion away, working to the advantage of both of us.

H.M.JR: I am sorry I gave you a bad night, but after calling you I thought this one up.

MR. GRAVES: That is very satisfactory.

H.M.JR: Now, the same for you (Graves.). If you have got anything in your mind, say it or keep your peace.

MR. GRAVES: No, I haven't anything. We will have to start over again in certain States where we have already begun to draw these people into our set-up, but that is all right.

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H.M.JR: Now, the other thing that we are thinking about - I want to tell you, and then you remind me, Dan, if there is anything else we talked of that would be of interest to Harold - the Federal Reserve Board has made an offer that they are willing to put up five million dollars to pay the salesmen for these - a weekly salary.

MR. BELL: While they are working.

H.M.JR: While they are working. I am turning that down because, in the room here, I don't want the Federal Reserve paying - controlling the purse strings, you see.

MR. GRAVES: That is right.

H.M.JR: Now, George Haas and Murphy and Buffington agree with me. Bell does not. So Bell is overruled. But I mean--

MR. BELL: I agree that this is the best way to do it, but I don't have the fears that you do about not controlling personnel.

H.M.JR: What we are thinking about is the possibility of asking Congress for an appropriation to pay for these men or their organizations out-of-pocket expense rather than a commission. What I am looking forward to - and this is not going to be decided today or tomorrow or the next day, so you have time - I am looking forward - after all, I have always talked a long war. I don't think it is going to be nearly as long as I thought it was since I have been in England, but anyway, these fellows get fifty or seventy-five dollars a week - whatever it is - from their firms when they are actually working for us. What I want you to think of is - what it really amounts to is, can you maintain your E Bond organization on its present status.

MR. GRAVES: If the other organization gets on a compensated basis--



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H.M.JR: Now you can think that thing over and when you have talked it over with your boys, come back, seek me out, and talk to me.

MR. GRAVES: How much time have we?

MR. BELL: We probably won't go to Congress until the first of January for money.

MR. GRAVES: In other words, we have plenty of time - not forty-eight hours or anything like that.

H.M.JR: I would like to talk to you again about it beginning with Monday.

MR. GRAVES: I will be ready.

H.M.JR: I would like you to be ready by Monday to talk about it. No, I didn't agree with you, Dan.

MR. BELL: You said during this drive we wouldn't have that problem.

H.M.JR: I might go to the Bureau of the Budget and ask for an appropriation if I decided this is what I want to do. I might want to go to the Bureau and start the thing within the Bureau.

MR. BELL: Well, within the next--

H.M.JR: Couple of weeks.

MR. BELL: That is all right.

H.M.JR: But I am putting Harold on notice, and I don't know that I want to do it.

MR. GRAVES: I have a good deal of information about that. I don't know whether you remember, but we got the balance of our funds for the fiscal year '42, bringing the total of the appropriation for expenses of loans up to twenty-six millions, as I remember. That



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got into the newspapers as being an appropriation to compensate people to sell war savings bonds, and we had hell to pay.

H.M.JR: With whom?

MR. GRAVES: With a great many States because of protests coming from the citizens, objecting to the creation of a paid force to sell war bonds. Now, that was war savings securities that were involved in those stories. We had trouble in New Hampshire; we had trouble in North Carolina.

H.M.JR: Well, I have got to settle this immediate campaign. I have got to get busy to sell from ten--

MR. BUFFINGTON: The answer to that is that if you are going to use this professional group, and deny them the right to sell securities, by which they make a living, they are going to have to be reimbursed for their time or I don't think they are going to function for any period.

MR. GRAVES: Well, you will have that trouble. Once it is known, you will have a lot of protests, just as we had.

MR. BUFFINGTON: Didn't that develop on the basis of commissions, Harold?

MR. GRAVES: No. We will be ready to discuss that with you. I will talk with Peter.

H.M.JR: This drive does not hinge on whether we pay them or not. Is that right, George?

MR. BUFFINGTON: As far as payment for this drive is concerned, but I think that something should be said to these men that the thing is being given consideration.

H.M.JR: No, I won't say that on Monday because I won't have time to think it through. As soon as - I

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don't want to raise their hopes and say I thought of it and then turned it down. When I get ready to say something I am going to do it; the rest of the time I am going to keep my mouth shut.

MR. GRAVES: There is one other thing I think I should tell you, since apparently I hadn't made this clear before. In every State we have given instructions to our people to organize a force of people - insurance people and others - to canvass all F and G prospects by the end of December. As I understand, nothing is being said here that would interfere with our going ahead with that program.

H.M.JR: No, but what I want you to do for me, I want you to ask somebody like Moody's, one of these investment councils - Standard Statistics - whether they would mail, or ask each of them if they would mail a thousand post cards, with a return post card attached, to their list - a thousand names on their list. On that post card I want to ask their customers if they have ever been solicited by a representative of the Treasury to buy a Government security; then if so, by whom. I would like to have that post card written today, with Bell having a chance to look at it, and Buffington, and have it go to the printer tonight. I want two thousand post cards, and if possible - a thousand to Standard Statistics and a thousand to Moody's.

Now, the statement has been made by different people, like Mr. Shields and Stewart, that they have talked to a hundred and fifty people and not one has ever been solicited for Government bonds. You know my method of finding out. It is this way; if we sent two thousand return post cards to a list of people who get security letters, like Standard Statistics, they would be the people - Moody's and Standard Statistics - people who would be interested in wealth and not in the E Bonds. I would like to have those things so that the post cards could be printed and possibly go up to these people by Monday and have them address them and in the mail Monday night.



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That is the schedule. I don't want to see them again, but I would like Bell and Buffington - the three of you - to do it. Then, who would those come back to? Who would they be addressed to?

MR. GRAVES: They would come back to those services.

MR. BELL: Yes, they probably wouldn't want to give you the names of their customers.

MR. GRAVES: Then delivered in bulk to us.

H.M.JR: Then they could analyze them. That would give us some idea, if a man like Shields is correct that there are a hundred and fifty of his friends who have never been solicited for Government bonds.

But this does not interfere with your plans to go ahead. The only change is the Victory Fund people will have a full portfolio, so when they call on a prospect - and their people would be the ones with wealth - they can sell anything that they want; and the F and G Bond is more attractive than the tap issue.

MR. BUFFINGTON: Harold, it will also eliminate that so-called sabotage where our man does not have the F Bond and urges him to buy the tap before he buys a quota of G's. We are not giving him a good investment policy, and that will eliminate that.

MR. GRAVES: I am for it. It is O.K.

H.M.JR: But I would like those two thousand post cards in the mail by Monday night.

Now, Bell, what have I overlooked?

MR. BELL: I don't think you have overlooked anything.

H.M.JR: George?



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MR. BUFFINGTON: There is just one point I would like to call to your attention. These men have just completed, in October, an intensive thirty-day drive on these Tax Savings Notes. Now they are coming along, right on top of that, for another extended period. I just want to offer as a suggestion, that if something could be said - that thought is being given to working out--

H.M.JR: I can't do it, George. Now don't push me on it. Now, you asked for this other thing; I am straightening this thing out, and I am not going to hold out promises that I can't make good on. There is no use pushing me on a thing like that. If I just hint - if there is any doubt in your mind, without my holding any carrot before their noses, that they can't do it, then I want to know it now.

MR. BUFFINGTON: There is no doubt in my mind at all.

H.M.JR: I am in the frame of mind - I have got to have successes around me. Now, there is thirteen billion dollars at stake, and if there is any doubt in your mind that these fellows will go through after what I have just done here, without my holding a carrot - for goodness sake, say so.

MR. BUFFINGTON: There is no doubt in my mind about it; I was only trying to make as good a showing as I can.

H.M.JR: No, now come a thousand percent clean.

MR. BUFFINGTON: There is no doubt in my mind about these men doing a good job on this all-out drive.

H.M.JR: Now, I may not be able to say anything to them until after the first of January, and I am not going to say anything to them until after I have made up my mind - after taking the advice of everybody. That is the thing we want to do, and I have certainly first got to talk with the SEC. I have got to talk

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with them just as a matter of common decency. Don't you think so?

MR. BELL: I see no harm, but I see no reason for talking to them.

H.M.JR: It would be a nice thing to do. Now let's go through this once more, George. I am fast crystallizing on a program here, and I am relying on your men to put this thing over.

MR. BUFFINGTON: I restate my position that the Victory Fund Committee and the Securities Industry will go all-out on this drive and do a good job without anything being said at all.

H.M.JR: All right, O.K. You are dealing with a tough guy, you know, and I don't believe in hints, George; it is the worst kind of thing. I have always said, and these men have heard me say it, I have only one thing in politics that is worth a damn in this town, and that is a fellow's word. Now, I went all through that with the banking fraternity, once. Something was said - I forget what it was, but Randolph Burgess claimed I had hinted something I would do for the banks. I couldn't remember what it was. It was bad for the Treasury, but he said they had gotten the impression that that was what I was going to do. Well, I believed him. He said they had the impression, nothing in writing. All right - and we went through and had the thing changed. In other words, they could come back and say that Mr. Morgenthau gave them the impression that he was going to give them this salary, and there I am - hooked.

MR. BUFFINGTON: But these men are going to do the job, and the only reason I even mentioned it this morning was in an effort to get the best possible job.

H.M.JR: O.K. You are a salesman, but when you push me too hard, I push back. Just so we understand each other.



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MR. BELL: Of course you might, Mr. Secretary, make up your mind before this drive has gone very far, and then you can say something.

H.M.JR: That is O.K., but I am not going to say one damn thing to George so that he can't say that he got an impression this morning. If we decided, and Harold Graves comes around and begs me to do it--  
(Laughter)

MR. BUFFINGTON: That is all right.

MR. GRAVES: I may come around and beg you not to do it.

MR. BELL: We may not do that, but I think we have got to do something, Harold. We have either got to go this way and expand this organization or we are going to expand your organization to take in the whole job, because I don't think we can spend all the time and effort and money on twenty percent of our financing and leave the other eighty percent hanging out in the air. The Secretary is subject to too much criticism. Every month he comes against the gun and has a banking issue, and I think we have reached the end of our ropes on that. I think we have got to do something else. That is my worry.

MR. GRAVES: I didn't want to be giving a final impression.

H.M.JR: I am glad you said that because you said that to me last night.

MR. BELL: I am a little worried about our position, frankly.

H.M.JR: Any more confessions? I have invited Mr. Grant, vice president of General Motors, to come in. I just want to talk to him about our sales effort. As you know, I have been quite an admirer of his right along as to his ability in the past as a national sales manager. How much does he know about our sales organization?



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MR. GRAVES: We consulted Mr. Grant, as far as I know, only on the question you asked us to take up with General Motors and other automobile companies about getting people. He was very helpful and friendly about that. I doubt whether he knows very much.

H.M.JR: What I had in mind was to ask him, as a consultant, whether he would look over the whole business, the Victory Fund Committee and the whole business, with an idea of making suggestions as a sales technician.

MR. GRAVES: I think he would have to spend a little time with us, then.

MR. BELL: It would be grand if he could spend the next two months while this whole program is going on.

H.M.JR: What I was thinking, I know he is old, but, for instance, he might say--

MR. GRAVES: I am afraid he is not very well.

H.M.JR: I know, but if, for instance, he would say, "Could I use a sales manager from the icebox division--"

MR. BUFFINGTON: Frigidaire.

H.M.JR: ... "Could I bring him in? Could I bring in the Delco salesman, people that have nothing to do today? If I could use them, Mr. Morgenthau - or my good friend Jack So-and-so of the Packard Motor Car Company--" He would know these fellows who are in this, and I am going on the theory right along that it takes a certain type of man to make the sale, irrespective of the merchandise. But being a consultant, it wouldn't disturb anybody.

MR. GRAVES: It would be very good.

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H.M.JR: This is a counter move on my part as against the thought that I must take a New York banker in to direct these sales, which I won't do. I am being very honest with you. Instead of taking a man like different people they have suggested and tried to force on me, well, this would be an answer. "Well, I agree with you that it is good to have outsiders come in and take a look at us, therefore I have asked" - there may be a sales managers' organization, I don't know, but I will ask one or two to come in. I do think Mr. Grant, or the sales manager of Packard Motors, or the sales manager of Ford might be able to tell me something.

MR. GRAVES: I do, too.

H.M.JR: And particularly, for instance, this last suggestion that George Haas made last night about installment payments - I told him to write it out - that we try to get these organizations to take up installment payment of bonds and carry on the same technique, using their organization for that. I mean, you can no longer buy an icebox; get that same group to continue payments on the bonds.

MR. GRAVES: We have done something along that line. The General Motors Acceptance Corporation came to us with a great big plan; they wanted to put in that very thing, and Mr. Sloan turned it down.

H.M.JR: Which Sloan?

MR. GRAVES: The Chairman of General Motors.

MR. BELL: This is foreign to the banks.

H.M.JR: George is going to write it out and send it in to you. We should, I know, sit down and talk with Eccles. I am pleased with this morning's meeting.

MR. BELL: I would like to see that done just with Eccles. The group ought to be here Tuesday or Wednesday.



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H.M.JR: I have got Grant coming in at--

MR. BELL: Do you want me to talk to Eccles and get his reaction to it, to save your time?

H.M.JR: I am free at eleven-thirty. I shouldn't think that that Truman Committee would take over half an hour, would you?

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

H.M.JR: See if you can get Eccles over here at eleven-thirty.

MR. BELL: Shouldn't he just come alone?

H.M.JR: Yes. All right. This was a good meeting, don't you think so? Are you satisfied?

MR. GRAVES: I am satisfied.

MR. BUFFINGTON: Yes.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE  
November 6, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

The following information regarding the LaGuardia story is based, for the most part, on facts supplied by Dick Patterson and his organization in New York.

1. Background. The War Savings Staff in New York has been trying for the past nine months to get the Mayor to install a Payroll Savings Plan for municipal employees. Col. Patterson has talked to the Mayor about it at least three times, and others of his staff have also seen him. The Mayor was always cordial but always gave the excuse about lack of machinery.

The Herald Tribune and the Daily News learned of the situation (not from Patterson's organization) and on Tuesday asked Patterson for a statement. Patterson declined to talk, saying that the newspapers should ask the Mayor for comment instead. At the same time Bruce Smith, of the Patterson organization, telephoned Lester Stone, the Mayor's secretary, to tip him off to the fact that the newspapers had the story and that the War Savings Staff had had no part in giving it to them. Stone said he appreciated the tip. The result was the Mayor's statement yesterday which precipitated publication of the story.

2. The Herald Tribune story. The facts attributed to the Treasury Department in this morning's story are correct, except that the number of employees exposed to Payroll Savings in New York State is 4,257,155. Our people have checked the Mayor's statement, and find that in 72 City of New York departments the total sales for September were \$444,135 and for August \$515,026. This is exclusive of the Board of Education, the Park Department and the Board of Transportation. The Board of Education says that its employees are responsible for sales of about \$1,000,000 a month.

Our people, in other words, believe the Mayor's figures are fairly accurate. They think, however, that if the Mayor would install a Payroll Savings Plan he would sell at least \$30,000,000 a year instead of the \$16,000,000 or \$17,000,000 he is now selling.



3. Tabulating Machinery. Our people in New York and Washington believe the Mayor has made no serious attempt before now to get the machines which he says he needs. It is our contention, as pointed out in the Tribune story, that the City could do much with its present equipment if the Mayor so desired.

Controller McGoldrick, who was here yesterday, told Peter Odegard that the Victory Tax would necessitate new accounting machinery, and that this, in turn, would make possible the installation of a Payroll Savings Plan for War Bonds. McGoldrick was pessimistic, however, about the dollar yield to be expected from a Payroll Savings Plan in view of the cost of living, the Victory Tax, and the static salaries of city employees.

4. Public Statement. Col. Patterson and his staff suggest that you make NO public statement on the subject at this time. I agree, since it appears likely that the City will soon install its Payroll Savings Plan at last.

*F. K.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

November 6, 1942

TO Ferdinand Kuhn  
FROM Secretary Morgenthau

Please read the story in today's Tribune about Mayor LaGuardia in the City of New York and War Bonds. Get all the details from the New York office. Also, there is a telegram from Mayor LaGuardia to me which Dan Bell has, asking for help to get him certain office machinery to handle the tax bill next year. I don't know just what the status of that is. But if New York has taken a fight on with Mayor LaGuardia, I'll have to get in on it sooner or later. I want you to have all the facts for me just as soon as possible and not later than this afternoon, so if necessary we can make a public statement. Be sure and get this to me not later than three o'clock this afternoon.



## Analysis of Exposure to Payroll Savings Plans

October 31, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	488	491	99
(2) Firms with 500 to 4,999 employees.....	5,551	5,905	94
(3) Firms with 100 to 499 employees.....	<u>24,542</u>	<u>28,357</u>	<u>87</u>
(4) Subtotal - large firms.....	30,581	34,753	88
(5) Firms with less than 100 employees.....	<u>124,038</u>	*	*
(6) Total business organizations.....	154,619	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>154,619</u>	<u>*</u>	<u>*</u>

## Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,877,131	*	*
(2) Firms with 500 to 4,999 employees.....	7,319,199	*	*
(3) Firms with 100 to 499 employees.....	<u>5,583,319</u>	*	*
(4) Subtotal - large firms.....	20,779,649	*	*
(5) Firms with less than 100 employees.....	<u>3,064,875</u>	*	*
(6) Total business organizations.....	23,844,524	32,800,000 <sup>1/</sup>	73
II. Governmental organizations			
(1) Federal Government.....	2,181,131	2,700,000 <sup>1/</sup>	81
(2) State and local governments.....	<u>1,395,423</u>	<u>2,800,000</u>	<u>50</u>
(3) Total governmental organizations.....	<u>3,576,554</u>	<u>5,500,000</u>	<u>65</u>
III. Grand total.....	<u>27,421,078</u>	<u>38,300,000 <sup>1/</sup></u>	<u>72</u>

Treasury Department

November 6, 1942

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

\* Data not available.

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 24	Oct. 31		Apr. 18	Oct. 24	Oct. 31
Alabama.....	149	251	253	285	52	88	89
Arizona.....	43	68	70	70	61	97	100
Arkansas.....	44	56	59	120	37	47	49
Northern California.....	512	707	707*	707	72	100	100
Southern California.....	756	1,036	1,040	1,178	64	88	88
Colorado.....	113	136	136	141	80	96	96
Connecticut.....	277	540	544	711	39	76	77
Delaware.....	21	58	58	87	24	67	67
District of Columbia.....	52	152	152*	199	26	76	76
Florida.....	147	211	214	214	69	99	100
Georgia.....	133	391	391	417	32	94	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	1,969	2,022	2,253	58	87	90
Indiana.....	415	663	663	663	63	100	100
Iowa.....	165	207	207	305	54	68	68
Kansas.....	276	287	287	290	95	99	99
Kentucky.....	136	210	210	288	47	73	73
Louisiana.....	179	277	277	324	55	85	85
Maine.....	60	173	173*	189	32	92	92
Maryland.....	177	336	339	405	44	83	84
Massachusetts.....	639	1,102	1,117	1,532	42	72	73
Michigan.....	689	985	991	1,050	67	96	96
Minnesota.....	376	440	440	441	85	99	99
Mississippi.....	59	86	88	104	57	83	85
Missouri.....	472	676	680	680	69	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	129	131	139	74	93	94
Nevada.....	14	20	20*	28	50	71	71
New Hampshire.....	89	141	142	145	61	97	98
New Jersey.....	463	965	966	966	48	99	100
New Mexico.....	33	41	41	42	79	98	98
New York.....	2,060	3,793	3,823	4,257	48	89	90
North Carolina.....	282	471	474	563	50	84	84
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,698	1,731	2,195	51	77	79
Oklahoma.....	166	298	299	349	48	85	86
Oregon.....	211	293	293	293	72	100	100
Pennsylvania.....	1,682	2,224	2,242	2,242	75	99	100
Rhode Island.....	154	270	270	341	45	79	79
South Carolina.....	71	155	155	169	42	92	92
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	400	405	522	38	77	78
Texas.....	326	654	674	1,378	24	47	49
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	67	67	74	80	91	91
Virginia.....	281	400	400	428	66	93	93
Washington.....	234	352	356	356	66	99	100
West Virginia.....	134	215	215*	309	43	70	70
Wisconsin.....	278	473	475	680	41	70	70
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,365	24,321	24,542	28,357	54	86	87

Treasury Department

November 6, 1942

\* Data are for October 24, inasmuch as no October 31 report was received.

Regraded Unclassified



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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 24	Oct. 31		Apr. 18	Oct. 24	Oct. 31
Alabama.....	41	65	66	69	59		96
Arizona.....	9	14	14	14	64	94	100
Arkansas.....	16	17	18	18	89	100	100
Northern California.....	122	142	142*	175	70	94	100
Southern California.....	121	149	149	155	79	81	81
Colorado.....	25	31	31	31	79	97	97
Connecticut.....	114	152	152	167	81	100	100
Delaware.....	15	18	18	18	68	91	91
District of Columbia.....	32	45	45*	47	83	100	100
Florida.....	28	43	43	47	68	96	96
Georgia.....	86	123	123	123	60	91	91
Idaho.....	11	11	11	11	70	100	100
Illinois.....	391	481	487	560	100	100	100
Indiana.....	88	141	142	165	70	86	87
Iowa.....	22	31	31	44	53	85	86
Kansas.....	23	25	25	25	50	70	70
Kentucky.....	38	49	49	49	92	100	100
Louisiana.....	29	51	51	51	78	100	100
Maine.....	48	58	58*	58	57	100	100
Maryland.....	84	109	109	109	83	100	100
Massachusetts.....	237	315	315	338	77	100	100
Michigan.....	265	284	284	284	70	93	93
Minnesota.....	79	81	81	81	93	100	100
Mississippi.....	26	33	33	33	98	100	100
Missouri.....	103	131	131	142	79	100	100
Montana.....	3	4	4	4	73	92	92
Nebraska.....	23	27	27	27	75	100	100
Nevada.....	4	4	4*	4	85	100	100
New Hampshire.....	29	32	32	32	100	100	100
New Jersey.....	142	190	191	192	91	100	100
New Mexico.....	5	5	5	5	74	99	99
New York.....	759	898	898	955	100	100	100
North Carolina.....	103	136	136	140	79	94	94
North Dakota.....	0	0	0	0	74	97	97
Ohio.....	412	483	484	509	-	-	-
Oklahoma.....	31	51	51	51	81	95	95
Oregon.....	48	55	55	55	61	100	100
Pennsylvania.....	551	614	614	652	87	100	100
Rhode Island.....	61	77	77	86	85	94	94
South Carolina.....	84	98	98	100	71	90	90
South Dakota.....	5	5	5	5	84	98	98
Tennessee.....	50	85	86	92	100	100	100
Texas.....	63	116	117	118	54	92	93
Utah.....	8	10	10	10	53	98	99
Vermont.....	12	12	12	12	80	100	100
Virginia.....	93	110	111	111	100	100	100
Washington.....	49	73	73	73	84	99	100
West Virginia.....	36	75	75*	75	67	100	100
Wisconsin.....	127	147	150	154	48	100	100
Wyoming.....	1	4	4	4	82	95	97
Alaska.....	3	3	3*	3	25	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>6,022</u>	<u>6,039</u>	<u>6,396</u>	<u>76</u>	<u>94</u>	<u>94</u>

TREASURY DEPARTMENT

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Att

INTER OFFICE COMMUNICATION

DATE

November 6, 1942.

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

You asked me to do everything possible to get the story of the October financing into the weekly newspapers, and you asked for a written report.

1. Harold Mager has written an article which the editor of New Republic assures us will definitely appear in next week's issue, leading off with a tribute to your achievement in keeping the interest rate at 2 percent, and supporting your efforts to cut down consumer spending. He wrote this as an independent writer and not as a Treasury consultant. The article was, therefore, not submitted to us before being mailed, but I have seen it and think it will be most useful.

Chic Schwarz talked to Keith Hutchison, the financial writer of The Nation, who was much interested in the October financing story and asked for full particulars so that he could write a piece about it.

2. The story of borrowing \$6,800,000,000 in one month will not appeal as such to the labor press. The thing to emphasize here is the 2 percent interest rate and its importance to the working men and women of the country. Herman Wolf, labor man with the War Savings Staff, is having an informal meeting with C.I.O. editors at the C.I.O. convention in Boston on Monday, and will discuss this story with them, with the help of material which we are supplying.
3. Mr. Wolf made the excellent suggestion that you have a little press conference of six key labor editors the week after the C.I.O. convention, on November 16th or subsequent days. Herbert Gaston, Randolph Paul and the rest of our publicity group agree that this is highly desirable. If you would set a date for such a meeting, we can get out preliminary material to the six people, with emphasis on the 2 percent interest rate.

F. K.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 6,  
1942

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

During the week ended last night, there was little movement in the prices of Government securities, most issues showing no change. The restricted 2-1/2's of 1962-67 improved 3/32 during the week, the largest move registered by any issue, to close last night at 100-12/32 bid, 100-18/32 asked, a mean of 100-15/32\*. The taxable 2-1/2's of 1967-72 closed yesterday at 101, down 1/32 from a week ago, while the taxable 1-1/2 percent notes, due in December 1946, remained unchanged at 100-1/32.

Of the 46 securities listed in Table II, which were outstanding on March 19, 22 have higher yields now than in March, 4 have the same yields, and 20 have lower yields. Only 6 of the 46 securities, however, have higher prices now than in March. The difference is due to the amortization factor previously discussed in a number of memoranda of this series. (See attached chart and tables.)

Certificates of indebtedness showed some improvement during the week, the new 7/8 percent issue due November 1943 closing last night at 100.066 to yield 0.81 percent as compared with a yield of 0.84 percent a week ago. For the fourth successive week, the average rate on the weekly offering of bills was 0.373 percent.

Purchases by the Federal Reserve Banks for their individual investment accounts and for the System Account aggregated \$456 millions during the week ended last night. They consisted of \$192 millions of bills, \$216 millions of certificates, \$32 millions of taxable notes and bonds, and \$16 millions of partially tax-exempt issues. Sales, confined

\* All quotations in this memorandum and the accompanying tables, unless otherwise specified, are mean of closing bid and asked quotations.

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entirely to bills, amounted to \$127 millions. Maturities included \$124 millions of bills and \$287 millions of certificates, \$158 millions of which were exchanged for the new certificates. (Federal had tendered the entire amount but was allotted only \$158 millions.) As a result of these transactions total Federal Reserve holdings of Government securities decreased \$82 millions during the week.

The condition statement of the twelve Federal Reserve Banks, released today, shows an increase of \$110 millions in the Federal Reserve portfolio during the week ended on Wednesday. The difference between this and the figure just quoted is due to the fact that the data used in this memorandum are for a week ended on Thursday rather than on Wednesday, and are on a "transaction date" basis rather than on a "delivery date" basis. The combined effect of these two differences is to make the figures cited in this memorandum about two days more up-to-date than those used in the condition statement.

Attachments



Table I 30  
 Price and Yield Changes of United States Securities  
 October 29, 1942 to November 5, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Oct. 29, 1942	Nov. 5, 1942	Change	Oct. 29, 1942	Nov. 5, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
<u>TAXABLE SECURITIES</u>						
<u>Bills</u>						
Average rate last issue	-	-	-	.37	.37	.00
<u>Certificates</u>						
5/8% 2/1/43	100.051	100.060	+0.009	.43	.37	-.06
.65 5/1/43	100.012	100.026	+0.014	.63	.60	-.03
7/8 8/1/43	100.115	100.117	+0.002	.72	.72	.00
7/8 11/1/43	100.035wi	100.066	+0.031	.84wi	.81	-.03
<u>Taxable Notes</u>						
3/4% 3/15/43	100.03	100.03	.00	.50	.49	-.01
3/4 9/15/44	99.21	99.21	.00	.94	.94	.00
1-1/4 3/15/45	100.00	100.01	+0.01	1.25	1.24	-.01
3/4 12/15/45	98.30	98.30	.00	1.10	1.10	.00
1 3/15/46	99.05	99.05	.00	1.26	1.26	.00
1-1/2 12/15/46	100.01	100.01	.00	1.49	1.49	.00
<u>Taxable Bonds</u>						
2% 3/15/48-50	101.05	101.06	+0.01	1.77	1.77	.00
2 5/15/49-51	100.11	100.11	.00	1.94	1.94	.00
2 9/15/49-51	100.07	100.08	+0.01	1.97	1.96	-.01
2 12/15/49-51	100.05	100.05	.00	1.98	1.98	.00
2 3/15/50-52	100.01	100.02	+0.01	2.00	1.99	-.01
2 12/15/51-55	100.01	100.01	.00	2.00	2.00	.00
2-1/2 3/15/52-54	103.24	103.24	.00	2.06	2.06	.00
2-1/4 6/15/52-55	101.08	101.08	.00	2.11	2.11	.00
2-1/2 3/15/56-58	103.09	103.09	.00	2.22	2.21	-.01
2-1/2 6/15/62-67	100.12	100.15	+0.03	2.48	2.47	-.01
2-1/2 9/15/67-72	101.01	101.00	-.01	2.44	2.45	+0.01
<u>TAX-EXEMPT SECURITIES</u>						
<u>Wholly Tax-exempt Notes</u>						
1-3/4% 12/15/42	100.06	100.05	-.01	.26	.28	+0.02
1-1/8 6/15/43	100.15	100.15	.00	.37	.35	-.02
1 9/15/43	100.19	100.19	.00	.32	.31	-.01
1-1/8 12/15/43	100.29	100.29	.00	.32	.30	-.02
1 3/15/44	100.23	100.23	.00	.48	.47	-.01
3/4 6/15/44	100.13	100.13	.00	.50	.50	.00
1 9/15/44	100.30	100.30	.00	.50	.49	-.01
3/4 3/15/45	100.13	100.13	.00	.58	.58	.00
<u>Partially Tax-exempt Bonds</u>						
3-3/8% 6/15/43-47	101.26	101.24	-.02	.47	.48	+0.01
3-1/4 10/15/43-45	102.16	102.16	.00	.63	.58	-.05
3-1/4 4/15/44-46	103.20	103.20	.00	.75	.71	-.04
4 12/15/44-54	106.16	106.15	-.01	.91	.89	-.02
2-3/4 9/15/45-47	105.00	104.31	-.01	.98	.98	.00
2-1/2 12/15/45	104.19	104.19	.00	1.00	.99	-.01
3-3/4 3/15/46-56	108.27	108.27	.00	1.08	1.06	-.02
3 6/15/46-48	106.26	106.25	-.01	1.08	1.08	.00
3-1/8 6/15/46-49	107.06	107.06	.00	1.10	1.09	-.01
4-1/4 10/15/47-52	114.16	114.15	-.01	1.23	1.22	-.01
2 12/15/47	104.04	104.06	+0.02	1.17	1.15	-.02
2-3/4 3/15/48-51	107.15	107.15	.00	1.31	1.30	-.01
2-1/2 9/15/48	106.30	106.30	.00	1.27	1.27	.00
2 12/15/48-50	104.05	104.06	+0.01	1.29	1.29	.00
3-1/8 12/15/49-52	110.18	110.18	.00	1.55	1.55	.00
2-1/2 12/15/49-53	106.04	106.04	.00	1.59	1.59	.00
2-1/2 9/15/50-52	106.15	106.15	.00	1.62	1.62	.00
2-3/4 6/15/51-54	108.04	108.04	.00	1.73	1.73	.00
3 9/15/51-55	110.09	110.09	.00	1.74	1.67	-.07
2-1/4 12/15/51-53	104.28	104.28	.00	1.67	1.65	-.02
2 6/15/53-55	103.14	103.14	.00	1.65	1.65	.00
2-1/4 6/15/54-56	105.08	105.08	.00	1.75	1.75	.00
2-7/8 3/15/55-60	109.19	109.18	-.01	2.00	2.00	.00
2-3/4 9/15/55-59	108.28	108.28	.00	2.01	2.01	.00
2-3/4 6/15/58-63	109.00	109.00	.00	2.07	2.07	.00
2-3/4 12/15/60-65	109.19	109.18	-.01	2.11	2.11	.00

Treasury Department, Division of Research and Statistics.

November 5, 1942.

1/ Decimals in prices of certificates are true decimals.

