

DIARY

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War Savings Bonds
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July 28, 1943
9:00 a.m.

GROUP

- Present: Mr. Bell
- Mr. Paul
- Mr. Gaston
- Mr. Gamble
- Mr. Smith
- Mr. Haas
- Mr. Blough
- Mr. Charles Bell
- Captain Kades
- Mr. Bernstein
- Mrs. Klotz

H.M.JR: Dan, let's start the morning with something unpleasant. Did you see the release of the Bureau of the Budget?

MR. BELL: Yes.

H.M.JR: The summation?

MR. BELL: Yes. It isn't out yet, is it?

H.M.JR: Yes, but you had a chance to clear it?

MR. BELL: Yes, sir, I went over it. I thought it was a pretty good statement. The only question was a quote from last year's budget regarding taxes and savings. I told Harold that I hoped in discussing it with the press that they wouldn't get into this discussion of enforced savings. He said that - he called me back later and said that they decided not to have the seminar this year, that the President was just going to hand it out and not discuss it, so there wouldn't be any discussion of the enforced savings.

H.M.JR: He even cut it down, as I read it this time - increased revenue in taxes or savings--

MR. BELL: He didn't say anything about amount.

H.M.JR: That part of it was rather weak.

MR. BELL: I didn't think it was a bad statement. As a matter of fact, I thought it was a pretty good statement.

H.M.JR: But you had a chance--

MR. BELL: Yes. There is very little change in the figures, except the revenue is up about five billion dollars. There is very little change in the expenditure figures.

H.M.JR: That makes a difference in the net.

MR. BELL: Yes, sir, the deficit is down to about seventy instead of seventy-six, as I recall, including the corporations.

H.M.JR: I remember when Aubrey Williams and Harry Hopkins got out a statement that the Government would have to be always on the basis of spending something like nine billion dollars and you and I thought it was terrible. (Laughter)

MR. BELL: It scared us to death. (Laughter)

H.M.JR: What has happened to Aubrey Williams?

MR. BELL: He was still head of the National Youth up until the time it was abolished. I have an idea he is in education somewhere.

MR. GASTON: Isn't he doing some liquidating work with a skeleton staff on National Youth?

MR. BELL: Maybe; I don't know.

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H.M.JR: When Sullivan is away like this, is anybody from the Office of the Secretary supervising Procurement?

MR. CHARLES BELL: That was a rather recent arrangement. We have supervised Procurement from an administrative arrangement right along. Cliff clears with us, generally.

H.M.JR: When Sullivan goes nothing happens?

MR. BELL: I have been signing the mail, and Joe O'Connell has been looking over most of it. There hasn't been very much.

H.M.JR: Charlie?

MR. CHARLES BELL: I think we will take the equivalent of another whole floor in the Washington Building for the War Bond group. They are right crowded in the three floors. I got in touch with some of Reynolds' men yesterday.

H.M.JR: Why don't you go with me when I go over with Gamble, and then when we get through we can look around? I haven't got much to do - kind of worried. (Laughter)

MR. CHARLES BELL: I think air priorities between here and New York will be discontinued. The difference in time only amounts to about an hour. It breaks up transcontinental flights when they do grant it.

H.M.JR: Do we ask for many?

MR. CHARLES BELL: Not a whole lot, very few.

MR. PAUL: They told me the other day that they didn't give them between New York--

MR. CHARLES BELL: No, sir, have to go all the way through the War Department to get them.

MR. PAUL: In other words, when you are in New York you have to send to Washington to get a priority.

H.M.JR: It is all right with me.

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MR. CHARLES BELL: We are trying to get a priority three for the bond drive throughout--

MR. BELL: Sometimes it comes in handy when you want somebody to come down from New York quickly and they want to get back that evening.

H.M.JR: There is one thing that is disturbing me on the war bond drive. Now, last night - this is the second night - around six or six-thirty - that Mr. Burgess called me. As a matter of fact, I was resting last night and he woke me up. When the hell is Randolph Burgess going to get organized?

Now, night before last he wanted a man on a house-to-house canvass.

Last night he wanted the president of General Foods to do something else. Good heavens, he has been up there for almost two months. I mean, when are they going to quit shopping around for people to head things up?

MR. GAMBLE: I think they are pretty well up in their organization. They are moving pretty fast in some phases of their work.