Price and Yield Changes of United States Securities  
March 19, 1942 to November 5, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	Nov. 5, 1942	Change	March 19, 1942	Nov. 5, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
<b>TAXABLE SECURITIES</b>						
Average rate last issue	-	-	-	.20	.37	+17
<b>Certificates</b>						
5/8% 2/1/43	-	100.060	-	-	.37	-
.65 5/1/43	-	100.026	-	-	.60	-
7/8 8/1/43	-	100.117	-	-	.72	-
7/8 11/1/43	-	100.066	-	-	.81	-
<b>Taxable Notes</b>						
3/4% 3/15/43	100.12	100.03	-.09	.37	.49	+12
3/4 9/15/44	99.31	99.21	-.10	.76	.94	+18
1-1/4 3/15/45	-	100.01	-	-	1.24	-
3/4 12/15/45	99.21	98.30	-.23	.84	1.10	+26
1 3/15/46	99.29	99.05	-.24	1.02	1.26	+24
1-1/2 12/15/46	-	100.01	-	-	1.49	-
<b>Taxable Bonds</b>						
2% 3/15/48-50	101.28	101.06	-.22	1.67	1.77	+10
2 6/15/49-51	101.04	100.11	-.25	1.83	1.94	+11
2 9/15/49-51	-	100.08	-	-	1.96	-
2 12/15/49-51	-	100.05	-	-	1.98	-
2 3/15/50-52	-	100.02	-	-	1.99	-
2 12/15/51-55	100.12	100.01	-.11	1.96	2.00	+04
2-1/2 3/15/52-54	103.23	103.24	+01	2.09	2.06	-.03
2-1/4 6/15/52-55	101.06	101.08	+02	2.12	2.11	-.01
2-1/2 3/15/56-58	103.05	103.09	+04	2.24	2.21	-.03
2-1/2 6/15/62-67	-	100.15	-	-	2.47	-
2-1/2 9/15/67-72	100.27	101.00	+05	2.46	2.45	-.01
<b>TAX-EXEMPT SECURITIES</b>						
<b>Fully Tax-exempt Notes</b>						
1-3/4% 12/15/42	101.11	100.05	-1.06	2/32*	.28	-3/32*
1-1/8 6/15/43	101.04	100.15	-.21	.22	.35	+13
1 9/15/43	101.03	100.19	-.16	.26	.31	+05
1-1/8 12/15/43	101.16	100.29	-.19	.26	.30	+04
1 3/15/44	101.10	100.23	-.19	.34	.47	+13
3/4 6/15/44	100.27	100.13	-.14	.37	.50	+13
1 9/15/44	101.16	100.30	-.18	.39	.49	+10
3/4 3/15/45	101.00	100.13	-.19	.41	.58	+17
<b>Partially Tax-exempt Bonds</b>						
3-3/8% 6/15/43-47	103.21	101.24	-1.29	.41	.48	+07
3-1/4 10/15/43-45	104.06	102.16	-1.22	.57	.58	+01
3-1/4 4/15/44-46	105.06	103.20	-1.18	.72	.71	-.01
4 12/15/44-54	108.21	106.15	-1.28	.91	.89	-.02
2-3/4 9/15/45-47	106.06	104.31	-1.07	.94	.98	+04
2-1/2 12/15/45	105.28	104.19	-1.09	.90	.99	+09
3-3/4 3/15/46-56	110.08	108.27	-1.13	1.11	1.06	-.05
3 6/15/46-48	107.28	106.25	-1.03	1.09	1.08	-.01
4 46-49	108.08	107.06	-1.02	1.13	1.09	-.04
47-52	115.20	114.15	-1.05	1.33	1.22	-.11
47	104.23	104.06	-.17	1.15	1.15	.00
48-51	107.28	107.15	-.13	1.38	1.30	-.08
48	107.07	106.30	-.09	1.33	1.27	-.06
48-50	104.21	104.06	-.15	1.28	1.29	+01
49-52	110.22	110.18	-.04	1.65	1.55	-.10
49-53	106.16	106.04	-.12	1.60	1.59	-.01
50-52	106.20	106.15	-.05	1.66	1.62	-.04
51-54	108.18	108.04	-.14	1.74	1.73	-.01
51-55	110.20	110.09	-.11	1.78	1.74	-.04
51-53	104.29	104.28	-.01	1.70	1.67	-.03
53-55	103.10	103.14	+04	1.68	1.65	-.03
54-56	104.28	105.08	+12	1.80	1.75	-.05
55-60	110.00	109.18	-.14	2.00	2.00	.00
56-59	109.10	108.28	-.14	2.01	2.01	.00
58-63	109.12	109.00	-.12	2.07	2.07	.00
60-65	110.00	109.18	-.14	2.10	2.11	+01

ment, Division of Research and Statistics.  
prices of certificates are true decimals.  
rise over zero yield.

November 5, 1942.



November 6, 1942  
11:00 a.m.

AMERICAN VISCOSE COMPANY

Present: Mr. Bell  
Mr. White  
Mr. Cairns  
Mr. Fulton  
Mrs. Klotz

H.M.JR: You ask me the questions, and then I will answer to the best of my ability.

MR. FULTON: I might first give you a short thumbnail sketch of the extent of the interest that Senator Truman had expressed in it.

Last year at the time of the sale he was aware of the fact that there were at least contentions that the bankers had made a very large profit, and Mr. Jesse Jones had discussed with him the possibility of putting up a loan which would be collateralized or secured.

H.M.JR: Mr. Jones had?

MR. FULTON: Yes, with British-held American securities, the basis being that perhaps the bankers were somewhat avaricious in the amounts which they had made on this particular transaction. Senator Truman's interest was not so deep that he went into it beyond understanding that there had been provision made for such a loan by, I think, the RFC.

Recently - that is, within the last few months - a rather prominent banker, who requested that his name not be mentioned, said that he thought that a very great deal of damage had been done by the relatively high amounts paid by the American bankers in this

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particular transaction. Senator Truman, therefore, wanted to find out, not the amount of the banking profit, but the justification underlying the amounts which they had. He had somewhat this idea in mind, that a loan secured by British securities is really a paper transaction until and unless the British ultimately sell the securities in this country and repay the loan or obtain dollar exchange from some other source.

He thought that your initial idea, perhaps - or what he thought was your idea - of having an orderly disposition on fair terms of large blocks of British securities would have been preferable, in the sense that when they were so disposed of the dollar exchange could have been applied to the war effort. In the loan transaction, involving such huge sums as it does, it might after the war become a question of discussions between the governments as to the disposition of the loan, and that might ultimately be much less satisfactory from the American standpoint than the proposal which he thought you had had in mind of disposing of the securities.

It, therefore, is not so much a question of criticizing at this late date the exact amount of profit obtained by the bankers, although some of the Senators might be inclined to do that - and as to that we have taken no position to date - but it was more nearly the thought of whether it is not possible to have something somewhat more satisfactory. Could not the bankers, for example, make proposals as to the methods of dealing? I don't mean necessarily the syndicate involved here, but I mean the banking groups in the country as a whole, could they not make an orderly sale of substantial blocks on terms that would be far better to the British than the terms in the American Viscose and which would yet produce for us exchange that could then be applied to the RFC loan?

H.M.JR: As I get it, this present question in the Senator's mind was raised by a banker. Is that right?



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MR. FULTON: That is correct.

H.M.JR: And do I also understand correctly that originally when the thing went through, Mr. Jones went to Senator Truman about it?

MR. FULTON: 'No, I think that Senator Truman had asked Mr. Jones about it, but that Mr. Jones had expressed to him the opinion that the amount was rather large, that is, the amount of the bankers' profit.

H.M.JR: Well now, this is what I have, from memory and reading the thing up. We have got to go back to the first Lend-Lease, you see. At that time when I went up there it was new and difficult, and so forth, and we were not in the war, and a lot of people did not want us to get in the war. I made the statement that the British would sell all of their assets in this country; they would put them all on the table for me against contracts that they had already outstanding in this country for munitions. I assured the Senators that the British would do this in good faith. I stated the amount, which, as I remember, was over a billion dollars, wasn't it?

MR. BELL: A billion four, I think.

H.M.JR: What I am saying now is for you and the Senator only. If he wants to use it, I would like to talk with him. I had the damndest time to get the British to sell anything. They fussed around, and this was wrong and that was wrong, and so forth, and so on. I finally more or less gave them an ultimatum and said to them, "You have got to sell something in order to show the Congress of the United States that when I said that your securities were on the table as a pledge, you meant it, as a matter of good faith and relationship between the two countries. I don't care what you sell or how you sell it." Well, they said, "The market is bad." It was bad. I said, "You have got to sell something."

Then they picked J.P. Morgan, and I told them that that

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was a great mistake. Right or wrong the present generation of Morgans made great moneys out of the last war - excess profits, and so forth, and so on. It was a bad mistake. Whereupon they said that the two representatives of the Treasury that they had met had told them Morgan was all right, and they thought they were speaking for me, which they weren't.

Well, it finally got so bad that I had to give them a week's ultimatum. I said, "You have got exactly a week in which to do this," and they went ahead and rushed the thing through and made the arrangements with Morgan and Dillon, Read. After I learned what the commission was, I was very much shocked and told them that this was entirely too much - the price - I mean the commission - and again for better feeling I said, "Some day this is going to come out; some day this is going to be investigated," and I said, "You are doing yourself and the banking fraternity a great injury, and you ought to take considerable less." They wrote off - took a million less, and then I begged them to knock off another million. Dillon, Read and Morgan agreed to it, but they said that their other twenty-eight or twenty-seven partners said it was too late, they would not agree to it. They were willing, Morgan and Dillon, Read.

MR. BELL: The other members of the syndicate weren't.

MR. FULTON: You see, I have had the advantage of talking with the Dort firm, representing Dillon, Read, with whom I am very close by reason of my past contacts. What you have said tallies almost exactly with what they have said. They stated that they had no knowledge of the transaction until almost the time that they were required to do it.

I believe that in this letter, which I received on the 4th of November from Morgan Stanley, they stated that they had only four days, and that with that very limited amount of time and with what they regarded anyhow as the unsatisfactory knowledge of facts underlying



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the company, by reason of not having had their own auditors and their own check, also by people whom they would trust the judgment of as to the future of the industry and the company, that they could not make an offer which would have been anywhere near as good as an offer which would have had more time. As a result, they, in effect, I think I can fairly say, admitted that the amount paid - that is, the original thirty-six or thirty-seven million - was regarded by them as the equivalent of a fully secured loan. Then the actual sale price would be determined. That is, the actual purchase price by them to the British would be determined by the sale price obtained by them in selling the securities. That being so, the ten percent which they originally arranged to receive of the excess of the sale price would seem to have been, as you say, a very generous commission on their part. And yet they cite the fact that they had to tie up a very considerable portion of their capital for a period of at least two months, and possibly longer, and that although it would be in all likelihood fully secured, it would not have been within the normal business of those firms to make loans of that character for so long a time.

H.M.JR: That refreshes my memory, but that is correct. They say normally their own capital is really never involved.

Now, we submitted ~~the~~ thing at the time to the SEC and the SEC said that the charges that they made were normal practice for banking houses in Wall Street. I mean that that would be the normal fee, you see.

MR. FULTON: I don't quite understand that. I am thinking from the standpoint of what little knowledge I have in the past.

H.M.JR: Am I right in that?

MR. WHITE: Quite right. They thought it was a little bit on the up side.

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MR. CAIRNS: It was not unusual.

H.M.JR: That was what the SEC told me. I have never been in this business, you see.

MR. FULTON: Are there other transactions? I have never myself known of one where a purchase was made with the idea of selling at a higher price and basing your commission on the sliding scale that they have there. Are there other transactions similar to this?

MR. BELL: They were talking about the amount, weren't they?

MR. WHITE: That was the report made at the time by the man who was in charge at SEC. You had asked him to look into it for the very reason that you just suggested, and that was his reply. He talked it over with some of the other members of the Commission, and he said, "It is a little high. It is on the up side, but that is not unusual practice in the Street."

MR. FULTON: I think I would probably tend to agree with that as to the amount of the underwriting commission as figured on the total sales price as it ultimately turned out, and not being out of line percentage-wise, although perhaps being out of line dollar-wise because of the magnitude of the transaction. Our problem was not so much to determine whether percentage-wise it was out of line as whether the formula under which the matter was contracted by the bankers was not unduly favorable to them.

H.M.JR: Well, I thought it was juicy. After they cut off the first million, against the advice of my associates I got them in the room here alone and begged them to knock off another million. To give Morgan, Stanley and Dillon, Read credit, they tried to make the effort. They said, "So far as we are concerned we are willing to do it, but we couldn't get the other syndicate members to agree."

MR. FULTON: That is my understanding.



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H.M.JR: Now, just to go on a minute, there are lots of by-products. If you want to go into it fully, all right, but a lot of things happened. There were a lot of forces which were trying to keep me from doing this. If the committee wants it, all right; but I don't know how far they want to go. That is the price story.

I told this as to the amount they were getting. I said that even if they were getting ten or fifteen million dollars less - now we are forgetting the bankers - the British Treasury - than the thing is worth, the matter of the good faith of the British Government is at stake. I said, "What the hell is ten or fifteen million dollars as compared to my saying that all of your securities would be put up against a billion four hundred million contracts which you have outstanding?"

When the deal was finished, Sir Edward Peacock said, "I am satisfied, and Lord Halifax said, "I am satisfied for the British Government." He said, "We are glad we did it; it was the right thing to do; we are satisfied."

MR. FULTON: Our problem was not so much--

H.M.JR: There are two factors in this thing: One, the price that they obtained, and then the profit that the bankers got. I don't know how far you want to go into it, but as far as my part in the profit thing - I have told you the thing roughly. I have got the details, a record, if you want them. My books are open.

MR. FULTON: Yes, I understand that, and I appreciate it.

Now, with respect to the price obtained for the British - of course, the disparity between the amount which the Courtauld Company obtained in pounds from the British makes a rather great contrast. There was a discussion between myself and the attorneys for Dillon, Read as to whether they were sure that they had obtained

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the highest price possible in dollars here, to which they replied that they probably had obtained the highest price consistent with their ideas as to how the company should properly be financed; that is, with a very large amount of the financing of the common stock, and only a small part preferred stock, and no bonded indebtedness. They thought that they had made an offering of bonds as distinct from preferred stock. They could have obtained more in dollars, but would have had a less sound enterprise, for which they might have to explain themselves to their own security holders and customers at a later time. That was also somewhat complicated by the possible offer which arose at the time from other minority stockholders who were afraid that although their stock was not involved in the transaction, the transaction would, in effect, fix the price or value of their securities for a long time to come.

The real damage is the one, I think, that you referred to and is more nearly the one that the committee was interested in, and that is that by not getting as low a profit to the bankers and as high a price as possible, you, in effect, find yourself in the position where the British are reluctant to sell their securities as distinct from pledging.

H.M.JR: No.

MR. WHITE: No.

H.M.JR: No, no. What happened after that was they went ahead and sold a lot of securities on the market and sold them by this new method that they have of selling after the stock exchange closes, you know.

MR. FULTON: Some, I understand, have been sold by Morgan Stanley and Dillon, Read - relatively small.

H.M.JR: They spread it all around.

MR. BELL: They sold big blocks.



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H.M.JR: And this particular thing had no effect on their continuing to sell just as long as the market would absorb, up to the time that it was decided that what was a residue would be put up as pledges, and they got a four-hundred-million-dollar loan from the RFC on the whole block.

MR. FULTON: With respect to that, would it be your opinion that it would be possible to liquidate or, if possible, desirable?

H.M.JR: What is happening on that?

MR. WHITE: The British have, and did have very early, a considerable reluctance to part with certain types of securities. They didn't mind parting with the securities of very large companies, and they did as they went along, but things like Viscose and others which they now have they never displayed any eagerness to part with. They parted with Viscose with great reluctance, irrespective of the price they would have gotten for it, and, I think they would be most reluctant to be forced to sell what they have now. They would much prefer to have the present arrangement, possibly for the very reason that you suggested earlier.

I noticed an editorial just last week in the British papers in which for the first time, to my knowledge, they raised the question of equal sacrifices by various governments in line with the Atlantic Charter and that maybe they ought to get their earning assets back, their securities back.

H.M.JR: Then you saw where they asked me about some admiral or general in this country, English, who said, "Can you put a dollar value on Lend-Lease and compare it with blood, the loss of life, and so forth?" But I don't think - I am confident that the people in responsible positions who have anything to do with this deal realized the wisdom of getting it through. It was to demonstrate that they would keep good faith. It was terribly important at that time.

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MR. FULTON: I don't think that Senator Truman has ever questioned that.

H.M.JR: Lord Halifax and Sir Edward Peacock assured me when the thing was over that they were satisfied. That closed that.

Now, there were people in England - people in this country who wanted to get hold of Viscose for monopolistic reasons. They would like to get it - tie it up with other yarn concerns, and so forth, and so on. I, frankly, forced the sale through. I had to do it. I mean, here I was, the Secretary of the Treasury, saying that the British were going to meet their contracts through money that they were going to realize through the sale of American securities owned by British citizens; and they just had to go through with it.

MR. WHITE: You forced the sale, but it is not the same; they selected the security. All you insisted on, you remember, was that they sell something.

H.M.JR: I said "sale," and I finally gave them a week. As I said, these people - they had four days. If I had to do the thing over from the beginning, I would do it just the same, and then try to get just as much out of it for them. I put all the pressure that I could, way beyond what my associates thought I should, to get the bankers to cut down their profits.

Now, as far as getting dollar exchange and all that thing, the thing now is going ahead in a fairly orderly manner. I don't think that, as far as I can tell, this particular sale has subsequently influenced what they did. They realized the political necessity.

MR. FULTON: Yes. On the balance of the securities, the residue, do you believe that it might not become the subject of Government discussions as to the cancellation of the four hundred odd million dollar loan of a later date?



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H.M.JR: Well, I am not up to date. We had some word from Jones before I went to England. What is the last word on that? Do either of you know? Have they sold any of those?

MR. WHITE: Very little.

MR. BELL: They sold some.

MR. WHITE: Most of it is unsold. They have taken, I think, all except possibly ten million dollars. There is no question yet, to my knowledge, of any prospect of immediate liquidation in order to repay the loan.

MR. FULTON: I see. Of course, there is always that worry, the argument you mentioned, that they raised, about it being a subject of discussion which might come at an embarrassing time from the Government standpoint. The British, in effect, might request a return of the securities without making payment therefor, or if they did make payment therefor by that amount, reducing their ability and their willingness to make some other payment which this Government might have in mind at the time.

H.M.JR: Well, the securities are fully pledged.

MR. FULTON: Yes, but it still would require either that they be sold or that they obtain dollar exchange elsewhere.

H.M.JR: Jones could sell them any time he wanted to.

MR. FULTON: He has that right under the agreement despite the payment of interest?

MR. WHITE: I think there is a date within which they can pay him back the money. I am not positive of

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the agreement. I can try to find out. I think they have to default, but I am not positive about the exact terms.

MR. FULTON: That, I think, gives us the basic background, except that if you could say anything with respect to whether you have a position or might have a position as to whether the securities should be continued to be liquidated or should be held as a block subject to a loan.

H.M.JR: My off-hand opinion, without having talked it over - I sort of feel that this is one of the many things that will be settled around the peace table. I really haven't thought about it. It is one of those sleeping dogs.

You see, right now the British Treasury dollar position is good. They can see daylight for another six months or a year, which, if any treasury can see that, is good as far as dollar exchange is concerned.

So, this is one of a dozen factors which goes into their dollar position, production of gold, Canada, South Africa, the various expenses that they have, and so forth, and so on. So I mean, it is one of at least a dozen factors.

When we were over recently this whole question didn't come up, because for the moment they are comfortable.

But certainly to answer this, I would resist to the last ditch a repetition of the contract similar to the one that was entered into before because it was unnecessary. They can sell that. I don't know the exact technique, but there is a way of selling after the exchange closes. There is some disposition - I don't know - a half a point, or whatever it is.



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MR. FULTON: That was explained to me. I think it isn't much in excess of that.

H.M.JR: There would be no excuse for another contract similar to the other one.

MR. FULTON: That would be, I think, the committee's position, and it would be very much opposed to that. If the thing, however, that was holding up the liquidation was the fear, on the part of the British, that they were either not obtaining the correct price, or being forced to pay too large a commission, then the committee would like to see some arrangements, if possible, worked out for an orderly liquidation at a much more advantageous price to the British, and at a commission which no one could say was not low enough.

H.M.JR: You could quote me and say that I am in entire sympathy with that position. I am sure that the British don't have to enter into another contract of that kind. I mean, there is absolutely no reason for them to enter into one like that, and certainly they wouldn't if I could possibly prevent them from doing it. I would prevent them if I could. Let me just read this. (Letter dated Oct. 1, 1942, from Mr. Jesse H. Jones and letter dated Oct. 8, to Mr. Jones, read by the Secretary, copies attached.)

H.M.JR: That is the last word.

MR. FULTON: Do you know the approximate amount of the dollar value, as value for security purposes, of the collateral held by Mr. Jones?

H.M.JR: No, but that could be ascertained.

MR. FULTON: I should think from the statement that it so largely exceeded in its income the interest, it would be indicative it is probably twice or more the value - I mean the amount of the loan.

H.M.JR: If the committee wanted it, we would be glad to furnish them with that information.

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MR. FULTON: Our question would partly relate to that of whether the British had fully carried through and if, for example, you had upward of eight hundred million in value of securities against what is only three hundred and ninety million loans, and therefore used, there would remain some four hundred million of securities which in effect would be left to the British entirely free and never used by them for the purpose of bearing their share.

H.M.JR: If the committee decides they want it, you can get it either from Mr. Jones or from us; either way.

MR. FULTON: I think they would like to have it, but we can get that from Mr. Jones.

Then one other question in a somewhat similar field, but a wholly different point, would be the foreign securities of, say, South American countries and others held by the British. What, if anything, has been done by them with respect to those?

H.M.JR: Nothing, as far as we are concerned, because when we started in a couple of years ago they were practically worthless. I mean the securities which they held largely in Argentine and Brazil were estimated at several billion dollars, but then the thing was to try to get it, and most of the things weren't worth ten cents on the dollar. And then, even if you could have sold, all these countries blocked their funds and the British could not get the money out. So if they had been successful in disposing of them and gotten Argentine and Brazilian currency for them, they could not get the money out, and as far as I know, unless something has happened recently, I don't think they have done anything about it. Do you know, Harry?

MR. WHITE: There have been some negotiations between the various countries and the British Government in an attempt to buy back the securities, particularly the Government securities - public utilities which



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England holds, in exchange for the block sterling which these countries have. Those negotiations have been going on for over a year, and they make a little progress. There has been some exchange, but not very much.

MR. FULTON: That whole subject is one on which the committee has not gone far enough to have an opinion other than the one that it should be explored by the various Governmental authorities, both from the standpoint of exchange, which would be, as I say, a very difficult problem, and from the standpoint of American equity and perhaps influencing South American countries.

H.M.JR: I had this up with Nelson Rockefeller. He had his people go into the whole thing, and when they looked into the whole thing they decided they could not do anything about it. We gave all the facts, very carefully prepared, turned them all over to Nelson Rockefeller, and they spent about ten months on it, or something. They went into the thing exhaustively and when they got through they said that as far as they were concerned they did not want to touch it. But that has been done.

MR. FULTON: And then with respect to the British-held securities of Canadian companies, has anything been done on that?

H.M.JR: Not as far as we are concerned. Their relations with Canada - they advise us of the thing, but of course that is a separate thing. But when I went into this Lend-Lease thing I made them put everything on the table, you see, and there were some people that thought we should have been very much tougher than we were. After all, when you go back to those days there were some people that didn't know whether the English could stand out, or wanted to stand out; and there was such a thing as trying to get blood out of a turnip.

MR. FULTON: Of course, they had to be allowed an incentive at least to continue in the war effort.

H.M.JR: We are just talking here - the business

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groups in those days in England were very powerful - Chamberlain and his people, that represented big business - and you had to watch your step not to crowd them too much or else they might have quit fighting; they might have said, "What the hell are we fighting for? America is going to take all of our assets and expect us to shed the blood, and they won't even get in the war." I mean, you have got to throw yourself back two years.

MR. FULTON: That is true, and yet I might say that some of the Senators, particularly those who went on the Alaskan trip recently, were somewhat disturbed when they asked me to inquire as to the position which the American Government and private industry would have with respect to, say, the Alaskan road and the air fields along the road; and when I informed them that although we had obtained an agreement for the use of the road for the purpose of shipping, duty free, materials from the United States to Alaska through Canada, we had not obtained any such rights with respect to the use of the fields themselves, although those fields, in part, were built with American money. It is somewhat disturbing. I am merely talking out loud along the lines I know the Senators feel. It is somewhat disturbing to them to think that an air route which might be of such vital importance after the war as a trade route to Russia and even to the Far East generally, is one on which we have not taken precautions of obtaining now a clear concept and understanding of what our rights will be as to the use of the fields.

Similarly, they are somewhat interested in the same questions with respect to the bases that we have spent money developing, and general questions of trade which may come up after the war, although they are not pressing those things to any immediate conclusion, and although they also are fully appreciative of the point that England must have a definite incentive to fight - something to fight for and to have when they are through. But they would like to have it determined on some fair basis, fair to both the English and the Americans, so that it would not be a subject that might simply result in a stalemate for some years after the war to the positive detriment of both parties.



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H.M.JR: Well, I have tried with all my might and main to carry out the difficult function of keeping all these United Nations solvent, getting them to live up to their contracts, like Russia. There was a day when Russia could not meet its obligations and we advanced them thirty or thirty-five million dollars against future shipments of gold. They had to have the money. I am glad to say that they have paid back every dollar of it under the most trying conditions. Only recently they paid off, didn't they?

MR. BELL: Yes.

H.M.JR: They sent it across Siberia and everything else. One big shipment was lost in a convoy coming back from Murmansk, but they didn't whimper about it; they paid us back. I am just illustrating that we are tough where it is a question of being tough, but we don't want to press these people so that they are going to throw up their hands and say, "Well, maybe we had better do business with Germany, anyway. We can keep our investments and international trade," and so forth and so on. We are not soft-headed or soft-hearted, but there is a happy medium which we like to think we follow; and that is we are looking after American interests as well as we can without jeopardizing the war effort.

MR. FULTON: So far as I am able to speak for Senator Truman, I know that he has the same view, his only view being that on many of these problems it might be best now to reach solutions fair to both sides, which after the war would constitute a very difficult problem, possibly to the injury of both sides.

H.M.JR: I think he is very sound on that.

MR. FULTON: I appreciate greatly the time you have taken.

H.M.JR: No, it is important, and if you have some thoughts or some doubts after you get back, come and see me.

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MR. FULTON: All right. Thank you very much.

H.M.JR: You may say, "Well, gosh, we didn't quite clear up that point." If there is any doubt in your mind, come on back, for I have great respect for the committee and what you people have done, and I like to think I am among the original ones who said, "Take the profit out of war." I don't want anybody to make a red cent out of this war if I can help it.

MR. FULTON: Within, of course, the limits that are necessary to keep the organization going.

H.M.JR: Sure. You remember a year ago last November I said six percent on your money was a reasonable amount. From coast to coast I was pounced on by all the newspapers; now they think six percent is a little high. But I meant, a man should have a fair return on his capital but nothing over and above that, and we have done everything along those lines here in the Treasury to do that.

There are lots of things. For instance, a thing which I never would have done is, I never would have left it to the business man to decide, when the thing is over, whether the plant, which is fully financed by the Government, continues or whether he shuts it down. We advanced all the money for what the English call the shadow factories - these new plants.

MR. FULTON: Which are not very shadowy.

H.M.JR: Not shadowy - very substantial. And then we let the company decide what they are going to do with them; if they had left it with me, I would have left the option with the Government. Now there are a lot of things like that which I don't like at all.

MR. FULTON: I understand the committee has not liked the option to be in a fixed dollar sum which, by reason of possible changes in the value of the dollar, might result in a bad transaction for the Government.



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H.M.JR: But the decision rests with the company.

MR. FULTON: And the option is fixed, firm, both of which are somewhat questionable.

H.M.JR: But there are a lot of things like that. If we could have written the contracts, the option would have been much more favorable to the Government. This way it is all one way. We put up all the money, let them write the plant off during the war, and then when the thing is over, if it is to our interest to keep an armament plant going and Bethlehem Steel says, no, that they want to shut down, they shut it down.

MR. FULTON: True. And we also have a problem, if we can speak a minute, briefly, which has worried a number of Senators. There has been so large a dislocation of what you might term pre-war industry, by reason of the building of these plants, the equipping of them with machine tools and the labor which has been induced to leave its former occupations, and even the housing for that labor, that we will, after the war, find that it will be practically impossible to get back to the other status.

If it was difficult to convert with an unlimited purchasing, it will be much more difficult to convert back to a state where there is no purchaser and where, with respect to these new plants at least, there is no former commerce or trade. That is, they have never made an article that would be usable in trade and have not salesmen or customers, so that the fear is rather natural - it would be tremendous.

H.M.JR: Are you familiar with what they do in England?

MR. FULTON: Not fully, no.

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H.M.JR: You check me, Harry, but this is what they do in England. They build what they call a shadow factory - they did it before - the Government owns it, and they equip it fully. And then we saw one factory that I think was employing somewhere around twenty-seven thousand people making airplane engines. They go to an automobile company and say, "We want you to manage this and supervise twenty-seven thousand people." This company has got a hundred thousand dollar fee, and that is all - a hundred thousand dollars to do twenty-seven thousand. That is what they did, and this fellow took us through. He was the head of one of the big automobile companies, just as proud as Punch, and believe me, I don't care where you go in the United States, you could not see a better run factory than this Bristol Airplane engine plant, or see the stuff come out any faster.

I had a General Motors man in here and another man on war bonds, and I asked about it. "Aren't they doing just as well there, today, as we?" He says, "Yes." He says, "We thought we knew it all" - and a hundred thousand to supervise a factory of that size. When the thing is over the tools belong to the Government, the factory belongs to the Government, and whatever they want to make is wholly within their province.

MR. FULTON: That, of course, cannot be compared with our situation. Our fees are so much higher.

H.M.JR: And they are getting the production. We went to a Spitfire factory where, when they ended every day at six o'clock, so many Spitfires came out; you could see them there at five o'clock. They had the same arrangement at Vickers Arms - the same except, as I remember, that Vickers Arms took nothing; as I remember, they told me they had out-of-pocket expenses, but no fee. They did not want any fee; they just took out-of-pocket expenses for a certain amount of the management. Here was the thing - a big factory - I think they are way ahead of us.

MR. FULTON: I certainly won't quarrel with that.



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H.M.JR: And the answer is, they are getting the production. They can't say that they are having labor trouble, or this or that trouble. The place runs just as sweet, and people are happy, and the stuff rolls out at the other end of the line. And when it is over, well, at least the Government has got the stuff and they can decide, wholly within their option, what they are going to do - it is their stuff - as against what we have done here.

MR. FULTON: The committee, if anything, has been much less critical publicly than it has been privately; and we have tried, I think, rather hard not to make criticism just for criticism's sake.

H.M.JR: But there would not be all these negotiations and renegotiations of contracts, which are one of the worst things; the question would not have come up.

MR. FULTON: On renegotiations, although we were insistent that they do it, our ideas are not exactly the ones that they actually applied. We were thinking in terms of something similar to, say, the Bethlehem Steel situation in the last war where, by reason of the hasty estimate, if you give them the benefit of having made an honest one, you at least must say that the estimated cost was far in excess of what the actual cost turned out to be.

We were thinking in terms of setting, perhaps, an estimated cost being the best thing that you could do at the time, and then providing that you would later examine and find out what the actual cost was; and then, in effect, renegotiate the difference, taking it back if that was not due to some unusual, valuable and efficient operation of the company, but not taking it back if it was due to a saving which the company should be given credit for having made, of a type that his competitors did not make. Instead, we find that some of the renegotiations are not much different from the policy of saying, "What did you make during the last five years?" And then

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say, "You shall make no more than that, no matter whether you do a good job or bad," which, if you are to adopt it, could be adopted much more simply by simply saying cost plus your average profits for the last five years. You would not have to have renegotiations if that were your method.

H.M.JR: Well, I am glad you came down. You see, I am interested, personally. I follow this thing; I do it personally. And if, when you get back, you think of anything else, come back to see me.

MR. FULTON: Thank you very much.



C O P Y

57

October 5, 1942.

Dear Henry:

For your information, the British have taken \$390,000,000 of the loan RFC authorized to them of \$425,000,000. The balance is available to them upon request.

This loan, as you know, was made to provide the British with dollar exchange without necessitating the forced sale of their American securities. The proceeds were to be used by Great Britain to pay for war supplies purchased in this country and contracted for prior to the approval of the Lend-Lease Act on March 11, 1941.