We have ordered delivered to New York - started delivery yesterday - the first materials they wanted for pay-roll savings. They are going to solicit five million people.

H.M.JR: My feeling is that they are not organized.

MR. GAMBLE: I think his community - the one phase of his work that seems to be bothering him the most is this community activity. He hasn't completed the organization of that. That is what he wanted Barton for was this community division.

H.M.JR: Will you get him a message not to tie himself up late tomorrow afternoon? I may drop in on him, because I am worried about New York. I mean, when they

begin to look around for a man to organize house-to-house canvass on the 27th of July and then they want another man to head up industry, my gawd - they haven't even got the industry thing headed up.

MR. GAMBLE: They have that headed up, Mr. Secretary.

H.M.JR: No, no, he called me last night - they are going to use my name - what was the man's name?

MR. PAUL: Francis.

H.M.JR: No.

MR. SMITH: Chester.

H.M.JR: Chester.

Now, if they haven't got industry headed up and they haven't got the house-to-house, I don't think they can be in very good shape.

MR. GAMBLE: They have organized an additional division. The pay-roll is under Stevens - Jack Stevens - and that is all organized.

H.M.JR: Yes, but that isn't the important thing - that isn't so important for the drive as the house-to-house.

MR. GAMBLE: They are going to canvass these people in plants - five million people.

H.M.JR: Don't let's kid each other. You keep telling me everything is going so wonderfully.

MR. GAMBLE: I think it is, as a matter of fact.

H.M.JR: I am going to make a few spot checks if you don't mind.

MR. GAMBLE: That is good.

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H.M.JR: If there is no Cabinet tomorrow, I may make one tomorrow; I am not sure, but I may. I don't get the feel. Are others as far behind as New York?

MR. GAMBLE: No. As a matter of fact, New York - what they are trying to do is to get people - such names that they can use to generate a lot of excitement and enthusiasm in New York when this drive starts.

What Burgess wants, I think, is a lot of brass hats, to be real frank about it, that can help him pull the press from the time he gets underway. Actually, the people who are going to do most of the work are working now and have been working for thirty days.

H.M.JR: You don't mind my challenging you?

MR. GAMBLE: Absolutely not. I will be delighted to have you do it.

H.M.JR: The last time I was there I was so discouraged that I didn't want to go back again.

MR. GAMBLE: The worst that could happen to us would be that you would improve them - step it up a little bit - so it wouldn't hurt even if they are in good shape. (Laughter)

H.M.JR: Well, anyway, if that is the worst, what would be the best that I could do? (Laughter)

Did I clear you?

MR. CHARLES BELL: Yes.

H.M.JR: You?

MR. BELL: That currency story that you asked McCloy to clear was cabled to Eisenhower, and he cabled back that he didn't want anything given out on it yet. He said he would cable back when he wanted it given out, and he would try to have it released in three places simultaneously, London, Sicily, and here.

H.M.JR: Could I have a piece of that currency?

MR. BELL: Yes, I am getting it for you today and tomorrow - for you and the President.

MR. GASTON: In the meantime an officer over there in the War Department told Harry Eaton that they printed some currency here in lira denominations and shipped it to Sicily. He has that in his foreign letter out today.

MR. BELL: Does he know it is a censored story?

MR. GASTON: They told him that over at the War Department without any restrictions about his printing it.

MR. BELL: It is a censored story. The AP has had it for a month.

H.M.JR: I think you ought to call up McCloy and tell him that. Will you do that?

MR. BELL: Is it out yet?

MR. GASTON: It is, in a rather obscure way, but it is out.

MR. BELL: There was something in last week's paper. It came out of London that such currency had been printed.

MR. GASTON: Kingsley Wood told about the arrangement, about the lira and its value in relation to the pound and the dollar.

H.M.JR: Just so he knows - incidentally, I am glad I asked Smith to rewrite that little story about the small-sized bond; in the New York Times it was nicknamed "the economy bond," which was very nice.

MR. BELL: I hope it doesn't reduce our appropriation.
(Laughter)

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H.M.JR: That is all right. It is good publicity. That is the kind we need around here.

MR. BELL: That is all I have.

H.M.JR: Mr. Blough?

MR. BLOUGH: I have nothing.

H.M.JR: Have you seen those things - my exhibit?

MR. BLOUGH: I have not seen the tail end of the exhibit - the last third. I want to see that when it is opened.