Substantially all the collateral covered by the pledge agreement has been delivered. Collections to date aggregate approximately \$42,700,000 which, except for a few small sales, came from income on the collateral. Of this, \$23,500,000 has been applied on principal of the loan, the balance as interest or held as reserves.

Due to increased taxes the income from the collateral undoubtedly will not be as good for some time to come, but it should be sufficient to service the loan according to contract.

Sincerely yours,

(Signed) Jesse H. Jones

Secretary of Commerce.

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

October 8, 1942.

My dear Jesse:

Thank you for your letter of October 5, 1942, informing me of the current status of the loan extended by the RFC to the British Government against British holdings of U.S. securities and other British investments in the United States.

The British dollar position has improved steadily over the past year and the prospects are favorable for the future. Largely for this reason, I think it is likely that the British Government will not avail itself of the remainder of the loan.

I am enclosing for your information a copy of the latest statement received from the British Government on its gold and U.S. dollar assets. It shows that, as of August 31, 1942, the British Treasury held gold and U.S. dollars totalling \$858 million, exclusive of \$110 million of gold borrowed from Belgium. These holdings have increased somewhat since that date.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

Jesse H. Jones,

The Secretary of Commerce.

Enclosure

TMK:rl 10/7/42



November 6, 1942  
4:11 p.m.

Breckinridge  
Long:

.....Henry.

HM Jr: What in God's name is the sweat about this thing,  
Breck?

L: I'll tell you what it's about. It's about.....

HM Jr: Good Heavens! You people have a letter over there  
for over two months, and I spoke to Cordell Hull  
and he says there's no hurry whatsoever..

L: No, I'll tell you what it is. It's not asking  
you for a decision this afternoon. I've simply  
got in the position - this is in connection with  
other events with which you are familiar ....

HM Jr: But which.....

L: And - huh?

HM Jr: Hull doesn't seem to be familiar. He said, "Henry,  
take all the time that you want."

L: Yeah, for the decision. I just wanted to - to do  
this, I wanted - the French Ambassador has been  
buzzing around here for three or four days on it, and  
I wanted simply to tell him that I had discussed  
the matter with you, and that the matter was re-  
ceiving careful Treasury consideration, and I  
couldn't do that without talking to you or getting  
hold of Pehle, and Pehle was not available. I had  
no idea of pressing you for a decision this after-  
noon. I sent word to you to that effect in the  
first instance.

HM Jr: Well, any way I took it up at Cabinet - not at  
Cabinet - I took it up after Cabinet with the  
President and Cordell.

L: Yes.

HM Jr: And the decision was - I asked Cordell before Cabinet  
so as not to embarrass him whether it had anything to  
do with any other matters, and he said, "Absolutely  
not."

- 2 -

- L: Well, it has only to do with other matters here in connection with the relationships between the Embassy and here in connection with other matters.
- HM Jr: Well, evidently he isn't aware of that.
- L: Yes, and I'm just trying to keep it quiet here, you see?
- HM Jr: Yes, but evidently he doesn't know because he said that there was no hurry.
- L: Yeah. Well, there isn't any hurry for the decision but there was the fact that I had to have a conversation with you on the subject.
- HM Jr: Well, this is what the President decided - that we give the Red Cross the money for the shipment which has already gone - which is \$220,000.
- L: Yeah.
- HM Jr: Right?
- L: Yeah.
- HM Jr: And enough money for one more shipment.
- L: Well, you may not need the other shipment.
- HM Jr: What's that?
- L: You may not need the other shipment.
- HM Jr: Well, the President realizes that but he said to give them enough more money, and that would be another two twenty, wouldn't it?
- L: Well, I don't know exactly what the details would be, but the thing was that we had made a commitment to carry on up to the time we made a commitment - up to the first of October, and certain of those sums are in arrears.



HM Jr: Well .....

L: It doesn't involve the transfer - the expenditure of the funds, but simply the transfer of the credits, because I doubt very much whether the funds can be expended for this purpose.

HM Jr: Well, according to this letter it says that they shipped 248 tons at a cost of \$220,000 - that's Item No. 1.

L: That's right.

HM Jr: Well, we're advancing the two twenty? Hello?

L: Yes.

HM Jr: Then the President said to keep it on a 24-hour basis and give them enough money for one more shipment.

L: Yeah.

HM Jr: Now does that help you out?

L: Yes, that's fine. I didn't expect even that. All I wanted to do is just to have a conversation with you and then tell him that it was progressing.

HM Jr: Well, but this helps more?

L: Yes.

HM Jr: Is this entirely satisfactory?

L: It's fine - perfect - and I'll tell him that they'll get the two hundred twenty now, and you'll take care of the next in the near future.

HM Jr: Now, let's see - you're going to tell him they get the two twenty.....

- 4 -

L: I'm going to tell them that the 248 tons will be paid for now.

HM Jr: That money will be released today.

L: All right. And the next approximately similar amount for the next shipment will be forthcoming in the near future.

HM Jr: Well, if that's good enough for you, that's better.

L: Perfect.

HM Jr: Well, then I'll just tell our people to clear the two twanty, and when the papers come around on another similar shipment to meet that if the shipment goes.

L: Yeah - if the shipment goes.

HM Jr: Is that right?

L: That's right.

HM Jr: Now that's all right with you?

L: That's perfect.

HM Jr: Okay.

L: Thank you, Henry.

HM Jr: Thank you, Breck.



November 6, 1942

Present: Mr. Paul  
Mr. Pehle

After Cabinet I spoke to the President. I gave him Mr. Paul's letter of October 13 to Mr. Hull and Mr. Hull's letter of November 6 to me, received at 12:15 today.

The President read both carefully and said, "We will do what the Treasury said; we will keep on a twenty-four-hour basis and let another shipment go." So I said, "We will pay for the past shipment of \$220,000 and tell them that they can make another one." The President said, "That is right."

I talked to Mr. Hull before Cabinet. I said, "Is there any particular reason why there is such a hurry about this?" He said, "There is none whatsoever." I said, "Breckinridge Long put me under such terrific pressure." He said, "There is no reason in the world why you should be under pressure. Take all the time that you want," which is just contrary to what Breckinridge Long told Mrs. Klotz.

So I spoke to Breckinridge Long on the telephone. He gave me certain reasons, which I will not go into, and he said, "If I simply could tell the French Ambassador, who has been fussing about this, that we would pay for the shipment already made, \$220,000, and consider another one, that would be more than satisfactory to me." So I said, "Fine."

I repeat, we are to pay the \$220,000, and they will consider making another shipment; if another shipment is made, then we will take it up. In other words, we will take them up one at a time.



DEPARTMENT OF STATE  
WASHINGTON

November 6, 1942

In reply refer to  
SD

My dear Mr. Secretary:

I refer to Mr. Paul's letter of October 13, 1942 in regard to two applications for license filed by the French American Banking Corporation to debit the account of the French Government to pay a total of \$2,200,000 to the American Red Cross to be used for the purchase of canned meat to be shipped to the International Red Cross Committee in Geneva for distribution to French prisoners of war.

This matter has been accorded renewed consideration and the Department is of the opinion that for political reasons shipments of meat for French prisoners of war should be permitted to pass through the blockade for distribution by the International Red Cross Committee in amounts not to exceed 800 tons per month.

The American Red Cross has informed the Department that it has already shipped 248 tons of meat at a cost of \$220,000, for which reimbursement has not been made, and that the estimated cost of purchasing and shipping 1,500 tons of meat (800 tons each for the months of October, November, and December) is \$1,310,000. It would, therefore, be appreciated if \$1,530,000 of the total of \$2,200,000 requested in the above-mentioned applications filed by the French American Banking Corporation would be released to the American Red Cross in order that they might be reimbursed for expenditures already made and that they might proceed with the purchase and shipment of meat on a regular monthly basis.

I may add that even though the American Red Cross has requested an advance of funds for use in connection with the purchase and shipment of this meat, they have assured the Department that in the event of a change in policy the meat shipments can be halted on very short notice.

Sincerely yours,

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





In reply please  
refer to: 26344

OCT 13 1942

My dear Mr. Secretary:

Reference is made to Assistant Secretary Acheson's letters of July 10, 1942 (SD 840.51 Frozen Credits/6996), and August 13, 1942 (SD 840.51 Frozen Credits/7299), to this Department's letter of August 1, 1942, and to subsequent conversations between representatives of your Department and members of the staff of Foreign Funds Control concerning applications filed by the French American Banking Corporation for a license to debit the account of the French Government to pay \$1,300,000 to the American Red Cross to be used for the purchase of canned meat to be shipped to the International Red Cross Committee in Geneva for distribution to French prisoners of war.

Shortly before receiving Mr. Acheson's letter of August 13 under reference, this Department received another application of a similar nature involving \$900,000. In view of the amounts and the policy questions involved in these applications, this Department has been giving further consideration to the problem. The matter has been discussed with representatives of the American Red Cross, and a copy of a letter from Mr. Maurice Pate of that organization, dated October 1, 1942, is attached. Another element of some concern to this Department is the information available in the press and elsewhere indicating that French prisoners of war have been performing services which, whether or not falling within the limits of the Geneva Convention, unquestionably make a significant contribution to the enemy's war machine. In any event the Vichy Government has substantial assets outside of the United States which, if permission is granted to use blocked French assets in the United States for such purposes, will be available for other purposes of the French Government which cannot be presumed to be necessarily in the interest of the United Nations.

Under the circumstances it appears to this Department that from the point of view of economic warfare it is contrary to the interests of this Government to permit the use of blocked French assets in the

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United States for the purchase of food to be sent to French prisoners of war in enemy territory. Accordingly, unless we are advised that for political reasons your Department regards it as necessary to approve the applications under reference, this Department is prepared to deny such applications and any future applications of such nature.

Sincerely yours,

(Signed) Randolph Paul  
Acting Secretary of the Treasury.

The Honorable,  
The Secretary of State.

Enclosure.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE NOV 6 - 1942

to Secretary Morgenthau  
FROM Randolph Paul

Subject: Relations between the Office of Censorship  
and Foreign Funds Control.

I believe that you will be interested in knowing about the effective manner in which Foreign Funds Control and the Office of Censorship cooperate to their mutual benefit in discharging their respective responsibilities.

Early in 1942 an arrangement was worked out for Foreign Funds Control to install representatives in the principal postal censorship stations. These representatives advise the local stations concerning the operations of the freezing control and the type of information which would be most useful to us in the enforcement of the freezing order. In addition, our representatives assist the censors in formulating basic policies concerning international mail of a financial or business nature.

The following typical quotations from letters which we have received from the Chief Postal Censor are indicative of the spirit with which our representatives are received by censorship officials.

1. "We appreciate the assistance the Treasury representatives render to the stations with particular respect to the proper examination of financial communications to the end that the maximum may be produced for our war effort."

\* \* \* \*

2. "Yesterday I received a letter from the District Postal Censor at San Francisco, in which he stated that the Treasury Department representative in his station had performed highly satisfactory work."

The high regard in which Censorship holds our representatives is further indicated by the fact that our representative in the Panama Canal Zone censorship stations has been hired by Censorship at a salary of \$7,000 to be the District Postal Censor in

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charge of the censorship of all mail in the Panama Canal Zone.

Recently, the Chief Postal Censor's Office instituted a new training program in New York to be attended by representatives from all stations of Censorship. The Chief Postal Censor gave Foreign Funds Control a prominent place in this training program and called upon our people to conduct the leading sessions.

Foreign Funds Control is now receiving daily approximately 3,000 submissions from the Office of Censorship containing financial information, which are of real assistance to us in discharging our responsibilities in administering Executive Order 8389, as amended. From these censorship submissions we obtain valuable leads concerning the direction of ownership and control in complex business organizations and the activities of persons and organizations in which we are interested.

Foreign Funds Control and the Office of the Chief Postal Censor have cooperated in devising a procedure for the control of property transmitted through the international mails. They have also cooperated in the solution of problems relative to communications with respect to financial matters, and the regulations of both Censorship and Foreign Funds Control require that Treasury licenses be obtained before persons within the United States may communicate with persons in enemy territory or on the Proclaimed List with respect to financial or commercial transactions.

KSI





OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 6, 1942

## MEMORANDUM TO THE SECRETARY:

A meeting was held at Mr. Stettinius' office on October 29th and was attended by Ambassador Litvinov, representatives of the Government Purchasing Commission of the Soviet Union in the United States, likewise, Lend-Lease officials, and representatives of the procurement agencies.

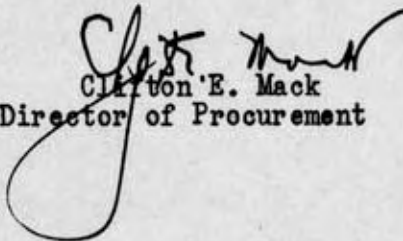
The two principal subjects discussed had to do with the problem of supplying food to the Soviet government and shipping facilities. Concerning the food problem, the possibility of using dehydrated and concentrated foods was discussed at considerable length with the thought in mind of conserving shipping space, it being explained that some phases of this proposed program were still in the experimental stages. Concerning the transportation situation, the Soviet representatives emphasized the point that there is delay in loading ships which limits the usefulness of the limited number of ships available to them to a decreased number of round trips, and they also spoke of the delay in moving cargo from eastern suppliers to west coast ports.

It was indicated at the meeting that Admiral Akulin of the Government Purchasing Commission of the Soviet Union and others of his group together with transportation representatives of the War Department would go to the west coast within a few days after the meeting and endeavor to work out arrangements to speed up loading and make further shipping facilities available to the Soviet government as soon as possible. At the Lend-Lease staff meeting on Wednesday morning of this week, the proposed order to centralize forwarding of Lend-Lease cargo from suppliers or warehouses and consignment to



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the War Shipping Administration was discussed, and it was stated that the change would be effective December 1st. I think this is a good move and should help the situation.

  
Clinton E. Mack  
Director of Procurement





TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 6, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Upon my return to the office yesterday afternoon, I checked the files to learn when Executive Order 9235 had been taken up with you, and I find that on May 12, 1942, I had lunch at your office with General Balyaev and Captain Vladimorov and it is my recollection that at the conclusion of the luncheon I remained at your office for a moment after they had left and very briefly mentioned the fact that a proposed Executive Order giving the Bureau of the Budget authority to determine effective utilization of property and providing for control of field warehousing by ourselves had been sent to the General Counsel and, no doubt, would be taken up with you for clearance.

The legal file at Procurement Division contains a memorandum dated May 12, 1942, copy attached, which indicates Mr. Foley talked with you about the matter on that date. Also attached is a copy of Executive Order 9235. I also wrote to you on August 8, 1942, relative to the warehousing phases of the Executive Order.

Clifton E. Mack  
Director of Procurement



(COPY)

May 12, 1942

To Mr. Thurman Hill  
From E. H. Foley, Jr.

I spoke to the Secretary this morning about the proposed Executive Order submitted by the Bureau of the Budget providing for distribution and utilization of shortage supplies and equipment for the Government. I have made the change on page 5 which he suggested. Otherwise, the proposed draft is agreeable to him.



## EXECUTIVE ORDER 9235

PROVIDING FOR THE EFFECTIVE UTILIZATION OF SUPPLIES  
AND EQUIPMENT BY GOVERNMENT AGENCIES

By virtue of the authority vested in me by Title I of the First War Powers Act, 1941 (Public Law 354--77th Cong.), by Title II of the Budget and Accounting Act, 1921 (42 Stat. 20), and as President of the United States, and for the purpose of providing such general direction and control over the use of supplies and equipment in the Executive branch of the Government as will insure the most economical and effective utilization thereof, it is hereby ordered as follows:

1. As used in this order:

(a) *Government agency* means any executive department, independent establishment, agency, commission, board, bureau, division, administration, service, or office of the Executive branch of the Federal Government, including any independent regulatory commission or board and any Government-owned or Government-controlled corporation.

(b) *Supplies and equipment* means any and all supplies, equipment, machines, commodities, accessories, parts, assemblies, or products of any kind in the possession of any Government agency, whether new or used, in use or in storage: *Provided*, that supplies and equipment which the Director of the Bureau of the Budget determines to be within the following categories shall not be subject to this order: (1) tactical supplies and equipment of the War Department, the Navy Department, or the United States Maritime Commission, (2) food and clothing, (3) construction materials acquired for the maintenance or construction of housing, electric power works or facilities, roads, reservoirs, or other physical improvements (4) supplies and equipment acquired by any Government agency for transfer or export to any foreign government, and (5) supplies and equipment acquired from foreign or domestic sources for stock piling in connection with the war.

2. The Director of the Bureau of the Budget, acting through such assistants as he may designate, shall:

(a) Survey supplies and equipment in possession of Government agencies and the utilization thereof. For this purpose he may require the Government agencies to submit reports and estimates in such form and at such times as he may find necessary: *Provided*, that in making such surveys he shall utilize, subject to the approval of the Secretary of the Treasury, the services and facilities of the Procurement Division of the Treasury Department:

(b) Develop and promulgate such qualitative and quantitative standards with respect to supplies and equipment used by Government agencies as he may deem necessary to effectuate the purposes of this order;

(c) Require, when, in his opinion, such action is necessary or expedient, the transfer from one Government agency to another, for permanent or temporary use, of such supplies and equipment as he may determine to be surplus to the needs of one agency and essential to the needs of another agency;

(d) Consult with and seek the advice of the War Production Board in connection with the administration of paragraphs (a), (b), and (c) above;

(e) Issue such regulations and directives as may be necessary to effectuate this order.

3. The Procurement Division of the Treasury Department shall undertake such warehousing, rehabilitation, and physical distribution of supplies and equipment for Government agencies, and, in connection therewith, shall take over such Government warehouses, appurtenant facilities, and personnel used or employed by other Government agencies in the performance of these functions, together with such funds heretofore or hereafter provided therefor, as the Director of the Bureau of the Budget may approve.

(over)

(55208)





August 8, 1942

MEMORANDUM TO THE SECRETARY:

We have been doing some preliminary planning to coordinate governmental warehousing, exclusive of military stores.

At the present time, throughout the United States warehouses of various Government agencies are being operated independently of each other and frequently are located within the same city or area. An Executive Order proposed by the Bureau of Budget now pending approval by the President provides in part that the Procurement Division shall take over warehousing for Government agencies, which includes facilities, personnel, and funds. A very substantial part of the field warehousing is now carried on by the various agencies of the Department of Agriculture.

I have talked with Mr. Samuel A. Snyder, Chief, Division of Purchase, Sales and Traffic, Department of Agriculture, with the thought in mind of bringing him into the Procurement Division as Assistant to the Director, Grade 14, salary \$8,500, to do the planning and supervise the operation of coordinating all federal warehousing in the field service where there is a common need for warehousing. After several talks with Mr. Snyder, he has indicated his willingness to join us; and I feel very pleased about it because we need men of his type in our organization. In my opinion, Mr. Snyder is the best qualified procurement man in any of the Government agencies we are buying for now. For many years he has been constantly in touch with the field agencies of the Department of Agriculture on procurement matters. He is essentially a field man, knows field problems and field personnel, and I think he is well suited to take over the responsibility of coordinating all field warehousing and then carrying on the operation after the planning has been completed. The planning and coordination is a detailed job which will prob-

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ably keep Mr. Snyder in the field more or less continually for the next year or two; and when the job is completed, there should be a substantial savings as well as much more efficient operation than the present system of each agency operating its own warehousing without regard to the other.

I will keep you informed as the program develops.

Clifton E. Mack  
Director of Procurement



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 6 - 1942

TO Secretary Morgenthau  
FROM Randolph Paul

On October 14 we received from the State Department a reply to your letter of September 18 in which you requested that this Department be furnished with a report on the mission of Cochran and Meltzer to Argentina. The State Department's letter enclosed a copy of this report, describing it as containing the personal views of Messrs. Cochran and Meltzer. Such letter also stated that an Argentine program had been developed and, without giving the full details of such program, suggested certain specific measures to the Treasury Department for consideration in connection with such program.

We have carefully studied the report submitted by Messrs. Cochran and Meltzer and have found that it does not deal adequately with the situation. Many matters which the Treasury is interested in are not even discussed in the report and those matters which were discussed only cover the situation on a superficial basis. Furthermore, the measures which the State Department suggested for the consideration of this Department are far from adequate to deal with the Argentine problems. The measures suggested by the State Department are only part of a series of measures which this Department had already suggested to the State Department for their consideration. Nevertheless, on the basis of the measures suggested by the State Department, this Department has already recommended to the State Department that certain steps be immediately taken to implement these measures. It appears, however, that the State Department is not even prepared to wholeheartedly implement the limited measures suggested in their letter, and we are convinced that the primary purpose of the State Department's letter was probably an effort to "make a record" in this matter.

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We have accordingly prepared a letter for your signature addressed to the Secretary of State which contains the following points:

(a) We state that the Cochran-Meltzer report is not particularly helpful in the evaluation and solution of the Argentine problems.

(b) We request the State Department to furnish full information as to the entire Argentine program.

(c) We summarize the steps which we have taken designed to implement the program suggested in the State Department's letter, at the same time stating that it is our opinion that the program suggested is inadequate.

(d) We suggest additional measures for the consideration of the State Department which would be designed to more fully control Argentine financial transactions, on the assumption that the State Department objects to an order freezing Argentina.

(e) We state that this Department is still strongly of the view that Argentine financial transactions should be subjected to an over-all supervision and control through an order freezing Argentina. In this connection we point out that the State Department previously objected to such an order on the grounds that it would have an adverse affect on certain friendly groups in Argentina and on our good-neighbor policy in general and suggest that these issues be recanvassed in the light of the developments since that time, including official statements by representatives of this Government with respect to Axis activities in Argentina.

(f) Our reply concludes by stating that it is your opinion, recognizing the political considerations involved, that this Government cannot justify its failure in this case to take adequate steps designed



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to prevent transactions subject to our jurisdiction which are engaged in by persons within a country maintaining diplomatic and commercial relations with the enemy and which might be detrimental to our war effort.

I recommend that you sign the attached letter. This letter will not only have the result of making the record of this Department clear on this issue but may also cause the State Department to approve of the adoption of additional measures with respect to the control of Argentine transactions.

A handwritten signature in dark ink, appearing to be 'H. H. A.', is written in the center of the page.

My dear Mr. Secretary:

Further reference is made to your Department's letter of October 14, 1942, in which certain specific measures were suggested for consideration by this Department in connection with the implementation of the Argentine program referred to in such letter.

Your letter was in response to my letter of September 18, 1942, which requested a report on the mission to Argentina of representatives of your Department. As you know, this Department was particularly interested in this mission and was prepared to send its own representatives to Argentina for this purpose. We appreciate your furnishing us with a copy of the report, which has been carefully studied by this Department. We have not found this report particularly helpful in the evaluation and solution of the Argentine problems to be met.

It is noted that your letter refers to the development of an Argentine program of which the financial measures suggested are only a part. This Department would appreciate receiving full information as to the entire program in order that it may be in a position to integrate its financial controls with the other portions of the program.

The development of a satisfactory Argentine program in the financial field has been the subject of considerable discussion for many months between representatives of our respective Departments. As you know, this Department has been contending that Argentine financial transactions subject to the jurisdiction of this Government should be placed under supervision and control through the issuance of an order freezing Argentina, accompanied by appropriate general licenses. Inasmuch as your Department has objected to such an overall control of Argentine transactions, a series of specific measures designed to enable this Government to



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obtain more complete information concerning Argentine nationals and transactions and to control Argentine financial transactions in so far as possible on an ad hoc basis have been discussed with representatives of your Department.

The specific measures which have now been approved by your Department and which are described in items (1), (2), and (3) of your letter are designed to implement, in part, an ad hoc program. Since your letter was received, this Department has taken the following action with respect to those measures included in your letter:

(a) By letter dated October 22, 1942, we forwarded to your Department the names of 84 persons and firms in Argentina having unsatisfactory ratings according to the records of the World Trade Intelligence Division of your Department, together with a summary of certain information concerning the undesirable activities of such persons and firms. It was proposed in the letter that these persons and firms be subjected to ad hoc freezing action immediately and be given immediate consideration for inclusion in The Proclaimed List. These cases were discussed at meetings attended by representatives of our respective Departments, and your Department approved the immediate application of ad hoc freezing action to 44 of these persons and firms. Appropriate instructions have been issued to the Federal Reserve Banks ordering that such persons and firms be ad hoc blocked. For your information in connection with the procedure employed in taking such action, there is enclosed a copy of Confidential Circular No. 158A to all Federal Reserve Banks and a copy of a telegram dated November 2, 1942, sent to such Banks.

(b) By letter dated October 30, 1942, we forwarded to your Department the names of over 180 individuals in Argentina who are closely connected with firms on The Proclaimed List, and proposed that such individuals be subjected to ad hoc freezing action immediately.

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(c) By letter dated October 31, 1942, we forwarded to you a list of exchange houses in Argentina, which, as reported by the Embassy in Buenos Aires, have continued to deal in dollar currency transactions in the black market. We proposed that these firms be subjected to ad hoc freezing action immediately.

(d) By letter dated October 31, 1942, we proposed the application of ad hoc freezing action to Banco de la Provincia, Banco de la Nacion, and Pascual Hermanos and proposed action with respect to Shaw Strupp and Company which would enable this Department to supervise the transactions subject to our jurisdiction which are engaged in by such firm.

With respect to item (4) of your letter, this Department by letter dated October 30, 1942, submitted for the consideration of your Department a proposed general ruling which excludes transactions between persons in Europe and persons in the American Republics from outstanding general licenses and requires that before any such transaction may be engaged in, it must receive the specific approval of the Treasury Department.

With respect to the country-by-country analysis of TFR-300 data, referred to in your letter, you are advised that such an analysis has been under preparation for some time, and as soon as such an analysis is completed with respect to any particular country in Latin America, it will be furnished to you.

The success of any Argentine ad hoc program is necessarily dependent upon the ability of this Government to obtain adequate information concerning persons within Argentina engaged in undesirable activities and concerning undesirable transactions subject to our jurisdiction engaged in by persons within Argentina, and to obtain this information in ample time to prevent these undesirable activities. Under existing circumstances the primary sources for obtaining this information are the representatives of this Government stationed in the field, in particular the officers and personnel of our Embassy and Consulate staffs in Argentina.



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In the light of the above, it is believed that the following steps are desirable in connection with the administration of the ad hoc program described in your letter, and these steps are recommended for your consideration:

(1) Our Embassy and Consulate staffs in Argentina should be made thoroughly familiar with the functions and purposes of the ad hoc program described in your letter and should be requested to compile lists, on the basis of the information available to them, of those Argentine persons, firms, and accounts which should in their judgment be subjected to ad hoc freezing action. Such lists should be made promptly available to this Department, with your comments and such other information as may be available to your Department.

(2) In addition, the State Department should advise the Treasury Department of any other persons, firms, and accounts in Argentina which, on the basis of all the information available to the State Department, the State Department believes should be subjected to ad hoc freezing action.

This Department will, of course, continue to advise your Department of those cases in which, on the basis of information available to this Department, it is believed that ad hoc freezing action should be taken.

This Department desires to cooperate fully with your Department in the implementation of the Argentine program referred to in your letter. This Department strongly recommends, however, that additional measures be adopted so as to enable this Government to supervise and control more adequately Argentine transactions.

You state in your letter that the Argentine program which has been developed is designed to prevent, within the limits of our control, economic operations beneficial to

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the Axis. It is the view of this Department that the program described in your letter is inadequate to prevent such operations, although it will have some effect in that direction. The program described in your letter contemplates the control of transactions through the application of ad hoc freezing action to certain persons and firms in Argentina. The program does not envisage the control on an ad hoc basis of individual transactions, which may be inimical to this country's war effort, but which may be engaged in by persons who would not be subject to ad hoc freezing action on the basis of the standards set forth in your letter.

It was to meet this particular objection that this Department has suggested that arrangements be made with the Office of Censorship so that all financial communications between the United States and Argentina will be examined and the information contained therein forwarded to this Department, and, in case of communications relating to the more important transactions, that the contents of such communications will be received by this Department in advance of their transmission to destination. By utilizing the information thus obtained from Censorship, and from other sources concerning Argentine transactions, this Government would be in a position to single out those transactions which appear to be of an undesirable character, and require the American banks or institutions which are parties to such transactions to hold up their execution until we obtain further information as to the nature of the transactions. This Department is prepared to take such action immediately if you have no objection.

So long as this Government attempts to control inimical Argentine transactions, through the procedure of an ad hoc program, as distinguished from an overall supervision and control, this Department is of the opinion that additional measures such as those referred to above are essential in order to give the fullest possible effect to such an ad hoc program. Nevertheless, this Department is still strongly of the view that Argentine financial transactions subject to our jurisdiction should be subjected to an overall supervision and control. It is impossible adequately to control



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inimical financial transactions subject to our jurisdiction which are engaged in by persons within a foreign country such as Argentina through a procedure whereby such transactions are freely permitted unless this Government has already obtained positive information, prior to the time they are engaged in, indicating that they should be examined. Any program which is fully adequate in this respect must be based on the premise that transactions are prohibited unless this Government is furnished with full information concerning such transactions and is satisfied that such transactions should be approved. Since the time that this Department recommended in May, 1942, the issuance of an order freezing generally all Argentine nationals (accompanied by an appropriate general license), the information which has come to the attention of this Department concerning Argentine activities more than confirms the views of this Department as to the necessity of such an overall control.

It is understood that the principal objection to a public order freezing Argentine nationals, which was raised by representatives of the State Department at the meeting held in May, 1942, to consider this matter, was the contention that such an order would have an adverse effect on certain friendly groups in Argentina and on our good neighbor policy in general. In view of developments since that time, including official statements relating to Axis activities in Argentina, it is suggested that the issues involved be re-canvassed.

Recognizing the political considerations involved, I am of the opinion that this Government can not justify its failure in this case to take adequate steps designed to prevent transactions, subject to our jurisdiction, which are engaged in by persons within a country maintaining diplomatic and commercial relations with the enemy and which may be detrimental to our war effort.

Very truly yours,

Secretary of the Treasury.

The Honorable

The Secretary of State.

Enclosures  
JED/ma - 11/6/42

OTTO JEIDELS  
120 BROADWAY  
NEW YORK CITY

November 6, 1942

Mrs H. S. Klotz  
Secretary to Secretary of the Treasury  
Treasury of the United States  
Washington, D. C.

Dear Mrs. Klotz:

I thank you for your telephone message,  
and will call on the Secretary on Tuesday, November 10,  
at 3:30, as suggested by you.

While the Secretary knows me and has been  
very kind to me at the few interviews, he may like  
to be informed about my personal record, in view of  
the subject which I intend to submit to him. For  
this purpose I have written a personal memorandum which  
you may or may not wish to show or read to the Secretary.  
I shall leave that decision entirely up to you.

With kind regards,

Sincerely yours,



OJ:MSC  
Enc.



PERSONAL

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If I remember correctly, I was originally introduced to the Secretary in 1938 by Mr. Abraham Flexner, an old and respected friend, at that time Director of the Institute of Advanced Study in Princeton. I reported to the Secretary the situation in Europe which I had just left, and, if my memory does not deceive me, in a pessimistic vein with regard to world peace and the Nazis' aggressive plans. Since then, I believe I have had the honor to be received by the Secretary twice and to submit some opinions about economic problems and developments in Europe.

I immigrated just four years ago and have been most of the time since and am now a partner of the New York investment banking house of Lazard Freres & Co. The first citizenship papers which I filed after my immigration, date from November 24, 1938. I am a national of Switzerland where my grandfather had acquired citizenship in 1866 when Prussia annexed Frankfurt on the Main, his and my native town; under Swiss law his male descendants and their wives were entitled to Swiss citizenship; as my wife and I, my 84 year old mother and my brother, now residing in Zurich, Switzerland, are Swiss nationals, but we were all born in Germany. During my activity in Germany and ending in 1938, I was also a German citizen.

After my college years in Germany and my graduation as a Ph. D. in political economy, and after some scientific writing on banking and industry as a young man, I entered business at the bottom in this country as a "runner" and then a clerk in the New York brokerage firm of J. S. Bache & Co., after which I worked several years in Germany, England and U. S. for a large metal merchant house, among it for the better part of a year in the metal ore and smelting business in Colorado. After returning to Germany, I entered the service of one of the principal and oldest German banks, the Berliner Handels-Gesellschaft, with which I have been connected for nearly thirty years (April 1, 1909 until I left German forever on March 8,

1938), the last twenty years as managing director and, under the old by-laws of the Bank, as a personally responsible partner.

Of this career which filled a good part of a lifetime, from a personal point of view, some more important developments are most vivid in my memory.

The intensive industrial work connected with board memberships, some as chairman or vice-chairman, or member of executive committees, as one of my principal duties and, on the other hand, the consulting activity under three presidents of the Central Banking Institution, the Reichsbank in the administration of Government borrowing and monetary policy. - Then my close connection with the international members of the Reparation Commission before and after the Dawes Plan. - After the collapse of the German financial structure erected on reparation policy and foreign borrowing, I had the satisfaction of functioning as one of the two German bankers delegated to settle without recourse to the Governments the German private indebtedness to the international banking community, amounting in 1931 to about \$1½ billion gold dollars; when I resigned this delegation after six and a half years on leaving Germany, about 90% of this indebtedness had been liquidated, the American interest in particular down to little over \$50 million. Some of my most cherished American and other international friendships are the heritage of this thorny but fascinating activity. - In the same year of financial crisis, 1931, I was with my colleagues in the management of the Berliner Handels-Gesellschaft a beneficiary of the good fortune which enabled the bank, as the only private institution of the kind in the country, to survive the crisis without assistance by the Government, without recapitalization and even without being compelled to pass the annual dividend. To this day I am grateful for such kindness of fate in critical times.



Another pleasant recollection is the opportunity afforded to me by the British Government in the winter 1950-1951 to serve as an expert to a Committee on Banking in India. I am deeply grateful to have had this privilege of learning much of the real story of India, now so widely misunderstood, and for the opportunity to form on this complex problem an opinion equally appreciative of the unparalleled achievement of Britain in India as of the ideal and material aspiration of the populace of India.

May I be permitted to add a few words which might find the Secretary's interest in spite of their personal character. Everybody who does not try to suppress human nature in himself, has his regrets about his past and here or there some pride. I am grateful for the good fortune and proud of a record that during the whole period of Nazi persecution of the Jews until I left Germany, in no corporation where I acted as chairman or vice-chairman of the board, any executive and in the bank entrusted to my management any employe has been dismissed or been impaired in his functions owing to his faith or race or political record. When in January 1938 the clock ran out and an executive of an industrial corporation where I was chairman of the board was forced out by the Nazi Party, I resigned from this board and also my position in the bank, the latter under the promise, readily given and faithfully adhered to by the bank's board of directors, of settling generously with the Jewish employees after my departure from the bank and the country. - Having made this personal statement, I feel that honesty and modesty call for an explanation how such effort could be successful in the light of wholesale persecution and in spite of my own Jewish descent. The answer is simple. For me, and in this respect I have been distinctly fortunate where others were helpless victims, the prospect of leaving Germany after many good and bad years of, on the whole, gratifying work, meant the fulfillment of an old dream, the patiently cherished desire to come one day to live in America,

the idol of my young years and the haven of many true friendships. This singular position permitted me to identify my fate and decisions with that of my persecuted friends and employees, an attitude which has always and everywhere a strong chance of at least temporary success; and in such position I could, with some good fortune on which everybody depends, only win in the end.

O. J.



## MEMORANDUM FOR THE SECRETARY.

November 6, 1942.

Mail Report

Inasmuch as no new subject appeared in the mail this week, and no new angle on the old subjects, few letters were chosen for abstracting. The official mail was fairly heavy, but the fan mail itself was exceptionally light, and the subjects of bonds and taxes continued to occupy the minds of most of our writers. The ratio of those protesting the new Tax Bill to those approving it is 8 to 1. There is great interest in periodic payment of taxes on a weekly, monthly or quarterly basis. A number have protested higher rates of state and local taxation, and a municipal tax in Philadelphia has been especially unpopular. There are an increasing number of letters from taxpayers who submit statements of income, expenses, etc., and ask an estimate of what they will have to pay. The question of the taxability of Bonds is also coming more and more to the fore. Treasury mail shows that opinion is equally divided as to the merits of a Sales Tax, but on reference from the White House, we have received 139 postal cards opposing a Sales Tax and advocating one on gross income. We also have had few letters commenting on the Victory Tax, but have received 44 pieces of mail from the White House containing protests of this tax as failing to take into consideration ability to pay.

December 7 is running a close race with Christmas as a suggested occasion for a bond selling campaign. One writer states that a billion dollars' worth of bonds can be sold this December 7 alone. Suggestions follow the lines of earlier mail, and complaints have dropped to 22. These deal with issuing, reissuing, and redeeming bonds, and about one-third are from employees of War and Navy Departments. Anti-labor views, demands for Government economy, and comments on inflation have been much less

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Memorandum for the Secretary.

November 6, 1942.

frequent, but there is an increase in letters requesting a published denial of the report that bank accounts will be frozen by the Government.

There is only a slight increase in inquiries as to wage stabilization. Since the Office of Economic Stabilization has been set up it has referred to us from 6 to 12 letters or telegrams a day. This correspondence is for the most part referred to Mr. Sullivan.

We received a grand total of 1,128 pieces of mail from the White House during October. Exclusive of postal card campaigns, there were 945 pieces to be handled. The highest receipts during previous Octobers occurred in 1938 when there were 467 pieces referred from the White House.

*Gabriel E. Forbush*



General Comments

J. Thomas Edwards, Lubbock, Texas. I am writing you this letter to express our appreciation here in Lubbock, Texas, and all of this part of Texas, for having a man like you as our Secretary of the Treasury. You and the President have done more for the people of the United States of America than any two people that there has ever been, and this part of the country is for you both 100%, and for what you have done and propose to do. In getting a law passed limiting all salaries to \$25,000 per year and a tax on corporations in excess of 6% on their capital has done more to help the small people and companies than anything that has ever been done. \* \* \* I am personally proud of the way you have tried to stop the powerful German Trust of I. G. Farben by taking their stock, and for the sake of the world and God's sake fix it where they cannot get this stock back into their power. \* \* \* I have worked all of my life in banks and have been President of a small Texas Country Bank, and I know the way and manner in which the bankers have taken the advantage of people, and what has gone on in the banks. And for the farmers, help keep the Farm Security in force for they are doing a wonderful work with the farmers and it should be where any farmer could go to the Farm Security and borrow money at a low rate of interest and not go to the banks. \* \* \*

Joseph Carl Saltman, Director, Camp Chickawah, Harrison, Maine. The enclosed check for \$50.00 is sent to you by the boys of Camp Chickawah who took care of an acre of stringbeans last summer, and picked 2,500 pounds which were bought by the Portland Packing Company. The boys want you to send this money to the organization where you think it might serve our cause best. You may even add this drop to the Government funds now needed so much to build the planes to blast the enemy. \* \* \*

- 2 -

Favorable Comments on Bonds

Walter W. Phelps, Santa Paula, Calif. Under the Agricultural Conservation and Parity Program Payments I, as a farmer planting a cover crop each fall, received my 1942 application today. By simply signing my name, I am to receive \$35.63. For three years now I have taken this money, feeling that while legally entitled to it, the money is actually wasted because any good farmer would follow the practice anyway. \* \* \* Why not pay it out in War Bonds and Stamps? What I will do when my check comes will be add \$1.87 in cash and get a \$50 Bond. If that represents an impractical method, why not put an inslip in the envelope containing the check, suggesting the purchase of Bonds or Stamps? \* \* \*



- 3 -

Unfavorable Comments on Bonds

M. G. Neyrey, Auditor, Higgins Industries, Inc., New Orleans, La. We have been endeavoring to cooperate with the Treasury Department in securing additional sales of War Bonds and as every one is aware of the shortage of skilled office help, we have been trying to purchase machines to expedite the work. The Burroughs Adding Machine Company have on hand, packed and ready for shipment, two machines which we ordered from them on October 24, 1942, and on which we made application for priorities on the same date, sending same by air mail to the War Production Board, who received it on October 26, 1942. Though we have been in daily communication with the Office Machinery Department of the War Production Board, we have been unable to get this priority issued. We believe we are being given the run around by the War Production Board, and the sale of War Bonds is being seriously hampered because we are unable to keep up with the speed with which our men want their War Bonds after they have paid for them. \* \* \* We are spending very nearly \$4,000 for these two machines to help the war effort and certainly it is not helping us individually but helping the Government of the United States of America. \* \* \*

Howell Brewer, Cleveland, Ohio. I am a regular employee of The Aluminum Company of America, whose plant is located at 2210 Harvard Avenue, Cleveland, Ohio; and as such am taking approximately forty percent of my wages in War Bonds, according to the payroll deduction plan. I am, however, disappointed that I am not receiving my Bonds anywhere from four to eight weeks after they have been fully paid for, and they are being dated the date I receive them, instead of the date on which they were purchased. Ninety percent of all the employees of this company are taking at least ten percent of their wages in War Bonds, and they are experiencing the same difficulty. I have repeatedly asked those in charge of the Bond purchasing why these Bonds are not purchased on time, and no satisfactory explanation has been given. If this condition continues it will mean that a large number of

- 4 -

the employees will cancel their payroll deductions for the purchase of War Bonds. For this reason I am taking the liberty of asking you to conduct an investigation with the purpose of determining why these Bonds cannot be delivered on time, and if not, why they cannot be dated as of the date of purchase instead of four to eight weeks later.

Mrs. Jacob Levine, Bronx, New York, sends copy of letter addressed to the Postmaster General. "I herewith wish to register very strenuous complaint as to the manner in which your Department is assisting the Treasury Department of this country in the sale of U. S. War Bonds and Stamps. \* \* \* In compliance with the request made by our Government I had purchased War Stamps - the easy way to purchase War Bonds - to help in the present emergency. \* \* \* On August 27, 1942, I presented my book of War Stamps at the Bond window of the Highbridge Post Office in New York City. The very brilliant clerk at the window, Mr. M. Greenberg, after first cancelling all the stamps in this book, noted that one of the stamps had a very small piece rubbed off. This evidently occurred from two sheets of stamps being stuck together. However, the clerk, M. Greenberg by name, decided in his own mind that this stamp was no good and could not be redeemed. Having purchased these stamps in good faith, I insisted that the Government hold to its contract. After consulting with a number of clerks or supervisors in this office, it was finally decided to give me a receipt for my stamps, and submit the book for examination by what Mr. Greenberg termed the proper authorities. On August 31 I received a letter from Mr. Albert Goldman in which he informed me that my book of stamps had been sent to the Third Assistant Postmaster General for advice as to the redemption of this particular album of stamps. \* \* \* It is now over two months since I requested a War Bond and no action has been taken -- all of which proves the truth of my former statement that the Government cannot be in such dire straits, which led me, my family, and friends to the conclusion that there was no need for purchasing any more Stamps or Bonds.



- 5 -

Unfavorable Comments on Taxation

John A. Ingham, Leonia, N.J. \* \* \* It would be a real source of satisfaction if we could find in some Treasury utterance an assurance that the Department realizes that a good many people have no increased income and must of necessity curtail their buying. We want to do our part, but we cannot pay out what we do not receive. I realize that your tasks are onerous; I would not add to your burdens, but I do ask that you take a little thought for those who have no war profits in any way, shape or manner. With sincere appreciation of your courteous attention, and with best wishes for the fullest success in solving the great problems you face.

John Vernou Bouvier, Counsellor-at-Law, N.Y.C. In the New York Times you were reputed to have said, in substance, that the rates of taxation in Britain were about double those obtaining in the United States. Are you actually persuaded that such is literally the fact, and have you, in the expression of such belief, considered the enormous state taxes that, for example, we in New York, as you are aware, are constrained to pay; to say nothing, of course, of the incalculable multiplicity of indirect taxes that attach to practically everything in our lives, save our respiration.

Grace J. Kinsey, Jersey City, N.J. Where is this excess income you talk about mopping up with the new Revenue Bill? We white-collar workers have not seen any of it, yet we have not created the high cost of living either. The taxes already passed and threatened ones to come will make it impossible for me to continue my annuity insurance premiums of \$350 per year, or about 13% of my salary. Of this 13% over 5% is invested in War Savings Bonds by the Insurance Company. In addition, I have invested 5% of my salary voluntarily in War Bonds, but when compulsory savings start, I shall be forced to give up my 5% voluntary investment, for I have more than 5% regular medical bills. Washington seems to be bent on penalizing the

thrifty citizen who, while Washington was creating inflation during the past 8 years by wild spending, was desperately denying himself to keep up heavy premiums under a 20% cut in salary during the depression. It was loudly heralded that credit would be allowed for insurance premiums in the new bill, yet you come out with a final bill allowing only infinitesimal credit against the returnable portion of the victory tax, which amounts to nothing. \* \* \* We are not complaining about being taxed, but about the unfair class distinction which will not allow for fixed obligations like insurance premiums - which are SAVINGS AND NOT INFLATIONARY.

Hugh Hardyman, Rancho Laurita, Thermal, Calif. Having just repaired a truck, laid up since June, I tried to buy an auto use tax stamp at the local Post Office and was referred to the Collector of Internal Revenue at Los Angeles. I mailed a check for \$5.00 to the Collector. The check was returned with the statement that checks must be certified to be acceptable to the Government. So I went to the bank at Coachella, seven miles each way for four tires, and was given a cashier's check, which I was assured would be accepted as the practice of certifying checks was abandoned several years ago in this state. Grudging the time taken from harvesting, I mailed the cashier's check. It was returned, as the rules insist on certified checks only, and cashier's checks are not accepted. I have not time to go to the bank again, nor to the Post Office to buy a Money Order, so am sending the cash by mail on the chance it may arrive. \* \* \* Every private enterprise has discovered the convenience of checks, plain personal checks. Why does the Treasury insist on the immense waste of our time by demanding certification? To go to the extent of refusing a cashier's check on a National bank is carrying the practice of badgering us to extreme limits. \* \* \* No private firm with whom I deal finds certification necessary. Why should you, my own employee, continue this antiquated and wasteful habit? Your facilities for dealing with attempted fraud excel those of any private firm. \* \* \*



**SECRET**

*Helton*  
94

**WAR DEPARTMENT  
HEADQUARTERS OF THE ARMY AIR FORCES  
WASHINGTON**

*Feb*  
November 6, 1942

My dear Mr. Secretary:

Answering your letter of November 5, the following is the information requested.

1. Number of P-51 Mustangs delivered to the British monthly during each of the past twelve months (factory deliveries) is as follows:

<u>1941</u>	
November	38
December	34
<u>1942</u>	
January	98
February	90
March	36
April	103
May	85
June	79
July	26
August	13
September	80
October	<u>0</u>
Total	682

2. Number of helicopters (as distinguished from autogyros) produced in the United States for the Army Air Forces monthly during each of the past twelve months, and estimated production monthly for the remainder of 1942 and for the calendar year 1943 is as follows:

The Army Air Forces received 1 Vought-Sikorsky XR-4 during June 1942. It is proposed to secure 15 Vought-Sikorsky XR-4A's, 4 Vought-Sikorsky XR-5's, and 2 Vought-Sikorsky XR-6's.

**SECRET**



SECRET

95

The latest available estimate for the XR-4A's is:

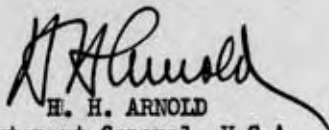
<u>1943</u>	
January	1
February	0
March	1
April	2
May	3
June	4
July	4

The XR-5's and XR-6's are unscheduled.

The Army Air Forces are also procuring 1 XR-1 and 1 XR-1A from Platt LePage. The XR-1 is now undergoing experimental tests and the delivery date is indefinite. The XR-1A is unscheduled until the tests are completed on the XR-1.

We do not have full information as to helicopters being produced for the Navy, but understand that this can be obtained from their Bureau of Aeronautics, Production Branch, Records and Reports, Attention: Miss Hoffer.

Sincerely yours,



H. H. ARNOLD  
Lieutenant General, U.S.A.  
Commanding General, A.A.F.

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

SECRET



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission  
who enclose weekly Statement No. 76 covering  
Aircraft Flight Delivery as at November 3, 1942.

The Honourable Henry Morgenthau, Jr.  
Secretary of the Treasury  
WASHINGTON, D. C.

November 6, 1942.

CONFIDENTIAL REPORT  
REV. NO. D-55

BRITISH

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 76  
(Covering Movements through November 3, 1942)

1. BOEING FORTRESS I (B17C) Off Contract A-5077  
20 DELIVERED TO U. K.

2. CONSOLIDATED LIBERATOR TYPES OFF B. A. C. Contracts

(A) B39A (B2A) Off Contract A-5068

6 DELIVERED TO U. K.

(B) LIBERATOR I (B24A) Off Contract F-677

19 DELIVERED TO U. K.

1 under repair

20

(C) LIBERATOR II (B24B) Off Contract F-677

(a) Never taken by U. S. A. A. F.

55 DELIVERED TO U. K.

1 DELIVERED TO U. K. (Ferry Service)

5 DELIVERED TO M. E. (1 crashed in Africa)

3 DELIVERED TO MONTREAL (2 for Establishment, 1 for Ferry Service)

1 at Montreal

65

(b) Taken by U. S. A. A. F. and returned or kept

14 DELIVERED TO U. K.

6 DELIVERED TO MONTREAL (Ferry Service)

1 at Montreal

1 at Detroit

2 on special duty

6 RETAKEN BY U. S. A. A. F.

44 KEPT BY U. S. A. A. F.

74

3. LOCKHEED HUDSON V (LONG RANGE) Off Contract A-1749

174 DELIVERED TO U. K.

42 DELIVERED TO DEBERT

1 LOST AT SEA (in flight)

1 DELIVERED TO MONTREAL (Establishment)

1 at Montreal

2 CRASHED AFTER EXPORT

2 CRASHED IN U. S.

2 under repair

\* 225

\* Excluding one crash written off by contract amendment.

SUPPLEMENTARY (not included in table at end of report)

SHORT RANGE HUDSON V off A-1749

168 DELIVERED TO U. K. (by sea)

6 DELIVERED TO NEW ZEALAND (by sea)

1 FLIGHT DELIVERED TO DEBERT

\* 1 CRASHED AFTER EXPORT

6 LOST AT SEA

\*\* 182

\* Crashed in Canada; returned to Lockheed and written off.

\*\* Excluding one crash written off by contract amendment.

4. LOCKHEED HUDSON III off B. A. C. Contracts

(A) Contract A-67 (SHORT RANGE)

46 DELIVERED TO U. K.

4 CRASHED AFTER EXPORT

\* 50

\* Including "Gift Plane"

SUPPLEMENTARY (not included in table at end of report)

SHORT RANGE HUDSON III Off A-67

29 DELIVERED TO U. K. (by sea)

1 Resident at Lockheed Plant

30



LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 79  
(Covering Movements through November 3, 1942)

4. LOCKHEED HUDSON III off H. A. C. Contracts

(B) Contract A-68 (LONG RANGE)

- 211 DELIVERED TO U. K.
  - 3 DELIVERED TO DEBERT
  - 5 LOST AT SEA (in flight)
  - 5 CRASHED AFTER EXPORT
  - 1 at Detroit
  - 20 DIVERTED TO U. S. A. A. F.
- \* 243
- \* Excluding two crashes written off by contract amendment.

SUPPLEMENTARY (not included in table at end of report)

- 30 (LONG RANGE) DELIVERED TO NEW ZEALAND (by sea)
  - 71 (SHORT RANGE) DELIVERED TO U. K. (by sea)
- 101

5. VEGA VENTURA (B34)

(A) Off Contract A-344

(a) LONG RANGE

- 102 DELIVERED TO U. K.
  - 75 DELIVERED TO SOUTH AFRICA
  - 37 DELIVERED TO PENNFIELD RIDGE
  - 1 LOST AT SEA (in flight)
  - 1 in Iceland
  - 3 en route South Africa
  - 2 at Gander
  - 6 DELIVERED TO MONTREAL (Establishment)
  - 5 at Montreal
  - 13 CRASHED AFTER EXPORT
  - 1 at Miami or West Palm Beach
  - 2 en route Miami or West Palm Beach
  - 5 at Nashville
  - 3 at Detroit (including 2 for South Africa)
  - 3 CRASHED IN U. S.
  - 9 TAKEN BY U. S.
- 268

(b) SHORT RANGE

- 12 DELIVERED TO PENNFIELD RIDGE
  - 2 DELIVERED TO MONTREAL (Establishment)
  - 1 at Montreal
  - 2 on special duty (Pan-Am. Training)
  - 1 at Detroit (transition)
- 18

SUPPLEMENTARY (not included in table at end of report)

- 10 (SHORT RANGE) DELIVERED TO U. K. (by sea)

(B) Off Contract A-1748 (LONG RANGE)

- 37 DELIVERED TO U. K.
  - 9 DELIVERED TO SOUTH AFRICA
  - 5 DELIVERED TO PENNFIELD RIDGE
  - 1 in Iceland
  - 6 en route South Africa
  - 1 LOST AT SEA (in flight; en route U. K.)
  - 1 at Gander
  - 3 DELIVERED TO MONTREAL (Establishment)
  - 2 at Montreal
  - 1 CRASHED AFTER EXPORT
  - 9 at Miami or West Palm Beach
  - 11 at Nashville
  - 5 at Detroit (including 4 for South Africa)
  - 10 at Dallas
  - 1 on special duty (Wright Field)
  - 1 CRASHED IN U. S. (for South Africa)
  - 27 DIVERTED TO U. S. NAVY
  - 244 TAKEN BY U. S. A. A. F.
- 374

CONFIDENTIAL REPORT  
REF. NO. D-55

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 76  
(Covering Movements through November 3, 1942)

6. CONSOLIDATED FLYING BOATS

(A) Off B. A. C. Contracts

(a) CATALINA I (FBY5) off Contract A-2587

7 DELIVERED TO U. K.

(b) CATALINA I (28-58E) off Contract F-210

38 DELIVERED TO U. K.

1 DELIVERED TO AUSTRALIA

1 DELIVERED TO SINGAPORE

40

(c) CATALINA I (28-58E) off Contract A-37

42 DELIVERED TO U. K.

8 DELIVERED TO SINGAPORE

8 DELIVERED TO DARTMOUTH

1 DELIVERED TO BERMUDA (R.A.F.<sup>N</sup>.C. Establishment)

59

(d) CATALINA I (28-58E) off Contract AUS-58

17 DELIVERED TO AUSTRALIA

1 DELIVERED TO U. K.

18

(e) CATALINA IIA (28-58G) off Contract CAN-78

17 DELIVERED TO U. K.

9 DELIVERED TO AUSTRALIA

1 DELIVERED TO BERMUDA (R.A.F.F.C. Establishment)

2 CRASHED AFTER EXPORT

29

SUPPLEMENTARY (not included in table at end of report)

7 DELIVERED TO CANADA

(B) Off Lend-Lease Contracts B.S.G. Requisitions

(a) CATALINA IIX (FBY5A) off B.S.G. Req. 10772

10 DELIVERED TO U. K.

2 DELIVERED TO MONTREAL (Establishment)

12

(b) CATALINA IIX (FBY5B) off B.S.G. Req. 148

83 DELIVERED TO U. K.

2 at Gander

4 at Montreal

1 CRASHED AFTER EXPORT

11 at Elisabeth City

1 on special duty (on loan to U. S. Navy; damaged)

102

(c) CATALINA IIX (FBY5B) off B.S.G. Req. 7952

1 at Montreal

33 at Elisabeth City

34

7. LOCKHEED HUDSONS OFF LEND-LEASE CONTRACTS

(A) HUDSON IIXA (A29) Off A2-5

130 DELIVERED TO DEBERT

3 DELIVERED TO MONTREAL (Establishment)

2 at Montreal for Debert

2 at Ottawa

1 CRASHED AFTER EXPORT

1 at Detroit for Debert

1 at Nashville (transition)

3 under repair

1 at Long Beach

33 for China

20 DIVERTED TO U. S. NAVY

154 TAKEN BY U. S. A. A. F.

5 CRASHED IN U. S.

356

SUPPLEMENTARY (not included in table at end of report)

49 DELIVERED TO AUSTRALIA (by sea)

12 DELIVERED TO NEW ZEALAND (by sea)

61



CONFIDENTIAL REPORT  
REF. NO. D-55

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 76  
 (Governing Movements through November 3, 1942)

7. LOCKHEED HUDSONS OFF LEND-LEASE CONTRACTS

(B) HUDSON IIIA (A29) off AC-151

185 DELIVERED TO U. K.  
 1 DELIVERED TO DESERT  
 4 LOST AT SEA (in flight)  
 5 DELIVERED TO MONTREAL (Establishment)  
 7 CRASHED AFTER EXPORT  
 1 at Detroit (transition)  
 2 at Nashville (1 in transition)  
 2 FOR CHINA  
 1 TAKEN BY U. S. A. A. F.  
 1 CRASHED IN U. S.

211

SUPPLEMENTARY (not included in table at end of report)

45 DELIVERED TO AUSTRALIA (by sea)  
 42 DELIVERED TO NEW ZEALAND (by sea)  
 1 CRASHED (on acceptance flight)

88

(C) HUDSON VI (A28A) off AC-474

31 DELIVERED TO U. K.  
 42 DELIVERED TO MIDDLE EAST  
 2 DELIVERED TO DESERT  
 1 en route Middle East  
 6 DELIVERED TO MONTREAL (Establishment)  
 5 at Montreal (for Desert)  
 3 CRASHED AFTER EXPORT  
 2 for special duty (training; Pan-American)  
 2 CRASHED IN U. S. (Pan-Am. training)  
 1 TAKEN BY U. S. A. A. F.

95

SUPPLEMENTARY (not included in table at end of report)

4 DELIVERED TO NEW ZEALAND (by sea)

(D) HUDSON VI off AC-908

85 DELIVERED TO U. K.  
 48 DELIVERED TO MIDDLE EAST  
 26 DELIVERED TO FREESTOWN  
 31 DELIVERED TO DESERT  
 3 en route Middle East  
 5 en route Freestown  
 2 LOST AT SEA (in flight)  
 7 DELIVERED TO MONTREAL (Establishment)  
 2 CRASHED AFTER EXPORT  
 7 at Detroit (4 in transition)  
 2 en route Detroit  
 24 at Miami or West Palm Beach  
 27 at Nashville or Memphis  
 1 at Dallas (transition)  
 11 at Long Beach (5 in transition)  
 5 CRASHED IN U. S.  
 29 TAKEN BY U. S.

265

8. DOUGLAS BOSTON IIIA (A20C) off L/L Contract AC-934

11 DELIVERED TO U. K.  
 2 en route U. K. from Montreal (U.S. Air Transport Command Pilots)  
 7 at Gander  
 23 at Montreal  
 2 CRASHED AFTER EXPORT  
 56 at Detroit (2 in transition)  
 10 en route Detroit  
 21 at Long Beach

132

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 76  
(COVERING MOVEMENTS THROUGH November 3, 1942)

9. MARTIN BALTIMORE IIIA (A30) off I/L Contract AC-19, P.S.C. Reg. 144

- 2 DELIVERED TO MIDDLE EAST
  - 1 en route Middle East
  - 3 at Montreal
  - 6 at Miami or West Palm Beach
  - 71 at Nashville or Memphis (including 2 returned from Montreal)
  - 3 en route Nashville or Memphis
  - 42 at Newcastle, Del.
  - 4 en special duty (tests by U.S.)
  - 1 CRASHED IN U. S.
- 133

10. BOEING FORTRESS (B17)

(A) FORTRESS IIA (B17E) Army Release

- 42 DELIVERED TO U. K. (modified)
  - 1 at Gander (modified)
  - 1 at Montreal (modified)
  - 1 en special duty (modified)
  - 12 TAKEN BACK BY U. S. A. A. F. (in April)
  - 4 TAKEN BACK BY U. S. A. A. F. (in June)
- 61

(B) FORTRESS II (B17C)

(a) OFF LEASE CONTRACT AC-16

- 1 at Montreal (modified)
  - 4 at Detroit (modified)
  - 3 en route Detroit (modified; damaged)
- 6

(b) ARMY RELEASE

- 4 at Montreal (modified)
  - 2 at Detroit (modified)
  - 3 at Cheyenne (modification center)
  - 4 en route Cheyenne (modification center)
- 13

11. CONSOLIDATED LIBERATOR III (B24D) Army Release

- 11 DELIVERED TO U. K. (unmodified)
  - 61 DELIVERED TO U. K. (modified)
  - 1 LOST AT SEA (unmodified) (in flight)
  - 4 in temporary South Atlantic Ferry Service (modified)
  - 1 at Montreal (modified)
  - 1 CRASHED AFTER EXPORT (modified)
  - 22 at Fort Worth (modification center)
  - 1 en route Fort Worth
  - 3 TAKEN BACK BY U.S.A.A.F. (2 in June; 1 in Sept.)
  - 2 CRASHED IN U. S. (en route modification centers)
- 107

12. NORTH AMERICAN MITCHELL I (B25B) Army Release

- 3 DELIVERED TO U. K. (modified)
  - 5 at Montreal (modified); 1 for U.K.; 4 to return to U.S. for re-modification
  - 2 at Nashville (re-modified)
  - 13 at Minneapolis (for re-modification)
- 23

13. NORTH AMERICAN MITCHELL II (B25C) Army Release

- 90 DELIVERED TO U. K. (modified)
  - 1 LOST AT SEA (in flight)
  - 1 at Gander (modified)
  - 8 at Montreal for Canada training (modified)
  - 12 at Detroit for Canada training (modified)
  - 7 at Minneapolis (for further modification, S.B.A. installation)
  - 3 at Kansas City (modification center)
  - 37 TAKEN BACK BY U. S. A. A. F. (June)
  - 29 TAKEN BACK BY U. S. A. A. F. (April)
- 188



CONFIDENTIAL REPORT  
REF. NO. D-55

BRITISH

MOST SECRET

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 76  
 (Covering Movements through November 3, 1942)

14. MARTIN MARAUDER I (B26A) Army Release

- 4 DELIVERED TO U. K. (modified)
- 1 at Montreal (modified)
- 44 DELIVERED TO MIDDLE EAST (modified)
- 2 en route Middle East (modified)
- 6 CRASHED AFTER EXPORT (modified) (en route Middle East)
- 4 at Miami or West Palm Beach (modified)
- 3 at Nashville (modified)
- 1 under repair (Mobile)
- 6 CRASHED IN U. S. 2 en route modification center; 4 after modification

71

15. TRANSPORTS

(A) BOEING

(a) DAKOTA II (C-53) off B.S.C. Reg. 1050

- 9 DELIVERED TO MIDDLE EAST
- 2 TAKEN BY U. S.

11

(b) DAKOTA I (C-47) off L/L Contract AG-53. B.S.C. Reg. 2849

- 1 DELIVERED TO MIDDLE EAST

(B) LOCKHEED LORSTAR OFF L/L Contract AG-53. B.S.C. Reg. 1049

(a) LORSTAR IA (C-59)

- 6 DELIVERED TO MIDDLE EAST
- 1 en route Middle East
- 3 TAKEN BY U. S. A. A. F.

10

(b) LORSTAR II (C-60)

- 15 DELIVERED TO MIDDLE EAST

PLANNING AND AIRFRAME SUPPLY  
 BRITISH AIR COMMISSION  
 WASHINGTON, D. C.

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

November 6, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended October 25, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(init) E.M.B.

imc:ll/6/42



C  
O  
P  
YFEDERAL RESERVE BANK  
OF NEW YORK

November 5, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended October 28, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse

Robert G. Rouse,  
Vice President.

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

Enclosure

Copy:imc:11/6/42

**ANALYSIS OF BRITISH AND FRENCH ACCOUNTS**  
(In Millions of Dollars)

Week Ended October 28, 1942

Strictly  
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF CANADA						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of			Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits	Gov't Expenditures (e)	Other Debits	Total Credits	Proceeds of Gold Sales		
Gold					Securities (Official) (b)	Other Credits (c)	of Gold Sales						Other Credits		
First year of war	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(f)	416.6(f)	449.7	1,094.3(f)	900.2	195.1(f)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
Third year of war***	1,235.6	904.8	330.8	1,361.5	21.8	5.5	1,334.2	+125.9	18.5	-	18.5	4.4	-	4.4	- 14.1
1942															
Sept. 3 - Sept. 30	56.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7
Oct. 1 - Oct. 28	40.7	29.4	19.3	57.5	-	-	57.5	+ 10.4	-	-	-	0.3	-	0.3	+ 0.3
Oct. 29 - Dec. 2															
Dec. 3 - Dec. 30															
WEEK ENDED:															
Oct. 7	21.0	15.3	6.3	14.6	-	-	14.6	- 7.0	-	-	-	0.1	-	0.1	+ 0.1
14	22.2	3.8	2.5	14.2	-	-	14.6	+ 8.3	-	-	-	0.1	-	0.1	+ 0.1
21	11.5	4.2	7.3	12.0	-	-	18.0	+ 6.5	-	-	-	-	-	-	-
28	7.3	2.1	3.2	10.3	-	-	10.3(g)	+ 3.0	-	-	-	0.1	-	0.1	+ 0.1

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

England (through June 19, 1940) 27.6 million  
England (since June 19, 1940) 33.9 million

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

Week ended October 28, 1942 \$ -  
Cumulation from July 6, 1940 \$ 162.7

million  
million

\*For monthly breakdown see tabulations prior to April 23, 1941.  
\*\*For monthly breakdown see tabulations prior to October 8, 1941.  
\*\*\*For monthly breakdown see tabulations prior to October 14, 1942.  
(See attached sheet for other footnotes)



- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes: \$3.1 million to be held for credit of U. S. armed forces abroad  
2.9 million deposited by British Ministry of Supply.