H.M.JR: It is open to you; you had better see it. They brought in one on the Blough business which I couldn't understand.

MR. BLOUGH: Then I will have to see it by all means. (Laughter)

H.M.JR: Still, the thing isn't there - if I get time today I would very much like to sit down with you, and that is on this dismissal wage business. There is nothing there.

MR. BLOUGH: Let me look at it. I have sort of lost touch with it.

H.M.JR: That would come in on conversion of plants, Chuck. I think there ought to be something - we ought to somehow or other right now begin to build up a reserve.

MR. PAUL: We are working very hard on that; we have the SEC working on it, and we have Blough's office working on it. We have a preliminary study of it.

H.M.JR: Well, nobody has shown it to me.

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MR. PAUL: It just came through - the first preliminary study. I didn't think you wanted to see that. I will send it in to you. It just came through yesterday.

H.M.JR: Where did you meet me when we talked about that whole thing? Was it in the country?

MR. BLOUGH: No, it was in the hospital.

H.M.JR: That was two or three weeks ago.

MR. BLOUGH: That is right.

MR. PAUL: But we could put six months on that. It is a vast problem.

H.M.JR: Yes, but I am interested. You have got to get those things to me, please.

MR. PAUL: I just got one yesterday. I will send it in to you. It is the whole problem.

H.M.JR: I just didn't want Blough to sit back on his three meat meals a day and go to sleep on it. (Laughter)

MR. PAUL: Nobody is going to sleep on that problem.

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

MR. BLOUGH: The least you could do would be to improve the situation, Mr. Secretary. (Laughter)

H.M.JR: On the strength of that I will give you one point. (Laughter)

MR. BELL: Meat point? (Laughter)

H.M.JR: I don't know - I am a little long on canned goods. (Laughter) What would be the best I could do for you? (Laughter)

MR. BLOUGH: I haven't thought that far. (Laughter)

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H.M.JR: The best you could do is, between you and Paul and Chuck, to give me something on the dismissal wage. That would be the best. (Laughter)

MR. PAUL: I was thinking of the whole broader problem.

MR. BLOUGH: This memorandum is not on dismissal wage, but on the postwar.

H.M.JR: I would like it to head up with Mr. McConnell and Kades, who is working on that exclusively for me. You (Paul) are not the only fellow, you know, working on this in the Treasury. There are about four other groups in the Treasury working on it. They are coordinating the thing.

MR. PAUL: They are always welcome to all my data.

H.M.JR: How many other groups?

CAPT. KADES: George and Harry have a man working on one phase of it - not in regard to the dismissal wage, however, but in regard to contract cancellation.

H.M.JR: Anyway, get it. How will I get it, Paul?

MR. PAUL: I will send in this memorandum to you. It is on my desk. It just came to my desk yesterday.

H.M.JR: I don't know whether you got word that Mr. Hull, at my request, sent a cable to the Consul in Martinique.

MR. BERNSTEIN: We were informed of that. Something has happened since then--

H.M.JR: Excuse me - they turned us down in Martinique. They said we couldn't see the bank accounts down there. I called up Mr. Hull and asked him if he wouldn't do something about it.

MR. PAUL: When is your man getting back?

MR. BERNSTEIN: He isn't coming back for some time.

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We have just sent him a list of names to look into to see whether he can get specific information on them.

Mr. Secretary, you suggested yesterday that something might be done on the licensing program. I spoke to Mr. Paul's staff and to Mr. Pehle's staff, and they say they do now have a problem of a licensing program for Martinique, and before putting any program like that through, we will present it to Mr. Paul today and present it to you.

H.M.JR: That is right; and then let's sit on it.

MR. PAUL: I thought you were accusing me of sitting on it. (Laughter)

H.M.JR: Let's let Paul and you (Bernstein) and Pehle come in and see me. I am very much interested in that Martinique business. I have got nothing to do today.

MR. PAUL: When would you like to see us?

H.M.JR: Any time you are ready.

I asked Mr. Hull for a copy of the cable he sent to the Consul.

MR. PAUL: I would like to see you, if possible, before ten-thirty. I have an exciting conference scheduled with Mr. Stam at ten-thirty. (Laughter)

H.M.JR: You can see me right after this because I am going over to War Bonds.

MR. HAAS: I have nothing.

CAPT. KADES: I have nothing.

H.M.JR: Got a letter for me on meals at hotels?

CAPT. KADES: Yes, sir. I am clearing it with--

H.M.JR: With whom?

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CAPT. KADES: With Joe O'Connell and Randolph.

MR. GAMBLE: We would like to bring in about fifteen or sixteen more of these States. We would like to bring them in at a time when it would be convenient for you to spend time with them.

H.M.JR: The middle of next week?

MR. GAMBLE: Wednesday or Thursday?

H.M.JR: Fine.

MR. GAMBLE: That is all I have.

H.M.JR: It had better be - Wednesday would be the best day.

MR. GAMBLE: Fine, we will make it Wednesday.

MR. PAUL: I sent you a story yesterday afternoon - rather late in the afternoon - published in the St. Louis Post Dispatch, in which I call your particular attention to - since it presents a mystery as to how those things get out - almost the exact language of a letter to you is quoted.

H.M.JR: About what?

MR. PAUL: From the President on that Illinois labor situation. I signed the memorandum about quarter of six yesterday, so I don't know whether - I remember we called you up - Mrs. Klotz - and we didn't dare leave it on anybody's desk.

H.M.JR: How do you think it gets out?

MR. PAUL: I don't know.

H.M.JR: You don't know?

MR. PAUL: No, I haven't any idea.

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H.M.JR: You looked kind of like a wise old owl.
(Laughter)

MR. PAUL: I really haven't the slightest idea. But, of course, the Justice Department thinks we let it out.

H.M.JR: Well, I refused to see any newspapermen. Were you here when Biddle talked to me? He said that the newspaperman that he had seen said so and so. He saw a whole slew of newspapermen.

MR. GASTON: Yes, he has seen a lot of them. What he talked about was something he said you said at the press conference, which you didn't say.

H.M.JR: But he is quoting a newspaperman.

MR. GASTON: As saying you said that at a press conference.

H.M.JR: I think that is kind of dead - the controversy between us is dead - because he had lunch with the President and right after that he transferred the thing to the Criminal Division. Evidently he was told--

(Mrs. McHugh entered the conference and handed to the Secretary a memorandum from Mr. Paul dated July 27, 1943, and attached St. Louis Post Dispatch clipping.)

H.M.JR: Would you mind pointing the part to me?

MR. PAUL: It is right at the beginning. It is almost an exact quotation - two words left out.

H.M.JR: Well, for your peace of mind, if you are suspicious of me--

MR. PAUL: No, I am not; I don't know a thing about it.

H.M.JR: Well, I can tell you that it is not in this office because there have never been important leaks out of this office. But this has been over with Justice Byrnes - this memorandum.

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MR. PAUL: That might explain it.

Of course, it might come out of Justice because Mr. Koth used to work over there and he says you can get anything out of there by going around and looking on people's desks any time you want to.

H.M.JR: That has been over there with Justice Byrnes. He said it was in his desk and locked up when I called his secretary, finally, to get the thing back. I said, "I don't know whether you know"--

He said, "Yes, I know just where it is." He said, "I know all about it."

It doesn't worry me; my conscience is clear, and you can tell that to anybody.

MR. PAUL: I have been saying that there isn't any leak here.

H.M.JR: You can keep saying it and still go to heaven. (Laughter) And that is the worst that could happen to you. (Laughter)

MR. PAUL: I am afraid there are other reasons why I might be excluded. (Laughter)

MR. SMITH: Nothing.

H.M.JR: Herbert?

MR. GASTON: Elmer is writing a memorandum on that McConnell thing, but what happened in the Bureau was that his return was approved; there was no additional tax and no refund.

H.M.JR: Somebody told me he got a refund.

MR. GASTON: No additional tax and no refund - so Elmer told me over the phone.

H.M.JR: It was approved?

MR. GASTON: He contested the additional tax asserted by the Bureau. The Bureau's claim of additional tax, as I understand it, was denied. He was not given any refund, but it was left as it was on the basis of the return on the tax he had already paid.

MR. PAUL: Is that the controversy that has been going on for some time?

MR. GASTON: Yes.

MR. PAUL: I represented him in that controversy.

H.M.JR: Alvord represents him now.

MR. PAUL: He called me in because he was dissatisfied with Alvord. I was his private advisor.