**STATEMENTS OF CANADIAN AND AUSTRALIAN ACCOUNTS**  
(In Millions of Dollars)

Week Ended October 28, 1942

Strictly  
Confidential

PERIOD	STATE OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	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 Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	36.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	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	12.3	+ 4.5
Second year of war**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war***	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28	66.9	-	66.9	51.5	10.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.5	-	14.5	+ 0.3
Oct. 29 - Dec. 2																
Dec. 3 - Dec. 30																
WEEK ENDED:																
Oct. 7	8.2	-	8.2	11.0	3.0	-	-	8.0	+ 2.8	0.6	-	3.5	1.9	-	1.9	+ 1.3
14	20.1	-	20.1	16.1	9.3	-	-	14.2	+ 3.5	0.8	-	3.5	13.7	-	10.7	+ 9.9
21	8.9	-	8.9	11.9	9.1	-	-	11.8	+ 3.0	12.0	12.0	-	-	-	-	- 12.0
28	7.7(a)	-	7.7	12.0(b)	3.7	-	-	8.3(c)	+ 3.3	0.9	-	3.9	2.3	-	2.0(d)	+ 1.1

**Weekly Average of Total Debits Since Outbreak of War**

Through October 28, 1942 \$ 8.4 million

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

\*\*For monthly breakdown see tabulations prior to October 8, 1941.

\*\*\*For monthly breakdown see tabulations prior to October 14, 1942.

(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(b) Does not include U. S. Treasury bill transactions.

(c) Includes 2.0 million representing proceeds of U. S. Government checks deposited by War Supplies, Inc.

(d) Includes 1.0 million credited to Australia for account of Treasurer of the United States to be applied against U. S. currency and Treasury checks negotiated.



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U.S. SECRETDTIC No. 383

Information received up to 7 A.M., 6th November, 1942.

1. MILITARY

EGYPT. 4th. Throughout the day there was a steady advance in the Northern sector opposed by a gradually thinning screen of guns and tanks behind which the enemy continued to withdraw.

4th/5th. Our armoured and infantry forces advanced rapidly, and by first light 5th had reached the railway west of EL DABA Station and were within ten miles of FUKA.

5th. By the evening the German Afrika Corps appeared to be making a stand on the general line of the escarpment southwest of FUKA, our troops consisting of U.K. and South African Armoured Car Regiments, U.K. Armoured Formations and Second New Zealand Division, being then engaged in fighting in that area. At least 5,000 prisoners were captured during the day together with much equipment.

MADAGASCAR. 4th. In the afternoon our forward troops made contact with French troops about 12 miles north of AMBALAZAO. Road blocks continue to delay the advance.

RUSSIA. In the TEREK sector, German forces are pushing eastwards from ALAGIR towards ORDJONIKIDZE against stubborn Russian resistance.

2. AIR OPERATIONS

WESTERN FRONT. 4th. Four Typhoons attacked and damaged a small coaster off the Dutch Coast. 7 enemy aircraft crossed our coasts. One shot down.

EGYPT. 4th. United States Liberators bombed BENGHAZI HARBOUR. Our light bombers and fighters in 700 sorties inflicted heavy casualties on the enemy withdrawing along the FUKA Road. enemy air casualties 13, 2, 7. Ours, 12 fighters, nil, nil.

4th/5th. Our aircraft continuously attacked the retreating enemy.

RUSSIA. 3rd. German aircraft bombed TUAPSE Harbour and on Lake LADOGA sank a ship and some tugs and barges.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE NOV. 6, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Bombing Raids over Western Europe during October, 1942

1. During October, the U.S. Army Air Force raided occupied Europe three times, attacking military objectives in six cities. The largest raid was made on a locomotive factory at Lille by 108 Fortresses and Liberators. In this raid, four bombers were lost, but the Americans claim to have destroyed 48 enemy planes and damaged many more. Altogether, seven planes were lost during the month.

2. The R.A.F. raided Europe 28 times during the month with a loss of 90 bombers. The largest daylight raid was on the Schneider works at Le Creusot. In 6-1/2 minutes 88 bombers dropped 153 tons of explosives. Only one bomber was lost.

3. The largest night raids were over Cologne (289 planes, 18 lost) and Kiel (288 planes, 9 lost).

4. For the first time since April 1942, the R.A.F. bombed Northern Italy. The largest raid was made by 112 Lancasters on Genoa. One hundred eighty tons of explosives were dropped.



Bombing Raids over Western Europe  
during October

	<u>R.A.F.</u>	<u>U.S.A.A.F.</u>	<u>Total</u>
I. Raids over Western Europe reported during October.	28	3	31
II. Bomber losses in raids over Western Europe.	90	7	97
III. Cities reported attacked.			
<u>A. Germany</u>			
Aachen: Various industrial objectives	1		1
Bremen: Aircraft, submarine, ship and oil production; port and rail center	2		2
Cologne: Iron and steel, tanks, engines, rubber, explosives	1		1
Emden: Port, submarine production	2		2
Essen: Munitions, synthetic oil	3		3
Flensburg: Submarine and shipbuilding	2		2
Hanover: Synthetic oil, rubber plant, port	2		2
Herrenwyk: Submarine production	1		1
Krefeld: Heavy industry center	2		2
Kiel: Port, shipyards, submarine production	1		1
Lingen: Various objectives	1		1
Lubeck: Baltic port, submarine production	1		1
Munster: Rail and industrial center	1		1
Norden: Industry	1		1
Osnabruck: Rail center, metallurgy	1		1
Saarbrucken: Rail center, iron and steel	2		2
Wilhelmshaven: Submarine and shipbuilding, naval base	1		1
Wismar: Aircraft works	<u>2</u>		<u>2</u>
Total reported attacks on German cities during October.	27	0	27
<u>B. Italy</u>			
Genoa: Harbor, warship construction, munitions	2		2
Milan: Aircraft production	2		2
Savona:			
Turin: Arsenal, aircraft works	<u>1</u>		<u>1</u>
Total reported attacks on Italy during October.	5	0	5

	<u>R.A.F.</u>	<u>U.S.A.A.F.</u>	<u>Total</u>
III. Cities reported attacked (cont'd.)			
C. <u>Occupied Areas</u>			
Cherbourg: Port, airfield, ship- building		1	1
Den Helder: Docks	1		1
Ghent: Iron, copper, oil and machine works	1		1
Havre: Port, shipyards	1	1	2
Hengelo: Diesel engines, power station	5		5
Le Creusot: Munitions, power plant	1		1
Leeuwarden: Aerodrome	1		1
Liege: Munitions, iron and steel	1		1
Lille: Locomotive works, oil re- fineries	1	1	2
Lorient: Submarine base		1	1
Meaulte: Airframe factory		1	1
Sluiskil: Chemical works	2		2
St. Omer: Aerodrome, railroads		1	1
<b>Total reported attacks on cities in Occupied areas during October</b>	<b>14</b>	<b>6</b>	<b>20</b>
<b>Total reported attacks on Western European cities during October.</b>	<b>46</b>	<b>6</b>	<b>52</b>

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Nov. 6, 1942

TO Secretary Morgenthau  
 FROM Mr. Heflich  
 Subject: British Offensive in Egypt

1. Tank Losses

A. Axis (U.S. Military Intelligence Service, November 6, 1942)

During the present British offensive in Egypt, the Axis forces have lost approximately 500 tanks. This leaves them with about 80 tanks of all types.

Axis tank strength before the beginning of the present British offensive was estimated as follows:

German medium	275
Italian medium	290
Italian light	<u>15</u>
Total	580

B. British (U.S. Military Intelligence Service, November 6, 1942)

During the present action about 222 U.S. medium tanks had been put out of action by November 4, leaving the British with about 300 tanks of this type. The losses of other types have not been reported. Of the U.S. medium tanks put out of action, only about 10 percent, or 52 tanks, are considered to be permanently lost. Ninety percent, or about 170, are believed to be repairable.

British tank strength, before the beginning of the present offensive, was estimated as follows:

U.S. medium	522
U.S. light	125
British medium	180
British infantry	<u>140</u>
Total	967
U.S. medium damaged but repairable	<u>230</u>
Grand Total	1,197

2. Plane Losses \*

A. Axis

1. According to United Nations, British, and United States communiques:

A United Nations communique of November 4 stated that over 300 Axis aircraft had been destroyed or damaged in the air, and the same number destroyed or put out of action on the ground, during the present British offensive.

It is estimated, from other British and American communiques, that at least 182 Axis planes have been destroyed. If this number is deducted from the 600 mentioned above as destroyed and damaged, it leaves approximately 418 damaged.

2. According to German and Italian communiques:

From German and Italian sources came the announcement of nine planes lost in Egypt from October 24 to November 3.

B. British

1. According to United Nations communiques, 75 British planes have been lost during the present offensive. No American plane losses have been announced.

2. German and Italian communiques have announced the destruction of 121 British planes during the period October 24 - November 3, 1942.

3. Artillery

Military Intelligence information indicates that the British forces had 100 -105mm. guns in Egypt at the beginning of the present offensive.

It was announced in a United Nations communique of November 4 that 270 Axis guns had been captured or destroyed up to that time, during the present offensive.

4. Prisoners

The British claim to have captured 13,000 Axis prisoners during the present offensive to November 6. (British communique)

\* Military Intelligence has no information on plane losses during the present offensive in Egypt and no recent estimates of relative plane strength in that area, except that the British have superiority in the air.



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11-6-42

# INTELLIGENCE REPORT 48

**CONFIDENTIAL**

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OFFICE OF  
WAR INFORMATION  
BUREAU OF  
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

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## EDITORIAL ATTITUDES

### ELECTION

Editors turned aside from the war this week to discuss the congressional and gubernatorial elections. In volume of comment, these contests took precedence over all other topics. Much of the interest, however, seemed more formal than fervent.

With the exception of a few vehemently isolationist newspapers, both Republican and Democratic commentators refrained from discussing basic issues. For the most part, they confined their arguments to the merits of specific candidates, conventional criticism of the Administration and the need for a two-party system in a democracy. Great stress was placed on the importance of voting at a time when democratic liberties are in danger.

### BATTLE FRONTS

Press and radio found cheer in the news of allied gains against Rommel in North Africa. All of those who interpreted the progress of the battle agreed that the British had won the first round. But they were exceedingly cautious in forecasting the final decision.

The offensive was represented as long-planned and well-equipped; a number of commentators stressed the point that the allies now possess numerical superiority on the ground and dominance of the air over North Africa. Evidently, however, their respect for Rommel is so great as to make them guarded in the expression of optimism. The Chicago Daily News, in a fairly typical comment, ventured the statement that "The African see-saw has been going a long time, but this may be the last act. There is every indication

that the United Nations are striking in sufficient force to make it so."

Behind such cautious observations, long-range hopes and speculations were occasionally expressed, generally in conditional clauses. If the African offensive should succeed, a number of commentators suggested, a second front against the Axis might be opened through an invasion of Italy.

The fighting in Russia was comparatively neglected by the news analysts. They rejoiced in the continued resistance of Stalingrad, but noted that the Red army has been unable to expel the invaders from the city and that Nazi gains continued steadily toward the Grozny oil fields.

Chief editorial concern centered, naturally, around the fighting in the Solomons. Uneasiness over developments in the South Pacific gave way at the turn of the week to sudden jubilation at news of the withdrawal of the Japanese fleet. The Philadelphia Record called this "the most significant American naval victory since Midway." But most comment warned that the Japanese would return and that the fate of the Solomons still hangs in the balance.

In one respect, all commentators felt better satisfied about the Pacific situation. They accepted the prompt announcement of our loss of an aircraft carrier as indicative of a change in Navy news policy and applauded Elmer Davis as primarily responsible for the improvement. The New York Post called it "the Navy's best stroke of propaganda to date. It means the Navy realizes at last that we don't need coddling." Like the Post, a good many newspapers felt that "the Navy should have named the carrier, too."

In assessing the development of events around the Solomons, a great many

commentators came to the conclusion that American difficulties there resulted from an absence of unified command. They agreed with the Omaha World Herald that, against the skillful Japanese, "America has pitted an Army and Navy ... often divided by jealousy, always divided in command."

A number of observers went beyond this general indictment, charging specifically that disunity in the South Pacific stemmed from political considerations responsible for denying overall authority to General MacArthur. The Atlanta Constitution, for example, said that "There has been little to excuse the machinations that have kept the greatest military leader of the United States from a role in the war which would give him scope to exercise his talent."

The newspapers most bitterly opposed to the Administration are once more taking up MacArthur's cause, twisting his denial of political aspirations into proof that he was politically persecuted. "The circumstances," declared the Chicago Tribune, "all suggest that political considerations had hamstrung our ablest military leader because his popularity and the faith he commanded among the American people were resented... If the strings have been loosened so that MacArthur's airmen can help to save the beleaguered garrison on Guadalcanal, it is at the price of a quitclaim on his future, which would have been in the hands of his fellow citizens in any event, and not in his own." The Hearst papers, along with others, are booming MacArthur for supreme military command of the entire American war effort.

#### SQUEEZE

It is no overstatement to say that American newspapers were displeased with



the executive action placing a \$25,000 limitation on individual salaries. The more temperate commentators agreed with the New York Times that "The new ruling represents a clear example of administrative action to circumvent the will of Congress." Generally, it was pointed out that the measure has little, if any, validity in controlling inflation or raising revenue. The less restrained critics fulminated about Communism and Sovietization of the United States.



## DEVELOPING SITUATIONS

### HOSTILITY TOWARD LABOR

Hostility toward industrial workers is growing throughout the nation, even among groups which have not until recently been unsympathetic to labor. Reports from OWI field offices to the Bureau of Intelligence indicate that anti-labor sentiment is rising, not only among farmers, business and professional people, but also among teachers, office employees, retail salespeople and other white collar workers.

Generally speaking, the wages of people in these groups have not kept pace with the rising cost of living. Naturally, they are envious of the apparent prosperity of war workers. When they read about workers demanding further wage increases, and justifying these demands by pointing out that prices have gone up, they see red. They are inclined to blame workers for the price rises already experienced. They are especially antagonistic toward the wage demands of workers who are already earning \$1 or \$1.25 an hour.

All strikes, or threats to strike, are now bitterly resented. Strikes in war plants are considered almost treasonable. But people are not in a

mood to make distinctions between what is and what is not an essential war industry. Strikes in any field provoke resentment against the strikers. In a labor dispute in Arizona, a number of big grocery concerns threatened to close rather than meet union demands. In effect, they threatened to strike. Nevertheless, public indignation was directed, not at them, but at the unions.

Irritation about strikes is by no means confined to the areas where they occur. In Oklahoma, Texas and Florida, where strikes are notably infrequent, people believe that strikes are common everywhere else. The facts about the low incidence of strikes are not generally known.

In the present climate of opinion the public may be particularly receptive to the charges of Pegler and other labor baiters about union "shake downs," racketeering and high initiation and membership fees. Many people feel that unions and labor leaders are getting rich out of the war effort.

A production-conscious public is also irked because it feels that labor is not exerting itself to the utmost. It reacts angrily to reports that workers are guilty of slow-downs, are unwilling to put in overtime, and are frequently absent from their jobs. It is largely unaware that slow-downs sometimes result from raw material shortages and managerial inefficiency.

Some of the antagonism felt toward labor spills over against the Administration. People who are in a mood to believe accusations made against unions and labor leaders wonder why the Administration permits such conditions to continue. There is widespread skepticism about the firmness



the Administration will display in cracking down on further wage increases. In some quarters the President is regarded as a captive of organized labor.

Workers are well aware of the feeling against them. Following a series of articles in a Seattle newspaper about alleged labor abuses at the shipyards, many workmen from the yards stopped wearing their badges and helmets on the street.

But workers do not feel conciliatory; they are inclined to return the hostility directed against them with interest. They believe that they are being deliberately gouged by landlords and storekeepers. As one individual put it: "Whenever the working man gets a five per cent increase in pay, they'll polish up all the old ways and invent a hundred new ways of getting it back."

Workers believe that they are entitled "for once" to earn good money. In most cases they are working long hours under intense pressure. In many war centers they are living under almost intolerable conditions. Under the circumstances, their own tempers are often short.

Whatever the public may think, workers and the labor press do not feel that they can relax and depend upon the Administration to defend their interests. Although they have great personal affection for the President, they do not feel that the Government agencies with which they now have most to do — the WFB, the Army, the Navy and the Manpower Commission — are on their side. They believe they are entitled to greater representation in these bodies. Because they have surrendered many of their basic rights, including the right to strike, they feel that it is necessary to be vigilant and aggressive.

Workers face a growing number of restrictions. They can no longer seek higher wages; indeed, there is mounting agitation for reducing wages through the abolition of the 40-hour week. Their right to seek better jobs or to move from place to place may be severely restricted, as it already has been in one or two industries.

With their opportunities for economic advancement curtailed, the satisfaction of workers will depend far more than it has in the past on working, living and community conditions. If, on top of the sacrifices they are making in connection with their jobs, they feel discontented with housing, transportation, health and recreational facilities, their spirit, productivity and willingness to accept continued controls are bound to be impaired. If, in addition, they believe themselves despised in their communities, they will feel like pariahs, rather than vital participants in a common enterprise.

The cleavage between workers and the general public seriously endangers the entire home-front war effort. The most vigorous efforts are indicated to remedy the group consciousness and antagonism which are developing.

The public needs to be informed — in positive, not defensive terms — about the patriotism of labor and the contribution it is making to the war effort. It is necessary, also, to give people a sympathetic understanding of the problems workers face and of the conditions under which they are living. Erroneous notions are prevalent about the extent to which the real standard of living of workers has improved.

A great deal can also be accomplished through local efforts to integrate workers more fully into the everyday life of their communities. There is a

particular need to erase the line of demarcation in war centers between newly-arrived war workers and the established residents. Sympathy between war workers and the general public is essential to national unity.

#### IGNORANCE OF PRICE CONTROL

A study conducted in the early part of August for OPA officials by Crossley, Incorporated, on behalf of the Bureau of Intelligence revealed extremely widespread ignorance of the nature and application of the Government's price control program. Interviewing in Indianapolis, Indiana, a city of 400,000 in which the cost of living has been rising somewhat faster than the average for American cities of comparable size, showed that nine out of ten people there believed that the Government should control prices. Only eight out of ten people, however, were aware that Government regulation of prices was in effect.

Ignorance that a price control program was in operation was greater among women than among men and considerably more prevalent among the lower income groups than among the well-to-do or those of average economic status. One out of three persons on the lowest rungs of the economic ladder did not know that there was any Government regulation of prices. And these are the people, obviously, to whom price control is of the greatest importance.

All of the people interviewed were asked, "What is a ceiling price?" They were shown four definitions of a ceiling price, among which a correct definition was included. Only 58 per cent of the whole sample selected the correct definition.

The 58 per cent who knew (or guessed) the correct definition of a price ceiling were then shown three statements, one of them true, respecting the way in which it operates. An additional eight per cent betrayed their ignorance on this test. Thus, only half the people interviewed in Indianapolis revealed any real knowledge of the nature of a ceiling price. Scarcely more than one-third of the lowest income groups possessed such knowledge. Women, who do most of the shopping for the ordinary family, were found to know less about ceiling prices than men.

Additional questioning revealed that many of the people who possessed this rudimentary knowledge about ceiling prices were not aware that these prices may vary in different stores. Only 27 per cent of the whole sample knew what a ceiling price is and how it applies to the different stores in which they trade. The lowest income groups almost wholly lacked this knowledge. Only 13 per cent of them were able to answer all of these questions correctly. Among women of all economic levels, only 23 per cent, as compared with 31 per cent of the men, passed all these tests.

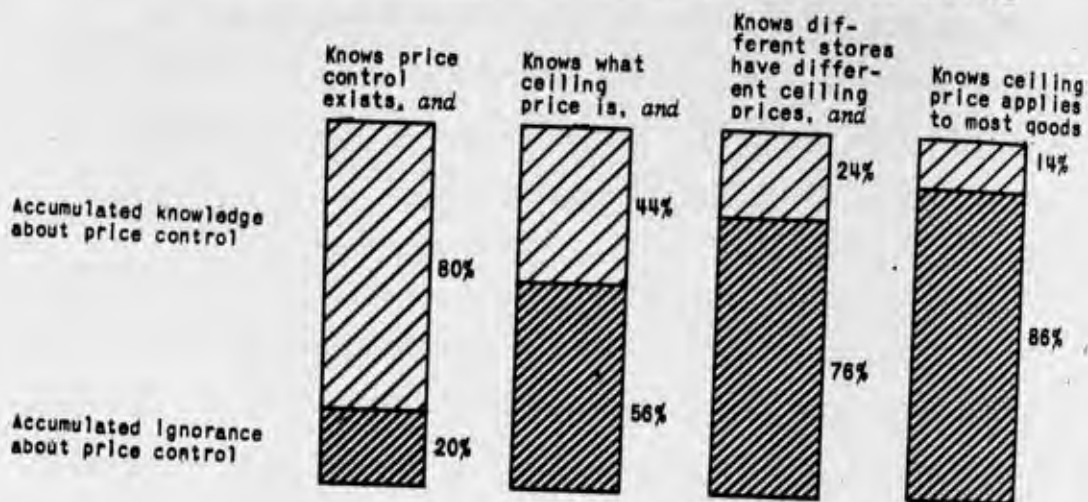
All of the people who knew what a ceiling price was (58 per cent of the whole sample) were also asked if they thought that ceiling prices had been set on most of the things, all of the things or only a few of the things that can be bought today. Only 28 per cent understood that price control was applicable to most consumer goods.

These questions embrace the elementary facts about price control. No more than 14 per cent of the whole sample interviewed were able to answer all of them correctly. The following chart presents a cumulative index to



knowledge and ignorance about the price control program.

### CUMULATIVE INDEX TO KNOWLEDGE AND IGNORANCE ABOUT PRICE CONTROL



It seems especially significant that information on this subject was rarest among the people who need it most — women and low-income families. Apparently, a great majority of the public is not buying intelligently — or even knowingly — within the price control program.

People do not learn the facts about price control as they ultimately learn the facts about rationing or most other Government programs — through experience and participation. Price control, unlike most other programs, has no educative effect in the process of its operations. And the bulk of the public apparently has not yet learned much about it from the press and radio.

A separate study, conducted by the Bureau of Intelligence in August on a nationwide basis, showed that fewer than one-third of the people then

expressed full satisfaction with the manner in which the price control program had operated to keep prices in line; half the public expressed either partial or outright dissatisfaction with the way the program had worked. Apparently, therefore, whether or not people have a clear understanding of this program, they pass judgment on it anyway. And this judgment is likely to affect their satisfaction with the Government's efforts respecting economic problems in general. It may even affect their confidence in the future ability of the Government to take adequate measures for the control of living costs.

#### CONFIDENCE IN PRICE CONTROL

More recent interviewing conducted by the Bureau of Intelligence indicates that the confidence of the American people in the Government's ability to keep the cost of living under control has waned rather markedly. At the end of June, six weeks after the President's seven-point anti-inflation program went into operation, about three-fourths of the public expressed a belief that it would serve effectively to curb prices in the future. In the early part of October, however, only two-thirds expressed such faith.

The Bureau posed the following question to representative cross sections of four occupational groups -- white collar workers, small business proprietors, labor and farmers: "Do you think the Government will actually be able to control prices?" The table on the following page shows the percentages in each group answering this question affirmatively in April, June and October.



	<u>April</u>	<u>June</u>	<u>October</u>
White collar workers	73%	78%	66%
Small business proprietors	71%	75%	64%
Labor	78%	86%	66%
Farmer	70%	73%	59%

Farmers have been consistently lower in confidence about the operation of price control than any of the other major occupational groups. Labor was, in the early stages of the program, the most optimistic, but its faith has now diminished so that it is about on the same level as that of white collar workers and small business proprietors.

This decrease in confidence respecting the Government's ability to control prices does not, in any sense, of course, measure the actual effectiveness with which price control is operating. It stems, perhaps, from the existing widespread ignorance of the program's operation. People unaware of its scope may have been misled into thinking that it was operating ineffectively because they observed that prices were rising on articles, such as food products, which were not until recently covered by OPA regulations.

Public confidence in the Government's ability on this score may not be essential to effective application of the price control program. The program does not require the cooperation of the average citizen. But lack of confidence on this score may lead to general public distrust of the Government's vigor and efficiency.

#### PERSONAL IDENTIFICATION WITH THE WAR

The nation's full strength can be mobilized only if its citizens regard the

war as their war. The extent to which they accept the war as their own may be measured by the degree of support they give to the war effort and the degree of concern they feel about the fighting.

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

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

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

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

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

As compared with the number of people who whole-heartedly support the war,



relatively few feel that they are contributing importantly to winning it. War work is far more potent than anything else in arousing a feeling of participation.

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

(These findings summarize a Special Report, "Personal Identification with the War," issued by the Bureau of Intelligence, October 28, and available to authorized individuals on request to the Bureau.)



## ENEMY PROPAGANDA

### THE JAPS AND NAVY DAY

Japanese propagandists made America's Navy Day the occasion for an all-out short-wave attack on the U.S. Navy.

Tokyo claims an overwhelming Japanese victory in the Solomon Islands battle. It uses these claims, Ghormley's removal, and U. S. admissions of sinkings to prove the weakness of the American fleet.

Japan utilizes this alleged weakness to attack America's military and political leadership. "Repeated failures" and growing popular dissatisfaction are cited as the reasons for Ghormley's removal. It is maintained that the United States admitted its losses in the Solomons battle only as the result of "popular pressure," and that important losses still remain undisclosed. President Roosevelt is charged with being responsible for the situation

and the only obstacle to peace with Japan. In its "Lights from the East" program, Tokyo says, "Thousands now are already injured or dead. Then comes a showdown with Roosevelt and an era of peace with Japan. Roosevelt's America has failed."

In keeping with this appeal to defeatists and isolationists, Japan borrows a trick from the Nazis and attempts to prove her impregnability. Not only is an offensive against Japan impossible, according to Tokyo, but Hawaii and the East Coast have been jeopardized by recent "American reverses" and communications with Australia and South America are already cut.

At the same time that Japan is attempting to persuade the United States and the rest of the world of her strength, however, monitoring of her domestic broadcasts reveals that she is warning her own people against over-confidence. Although recent battles are interpreted as victories, losses are admitted and the people are warned of coming U. S. attacks.

#### BERLIN AND ROME

Japan's European allies also waxed derisive and ironical over America's Navy Day. Perhaps because of a lack of suitable German victories to stress, the Nazis put a great deal of emphasis upon recent Japanese "successes" in their domestic broadcasts.

Probably because of the deep concern the German people feel about the Russian campaign, the Nazis devote far more attention to it in domestic propoganda than in broadcasts to North America. Increasing emphasis is put on the Caucasus offensive and decreasing attention given to Stalingrad.



Britain's offensive in Egypt is treated in a reserved manner by both Berlin and Rome. Although the official attitude is one of "calm confidence," admissions of British strength and advances have been made to both foreign and domestic audiences.

Such ambitious objectives are attributed to the offensive, however, that even if it makes considerable headway, it can still be treated by the Axis as a failure. According to Berlin, one of the purposes of the campaign is to pave the way for attacks on Italy. Significantly, Rome omits references to this objective in its domestic broadcasts.

#### WILLKIE'S SPEECH

The Axis, following its usual procedure with any important statement, exploited the Willkie speech in both domestic and short-wave broadcasts. Both Germany and Italy found it highly useful in their present efforts to persuade their people that America's production program is failing and that the United Nations are split by quarrels.

Axis propagandists also wrung ammunition from the speech for their unrelenting efforts to create discord among the United Nations. Willkie's pronouncements were made official by characterizing him as "Roosevelt's right-hand man." The Nazis then proceeded to tell England that the speech was the President's way of warning her that she may get less lend-lease supplies in the future. According to Goebbels, the speech also revealed that the U. S. is attempting to supercede British authority in India. Lord Haw-Haw tried to show that, by demanding a second front, Willkie was snubbing Alexander's Egyptian offensive.

In broadcasts to the Near and Middle East, Rome quoted Willkie as saying that U. S. silence on the Indian problem had "alienated the Indians." The Nazis beamed judicious selections of the speech to South America. In slightly distorted form some of Willkie's statements were also fed back to America, to foment dissatisfaction with the Administration.

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November 7, 1942  
9:56 a.m.

Harold Graves: Good morning.

HMJr: Now I'm meeting with Eccles at my house tomorrow afternoon....

G: Yes, sir.

HMJr: ....and we're going over this whole question of this campaign.

G: Yes, sir.

HMJr: I can't remember if I've made any promises or statements to you, but I want to refresh my memory.

G: Yes.

HMJr: He wants to set up a lot of new offices - state offices, you see....

G: Yes.

HMJr: ....and wants these men to be paid, and I think that - I know he stayed a long time and had a talk with Bell.

G: Yes.

HMJr: I think you better get together with Bell....

G: Yes.

HMJr: ....so if there's anything that you want to say to me between now and four o'clock Sunday, you'd better say it.

G: I'd better say it before noon today, hadn't I?

HMJr: Yup.

G: Yes, sir, I'll be - I'll do that right away.

HMJr: Will you do that?

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G: Yes, sir, I'll be - I'll do that right away.

HMJr: Will you do that?



- 2 -

G: Yes, sir.

HMJr: Right.

G: Goodbye.

HMJr: Thank you.



## TREASURY DEPARTMENT

WASHINGTON

November 7, 1942.

MEMORANDUM FOR THE SECRETARY:RE: Your meeting tomorrow with Mr. Eccles.

I talked briefly with Mr. Bell regarding Mr. Eccles's plan to establish Victory Fund Committee offices at various places throughout the Country with paid staffs.

Mr. Bell told me that he was not sure what Mr. Eccles had in mind, but said that Mr. Eccles had used the city of Provo, Utah, to illustrate his point--that is, to illustrate the necessity for local offices with paid staffs.

Provo, Utah, has a population of about 18,000.

There are about 500 places in the United States larger than Provo, so I think that Mr. Eccles must have in mind a very widespread and elaborate organization for the Country as a whole.

Contrasted with this, the War Savings Staff now has a headquarters office in each of the 48 States, with district or local offices at about 30 additional cities, these latter being mainly staffed by volunteers.

I believe:

(1) That it would be disastrous to the War Savings Staff to parallel that organization in the various States by a professional Government bond-selling organization, such as is evidently contemplated by Mr. Eccles; and that

(2) Quite apart from the effect of any such plan on the War Savings Staff, it is questionable, to say the



least, whether it would be good policy for the Treasury to sponsor any such organization as that evidently contemplated by Mr. Eccles.

Recommendation

It seems to me that the Eccles proposal is directly related to the question of paying compensation to dealers for the sale of Treasury securities. I accordingly recommend that you advise Mr. Eccles that this particular matter, like the question of compensation, will be held in abeyance pending further study.

I suggest also that you would find it helpful to discuss this whole matter with Mr. Odegard, Mr. Gamble, and myself, in some detail, before arriving at any decision.

GRAVES.





11-7-42 ✓

## ASSISTANT SECRETARY OF THE TREASURY

TO THE SECRETARY:

I have talked to Harry White and to Ferdie, who is in New York today. Ferdie will talk to John Davenport or someone else of the Time crowd to try to get them to see that the sort of thing they are doing is obstructive and dangerous. John Davenport was in a group of writers to whom Randolph Paul talked at Morris Ernst's house this week. He was the most critical, probably indicating that he is writing this stuff.

Nothing would be gained by any direct answer to this Time article, in my opinion, with which the others agree. I think we should get the President of A.B.A. to spread the word around to counteract this sort of thing so far as he can, and I have talked to Dan about this.