MR. GASTON: You ought not to say anything about it at all, had you, Randolph? (Laughter)

MR. PAUL: I am telling you so you will know the worst. (Laughter)

H.M.JR: Would you - I am going to say this - would you take a look, Mr. Paul, the General Counsel, at the statute of the FDIC and see whether you can both be on its payroll and also receive compensation from an outside source. You can't in the Treasury, can you?

MR. GASTON: By permission of the Secretary.

H.M.JR: I thought as a Government employee you can't receive--

MR. GASTON: You can't have any other Governmental job in any other unit of Government. You can only take such outside employment as doesn't interfere with your work and is approved by the Secretary of the Treasury.

H.M.JR: No, that isn't it.

MR. PAUL: We ought to check both.

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H.M.JR: I thought there was something in the statute - maybe it is Civil Service--

MR. BELL: There is something in the more recent regulations that prohibits Government employees from taking outside employment, but that was during the days of unemployment.

MR. CHARLES BELL: No one can take an outside job in the Department without your approval.

MR. BELL: That is an internal regulation. There is a report in the paper that Leo resigned from the Gas Company.

H.M.JR: Yes, but that isn't the point. The point is that as late as '42 - now, this is Madison, Wisconsin, Capital Times, Crowley received from the Standard Gas and Electric, seventy-five thousand, Federal Deposit, ten thousand dollars, and a paper company, four thousand six hundred and ninety dollars.

MR. GASTON: We didn't get the '42 returns, but the returns up to '42 - the '39, '40, and '41 check absolutely with the Wisconsin returns.

H.M.JR: Now, look under the mail contracts. He took forty dollars from the Pan American Airways--

MR. PAUL: Those were director's fees.

H.M.JR: Yes, but under the mail contracts, isn't there something about a Federal employee taking money from a company that has a postal contract?

MR. PAUL: I don't know, but forty dollars would be a venial sin, wouldn't it? Maybe it is only one fee.

H.M.JR: But I still say, isn't there something about a Federal employee taking compensation from a company that has a Post Office contract to carry the mails?

Mr. PAUL: I don't know.

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H.M.JR: May I give you this? (Clipping from Madison, Wisconsin, Capital Times handed to Mr. Paul.)

MR. BELL: That is probably confined to Postal employees.

H.M.JR: Just look at it because I want to help Leo, you see. (Laughter)

MR. PAUL: We will go into that in that same altruistic vein. (Laughter)

July 28, 1943
11:02 a.m.

18

HMJr: Hello.

Operator: Mr. Norman Cann is acting.

HMJr: All right. Hello.

Operator: Go ahead.

HMJr: Hello.

Norman
Cann: Good morning, Mr. Secretary.

HMJr: Good morning. Look, Cann, on this notice that is going out signed by Helvering - notice to federal income tax payers....

C: Yes.

HMJr: I'm not satisfied with it.

C: You don't like it?

HMJr: I don't like it.

C: What in particular don't you like, Mr. Secretary?

HMJr: Well, a lot of things. The point is that - uh - I want it done over.

C: All right.

HMJr: Now, how far along is it?

C: Well, it's been in the press, Mr. Secretary, I think sometime, but I'd like to check on that and see.

HMJr: Well, Charlie Bell will watch it on the administrative end for me and Fred Smith on the public relations and I'm going to give these two men the authority to represent me on this thing but I want the thing done over and Mr. Smith will take it over. See? So you had better call back Charlie Bell and let him know how far along it is.

C: All right, I'll do that right away.

HMJr: And you'd better stop it.

C: All right.

HMJr: Whatever it is, you'd better just stop it.

C: All right.

HMJr: Will you do that?

C: Yes, sir.

HMJr: And, I don't know - I'm going to ask Bell - Charlie Bell - to work out with you a formal order whereby all publicity that goes out of Internal Revenue will have to clear through this new set-up of mine.

C: Uh huh.

HMJr: See?

C: All right, sir.

HMJr: We'll just have to do that.

C: All right.

HMJr: I mean, I can't get excited all these times.

C: Uh huh. Well, now this particular matter is the one that I sent over, I think, yesterday to Mr. Blough.

HMJr: Mr. who?

C: I sent it over to Roy Blough....

HMJr: Well, he....

C:and he had been out of the city....

HMJr: Well he wouldn't - he wouldn't know anything about it. It's - to bring these things to the attention of the people in a manner that, if possible, that they will like it. Well, anyway, I want the thing - I want the publicity going out of the Treasury all centralized.

C: Well, I'll be glad to talk to Charlie Bell right away.

HMJr: Okay. He's in my office now.

C: All right, sir.

HMJr: But in the meantime hold it up.

C: All right. You bet.

July 28, 1943
2:24 p.m.

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Operator: Go ahead.

HMJr: Dan.

Daniel
Bell: Yes, sir.

HMJr: This isn't awfully important but it might be sometime.
That telegram to Bruce Barton - I didn't know it went
out.

B: Oh, you didn't?

HMJr: No.

B: Well, I was told by Burgess that you said call down
and get one out.

HMJr: No.

B: Huh?

HMJr: No. What I said was, as I remember it, I said, "Talk
to Gamble to remind me"- uh - not on a telegram - I
didn't know he'd asked for a telegram.

B: Well, he said he was just talking to you and he said
that you told him to call down here and get Ted
Gamble. Well, he couldn't get Gamble - he got me....

HMJr: I know, but....

B:and said it was all right to send a telegram out.

HMJr: Well, frankly, I don't remember it, but if that's
what you say, that goes....

B: That's what he told me. I don't say that's what you
said but that's what he told me.

HMJr: Okay.

B: That was about 6:30....

HMJr: Yeah.

B:last night. However....

HMJr: Well, night before last.

B: What?

HMJr: It was the night before last.

B: No, this was last night.

HMJr: Last night?

B: Last night he called me just as I was - put on my hat to go out the door and said, "I want to get this telegram out tonight.

HMJr: No - no, last night he called me about the head of General Foods.

B: Didn't he say anything to you last night about Bruce Barton?

HMJr: No.

B: Well, that's funny, because it was last night that I sent the telegram.

HMJr: Well, I may be confused.

B: He said he had just got through talking to you....

HMJr: That's true.

B:and that he told you - you told him to call Ted Gamble and get the telegram out last night. It was important that he get on the job today.

HMJr: Well....

B: That's the way I got it.

HMJr: Well, anyway - uh....

B: Is something wrong?

HMJr: Well, no. I was just trying to - no - I - he got me last night at the house about a quarter past six....

B: Yeah.

HMJr: ...and talked and then - did - was it after - when did he call you?

B: Right after that.

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HMJr: I see.

B: It was about six thirty when he got me.

HMJr: When he talked to me last night, the only thing that he mentioned that I can remember was about Chester Colby.

B: Uh huh. Well, he didn't mention Chester Colby to me at all - mentioned nothing but Bruce Barton.

HMJr: Okay. It's - if he'd asked me would I do it, I'd have done it, but I - I couldn't remember it and that's why I'm calling you.

B: Well, apparently, he'd been in touch with Bruce Barton as you had told him in the morning. You see, you discussed it at the staff meeting yesterday morning....

HMJr: That's right.

B:and Bruce Barton apparently wanted a telegram from you asking him to help....

HMJr: I get you.

B:and....

HMJr: Well....

B:I guess Burgess thought it was very important - he even tried to find his home address so he would get it last night.

HMJr: Well, I guess I'm slipping.

B: (Laughs) No, I don't think so.

HMJr: All right.

B: Maybe he slipped - something over on us.

HMJr: It's possible.

B: Yeah.

HMJr: It's in a good cause.

B: Well, I hate to do those things but I thought he was just through talking to you....

HMJr: Well, my memory....

B:and I didn't want to bother you because I didn't think it was very important to bother you about.

HMJr: As I remember it, he only talked about Colby....

B: Uh huh.

HMJr:but it's all right. Okay.

B: Well, I - if it had been important, I'd have called you, but I didn't think it important enough to call you on it.

HMJr: Thank you.

B: Okay.

July 28, 1943
3:30 p.m.

MARTINIQUE BANKS; LOAN TO THE NETHERLANDS GOVERNMENT

Present: Mr. Paul
Mr. Bernstein

MR. PAUL: On this Martinique problem, you asked what steps we could take. I have a written memorandum here, but I suppose it is better to discuss it. (Memorandum to the Secretary dated July 28, 1943 attached.)