I could talk to Felix Belair, head of the Time staff here, but I feel it would be useless, since I am sure these articles are being written in New York and that Time is being needled and fed by some of our friends in the street. Therefore it is most important to get a better atmosphere there if it can be done without any surrender to them.

However, I think it might be helpful if we could get John Davenport or somebody else in a responsible position on Time down here for a talk.

W.S.G.

Speak to me about this  
Thank

*This is the  
letter which  
was sent 120 ✓*

NOV 7 - 1942

Dear Fiorella:

I have your telegram of October 31st, advising me that New York City will need tabulation machines in order to comply with the tax law providing for withholding at the source.

Your situation is representative of the broad problem which requires War Production Board determination as to the types of equipment which can be made available. I suggest that you send me the applications for preference ratings (WPB Form PD-1A) listing your specific requirements. The matter will then be taken up with the War Production Board with the thought of working out a solution on an overall basis.

Best regards.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Fiorella H. La Guardia,  
Mayor of New York,  
City Hall,  
New York, N. Y.

File direct to Mr. Bell 11/10/42

Photo file NMC.

*dictated  
by Mr. Mack.*

*not sent 121*

November 6, 1942

Dear Fiorello:

I have your telegram of October 31st advising me that New York City will need tabulating machines in order to comply with the new tax law providing for withholding at the source.

I am having the whole matter of tabulating equipment needed for Treasury purposes surveyed by our Procurement Division. I do not know whether we can satisfy all of the requirements created as a result of the tax and other laws, but we shall do our best to meet the problem.

Best regards, and thanks for calling this to my attention.

Sincerely,

Hon. Fiorello H. LaGuardia,  
Mayor of New York,  
New York, N. Y.

FK/cgk



*not sent 122*

November 6, 1942

Dear Donald:

The enclosed telegram from Mayor LaGuardia advises me that New York City will need tabulating machines in order to comply with the provisions of the new Victory Tax. I need not emphasize to you the importance of prompt and efficient tax collection from such a large body of salaried people.

I shall appreciate anything you can do to give the Mayor's request the promptest possible attention.

Sincerely,

Hon. Donald M. Nelson,  
Chairman, War Production Board,  
Washington, D. C.

Enclosure

*not sent 122*

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Sincerely,

Hon. Donald M. Nelson,  
Chairman, War Production Board,  
Washington, D. C.

Enclosure

## COPY OF TELEGRAM

NEW YORK OCT 31

HONORABLE HENRY MORGENTHAU JR  
SECRETARY OF THE TREASURY

IN ORDER TO COMPLY WITH SECTION FOUR SIX SEVEN OF TAX  
LAW PROVIDING WITHHOLDING TAX, IT IS NECESSARY THAT  
NEW YORK CITY WITH ITS TWO HUNDRED TWENTY THOUSAND  
SEPARATE PAYROLL ACCOUNTS HAVE TABULATING MACHINES.  
WILL YOU PLEASE AID IN GETTING PRIORITY FOR NEW YORK  
CITY. DO NOT KNOW HOW WE CAN DO IT OTHERWISE.

F. H. LE GUARDIA  
MAYOR





## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 9, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM RE: Matters discussed with Secretary Morgenthau  
November 7, 1942

1. Renegotiation of contracts.

Mr. Randolph Paul and I talked with the Secretary relative to the matter of renegotiating contracts as authorized in the 1942 revenue act. The Secretary signed an order authorizing me to renegotiate contracts.

Mr. Paul explained that the War and Navy departments, likewise the Maritime Commission, have had the authority to renegotiate and that the Treasury Department was just recently authorized under the 1942 revenue act; further, that it seemed advisable that the agency having the predominating interest because of the larger volume of business with a supplier should be the one to carry on the renegotiation for all four agencies. The Secretary requested that Mr. Paul assign one of his best men to participate in this procedure to avoid the possibility of signing contracts which otherwise might not be acceptable to the Treasury Department.

In response to the Secretary's question as to how such matters would be handled, I stated that if the agency having the largest volume of business renegotiated for all four agencies, in all cases in which we did not carry on the renegotiation there would be somewhat of an "open end," and our knowledge of the basis of the settlement would be a review of the file rather than participation in the renegotiation. The Secretary requested that a procedure be worked out whereby administrative safeguards could be established and that the best men obtainable be used for this work.



Matters discussed with  
Secretary Morgenthau

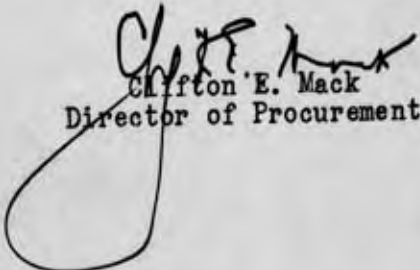
- 2 -

11-9-42

2. Priority assistance to obtain necessary equipment for withholding tax accounting at source.

I referred to a telegram to the Secretary from the Mayor of New York advising that tabulating equipment will be needed in connection with the withholding tax and reviewed the file which had been handed to me by Miss Chauncey immediately before going to the Secretary's office. The file contained three letters prepared for the Secretary's signature, - one to Mayor La Guardia stating that the Procurement Division is now studying the matter of tabulating equipment, another suggested letter to Mayor La Guardia stating that the matter had been referred to Nelson, and a third letter to Nelson commenting on the matter.

The Secretary stated he wished the matter handled on the basis of the broad approach to the entire problem as others as well as New York City are concerned. I accordingly prepared a letter along those lines, and I gave it to the Secretary at 2 o'clock.

  
Clifton E. Mack  
Director of Procurement

TREASURY DEPARTMENT

126

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Randolph Paul

November 7, 1942

I thought you might be interested in the attached copy of letter from the Office of War Information.

I call your attention particularly to the last paragraph which is underlined.

*APY*

Enclosure



## OFFICE OF WAR INFORMATION

Washington

November 4, 1942

CONFIDENTIAL

Mr. Randolph E. Paul  
 General Counsel  
 Treasury Department  
 Washington, D. C.

Dear Mr. Paul:

Your proposed address, submitted in conformity with the White House directive on speech clearance, entitled "Taxation and Consumer Spending," which you will give before the Women's Group of the New York Credit Men's Association, in New York City, November 5, has been read in the Office of War Information. It seemed to raise questions within the responsibility of the Office of Price Administration, Commerce Department, and the Office of Economic Stabilization, to whom it was referred.

There is no objection to the statements made, and the address is approved for delivery as planned.

However, it was pointed out by several of the agencies concerned that the figures which you use to show the "inflationary threat" are not in complete harmony with those furnished to heads of other agencies by their statisticians. This whole question is one which cannot be solved on one speech and Mr. Kuhn was advised and agrees with us that the whole thing must be worked out in conferences.

However, it was felt that this address was a concise outline of the whole problem -- the best so far -- and one which should issue from the Office of War Information. Arrangements for Office of War Information release were made with your press relations and with Mr. Jack Durham of our News Bureau, who will see that this has as wide coverage as possible.

Sincerely,

/s/ John R. Fleming

John R. Fleming  
 Chief

Bureau of Publications and Graphics









# THE SUN

NOV 7 1942

## More On Income Taxes Here And In Great Britain

We are glad to publish elsewhere on this page a letter from the Secretary of the Treasury and an accompanying table comparing our American individual income-tax rates in the lower brackets with those in England. We are not impressed, however, by the evidence which the Secretary adduces in support of his contention that "the British are paying income taxes about twice as heavy as those we shall be paying in this country in 1943."

It is true, as Mr. Morgenthau avers that British individual income-tax rates in the lower brackets are much higher than ours. But that statement standing by itself gives a very misleading picture of the comparative tax burden in the two countries. The fact is that under the new tax bill the burden of individual and corporation income and excess-profits taxes will be about equal to the burden of individual and corporation income and excess-profits taxes in England.

Consider the facts. According to Senator George, the individual and corporation taxes under the new law will bring in \$20,054,000,000 a year. This sum is about eighteen per cent. of our national income for 1942, and it represents a burden of \$152 per capita. On the other hand, British individual and corporation income taxes for the year ending March 31, 1941, are expected to yield £1,416,000,000, which is equivalent at present rates of exchange to \$3,664,000,000. This is a per-capita tax burden of only \$133, which is less than our own, but, on the other hand, it represents approximately twenty-two per cent. of the British national income in 1941.

In other words, as compared with this country it bears the full weight of their national income in 1941 (the per-

centage would doubtless be less in 1942) for national income in Britain has been rising) the British are paying slightly more in income taxes than we. On a per-capita basis, however, the British are paying slightly less than we are. You can take your choice, but in either case the conclusion is quite different from that one which Mr. Morgenthau would have us accept.

Not only does Mr. Morgenthau fail to compare the total yield of income and excess-profits taxes in the two countries, but he also fails to take account of the differences in methods of assessment as between the British and our own. Under the British system dividends paid by a corporation to stockholders are not subject to the high rates of the British normal tax. The British hold that such income has been taxed in the hands of the corporation and that the individual is entitled to receive what is left tax free. This means that while individual rates on earned income in the hands of British taxpayers are higher than ours, British income taxes on unearned income in the hands of individuals are much lower than ours.

Mr. Morgenthau contends that this difference is of no moment. He says that only one half of one per cent. of all taxpayers received income exclusively from dividends in 1936. This point could also be very misleading, if allowed to stand alone. The statistics of income as published by the Treasury show that in 1936 dividends received by taxpayers amounted to \$3,173,844,000, and that this sum represented 14.5 per cent. of all individual income subject to tax. In England this 14.5 per cent. of individual income would not have paid any tax in the hands of its recipients, but in this country it bears the full weight of the individual levies.

In this comparison of English taxes with our own, we must also consider the degree to which taxes have risen since the war. On this score, too, we are about level with the British. Take the case of a married man in England with no children and earning £1,000 in 1938-39. Such a man was then equivalent to about \$5,000 in American money. In 1938 such a British subject would have paid £144 15s 6d in income taxes. To compare the total yield of income and excess-profits taxes in the two countries, post-war credit of £302 15s 10d, an increase of £155 3s 4d, or \$790.58 at the old rates of exchange. (At present rates of exchange the figure would be much lower). Now compare this with a married man with no children receiving \$5,000 a year in the United States. His taxes in 1938 would have been \$32, and credit is deducted, will come to an increase of \$708.28.

The increases in England and in this country as well represent war taxes. Surely if the increases be compared it cannot be said that the war has laid twice as heavy taxes on the British as on our own people.

# THE SUN

NOV 7 1942

## Income Tax Comparison

Secretary Morgenthau Renews His Contention That The British Pay Twice The Levies We Do

To THE EDITOR OF THE SUN—  
Sir: Last Monday I gave the press some figures contrasting the personal income taxes payable by the vast majority of American and British taxpayers. These figures, computed for persons receiving incomes primarily from wages and salaries, show that the British are paying income taxes about twice as heavy as those we shall be paying in this country in 1943. Your editorial November 5 charges me with giving some misleading figures. May I ask the hospitality of your columns for a reply?

Your criticism is based on the example of a taxpayer who receives \$4,000 income from dividends. Since in 1941 only five per cent. of the entire national income came from dividends, while almost seventy per cent. represented the compensation of employes, it is clear that a taxpayer whose income is derived exclusively from dividends is anything but typical.

As a matter of fact, in 1936, the most recent year for which we have such figures, only one half of one per cent. of all taxpayers received their income exclusively from dividends. I leave it to you to judge which is more "misleading"—a comparison of taxpayers receiving incomes primarily from wages or salaries or one of taxpayers receiving incomes exclusively from dividends.

The figures I released to the press compare the British income

taxes with the combined Federal and State income taxes payable by persons living in New York. We choose New York State even though its rates are higher than those prevailing in most States, because of the large number of taxpayers who live in New York.

It may be helpful to you to have the attached table (the table appears immediately below) comparing the personal income tax which will be payable by an American taxpayer subject also to the Maryland tax with the personal income tax payable by a resident of Great Britain.

You will note that the net tax liability in Great Britain is at least twice as large as that in this country for taxpayers with incomes below \$4,000. The American taxpayers in this group account for more than ninety per cent. of all taxpayers under the net income tax and for an even larger percentage of all taxpayers under the Victory tax.

Further, the post-war credit in Great Britain can be taken currently only in rare instances whereas the Victory tax post-war credit in this country can be taken currently up to the amount of debt repayment, payment of insurance premiums, and purchase of war bonds. For most taxpayers, total tax liabilities in Great Britain are even larger relatively to those in this country than net tax liabilities.

H. MORGENTHAU, JR.  
Washington, Nov. 5.

# THE SUN

## INDIVIDUAL INCOME TAX

Amount of tax and effective rates in the United States and  
in Great Britain  
Married person—no dependents

Net income before personal exemption*	United States, including Maryland State tax†			Great Britain‡		
	Total tax liability	Post-war credit	Net tax liability	Total tax liability	Post-war credit	Net tax liability
<b>AMOUNT OF TAX</b>						
\$1,000 .....	\$24	\$10	\$15	\$111	\$61	\$50
1,500 .....	100	21	79	260	94	166
2,000 .....	220	32	188	505	127	378
4,000 .....	754	76	678	1,405	193	1,211
6,000 .....	1,357	121	1,236	2,305	266	2,045
8,000 .....	2,020	165	1,855	3,305	260	3,045
10,000 .....	2,783	210	2,573	4,505	260	4,245
<b>EFFECTIVE RATES (per cent.)</b>						
\$1,000 .....	2.4	1.0	1.5	11.1	6.1	5.0
1,500 .....	6.7	1.4	5.3	18.7	6.3	12.3
2,000 .....	11.0	1.6	9.4	25.3	6.4	18.9
4,000 .....	18.9	1.9	17.0	35.1	4.8	30.3
6,000 .....	22.6	2.0	20.6	38.4	4.3	34.1
8,000 .....	25.4	2.1	23.3	41.8	3.3	38.1
10,000 .....	27.8	2.1	25.7	45.1	2.8	42.5

Note: Due to rounding, items may not add to totals.

\*Before deduction of the Maryland State tax. All income is assumed to be earned.

†Tax liabilities shown for the United States include the Victory tax, which becomes effective on January 1, 1943.

‡Pound converted at 54.



Nov. 7, 1942

My dear Mr. Secretary:

There is enclosed a copy of an opinion of the General Counsel for the Department of the Treasury, obtained pursuant to the request made by the Quartermaster General through Captain Charles L. Kades. That opinion rules that officers of the Department of War may properly certify under Executive Order No. 9177, dated May 30, 1942, 7 Fed. Reg. 4195, that the procurement of the following types of war materials constitutes "an emergency purchase of war material abroad":

(1) Captured materials, including (a) materials of any origin captured or recaptured by the United States forces, (b) materials of any origin captured or recaptured by a national of one of the United Nations or by the armed forces of such a nation and turned over to the United States forces, and (c) materials taken by United States forces in occupied territories after the cessation of hostilities in such territories.

(2) Materials seized (requisitioned) by the United States forces abroad.

(3) Rebuilt materials; that is, materials which are refabricated from other materials owned by, captured by, or turned over to, the United States forces.

(4) Material received (either by purchase, gift, or as reciprocal Lend-Lease aid) from the government of, or an individual national of, a foreign nation (not necessarily one of the United Nations) for study and testing with a view to its ultimate use by the United States forces.

The materials, it is understood, would be brought into the United States by the armed forces for purposes in connection with the actual conduct of the war.

As the opinion indicates, this Department is inclined to the view that the Tariff Act is not applicable to transactions of the kind here involved. However, since such transactions may be properly viewed as emergency purchases of war material abroad, it is believed that the wiser and more expedient course, at the present time, would be to have the certificates contemplated by Executive Order No. 9177 executed. Accordingly, the various Collectors of Customs are being advised that henceforth any materials falling within the enumerated categories should be admitted free of duty upon receipt of the certificate required by Executive Order No. 9177.

Very truly yours,

(Signed) Herbert E. Gaston

Acting Secretary of the Treasury.

The Honorable

The Secretary of War.

Enclosure



NOV. 6, 1942

My dear Mr. Secretary:

The question has arisen whether officers of the Department of War may properly certify under Executive Order No. 9177, dated May 30, 1942, 7 Fed. Reg. 4195, that the acquisition of the following types of war materials "constituted an emergency purchase of war material abroad":

(a) Captured materials, including (1) materials of any origin captured or recaptured by the United States forces; (2) materials of any origin captured or recaptured by a national of one of the other United Nations or by the armed forces of such a nation and turned over to the United States forces; and (3) materials taken by United States forces in occupied territories after the cessation of hostilities in such territories.

(b) Materials seized (requisitioned) by the United States forces abroad.

(c) Rebuilt materials, i.e., materials which are refabricated from other materials owned by, captured by, or turned over to, the United States forces, as, for example, a tank reconstructed from the parts of partially demolished enemy, United Nations, and United States tanks.

(d) Material received (either by purchase, gift, or as reciprocal Lend-Lease aid) from the government of, or an individual national of, a foreign nation (not necessarily one of the United Nations) for study and testing with a view to its ultimate use by the United States forces, as, for example, a gun invented by a Mexican citizen and sent to the United States for testing. It is understood that the purpose of bringing the materials into the United States is: either (1) for scrap, or (2) for study or testing, or (3) for training purposes.

It is my opinion that certificates for such materials may properly be made.

It is to be noted, first, that there is grave doubt whether the provisions of the Tariff Act may be applied to the movement by the United States armed forces of war materials in time of war. It is fundamental that statutes should not be so construed as to raise grave questions of their constitutionality. United States v. LaFrance, (1931) 282 U.S. 568, 574; Ann Arbor Railroad Company v. United States, (1930) 281 U.S. 658, 669. It is also clear that all matters relating to the actual conduct of the war are vested solely in the President. By Constitution Art. II, sec. 2, it is provided that the President shall be the Commander in Chief of the Army and Navy, and, while Art. I, sec. 8, cl. 11, of the Constitution vests in the Congress the power to declare war, that power does not include the power actually to conduct the war. Thus, the debates in the Constitutional



As the opinion indicates, this Department is inclined to the view that the Tariff Act is not applicable to transactions of the kind here involved. However, since such transactions may be properly viewed as emergency purchases of war material abroad, it is believed that the wiser and more expedient course, at the present time, would be to have the certificates contemplated by Executive Order No. 9177 executed. Accordingly, the various Collectors of Customs are being advised that henceforth any materials falling within the enumerated categories should be admitted free of duty upon receipt of the certificate required by Executive Order No. 9177.

Very truly yours,

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Acting Secretary of the Treasury.

The Honorable

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Enclosure

NOV. 6, 1942

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(b) Materials seized (requisitioned) by the United States forces abroad.

(c) Rebuilt materials, i.e., materials which are refabricated from other materials owned by, captured by, or turned over to, the United States forces, as, for example, a tank reconstructed from the parts of partially demolished enemy, United Nations, and United States tanks.

(d) Material received (either by purchase, gift, or as reciprocal Lend-Lease aid) from the government of, or an individual national of, a foreign nation (not necessarily one of the United Nations) for study and testing with a view to its ultimate use by the United States forces, as, for example, a gun invented by a Mexican citizen and sent to the United States for testing. It is understood that the purpose of bringing the materials into the United States is: either (1) for scrap, or (2) for study or testing, or (3) for training purposes.

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Convention show that the war clause as originally reported gave Congress the power to "make war". That phrase was changed to "declare war" thus leaving to the Executive power to repel sudden attacks". It is noteworthy that Mr. Ellsworth, later Chief Justice of the Supreme Court, withdrew his objection when Mr. King suggested that "make" war might be understood to "conduct" it, which was an Executive function". 3 Documentary History of the Constitution of the United States of America (Dept. of State 1900) 552-554. Again, the concurring opinion of Chief Justice Chase and Justices Wayne, Swayne, and Miller in Ex parte Milligan, (U.S. 1866) 4 Wall. 2, 139, contains the following exposition of the rule:

"Congress has the power not only to raise and support and govern armies but to declare war. It has, therefore, the power to provide by law for carrying on war. This power necessarily extends to all legislation essential to the prosecution of war with vigor and success, except such as interferes with the command of the forces and the conduct of campaigns. That power and duty belong to the President as commander-in-chief. Both these powers are derived from the Constitution, but neither is defined by that instrument. Their extent must be determined by their nature, and by the principles of our institutions.

"The power to make the necessary laws is in Congress; the power to execute in the President. Both powers imply many subordinate and auxiliary powers. Each includes all authorities essential to its due exercise. But neither can the President, in war more than in peace, intrude upon the proper authority of Congress, nor Congress upon the proper authority of the President. \* \* \*"

Finally, in the recent case of Ex parte Quirin et al., (1942) 317 U.S. 1, 4001, 4003, the Supreme Court stated:

"The Constitution thus invests the President as Commander in Chief with the power to wage war which Congress has declared, and to carry into effect all laws passed by Congress for the conduct of war and for the government and regulation of the Armed Forces, and all laws defining and punishing offences against the law of nations, including those which pertain to the conduct of war." (Underlining supplied.)

It follows that the Congress cannot constitutionally enact any law which interferes with the actual conduct by the President of a war.



The movement of men and materials is plainly an essential factor in the actual conduct of the war. No one would contend, for example, that the Congress could validly impose a head tax on troops moved in and out of the country by the President in the exercise of his powers as Commander in Chief. Similarly, it seems obvious that a requirement that war materials brought into the country by the United States armed forces be subject to the various procedures of Customs and to the payment of duties might constitute an illegal interference with the President's powers, particularly since Customs procedure requires appraisal and appraisal necessitates inspection. The ends to which the armed forces have gone in the protection of the American bomb sight, for example, might be nullified if that sight were open to inspection by a Customs official. The necessary delay occasioned by clearing such materials through Customs might be a further and not inconsequential interference with the President's powers.

It is, of course, true that some of the property brought in by the armed forces is captured materials, and that the Congress is by Art. I, sec. 8, cl. 11, of the Constitution given power to "make Rules concerning Captures on Land and Water". I do not deem it necessary to determine the extent of that power. It is sufficient for me to say that if that power is construed to permit the imposition in time of war by the Congress of duties and burdensome Customs procedures on the bringing into the United States by the armed forces of war materials described above, the power may then be brought into conflict with the President's constitutional power actually to conduct the war, and that, consequently, grave questions of constitutional law are raised. Within the authorities cited above, the Tariff Act ought not, in the absence of an express indication to that effect, be construed as an attempt to impose duties and burdensome Customs procedures on war materials brought into the United States by the armed forces in the conduct of war if it can properly be otherwise construed. To construe it as imposing such duties and procedures raises grave constitutional questions.

That the Tariff Act may be properly construed not to include captured war materials or booty is evidenced by the Brief reported in connection with (1898) Treas. Syn. 19508. That decision, which was approved by the Attorney General, reads:

"Treasury Department, June 18, 1898.

"Collector of Customs, New York, N. Y. There is no existing law exacting duty on goods condemned by a prize court, and, in the absence of such authority, no duty can be collected. Neutral goods released by a prize court may be delivered to owner for immediate export. If retained for consumption in this country, they become dutiable on appraisement.

W. B. Howell, Assistant Secretary."



The Brief, which was submitted to the Attorney General, contains the following pertinent passage:

"What, then, is the intention of Congress with respect to prize-property as imported merchandise? The title of the tariff act shows that customs duties are imposed for two purposes, namely, (1) to provide revenue for the Government, and (2) to encourage domestic industries. Is either of these purposes served by the imposition of duties on prize goods? Assuredly not. The status of such property is essentially different from that of ordinary importations. The latter are voluntarily exported in the usual course of commerce; the former are captured by superior force from the public enemy. In the one case, the name of the exporter, the country of exportation, and the character and value of the goods are material facts; in the other case, it is immaterial from whom or where the goods came, or what they are worth. \* \* \*

"The taking of prizes is an act of war in furtherance of the object of war. The Government derives no revenue, as such, therefrom. \* \* \*

"Nor does the imposition of duties on prize goods accomplish the second purpose of tariff legislation. The element of competition between domestic and foreign merchandise, as such, is wanting. \* \* \*

Those arguments, applicable to prizes captured during the Spanish-American War, are equally applicable to the war materials here under consideration.

One of the decisions incorporated in the Brief submitted to the Attorney General substantiates the proposition that the revenue purpose of the Tariff Act does not require imposition of duty on captured goods. The Liverpool Hero, (C.C.D. Mass. 1814) Fed. Cas. No. 8,405, 15 Fed. Cas. 639. In that case, Mr. Justice Story, sitting in Circuit, held that an act which exempted prize goods from the non-importation acts, but provided that such goods, when imported into the United States, should be subject to duties, did not apply to the portion of the goods belonging to the United States, but did apply to the portion belonging to the officers and crew. The reasoning upon which the decision concerning the United States goods was based was that " \* \* \* it is difficult \* \* \* to conceive how the United States can either pay or secure the duties to themselves". It is, of course, a fact that the professed purpose of the



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customs duty statutes at that time was solely revenue,<sup>1/</sup> but the protective purpose of the Tariff Act is certainly not defeated in the instant case.

I call your attention also to the reasoning of Attorney General Bonaparte in (1908) 26 Op. Atty. Gen. 466. He there held that coal imported by the Navy was subject to duty since a comparison of the language of earlier acts (exempting Government importations generally) with the language of the then act (omitting that exemption except in specific cases) indicated a Congressional intent that Government imports should be subject to duty.<sup>2/</sup> However, he held that the purposes of the then tariff act did not require such a holding, stating that (at page 468):

"The mischiefs to be redressed" or, in other words, the purposes of the legislature in this case, are indicated with sufficient accuracy by the title of the act itself. It is entitled 'An act to provide revenue for the Government and to encourage the industries of the United States.' The first of the purposes thus expressed certainly would not be promoted by requiring the payment of duties by the Government on articles imported from foreign countries for its own use. So far as the Government is concerned, such payments would amount, in effect, merely to taking money out of one pocket and putting it into another; obviously, this process would not 'provide revenue for the Government.' It is true that the law might be supposed to furnish a motive for the Executive Departments in the expenditure of general appropriations to purchase American rather than foreign goods, but, since we must assume that all responsible officers of the Government will be guided in their public acts by the policies adopted by the Congress, we must also assume, in the construction of the statute, that this

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<sup>1/</sup> According to most authorities, the distinct protective policy began with the law enacted in 1816. IV Dictionary of American History (1940) 365.

<sup>2/</sup> That decision does not affect my conclusion that the Tariff Act should not be construed to include war materials brought into the United States by the armed forces in the conduct of the war, since the importation there involved occurred in time of peace.



motive would exist in full force without the need of any such enactment. If, therefore, the avowed, and universally understood, purposes of the act were all that we had to consider in this connection, I should find in them no sufficient reason to outweigh the presumption that the Government was not included in the general language requiring payment of duties by importers."

Enough has been said to indicate that it is my view that the Tariff Act should not be construed to require that war materials brought into the United States by the armed forces in the conduct of war be subject to customs procedures and duties. That view, of necessity, renders Executive Order No. 9177, supra, and the Act of June 30, 1914, c. 130, 38 Stat. 399 (U.S.C., 1940 ed., title 34, sec. 568), upon which it is based superfluous with respect to materials here dealt with in time of war. If, however, it be conceded, arguendo, that the Tariff Act does apply, then it is nevertheless my view that Executive Order No. 9177, and the Act of June 30, 1914, supra, permit importation by the Government of such war materials free of duty.

Executive Order No. 9177 authorized the Secretaries of War, Navy, Agriculture, and Treasury, and the Reconstruction Finance Corporation to exercise the duties vested in the Secretary of the Navy by the Act of June 30, 1914, supra. That statute reads as follows:

"\* \* \* Provided, That hereafter the Secretary of the Navy is hereby authorized to make emergency purchases of war material abroad; And provided further, That when such purchases are made abroad, this material shall be admitted free of duty."

It has been suggested that the rule of "commercial designation", i.e., that in the interpretation of laws imposing duties on imports, the language used by the Congress shall be construed according to the commercial understanding,<sup>3/</sup> requires that the word "purchase", as used in the quoted statute, be given the narrow commercial meaning of acquisition in exchange for money. It is to be noted, however, that the quoted provision is a part of the appropriation act for the naval service for the fiscal year 1915,<sup>4/</sup>

<sup>3/</sup> Two Hundred Chests of Tea, (U.S. 1824) 9 Wheat. 430, 438; Maddock v. Magone, (1894) 152 U.S. 368, 371; Bakelite Corporation v. United States, (1928) 16 Ct. Cust. Appls. 378, 381.

<sup>4/</sup> As is indicated by the manner in which the provision is codified, it is, in effect, a separate provision although it appears in the appropriation act following several other "provided" clauses as the last two such clauses in the section.



- 6 - 7 -

and that the provision dealing with imports appears only as a proviso to the authorization to make emergency purchases abroad. It is the general rule that a proviso must be construed in the light of the language to which it is appended. The Dollar Savings Bank v. United States, (U.S. 1873) 19 Wall. 227, 235. I am, therefore, of the opinion that the rule of "commercial designation", limited as it is to construction of customs laws, does not apply in the instant case. Particularly is this so since the word "purchases", as it appears in the proviso, is modified by the word "such", referring to the phrase in the earlier portion of the statute, "emergency purchases of war material abroad".

It is further my view that, with reference to property obtained in occupied territory after cessation of hostilities in that territory, the conclusion I have stated above is not affected by the rule that goods imported from occupied territory is subject to customs duties. The cases announcing that rule: (Fleming et al. v. Page, (U.S. 1850) 9 How. 603, A.S. Lascelles & Co. v. The United States, (1914) 49 Ct. Cl. 382, aff'd. sub. nom. De Paso v. United States, (1917) 243 U.S. 625) are distinguishable since they did not deal with war materials brought in by the United States armed forces as part of the conduct of the war. There remains the question whether the materials here dealt with may be considered "emergency purchases of war material abroad".

Several strong arguments can be made for the proposition that the word as used in the act under consideration was intended in its broadest sense. Particularly apt is the language of the court in United States v. Beatty, (W.D. Va. 1912) 198 Fed. 284. It was there said (at page 286):

When used in a statute, the word 'purchase' is frequently held to include any method of acquisition other than by descent. 7 Words and Phrases, 5853. To construe the word here to mean only acquisition by buying, we must assume that Congress had in mind the method of acquisition rather than the general purpose to acquire. The mere use of the word 'purchase' -- which may have been used in its technical sense -- is not to my mind a sufficient reason for such assumption. If, as we must, we give the members of Congress credit for a reasonable knowledge of human nature, they must be assumed to have

5/ This case was reversed on another point in Beatty v. United States, (C.C.A. 4th, 1913) 203 Fed. 620, cert. denied and writ of error dismissed (1914) 232 U.S. 463. The circuit court of appeals stated that it could find no error in the ruling of the trial judge on the point here involved (see page 621).



known that to restrict requirement to voluntary sales by the owners would most probably defeat the chief purpose for which the appropriation [purchase of land] was made." (Underlining supplied)

In like manner it may be said that, since the statute here in question was intended as permanent legislation and deals with materials of war, the Congress, giving it credit for a reasonable knowledge of the manners and methods of conducting war, must be assumed to have known that war materials are often, through necessity, or the fortunes of war, acquired in ways other than by buying, and that those ways include capture, seizure, exchange, and gift, and, in fact, every conceivable method by which a warring nation may acquire war materials. If the act is so construed, there is no difficulty in holding that a tank or similar article fabricated by the United States forces from several partially demolished tanks is also purchased (i.e., acquired) within the meaning of the act.

Again, the derivation and dictionary definitions of the word "purchase" furnish a strong basis for the conclusion here reached. The word is derived from the French words "pour" and "chacier", the literal translation of which is "to pursue, to chase", and is defined by Webster's New International Dictionary (Second Edition), in part, as follows:

"That which is obtained, got, or acquired, in any manner, honestly or dishonestly; gain; booty; acquisitions; now, specif., that obtained for a price in money or its equivalent."

Funk and Wagnalls New Standard Dictionary defines the word as:

"The act of purchasing; acquisition by giving an equivalent in money or other exchange value; the acquiring or obtaining of anything by paying a price of any kind, as by exertion or running a risk."

These definitions are of value so far as they indicate that, while the specific meaning of the word "purchase" is "that obtained for a price in money or its equivalent", in its broader sense the word clearly encompasses captured war materials (booty; acquisition by running a risk), refabricated American materials (acquisition by exertion), and donated materials (acquisition in any manner).

The legislative history of the Act of June 30, 1914, throws no light on the question. Nowhere in the hearings, reports, or debates is the provision in question mentioned.

BOARD OF 200 - 9 -

Further, it is to be noted that even within the specific definition of the word, the materials obtained by the United States by requisition, or as reciprocal Lend-Lease aid, are "purchases". By definition requisitioned materials are paid for, and by virtue of the so-called "Master Agreements", which the United States has entered into with each nation receiving Lend-Lease aid, aid given to the United States is constituted a part of the quid pro quo for Lend-Lease aid by the United States. It is clear, therefore, that all such materials are obtained by the United States for a price in money or its equivalent.

In summary, it is my opinion that the Tariff Act should not be construed to apply to the materials here in question, but that if that act is so construed, the materials are exempt from duties as "emergency purchases of war material abroad". Under either view, there would be no impropriety in the execution by officers of the Department of War of the certificate required by Executive Order No. 9177.

Very truly yours,

(Signed) Randolph Paul

General Counsel.

The Honorable

The Secretary of the Treasury.



BOARD OF ECONOMIC WARFARE  
 OFFICE OF EXECUTIVE DIRECTOR  
 WASHINGTON, D. C.

**SECRET**

NOV 7 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

The minutes covering the meeting of the Board of Economic Warfare, which was held on Thursday, October 15, are enclosed. If there are any corrections which you care to suggest, please let me know.

Also enclosed is the Agenda for the next meeting of the Board to be held on Thursday, November 12.

Sincerely yours,

*Milo Perkins*  
 Executive Director

Enclosure

*think report on  
 Swedish trade  
 when White  
 brings it back -*

*OK  
 11/18*

# SECRET

## AGENDA

FOR THE BOARD OF ECONOMIC WARFARE MEETING  
TO BE HELD NOVEMBER 12, 1942 AT 10:00 A.M.  
IN THE OFFICE OF THE VICE PRESIDENT  
IN THE CAPTIVE

1. Discussion of report on Cryptostegia, "Report to the Board of Economic Warfare on Cryptostegia". Report attached.
2. Further discussion of Swedish trade policy.  
Reports attached - HL-10 Rev. 2 "Trade Policy Toward Sweden"  
HL-10-b "Trade Policy Toward Sweden"



Minutes of the Meeting of the Board of Economic Warfare  
Held October 15, 1942 at 10:00 a.m.

A meeting of the Board of Economic Warfare was held in the Vice President's office in the Capitol Building at 10:00 a.m. on October 15, 1942.

Those present:

The Vice President, Chairman of the Board  
Mr. Dean Acheson, representing the Secretary of State  
Mr. E. M. Bernstein, representing the Secretary of the Treasury  
Mr. Charles Fahy, representing the Attorney General  
The Secretary of the Navy  
The Secretary of Agriculture  
The Secretary of Commerce  
Mr. Nelson Rockefeller, Coordinator, Inter-American Affairs  
Mr. E. R. Stottinius, Jr., Lend Lease Administration

In addition, the following persons were present:

Mr. Wayne Taylor, Department of Commerce  
Mr. W. L. Clayton, Department of Commerce  
Mr. Leslie Wheeler, Department of Agriculture  
Mr. Robert Patterson, War Department  
Mr. Harold H. Neff, War Department  
Mr. Thomas K. Finletter, State Department  
Mr. Milo Perkins, Board of Economic Warfare  
Mr. Cass Canfield, Board of Economic Warfare  
Mr. Hickman Price, Jr., Board of Economic Warfare  
Mr. E. W. Gaumnitz, Board of Economic Warfare

The Vice President opened the meeting indicating that the meeting had not been held for some time due to the absence of himself and Mr. Perkins, but that meetings were to be held more regularly hereafter.

The Vice President then referred to the South African report, "Proposed Action for Assisting the South African War Program." The Vice President gave some background on the report indicating that South Africa was strategically located, is contributing to the war effort but that further contributions are desirable and important, that any further increase in war effort apparently would be dependant on reduction of gold production. Up to the present, apparently the policy of the British and South African Governments has been to maintain or increase gold production, gold production currently running about 15 per cent above the level prevailing in 1939. He indicated that gold production was employing about 40,000 whites and 365,000 natives and consuming supplies amounting to about 3,000,000 tons per year, the greater part of which tonnage was produced domestically, with some supplies however being from the United States and England. He indicated further that any decrease in gold production always raised the question of the effect upon the political situation in South Africa, there being concern that a reduction in gold production would tend to cause unemployment which in turn might result in the overthrow of the Government.

Mr. Perkins indicated that the proposal set forth in the report involved attacking the problem "positively" by giving assistance to South Africa in the development of war industries, at the same time reducing supplies to be used for gold production purposes, these objectives being handled through a Supply Council which would "screen" South African requirements. The Council would be composed of three representatives, one each from the United States, South Africa, and Great Britain with unanimous agreement being necessary.

To assist in the development of war industries, the United States would undertake to make available supplies necessary for this purpose, within the limit of overall supply and shipping considerations. Under such a procedure it was estimated that gold production might be reduced by more than 25%. Mr. Jesse Jones was very positive in his feeling that every effort should be made to cut gold production by more than what seemed to be contemplated. He felt that this should be done with speed and dispatch.

In the discussion, it was made clear that increased emphasis on war industries was limited by available labor, both skilled and unskilled, that increased labor could only be drawn from gold mining, that gold would not be reduced without pressure and assistance, and that attempts to secure more extensive conversion had thus far been resisted by both the British and South Africans.

It was also the consensus that the bargaining position of the United States could be enhanced if a goal were established requiring the maximum conversion possible rather than a reduction in gold production of more than 25%, and latitude were allowed in the exact procedure to be followed in accomplishing the result. The following resolution was passed: (the exact wording of which was cleared following the meeting.)

"WHEREAS, The successful and early conclusion of the war requires the most effective utilization of all the resources of the United States and of the United Nations;

"AND WHEREAS, It is believed the Union of South Africa is in a position to lend further aid to the war effort of the United Nations by maximum conversion of its industries to war production;

"NOW THEREFORE BE IT RESOLVED, That the Board of Economic Warfare recommends that maximum and rapid conversion of the South African economy to a full war economy be achieved, that the appropriate U. S. agencies assist in such conversion by making available such supplies, within the limits of production and shipping facilities, as are necessary for the further development of South African war industries, and that appropriate administrative measures be taken for carrying out this program aggressively."

The meeting adjourned at 11:15 a.m.



BEW-Imports  
November 6, 1942

REPORT TO THE  
BOARD OF ECONOMIC WARFARE  
ON CRYPTOSTEGIA

Summary

A tropical perennial vine, known in India and recognized as a source of rubber since 1837. Fast growing, disease resistant, low percentage rubber content per plant, relatively high yield per acre. Probably imported to this hemisphere as a decorative plant. Seeds have been widely spread via winds and tropical storms. Now found in Mexico and Central America.

Cryptostegia was first investigated in June 1942. Quality of rubber investigated and found good. Seed shortage and no mechanical extraction method deterring factors. Adequate staff assigned to survey to locate seeds.

The problem of extraction was assigned to Eastern and Southern Laboratories of the Bureau of Chemistry and Engineering of the Department of Agriculture in early June. Independent research also being conducted by MIT, and several tire company laboratories. Progress is being made but the problem of extraction via mechanical means is not solved.

SHADA in Haiti working with the Department of Agriculture has developed a practical hand extraction method - much labor is involved but yields of over 200 pounds per acre are indicated. A contract with SHADA for acreages up to 100,000 has been executed, "cost return" basis - nominal fee. At present negotiations are being conducted with other contractors for plantings when seed is available. Requirements - ample labor supply to enable hand tapping if necessary and flat land to enable mechanical harvesting if developed.

### CRYPTOSTEGIA

First Known. The first reference we find about *Cryptostegia* is a report of this vine grown in the Botanic Garden in Calcutta in 1837 and stated to yield a rubber superior in whiteness and elasticity to that of *Ficus Elastica*. In 1889 we find the reference "a considerable effort is being made to extend the cultivation of this plant both in Madras and Bombay" and that "*Cryptostegia grandiflora* is cultivated in gardens in nearly every section of India." In 1890 the Conservator of Forests, Southern Circle, Madras, reported that this vine, "grows well all over the plains and yields a fair amount of sap which on coagulation produces a very firm and superior rubber." In 1904 we first find a report of a chemical analysis of *C. grandiflora* which is very closely in line with results we are obtaining today, namely, Rubber 89.5 percent, Resin 7.9 percent, Insoluble 2.6 percent. Although we have been able to find repeated references to *Cryptostegia* rubber (known as Palay rubber) in East Indian reports, nowhere have we been able to find it definitely stated that it has been produced in commercial quantities.

Species. There are two species, *C. grandiflora* and *C. Madagascariensis*, also as interspecific hybrid. It is upon *C. grandiflora*, the most abundant species, that our program is based, and all figures given here relate to this species. *C. Madagascariensis* has too low a rubber content to be of interest.

Quality of Rubber. *Cryptostegia* rubber has been analyzed, vulcanized, and tested by some of our leading rubber chemists, including Hauser, Haefele, West, McGavack, and Trumbull, and all of these by their reports show great enthusiasm for it. The following extracts from a letter written by Dr. Trumbull of the B.F. Goodrich Company to Mr. Bicknell of Rubber Reserve Company, sum up the general opinion of these experts:

"...We should be very fortunate, indeed, to be able to get rubber of as good a quality. X-Ray interference diagrams of this (rubber) were identical with those from hard fine para. Because of the high quality of rubber derived from *Cryptostegia*, because of the fact that it comes from a natural latex with particle size, ranges in size and uniformity of particle size, close to hevea latex; because the rubber is truly isoprene rubber, it seems to me to merit attention..... I earnestly hope that something is done to promote cultivation and harvest of this vine rubber."

Additional comments follow:

From Mr. H. L. Trumbull of the B. F. Goodrich Company: "Because of the high quality of rubber derived from *Cryptostegia*, because of the fact that it comes from a natural latex with particle size, ranges of size and uniformity of particle size close to hevea latex. Because the rubber is truly isoprene rubber, it seemed to me to merit attention under the act of March 5, 1942. This suggestion was left with the committee and I earnestly hope that something is done to promote cultivation and harvest of this vine rubber."

Mr. A. V. McMullan of the Department of Agriculture to Dale Jenkins of the Rubber Division on November 3, 1942: "The quality of *Cryptostegia* rubber is excellent."



Bureau of Standards report of September 24, 1942 on an analysis of Cryptostegia rubber stated that the "quality was good" and gave considerable technical information which is on file in the Rubber Division of BEW.

Commenting on the details of this report in a telephone conversation with L. H. Heller of the Rubber Division on October 14, 1942, Mr. Ernst Hauser, rubber chemist at MIT said; "The high acid content of samples of Cryptostegia rubber thus far received indicates the need for a different type of preparation of the latex. I am convinced from X-Ray defraction charts just made that the rubber is of extremely high quality."

Mr. L. G. Polhamus in conversation with Mr. W. A. Stanton of the Rubber Division on November 5, 1942 said: "Because of the similarity of resin content of Cryptostegia with Castilleja rubber, I think it well to compare these two, and we can do so without the slightest reflection upon the quality of either. In my opinion Cryptostegia rubber is of equal quality to high grade Castilleja."

There is apparently little doubt that with a compound formula well suited to it, Cryptostegia rubber can be classed with some of the best.

Percent of Rubber. While the leaves of Cryptostegia are reported to contain from 1.69 percent to 6.72 percent rubber, the stems are low in rubber content - .31 percent to .34 percent - and for the whole plant an average rubber content of 1.25 percent is found.

Optimum Conditions for Growth. Cryptostegia is a tropical and subtropical plant which grows well in regions of high temperature but is injured by exposure to frost. Unlike Guayule, which requires a dry, dormant period in which to manufacture its rubber, Cryptostegia rubber content is in direct ratio to its growth. No important disease or insect damage which attacks Cryptostegia has been discovered.

Late Development. Cryptostegia was first drawn to the attention of BEW early in June when Mr. Fennell showed the plant to Messrs. Sherover and Jenkins, who had gone to Haiti to investigate the feasibility of obtaining rubber from Castilleja seedlings. Mr. Sherover was greatly impressed with the possibilities of Cryptostegia as a rubber producing plant, and upon his return put Mr. Jenkins on to search all published information on the subject. From this material, Mr. Jenkins prepared his first memo on the subject. This was subsequently enlarged and mimeographed. As more information was obtained, Mr. Sherover's enthusiasm increased and on June 22 a meeting was called which was attended by various representatives of BEW, by Dr. Bressman, and by Dr. Rands and Mr. Polhamus of the Bureau of Plant Industry. All angles of the proposition were discussed in the light of information then available and the consensus at that time was (1) that the agronomical problems offered no apparent difficulty, though considerable work would have to be carried out to establish optimum methods of planting, and (2) that, although the rubber could be extracted in the laboratory by the solvent method, no commercial method was known. At this meeting it was decided that intensive investigations on the problem of extraction be started, and a seed collection program be instituted immediately.



Following the above, a meeting was held in Mr. Auchter's office at which it was arranged that the Forest Service would provide funds for the Chemistry and Engineering Division of the USDA to carry out the extraction investigations. This work was put in charge of Dr. Eskew at the Philadelphia Regional Laboratories, and work there and at the Regional Laboratory in New Orleans was started. Also immediately following the meeting on June 22, Mr. Levy wrote to Mr. Polhamus requesting that the BPI undertake the seed collection on BEW's behalf. This was agreed to, \$5,000 was allotted to BPI for the purpose, and Messrs. Jenkins and White of BEW were assigned to BPI for a survey of the *Cryptostegia* areas. Subsequently, Mr. Gentry of BPI was also assigned to the work with Mr. White in Mexico, while Mr. Jenkins was sent to Jamaica and the West Indies. As of the date of this report they have made a rather complete survey of all areas known to contain wild plants from which seed might be gathered in Mexico and Central America. In some areas seeds are now ready to be gathered and a man has been dispatched to Mexico to supervise collection. More men will be sent as seeds ripen in various areas. They will employ native labor for the purpose.

We have followed every possible lead that gave promise of seeds from sources other than those already mentioned. A few seeds have already been obtained from India and we are making efforts to get all that are obtainable there. Similarly we are making efforts to get all that are obtainable in Australia and Madagascar. We have authorized United Fruit to make purchases of what they are able to in Central America and will probably authorize them to make purchases in India. When and if new sources are reported, the Division will exert every influence to obtain information concerning them.

On August 17 the BEW answering a request of the Baruch Committee regarding its activities in rubber, made the following statement with regard to *Cryptostegia*. "The most promising rubber bearing plant now in its experimental stage is the *Cryptostegia* vine..... Meanwhile the BEW has to decide to increase experimental plantings of *Cryptostegia* immediately to the extent that seed is available." At that time neither our seed collection efforts nor the extraction experiments being conducted at Philadelphia offered grounds for unwarranted optimism. On September 2 the whole *Cryptostegia* picture took on a much more favorable appearance with a telephone call from Mr. Thomas Fennell of SHADA in Haiti. Mr. Fennell stated that he had located enough seeds in Haiti for plantings of up to 100,000 acres within a year. In Haiti, where huge quantities of labor are available, Mr. Fennell urged the application of a unique tapping method he had already tried experimentally and which promised yields of at least 250 pounds of rubber per acre per year. We asked Fennell to write us at length about the tapping process and to send someone to Washington at once to negotiate a contract. Mr. Hill, Fennell's assistant, and subsequently Mr. Fennell, came to Washington, a satisfactory contract was negotiated, and a directive sent to Rubber Reserve to execute the contract.



the same time contacts with prospective contractors who had previously shown interest in *Cryptostegia* plantings were revived. On September 2 we renewed negotiations with Miles Sherover and have now brought them to a point where the proper authorization of Mexican authorities is being solicited. We continued and pressed negotiations with Banco Ejidal for faster action on its proposed planting contract. On September 3 we contacted United Fruit and have progressed to a point where we are now discussing the details of a contract for substantial plantings in Central America. We have held initial conversations with Standard Fruit and are awaiting their ability to come to Washington regarding plantings in Honduras.

**Extraction.** The extraction process worked out by Fennell has limitations because it is untried on a large scale and because he estimates it will require about one man per acre constantly to perform the gathering operations. We have, therefore, continued our vigorous efforts to evolve a large scale extraction method. Although the Department of Agriculture, Bureau of Chemistry and Engineering, seemed to be approaching the problem from every possible angle, we decided to employ an outside consultant to evaluate the work, to check its progress, and possibly to delegate some phases of it to other laboratories. On September 16 we discussed this thought with Dr. Ernst Hauser of M. I. T., and Bradley Dewey of Dewey and Almy, chemists of Cambridge, Mass., to try to enlist Dewey as a consultant, and the M.I.T. laboratories and Dr. Hauser to pursue specific problems. As a result of this conference, we were encouraged to believe that Mr. Dewey would undertake the assignment, but his appointment to Mr. Jeffers' staff made his acceptance impossible. In a letter written to our Mr. Robert J. Levy, Assistant Chief, on September 29, Mr. Dewey explained his position, but offered to assist us in finding the right man to serve as a consultant. Mr. Dewey suggested that even before a consultant was appointed specific problems on both extraction and rubber be delegated to outside laboratories. In this connection Dr. Ernst Hauser and Dr. B. E. Proctor, both of M.I.T., have been interviewed and have indicated their willingness to be of service. Dr. Hauser is presently thinking about a pilot plant location for use in expanding the work of the Eastern laboratories in some area where larger quantities of *Cryptostegia* are available. We are looking for such a plant location now. Our Dr. Walker is now in Mexico partially for that purpose.

*Cryptostegia grandiflora* is a perennial. If latex removal is accomplished by tapping the vines as contemplated by SHADA in Haiti, rubber production will be a year around continuous operation. If latex recovery is accomplished by some factory method the vines will quickly regain the foliage lost in operations. In either case competent opinion is that the vine once planted will produce over a considerable period of years.

The best opinion indicates that in the plantation type of operation *Cryptostegia* vines will be ready for some harvesting method in approximately 12 months. Some observers have estimated as low as six months; others as high as 14 months. Twelve months is therefore a conservative average.

**Independent Research.** Phases of agronomical and extraction work are also being conducted by outside agencies. Mr. McGavack of the U. S. Rubber Company is doing experiments at Yuma and Passaic; Mr. Trumbull of Goodrich, at Akron; Mr. Johnson of Goodyear, in Costa Rica. These are mentioned to give an idea of the extent of interest in *Cryptostegia*. Unquestionably there are others. Those named keep us informed as to the progress and results of their work.

Recent Opinions on Cryptostegia as our Emergency Source of Rubber.

Baruch Report: "Cryptostegia is second in importance among rubber producing plants..... There is little to be lost and much might be gained by pursuing this program vigorously, etc....."

Dr. P. A. Wells, Director of Eastern Laboratory, Bureau of Agricultural Chemistry and Engineering, in conversation with Atherton Lee, BEW Agricultural Advisor, on September 28, 1942: "Any planting program should not be delayed for fear of inability to extract the rubber. One way or another the methods will be obtained."

Charles S. Dolley, Biologist and Chemical Engineer to Bernard Baruch, wrote on August 21, 1942: "I continued independent attempts to grow it on a large scale in Mexico and finally went to the Bahamas where I grew it successfully and demonstrated its great value as the quickest growing plant producing high grade rubber.... There is no need of delayful experiments."

Thomas A. Fennell of SHADA wrote to Robert J. Levy, Rubber Division, BEW, on September 16, 1942: "Cryptostegia offers an excellent chance to produce good rubber fast with very little steel, skilled labor, or other strategic materials. Mr. Sorenson (Department of Agriculture) estimates the cost of production of rubber by tapping the stems of Cryptostegia would not be in excess of 30 cents to 40 cents per pound."

Dr. John McGavack of U.S. Rubber Company wrote to Mr. Levy on October 1, 1942: "I am deeply sympathetic with any movement to get larger areas of Cryptostegia planted, whether they be United Fruit, whether they be Haiti's scheme, or whether they be other places. Thank you very much for your help."



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## TRADE POLICY TOWARD SWEDEN

A REPORT AND RECOMMENDATIONS TO THE BOARD OF ECONOMIC WARFARE SUBMITTED BY THE STAFF OF THE BOARD AND APPROVED BY THE FOLLOWING REPRESENTATIVES FROM OTHER AGENCIES REPRESENTED ON THE SUB-COMMITTEE ON SWEDEN

**SECRET**

T. K. Finletter, Department of State  
Captain W. D. Puleston, Navy Department  
J. Coppock, War Production Board

Mr. H. H. Neff, representing the War Department, dissented.

November 5, 1942

At the meeting of the Board of Economic Warfare on May 21, a sub-committee on Sweden was appointed to obtain and review information which would provide the basis for a unified policy to be followed by the agencies of the United States' Government. On the basis of the information made available, particularly through an intensive investigation in London by Mr. William T. Stone, Assistant Director of the Board of Economic Warfare, the following policy conclusions and recommendations are made:

1. Policy Conclusions. In the final analysis it is a matter of opinion whether a complete stoppage of trade with Sweden by the United Nations and the countries of this hemisphere would result in a decrease of Swedish aid to the enemy. In the view of the British Government, however, such a decrease would probably not take place and increased Swedish aid to the enemy is more likely to follow.

Such a stoppage of trade, besides shutting off certain important material sent from Sweden to the United Nations, might adversely affect the determination and the ability of the Swedes to resist Axis aggression. This consideration must be judged in the light of the possible military value to the United Nations of a strengthened Swedish army and the fact that a substantial part of the productive capacity of Sweden is absorbed in its armament program.

A complete and permanent cessation of trade would make it difficult for the United Nations to bargain with Sweden in order to obtain certain military and economic concessions important to our interests.

Trade relations with Sweden, however, are not now satisfactory.

Certain violations of the Anglo-Swedish War Trade Agreement appear to have taken, and to be taking, place:

Exports to the enemy of some important strategic commodities have substantially increased above the "normal" 1938 level of exports to Germany despite the prohibitions which seem to be stipulated in the Agreement; and it does not appear that in fact enemy-occupied Scandinavian countries have been strictly treated as belligerent territory.

Certain exceptions which have been and are being permitted in the War Trade Agreement itself, as well as in its application, are benefitting the enemy:

Imported commodities are permitted export to the enemy as components of manufactured goods. In some cases without adequate control these imported commodities are exported in their original form through special barter deals or processing and re-import arrangements made with the enemy. Moreover, the prohibitions on the export of commodities do not extend to all goods which Sweden obtains through the blockade, nor do they include certain Swedish commodities similar in character to these imports.

Although deliveries from the Axis have with increasing frequency fallen far short of the promised amounts, Swedish exports to the enemy are maintained at a high level, not only by artificial increases in German prices but also by means of large governmental credits which in 1942 may be estimated at 300 million kronen. This is about one-fourth of the total value of Swedish exports (goods and shipping services) to the enemy.

The Swedish Government has also permitted and continues to countenance certain practices which directly assist the enemy in the conduct of its military operations:

Soon after the opening of hostilities between Russia and Germany, Sweden capitulated to strong pressure and permitted a fully-armed German division to cross Swedish territory to Finland. This concession has not since been repeated, but German troops on leave and war materials continue to pass across Sweden to Norway and Finland. In 1941, 250,000 German soldiers travelled in each direction and 250,000 tons of war materials were carried through Sweden to the Axis' northern fronts. In 1942, this traffic has increased considerably and, in addition, Swedish territorial waters have been used for enemy military traffic escorted by Swedish naval vessels. Swedish railways are also utilized for movement of German troops between southern and northern Norway and between Norway and Finland.



2. Policy Recommendations. The present serious situation with regard to trade relations between the United Nations and Sweden should be corrected by a more positive and drastic policy than has heretofore been adopted by this Government; for example, by suppression or diminution of imports into Sweden. However, in the process of bargaining, but only on condition that substantial objectives can be immediately achieved thereby, it may be advisable to offer the Swedes certain concessions such as "basic rations" of some imported goods and the assurance of special supplies including petroleum needed for the Swedish armed forces.

It is, therefore, recommended that this Government pursue by negotiation a policy immediately designed to attain the following principal objectives:

- a. A strict enforcement of the War Trade Agreement and modifications thereof where necessary, which would put an end to the violations and exceptions mentioned above. Modifications should include the reduction of certain blockade quotas for Swedish overseas imports which are excessive, and elimination where practicable of commodities imported from overseas which enter into Swedish production for the enemy.
- b. An increase in the flow of strategic materials from Sweden to the United Nations, and cooperation by the Swedes in the matter of substantial purchases by the United Nations for preclusive purposes as well as for supply.
- c. Assistance by the Swedes in effecting transport by sea and air for materials from Sweden to the United Nations.
- d. Satisfactory arrangements for the use by the United Nations not only of Swedish shipping at present outside the Baltic but also for the vessels built or being built by Sweden.
- e. Elimination or substantial reduction of Swedish Government credits, direct or indirect, to enemy countries.
- f. Access to full information on Swedish exports to and imports from enemy territory.
- g. The conclusion of negotiations satisfactory to the Department of State, whereby the Swedish Government shall agree to equalize its export trade with

the other American republics in such manner that, if Sweden limits its export trade to any American republic or republics, Swedish exports to other American republics to which exports are not so limited shall be correspondingly reduced.

- h. The conclusion of negotiations satisfactory to the War Shipping Administration, for the chartering by the War Shipping Administration of Twenty-one Swedish vessels now in this hemisphere.
- i. A substantial reduction, the maximum attainable, in the number of enemy troops on leave now permitted to pass through Swedish territory, and a stipulation that no troops be permitted to travel through Sweden to Finland.
- j. A substantial reduction, the maximum attainable, in the military traffic of materials now permitted to pass through Swedish territory, and a stipulation that no military traffic or materials be permitted through Sweden to Finland.
- k. A substantial reduction, the maximum attainable, or elimination of German military traffic in Swedish territorial waters and of the use of Swedish convoys by the enemy.
- l. A reduction in the iron ore exports from Sweden to enemy territory from the current figure of about nine and a half million tons annually to normal pre-war exports to Germany.

The most important objective, namely, a substantial reduction in the shipments of iron ore from Sweden to enemy territory cannot be attained to the extent desired except through direct military action. A decision in this matter is beyond the scope of the authority of the staff of the Board and the Sub-Committee. Nevertheless, it must be emphasized that the traffic of iron ore is the most important single contribution, in terms of raw material, made to Germany by any nation outside of its pre-war borders. The use of military action to cut down Swedish exports of iron ore is not precluded by the terms of the War Trade Agreement.

It is accordingly recommended that the Board of Economic Warfare adopt a resolution calling for the continuance of trade with Sweden, including the shipment of petroleum products in exchange for commitments, secret or otherwise, and immediate concessions by the Swedish Government, to meet the objectives of this Government set forth in sub-paragraphs A - L of these



Recommendations, and that this policy be carried out in consultation with the interested agencies by the Board of Economic Warfare in collaboration with the Department of State.\*

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\*The following memorandum interpreting the above document was sent on October 31, 1942 to the Chairman of the Sub-Committee on Sweden by Captain W. D. Puleston representing the Navy Department on said Committee:

1. In view of the frequent use of the words, "substantial," "satisfactory," "substantial reduction," "negotiations satisfactory," which are capable of various interpretations, I wish to make plain my understanding of these recommendations.

2. Such an understanding is particularly necessary for as the report was being written a dispatch from the American Embassy in London was received which recommended that a full cargo of miscellaneous petroleum products, some of them very important from a strategic viewpoint, be provided at once for the Swedish steamer SVEADROTT. In view of Sweden's confessed inability to fulfill her previous engagements (which fact was brought out more than once during the sub-committee's sessions), I am convinced that no further shipments of petroleum or petroleum products should be made to Sweden until Sweden has actually complied with the objectives outlined in sub-paragraphs (a) to (1).

3. I accordingly recommend that the American negotiators be instructed that no further petroleum products be given to Sweden prior to April 1, 1943. If by March 1, 1943, Sweden has substantially complied with the objectives outlined in sub-paragraphs (a) to (1), arrangements could be made to furnish the first quarter's allotment of petroleum products to Sweden by April 1, 1942.

4. I wish to emphasize that the use of military, naval or air forces to cut down the Swedish exports are not precluded by any of these recommendations.

5. I also recommend that between now and March 1, 1943 quiet efforts be made by the United Nations to reduce the present increasing flow of grains, meats and edible oils from South America (mainly Argentina) to Sweden via the Gothenberg route. In my opinion, the objectives in sub-paragraphs (a) to (1) are temporary. They should be extended as soon as the political, military and naval factors permit. The United Nations should not be content with anything less than the complete suppression of Swedish trade with Germany.

Recommendations and the policy to be carried out in con-  
sultation with the interested countries by the Board of  
Economic Warfare in collaboration with the Department of  
State.

The following memorandum interpreting the above document was sent  
on October 2, 1943 to the Chairman of the Sub-Committee on Sweden  
by Captain W. D. Robinson representing the Army Department on the  
Committee:

1. In view of the product use of the words "essential",  
"strategic", "vital", "indispensable", "critical", "necessary",  
which are capable of various interpretations, I wish to make plain  
the meaning of these recommendations.

2. Such an understanding is particularly necessary for the  
the report was being written a limited number of months ago  
in London was received which recommended that a full survey of  
essential petroleum products, not all of which were important from  
a strategic viewpoint, be provided as one of the Swedish element  
SWEDEN. In view of Sweden's continued inability to fulfill her  
petroleum requirements (which had as a result not only been  
during the sub-committee's operation), I am convinced that no further  
shipment of petroleum or petroleum products should be made to  
Sweden until Sweden has actually complied with the conditions set  
forth in subparagraph (a) to (1).

3. I accordingly recommend that the American negotiators be  
instructed to advise further petroleum products to Sweden  
prior to April, 1943. If by March 1, 1943, Sweden has substan-  
tially complied with the objectives outlined in subparagraph (a)  
to (1), arrangements could be made to furnish the first quarter's  
shipment of petroleum products to Sweden by April 1, 1943.

4. I wish to emphasize that the use of military, naval or  
air forces to end down the Swedish economy and the resulting im-  
pact of these recommendations.

5. I also recommend that before any further action is taken with  
efforts be made by the United States to reduce the present import-  
ation of grain, waste and other vital commodities (mainly  
from the United States) to Sweden via the German route. In my opinion, the  
objectives in subparagraph (a) to (1) are necessary. They should  
be extended as soon as the political, military and naval factors  
permit. The United States should not be content with anything less  
than the complete suspension of Swedish trade with Germany.



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**BOARD OF ECONOMIC WARFARE**  
**Office of Economic Warfare Analysis**

**TRADE POLICY TOWARD SWEDEN**

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

Revised Version  
November 3, 1942

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OFFICE OF ECONOMIC RESEARCH  
BOARD OF ECONOMIC ADVISERS

UNITED STATES GOVERNMENT

A Study of the Economic  
Consequences of the  
War on the Home  
Front

Revised Edition

November 3, 1945



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## TRADE POLICY TOWARD SWEDEN

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

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

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

II. Relations with the Enemy1. Trade

- a. The principal economic contribution made by Sweden to the Axis is the export of high grade iron ore (9.5 million tons in 1941), wood products (particularly pulp wood and rayon pulp), machinery, ball bearings and other specialty manufactures of the metallurgical industry, and food to Finland.
- b. About 12 per cent of the total Swedish national income is comprised of exports of goods and services to enemy territory. Although Swedish exports to enemy territory appear to be less (value adjusted) than they were to

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

the same area before the war, her exports of the particular commodities most urgently needed by the enemy far exceed pre-war shipments to Germany. This is particularly true for rayon pulp and pulp wood which have increased many times over while the export of other products less useful to the enemy has decreased significantly. Similarly, the occupied countries import much less from Sweden than they did before the war.

- c. If exports of Swedish iron ore and wood products particularly could be eliminated, the enemy's war effort would be severely injured. In terms of iron content, the high grade Swedish ore delivered in 1941 amounted to 18 per cent of the total available to Germany, but actually the Swedish ore is even more important than this ratio indicates: the loss of the Swedish supply would require the mining and transport additionally of 20 million tons of low grade German and French ore, of 6 million tons of coal and 4 million tons of coke. Loss of the Swedish wood products would materially reduce the already restricted supply of textiles in Axis Europe and would tend further to reduce agricultural production (by the loss of paper binding twine) and mining output (by the loss of pit props).

## 2. Credits

Since Sweden's imports from the enemy area are declining and are currently almost one-third less in value (adjusted) than were exports to Axis Europe and because Swedish shipping services further increase the Axis indebtedness, this unbalanced trade is enabled to continue only by virtue of large credits granted by the Swedish Government. It is estimated that the credits during 1942 to Germany and Finland will amount to at least 300 million kronor, so that about one-fourth of the Swedish exports of goods and services to the enemy is financed through Swedish credits. Virtually all exports to Finland are credit transactions, whether made directly or through uncompensated Swedish exports to Denmark which enable the latter country to provide goods for Finland. In addition, there are forced credits to the enemy arising out of the artificial inflation of German export prices. To the extent that the inflation factor in German prices exceeds that in Swedish prices, there has virtually been a credit equal in amount to the difference. The actual amount cannot be computed with exactitude on the basis of the information now available, but an additional credit of about 200 million kronor may be due to this price differential. If this concealed credit is added to the direct credit, about 40 per cent of Swedish exports of goods and services to the enemy may be estimated to be uncompensated by the enemy's exports to Sweden. These credits, regarded by



the British Ministry of Economic Warfare as unneutral, not only relieve Germany of the need to carry the full burden of export, but also tend to help Finland remain in the war.

### 3. Military

Although the Swedish Government states that it has resisted German efforts to compromise her neutrality, certain concessions made to the enemy have directly assisted the Axis in the conduct of the war. A definite breach of Swedish neutrality was permitted in July, 1941, when a fully equipped German division was allowed to cross Sweden from Norway to Finland. This breach has not been repeated, but the Swedish Government continues to permit German troops and materials to pass across Sweden to and from Norway and Finland, between southern and northern Norway and between Norway and Finland. The troops, presumably on leave, cross in sealed cars. In 1941, 250,000 journeys in each direction were made across Swedish territory and 250,000 tons of war materials were carried in transit through Sweden to Norway and Finland. In 1942, this traffic has apparently increased and, in addition, Swedish territorial waters have been used for enemy military traffic conveyed by Swedish naval vessels.

### 4. Shipping

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

## III. Relations with the United Nations

### 1. Trade

- a. The Anglo-Swedish War Trade Agreement, signed on December 7, 1939, and modified by a supplementary protocol of December, 1941, permits Sweden to import commodities from areas outside of the blockade in quantities established by quotas which are based generally on the amount of goods imported by Sweden in 1938. In exchange for these import facilities, Sweden has agreed to certain prohibitions and limitations on her exports which are intended to prevent the reexport of imported commodities and, beyond the 1936 level, of indigenous products. Both the import quotas and restrictions on exports are subject to change and reconsideration at any time. The import quotas represent

- substantial proportions of Sweden's normal consumption of food stuffs and industrial materials, and in the case of petroleum provide the total amount needed for maintenance of the military forces and combat reserves. Although many of the quotas have not been filled, the imports of cotton, wool, hides, vegetable oils, fodder, cereals and colonial produce are not only among the scarcest goods in Europe today but undoubtedly enable Sweden to maintain its economy. If they were cut off, serious economic repercussions would be felt in all sectors of Swedish production.
- b. During the first six months of 1942, Sweden imported from outside the blockade area goods valued at about 230 million kronen (\$57,000,000), whereas she exported to areas outside the blockade goods valued at 110 million kronen (\$27,000,000). Sweden's exports through the blockade are subject to German permission in each case and are confined at the present time to Argentina and Chile because of a prohibition imposed by the enemy on Swedish exports to the United Nations. However, through blockade-running and the air service between Stockholm and Scotland, the United Kingdom has received during the eighteen months preceding July 1942 certain metals and manufactures which are regarded by the British Government as being of great importance to their war effort. Although these imports may not be irreplaceable, and their significance appears to have been somewhat exaggerated, they consist mainly of parts for Swedish machinery in Britain which could only with difficulty be manufactured elsewhere. Exports permitted by Germany from Sweden to Argentina and Chile consist mainly of wood pulp, paper and iron and steel manufactures.
- c. The blockade quotas appear in several instances to permit excessive imports of certain commodities and in some cases directly enable Sweden to export goods to the enemy. However, actual imports through the blockade have been limited both by the difficulty Sweden has found in procuring commodities and also by the fact that the Gothenburg traffic (permitted by the United Nations and the Axis) is limited to five ships a month in each direction and one tanker each quarter.
- d. In general, although there are certain deficiencies in the list of prohibited exports, goods imported from outside the blockade may not be exported to the enemy. The petroleum products permitted to pass through the blockade to Sweden may only be used by the Swedish armed forces. There are, nevertheless, goods imported through the blockade



which do in fact contribute to the enemy's war effort indirectly as components of manufactured goods or as supplies used to maintain the health and efficiency of the Swedish working population. Moreover, despite the apparent stipulation of the War Trade Agreement, exports to the enemy of indigenous commodities like iron ore and wool products have increased above the level of 1938 exports to Germany.

## 2. Shipping

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

## 3. Military

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





## ANNEX A

ESTIMATE OF SWEDEN'S TRADE BALANCE, 1936, 1938, AND 1940-42  
(in millions of kronor)

	1936	1938	1940-41*		1941-42*	
			Adjusted**		Adjusted**	
<b>A. Trade Outside the Blockade Area</b>						
a. Imports through the Blockade	755	1065	330	220	310	200
b. Exports through the Blockade	750	910	130	85	155	80
c. Surplus of Imports (+) or Exports (-)	f5	f155	f200	f145	f155	f120
<b>B. Trade Inside the Blockade Area</b>						
a. Imports from Enemy Territory	380	1015	1345	600	1250	425
b. Exports to Enemy Territory	765	930	1015	685	1145	600
c. Surplus of Imports (+) or Exports (-)	f115	f85	f330	-85	f105	-175
<b>C. Total Trade Balance</b>						
a. Imports	1635	2080	1675	820	1560	625
b. Exports	1515	1840	1145	770	1300	680
c. Surplus of Imports (+) or Exports (-)	f120	f240	f530	f50	f260	-55

\*May 1 to April 30

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





## ANNEX B

DISTRIBUTION OF SWEDEN'S TRADE WITHIN THE BLOCKADE AREA  
 1936, 1938 AND 1940-42  
 (in millions of kronor)

	1936	1938	1940-41	1941-42
<u>Total Imports from Enemy Territory</u>	<u>830</u>	<u>1,015</u>	<u>1,345</u>	<u>1,250</u>
Germany (including Austria)	370	455	830	805
Scandinavian countries	140	160	150	130
Italy	10	30	135	110
West European countries <sup>1/</sup>	205	225	55	50
South European countries <sup>2/</sup>	20	155	45	50
Hungary	7		15	20
Others	130		115	85

	1936	1938	1,015	1,145
<u>Total Exports to Enemy Territory</u>	<u>765</u>	<u>930</u>	<u>1,015</u>	<u>1,145</u>
Germany (including Austria)	245	335	530	535
Scandinavian Countries	240	290	265	315
Italy	20	40	75	90
West European countries <sup>1/</sup>	175	200	55	85
South European countries <sup>2/</sup>	20	65	10	10
Hungary	2		10	15
Others	63		70	95

<sup>1/</sup> The Netherlands, Belgium, Luxemburg, France, Portugal, and Spain.

<sup>2/</sup> Yugoslavia, Rumania, Bulgaria, Greece, Turkey, and Albania.





## ANNEX C

## THE ANGLO-SWEDISH WAR TRADE AGREEMENT

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

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

- A. Import quotas.
- B. A list of goods prohibited export to the enemy.
- C. A list of imported goods permitted export to the enemy as components of manufactures if less than 12½ per cent of the value of the finished manufacture.
- D. A list of other goods which may be exported to the enemy in "normal" 1938 quantities.

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

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

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

(Metric tons unless otherwise stated)

<u>Commodity</u>	<u>Present British Quarterly Quota</u>	<u>Recommended Quota</u>
Rice and rice groats	4,000	3,000
Maize and maize meal	33,000	15,000
Wheat, rye and their flours	22,500	10,000
Dried fruits	3,750	500 -1,500
Sugar	5,000	2,000
Vegetable, animal and fish oils - edible only -	14,000	5,000
Hides, skins and leather	3,000	1,500
Artificial textile fibres -yarns and piece goods-	186	nil
Casein	175	nil
Silver	6	nil

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

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



- C. Blockade quotas for imported materials (A) which are permitted export to the enemy as components of manufactures up to 12½ per cent of the total value of the manufacture or (B) which are employed in the manufacturing processes of Swedish products permitted export to the enemy, should be reconsidered and the import of these materials so controlled as to limit them as far as practicable to Swedish domestic consumption. The principal quotas falling within these categories are as follows:

Grass and field seeds	Rubber and manufactures
Tung and oiticica oils	Wool and manufactures
Castor and rapeseed oils	Bristles and brush-making fibres
Glycerin	Cotton raw, manufactures and waste
Oleic and other fatty acids	Copper
Carnauba and other waxes	Lead
Hides, skins and leather	Abrasives and manufactures
Borax and boric acid	Asbestos and manufactures
Tartaric acid and wine lees	Graphite and manufactures
Acetone	Industrial fibres (hemp, jute, sisal, ramie, etc.) and their manufactures
Plasticisers	Toluol
Solvent	Petrolatum
Casein	Paraffin wax
Carbon black	Gum kopal, kauri, domar
Paints, varnish and shellac	
Tar oils (benzol, phenol, cresol, etc.)	
Textile machinery	

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

Iron ore	Plywood
Lumber	Paper
Rayon pulp	Chemical pulpwood

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

...the total value of the merchandise or (B) which are ...  
...of these materials as controlled as to their use as far as ...  
...to British domestic consumption. The principal ...  
...these materials are as follows:

- |                 |                 |
|-----------------|-----------------|
| Iron and steel  | Iron and steel  |
| Aluminum        | Aluminum        |
| Copper          | Copper          |
| Lead            | Lead            |
| Zinc            | Zinc            |
| Other metals    | Other metals    |
| Textiles        | Textiles        |
| Foodstuffs      | Foodstuffs      |
| Chemicals       | Chemicals       |
| Pharmaceuticals | Pharmaceuticals |
| Other goods     | Other goods     |

...the total value of the merchandise or (B) which are ...  
...of these materials as controlled as to their use as far as ...  
...to British domestic consumption. The principal ...  
...these materials are as follows:

...the total value of the merchandise or (B) which are ...  
...of these materials as controlled as to their use as far as ...  
...to British domestic consumption. The principal ...  
...these materials are as follows:



## ANNEX D

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

<u>Commodity</u>	<u>Total</u>	<u>To Argentina</u>
Woodpulp	55,500	21,600
Newsprint and newspaper	8,300	8,250
Other paper and cardboard	24,300	22,400
Timber and manufactures	1,370	790
Iron and Steel	810	400
Ball bearings	1.3	1.3
Other iron and steel manufactures	3,000	1,950
Electrical machinery and apparatus	725	500
Other machinery	240	150
Auto and truck parts	14	12
Chemicals	880	460
Chalk	150	-
Accumulators	50	48
Insulating sheets	120	120
Furskins	2	2
Glassware	1	-
Wines and spirits	1	1
Other goods	9	9

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<sup>a/</sup> Source: Ministry of Economic Warfare

ANNEX D

EXPORTS FROM SWEDEN TO ARGENTINA AND OTHER SOUTH AMERICAN COUNTRIES DURING THE FIRST SEVEN MONTHS OF 1951

(quantities in metric tons)

To Argentina	Total	Commodity
21,600	22,200	Wood pulp
8,250	8,200	Newspaper and newsprint
22,400	24,200	Other paper and cardboard
700	1,200	Tyber and manufactures
400	600	Iron and steel
1.3	1.3	Ball bearings
1,080	3,000	Other iron and steel manufactures
200	250	Electrical machinery and apparatus
150	240	Other machinery
12	14	Auto and truck parts
450	500	Chemicals
-	150	Grain
4	20	Automotives
120	120	Industrial plants
2	2	Textiles
-	1	Glassware
1	1	Wine and spirits
9	9	Other goods

Source: Ministry of Economic Warfare



## ANNEX E

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

Tubes and Solids for ball bearings	7,166 tons
Finished ball bearings	1,220 "
Special rods and wire in carbon, stainless and high speed qualities	2,249 "
Cold Rolled strip	874 "
Machinery	222 "
Special quality ingots and billets	1,981 "
Charcoal pig iron	10,267 "
Bar iron	2,661 "
Spare parts for marine engines	120 "
Ferrochrome	1,456 "
Sponge iron	<u>346</u> "
	28,562 Tons
Total { quantity	
{ value	£1,735,000

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

Australia (to March 1942)	
Machinery	£ 53,000
Metals and manufactures	11,000
Scientific instruments	3,500
Canada (to April 1942)	
Bearings	395,000
Cream separators	111,000

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

(b) Source: Ministry of Economic Warfare

ANNEX 2

(a) LIST OF MATERIALS SUPPLIED TO SWEDEN FROM SWEDEN TO THE UNITED KINGDOM FROM JANUARY 1, 1941, THROUGH JUNE 30, 1945

Quantity	Value	Total
28,000 tons	£ 4,735,000	
		Sponge iron
		Petroleum
		Spare parts for marine engines
		Bar iron
		Charcoal pig iron
		Special quality ingots and billets
		Machinery
		Gold helix strip
		Special rods and wire in carbon, stainless and high speed qualities
		Finished ball bearings
		Tubes and solids for ball bearings

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

Country	Value
Australia (to March 1945)	£ 10,000
Canada (to April 1945)	£ 11,000
Greenland	£ 11,000
Denmark	£ 11,000
France	£ 11,000
India	£ 11,000
Italy	£ 11,000
Japan	£ 11,000
Malaya	£ 11,000
Netherlands	£ 11,000
Philippines	£ 11,000
Portugal	£ 11,000
Spain	£ 11,000
Sweden	£ 11,000
Switzerland	£ 11,000
USA	£ 11,000
Yokohama	£ 11,000

The above countries were the only recipients of Swedish imports in 1945; in 1941, the United States and New Zealand obtained goods valued at £10,000 pounds and £1,000 pounds respectively. During the first six months of 1945, the United States received from Sweden through the blockade only 12 tons of machinery and iron of iron.

(b) Sources: Ministry of Economic Warfare



## ANNEX F

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

<u>Material</u>	<u>Gross Weight</u> <u>Kilos</u>
Drilling Tools	15.--
Spare Parts for Oil Engines	2.23
-do-	.81
Antimagnetic Iron	7.40
Milcrometers	85.--
Spring Washers	0.30
Micrometers	45.--
-do-	37.--
Valves	0.61
Grinders	59.90
Parts for Chipping Hammers	54.70
Vavles	4.80
Spring Steel	23.--
Parts for Relays	14.--
-do-	15.50
Striking Mechanism	348.--
Spare parts	7.57
Springs for Drill Chucks	0.60
Taps	94.50
Magnet Steel Taps	170.30
Spring Steel	364.--
Anvils	0.45
Gudgeon Pin Brgs. (Haifa)	32.00
Spare Parts	198.695
-do-	130.75
Tools	234.70
Taps	118.50
Taps	25.--
Micrometers	12.--
Spring Steel	89.80
-do-	475.--
Parts for Mikrokators	0.175
	2,666.

\*It should be noted that the summer months are regarded as unfavorable for air traffic in this region, and that therefore these shipments do not fully reflect the magnitude of the imports received.

MATERIALS REPORTED BY THE UNITED KINGDOM IN ALL THREE COLUMNS  
DURING THE MONTH OF AUGUST 1945

Gross Weight Tons	Material
10.00	Drilling Tools
10.00	Gears for Oil Engines
10.00	-do-
10.00	Anti-magnetic Iron
10.00	Aluminum
10.00	Spring Washers
10.00	Washers
10.00	-do-
10.00	Valves
10.00	Drifters
10.00	Parts for Oil Engine
10.00	Valves
10.00	Spring Steel
10.00	Parts for Valves
10.00	-do-
10.00	Drilling Machine
10.00	Gears parts
10.00	Parts for Drill Spindle
10.00	Bars
10.00	Machine Steel Bars
10.00	Spring Steel
10.00	Aviation
10.00	Engines for pumps (parts)
10.00	Spare parts
10.00	-do-
10.00	Tools
10.00	Bars
10.00	Tools
10.00	Washers
10.00	Spring Steel
10.00	-do-
10.00	Parts for Washers

\*It should be noted that the names of the materials are recorded as  
unavailable for air traffic in this column, and that there  
are some quantities do not fully reflect the quantities of  
the material received.



## ANNEX G

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

A. Commodities Imported Through the Blockade  
 or Similar Thereto

Commodities	Quantities Exported to Enemy Destina- tions, Jan-June 1942
Cereals and preparations (1)	13,075*
Potatoes and root crops	4,552
Sugars and syrups (2)	1,200
Food preparations	1,301
Fish	1,754
Meat and animals for meat (3)	1,005*
Fodder	196
Seeds for Sowing	383*
Fats and oils	103
Wines and liquors	43
Textile materials	615
Copper metal, alloys and scrap	715**
Lead metal and scrap	237**
Tin metal, alloys and scrap	175
Artificial grinding wheels	47
Abrasive paper	88
Explosives and matches (4)	1,031
Gums and resins	654
Rubber and manufactures (5)	10.5
Boots and shoes	14

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

B. Commodities Not Imported Through the Blockade  
or Similar Thereto

Commodities	Quantities Exported to Enemy Destina- tions, Jan-June 1942
Iron ore	2,761,537 †
Wood and manufactures (6)	436,302
Pulp, paper, etc.	437,181
Iron and steel, and manufactures (7)	99,053
Coal tar (8)	5,108
Stone and mineral manufactures	9,167
Pottery and glass	9,423
Chrome ore and ferrochrome	533
Manganese ore and ferromanganese	85
Molybdenum and ferromolybdenum	19.5
Ferrosilicon	2,477
Wolfram	10
Other metals and manufactures	665**
Railway cars and material	371
Automobiles and trucks	913
Instruments, etc.	191
Tanning materials	1,679
Chemicals and pharmaceutical products	11,677
Machinery	15,037
Electrical machinery and appliances	2,776

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

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

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

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

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

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



## ANNEX H

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

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NOTE

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

ANNEX H

PRINCIPAL SWEDISH EXPORTS TO GERMANY  
AND OCCUPIED EUROPE, 1939 AS COMPARED WITH  
1934 AND THE FIRST SIX MONTHS OF 1935

NOTE

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



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

COMMODITY	1938	1941		1942 (6 months)	
	Exports to Germany proper	Exports to Germany proper	Exports to Germany and Occupied Europe	Exports to Germany proper	Exports to Germany and Occupied Europe
Iron ore	8,945,088	N.R.	9,549,014	2,747,957	2,747,957 (h)
Lumber (thousands of board feet)	100,188	514,800	850,800	310,201 (f)	N.R.
Rayon pulp	12,795	100,000	285,000	93,332 (f)	N.R.
Chemical pulpwood (cubic meters)	1,085	1,000,000	N.R.	N.R.	N.R.
Pit props (cubic meters)	68,000	100,000 (a)	N.R.	N.R.	N.R.
Paper	2,700	120,000	N.R.	127,000 (g)	N.R.
Plywood	825	4,500 (b)	N.R.	N.R.	N.R.
Unmanufactured and semi-manufactured					
Iron and Steel	14,388	N.R.	38,000	20,000 (b)	77,000 (b)
Charcoal pig iron	17,537	N.R.	33,000	20,000 (g)	N.R.
Pyrites	12,598	N.R.	25,735	-	-
Ferro-silicon	2,339 (c)	N.R.	11,406	1,870	2,459
Ferro-chrome	2,650	N.R.	3,649	450	486
Copper	5,897	N.R.	2,986	693	715
Ferro-silicon-manganese	749	N.R.	945	-	10,310
Tin	(d)	N.R.	479	172	172
Chrome ore	(e)	N.R.	203	47	47
Lead	243	N.R.	239	-	237
Ferro manganese	-	N.R.	275	-	10

N.R.-- Not reported

a/ 1940, figures for 1941 not available

b/ Estimate

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

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

1. The amount of exports for each of the six months for 1942 is as follows:

2. The amount of exports for each of the six months for 1941 is as follows:

3. The amount of exports for each of the six months for 1940 is as follows:

e/ No exports to any destination in 1938					
f/ Sales in 1942 on six months basis					
g/ Six months estimated on the basis of nine months exports					
h/ The first six months represent the seasonal low. Exports are being maintained at the 1941 level.					

MONTH	1942	1941	1940	1939	1938
JANUARY					
FEBRUARY					
MARCH					
APRIL					
MAY					
JUNE					
TOTAL					

NOTE: The above figures are based on the six months ending 31st March 1942 and do not include the six months ending 31st March 1941 and 1940.



## ANNEX I

SWEDISH NATIONAL INCOME  
 COMPARED WITH GOODS AND SERVICES FURNISHED  
 THE ENEMY AND EXPENDITURES FOR NATIONAL DEFENSE, 1941  
 (in millions of kronen)

	<u>1941</u>	<u>Per cent</u>
National Income	12,000	100
National Income, excluding profes- sions, services (except trans- port) and domestic commerce	8,500	80 (100)
Value of Exports to the Enemy	1,200	
Value of Shipping Services for Enemy	<u>200</u> 1,400*	12 (16)
Value Expended on National Defense	2,700	22

\*The money value of Swedish railroad facilities to the enemy in transport of troops on leave and materials has not been computed, but it probably does not at most exceed 100 million kronen.

TABLE I

SWEDISH NATIONAL INCOME  
CORRELATED WITH GROSS AND DOMESTIC PRODUCTS  
THE FIRST AND SECOND QUARTERS FOR NATIONAL INCOME, 1961  
(in millions of kronor)

Quarter	1961	1960	1959
Q1	1,000	1,000	1,000
Q2	1,000	1,000	1,000
Q3	1,000	1,000	1,000
Q4	1,000	1,000	1,000
Annual	4,000	4,000	4,000

The gross value of Swedish national income for the first and second quarters of 1961 is shown in this table. It is based on preliminary data and is subject to revision. The figures are in millions of kronor.



## ANNEX J

BLOCKADE QUOTAS AND PRINCIPAL COMMODITIES IMPORTED THRU THE  
BLOCKADE BY SWEDEN DURING THE FIRST SIX MONTHS OF 1942 (a)

(Quantities in metric tons)

Commodity	Blockade Quota (6 months)	Total Imports thru Blockade	Imports From U.S.	Ratio Blockade Quota to Consumption (1938 Basis)
Wheat and other cereals	158,200	63,800	6,000	23%
Meat (port, fresh & salted)	3,000 (b)	2,450	2,000	10%
Dried fruits	7,500	3,730	3,700	63%
Coffee	24,000	5,400	30	91%
Cocoa	2,500	1,720	3	71%
Spices (including pepper)	600	520	-	74%
Oil cake and meal	60,000	28,700	-	33% (h)
Fodder	5,000	840	840	-
Animal and vegetable oils	28,000	27,400	150	64%
Castor, tung, citicidia and rapeseed oils	R. I.	360	10)	30%
Fatty acids	500	250	-)	-
Carnauba Wax	80 (c)	22	5	-
Rubber and manufactures	2,150	420	14	40% (i)
Hides, skins and leather	3,000 (d)	4,200	9	39%
Raw wool and wool tops (clean basis)	3,430	3,920	77	61%
Raw cotton	18,000	12,900	180	99%
Wool manufactures	1,750	390	32	57% (i)
Cotton manufactures	4,000	1,460	630	99% (i)
Cotton waste	2,400	117	68	57% (i)
Sisal	2,500	260	150	-
Coir fibre	R. I.	700	-	-
Binder twine	Nil	500	500	-
Kapok	120 (e)	26	-	-
Brush-making fibres	290	300	123	-
Petroleum products (including Aviation fuel)	30,000	74,400 (f)	74,400 (f)	4%
Asphalt	11,400	750	750	88% (i)
Paraffin wax	500	100	100	17%
Asbestos (raw)	2,000	-	-	80%
Asbestos manufactures	360	11	11	49%
Copper	5,000 (g)	50	-	17%
Lead	8,000	203	203	63%
Toluol	1,000	114	114	-
Carbon black	100	73	73	13%
Shellac	180	22	22	99%
Casein	350	143	143	60%

R.I. Referred item, shipments considered individually

- (a) Source: Ministry of Economic Warfare
- (b) This figure is not a regular quota but represents a single shipment permitted by Great Britain.
- (c) Quota includes other animal, vegetable and insect waxes.
- (d) First quarter only, second quarter under consideration.
- (e) Includes ramie.
- (f) Permission was given by the Blockade Committee in London enabling Sweden to take the entire annual quota during the first two quarters, and also to receive a supplementary amount (14,000 tons) remaining from the 1941 quota.
- (g) Semi-annual quota based on quota granted beginning with third quarter of 1942.
- (h) Oil cake derived from imported seeds is not included in the Blockade quota for oil cake but is included in the estimate of normal consumption.
- (i) Net imports taken as equivalent to normal consumption.



## ANNEX K

## SWEDISH IMPORTS FROM ENEMY TERRITORY

No complete statistics are available on Swedish imports from Germany and Occupied Europe. It is known, however, that deliveries in 1941 and estimated deliveries for the full year 1942 are as follows:

	<u>1941</u>	<u>1942</u>
Coal and Coke	4,800,000 tons	3,800,000 tons
Commercial iron	230,000 tons	300,000 tons
Pig iron	80,000 tons	72,000 tons
Artificial textiles	144,000,000 kronen	6,000 tons
Machinery	110,000,000 kronen	110,000,000 kronen
Potash	N.R.	100,000 tons
Salt	N.R.	340,000 tons
Chloride of lime	N.R.	30,000 tons
Soda	N.R.	30,000 tons

N.R. - Not reported

Other German exports to Sweden include glass, paints, dyes and ammonium sulphate. German shipments of coal, coke and iron have been consistently far behind the agreed schedules. Thus while Germany agreed to send 5,700,000 tons of coal and coke to Sweden annually during 1941 and 1942, actual and expected deliveries were respectively 900,000 tons (15%) and 1,900,000 tons (33%) below those stipulated for these years. In the case of commercial iron and pig iron, German deliveries in 1941 were 130,000 tons (30%) below those promised. While deliveries of commercial iron to Sweden in 1942 appear to be improving, Germany has failed to keep her promise to make up the backlog left over from 1941.

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

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

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

Under the Swedish-Finnish agreement covering the period from May 1 to the end of 1942, the Finns only undertake to export to Sweden to the extent made possible by their supply position, whereas the Swedes guarantee deliveries of iron and steel and machinery.



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

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

## ANNEX L

## SWEDISH CREDIT CONTRIBUTIONS TO THE AXIS

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

1. The Clearing Credit. In 1941, Germany purchased one billion kronen worth of goods from Sweden and exported to Sweden goods valued at nine hundred million kronen. Sweden granted Germany a clearing credit to make up the difference of one hundred million kronen. It is understood that this credit has already been liquidated through the shipments by Germany of war material and gold to the Swedes. During June 1942 a German trade delegation arrived in Sweden to arrange a new clearing credit of 250,000,000 kronor for the remainder of the year, in order to remedy the situation created by declining German coal deliveries. After considerable discussion Germany was not only refused the additional credit but was forced to agree to pay 20,000,000 kronor in gold outside the clearing. This refusal of a clearing credit, however, explains the greater pressure upon Sweden to expand the export credit guarantees as described below.
2. Export Credit Guarantees. The Swedish Government guarantees to its exporters who deal with Germany in certain commodities (wood and manufacturers, paper and cardboard, machinery, tools and ball bearings) payment of 25 per cent or 35 per cent, depending upon the commodity, of the invoice price. The maximum extent to which such export credits can be given is determined by the Swedish parliament which has set a ceiling on the sum that may be guaranteed by the Government financing agency. At the present time, the ceiling has been set at one hundred million kronen for the 1942-1944 fiscal years. But since it is expected that the present limit of one hundred million kronen will be exceeded by the end of this month, the Swedish Parliament is being pressed to increase the maximum credit to three hundred million kronen for the 1942-44 period.

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

3. Loans to Finland to Cover Food Purchased in Denmark. Sweden has on three occasions this year extended credits to Finland for the purchase of foodstuffs in Denmark. These credits



total thirty-seven million Swedish kronen and are not based on any financial transfer but upon actual shipments from Sweden to Denmark to pay for Danish deliveries to Finland. Swedish exports to Denmark during the first half of 1942 were estimated to be not less than sixty-six million kronen of which at least twenty-eight million kronen covered Danish deliveries to Finland.

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

It is estimated that during 1942 Swedish credits to Germany and Finland will total about 300 million kronor, equivalent in value to one-fourth of Sweden's exports of goods and services to the enemy. But, in addition, there are other credits granted indirectly through the artificial inflation of German export prices. These concealed credits may amount to about 200 million kronor in 1942. If this amount is added to the direct credit, about 40 percent of Swedish exports of goods and services to the enemy may be estimated to be uncompensated by the enemy's exports to Sweden.



## ANNEX M

## SWEDISH OIL POSITION

1. Military

Based on statistical data furnished by the Swedish Government on September 10, 1942, it is estimated that on November 1, Swedish petroleum stocks for military purposes will be as follows:

Aviation gasoline	24,600 tons
Gas oil and fuel oil	73,500 tons
Lubricants	5,500 tons

According to the latest Swedish statement, the present monthly rate of consumption is as follows:

Aviation gasoline	1,800 tons
Gas oil and fuel oil	3,750 tons
Lubricants	180 tons

Based on these consumption rates, the stock position in terms of months' supply is as follows:

Aviation gasoline	13½ months
Gas oil and fuel oil	19½ months
Lubricants	30 months

In the early part of this year, the Swedes estimated that under combat conditions, monthly petroleum requirements would be as follows:

Aviation gasoline	7,000 tons
Gas oil and fuel oil	21,000 tons
Lubricants	1,000 tons

Based on this consumption rate under combat conditions, the stock position in terms of months' supply would be as follows:

Aviation gasoline	3½ months
Gas oil and fuel oil	3½ months
Lubricants	5½ months

On September 10 the Swedish Government Representative in London reported to the Representatives of the Ministry of Economic Warfare and the Petroleum Attache to the American Embassy that the Swedish Rikstag had, in June of this year, approved a five-year plan for defense. Based on this plan, monthly requirements under

combat conditions are estimated by the Swedes to be as follows:

Aviation gasoline	11,000 tons
Gas oil and fuel oil	40,000 tons
Lubricants	2,000 tons

On the basis of these latest estimates, the Swedish stock position, in terms of Months' supply, would be as follows on November 11:

Aviation gasoline	2.22 months
Gas oil and fuel oil	1.88 months
Lubricants	2.75 months

The proposed Sveadrott cargo is as follows:

Aviation gasoline	4,800 tons
Fuel oil and gas oil	9,000 tons
(Fuel oil 7,400)	
(Gas oil 1,600)	
Lubricants	570 tons

According to the latest estimates of consumption under combat conditions, this cargo would cover requirements approximately as follows:

Aviation gasoline	2 weeks
Gas oil and fuel oil	1 week
Lubricants	1 week

## 2. Non-Military

### a. Domestic Requirements

The petroleum products which Sweden imported through the blockade during 1941 and 1942 were exclusively for military use. Non-military requirements have been and are being met from the pre-war stock pile, indigenous production of shale oil, alcohol and other substitutes, and the importation of small quantities of low-grade lubricants from Germany.

Based on statistics secured from the Swedes, the November 1 stock position of petroleum products for non-military use should be approximately as follows:

Automotive gasoline	103,000 tons
Kerosene	14,000 tons
Gas oil and fuel oil	15,000 tons
Lubricants	21,500 tons

Based on the latest available figures for civil consumption, the stock position in terms of months' supply should be as follows:

Automotive gasoline	60 months
Kerosene	8½ months
Gas oil and fuel oil	9 months
Lubricants	10½ months

This estimate is based on consumption at the present rate. It is estimated that under combat conditions, automotive gasoline, the only product which would be consumed in larger quantity, would last for 30 months.

b. Bunker Requirements

Swedish ships in the Gothenburg safe conduct traffic receive their bunker oil supplies from Buenos Aires and Montevideo. These stocks are laid down by Swedish tankers and are subject to the control of this Government by means of a system which has recently been developed by the Board of Economic Warfare, Petroleum Coordinator, State Department and War Shipping Administration. The loading of the tankers carrying these bunker supplies to Buenos Aires and Montevideo is also under the strict control of this Government.

The quantity of bunker fuel lifted by the Gothenburg ships from the two above-mentioned bunker stations totals about 6,000 tons monthly.