The first and probably most effective action you can take would be to stop payment for the expenses of a ship now about to sail from Puerto Rico. Now, that would be fraught with major political implication, and I am bound to say to you, since you asked me, that that is probably the most effective step you could take. If you did, you probably would have to get in touch with State. They certainly would be apprehensive about using this weapon, but at least the possibility of using it could be used as a basis for discussing the matter with State.

Now, there are other specific things you could do. One thing would be to stop licenses on the operation of French banks - Martinique banks - in the United States.

You might refuse to permit the French to provide North African funds to Guiana for the purpose of procuring food and supplies; and, finally, you might--

H.M.JR: I will get that from the memo. What I would suggest - is it Feis handling Martinique?

MR. BERNSTEIN: He handled it with us. He is the one we have done business with.

H.M.JR: Who contacts him from the Treasury?

MR. BERNSTEIN: Mr. White has in the past, but it may be that Mr. Paul has on these matters.

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MR. PAUL: I met him for the first time Tuesday.

H.M.JR: Wouldn't this be something that White's alternate would do?

MR. PAUL: I should think so. I should think he should to it.

MR. BERNSTEIN: I would be glad to.

H.M.JR: If we agree as to the procedure - diplomatic procedure within the Treasury - (Laughter) I would suggest that you (Bernstein) call up Herbert Feis and say that I am quite exercised about this thing, there is a ship sailing, you see--

MR. PAUL: That part - that particular remedy has to be - you have to be pretty prompt about it or we have to let it go, because we have practically licensed the thing now.

H.M.JR: When would it sail?

MR. BERNSTEIN: It is ready to sail at any moment and we practically have to take a positive step immediately. We would have to explain to State why we are holding it up.

H.M.JR: I know. I would call up Feis and simply say - I wouldn't get mixed up in North Africa. We can concentrate on the thing direct to Martinique. Say that we would like to bring it to his attention, the idea that pending their giving permission to go into the bank, we would like to do any one of these things, only if it meets with State Department approval.

MR. PAUL: If it doesn't--

H.M.JR: Then forget it.

This cable to Martinique that we talked about yesterday, if those things didn't clear the Treasury the same day - I wrote Mr. Hull a letter on this thing asking him to send a cable to Winant; Acheson calls me up today - twenty-four

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hours later - "It will go out promptly." But such a thing as clearing - now, if it went last night, it would be on Winant's desk this morning.

MR. PAUL: Did you know that they had offered the Area Directorship of Italy to my partner, McCollester, yesterday afternoon?

H.M.JR: You told me--

MR. PAUL: That was France, at that time. The Italian man is out now and they are in a bad hole on Italy and they wanted him to take it.

H.M.JR: For the whole of Italy?

MR. PAUL: Yes.

H.M.JR: What was his position - what would it be?

MR. PAUL: Area Director - sort of an economic czar.

H.M.JR: Colonel?

MR. PAUL: No, he is civilian.

H.M.JR: Is he fitted for it?

MR. PAUL: I think he is ably fitted for that type of job. It is largely a diplomatic job.

H.M.JR: Is he going to take it?

MR. PAUL: I don't know.

H.M.JR: Does he speak Italian?

MR. PAUL: He reads Italian and speaks French. That is why they had him for French, first.

H.M.JR: The man they had in Italy fell down on them?

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MR. BERNSTEIN: They had two men in mind, I believe.

MR. PAUL: Welles was unable to get away because McNutt grabbed the other fellow in his university. They couldn't get McNutt to give him up.

MR. BERNSTEIN: I think Graham was the other man they had in mind. Graham didn't want to leave the Board.

H.M.JR: Graham would be wonderful.

MR. PAUL: McCollester would be wonderful.

H.M.JR: All I want to say is, "Here are ways of bringing pressure. We would like to do it, but only if the State Department would approve."

If they don't want to do it, to hell with them.

MR. BERNSTEIN: At a later stage we are going to have an opportunity to press down on Martinique because they are bound to come to us for general licenses for their banks to avoid this repetitious licensing. We can hold them off then.

H.M.JR: I think I would wait now to see the kind of cable Mr. Hull sent.

MR. PAUL: I have another thing in which you are interested, Bernie. That is this Dutch business. (Memorandum to the Secretary dated July 23 attached.)

The Dutch people want to borrow three hundred million from the Government and use as collateral the assets of private citizens of the Netherlands in this country.

We don't want to do it because it involves political implications, among which was practically the recognition of that Government.

H.M.JR: That has been brought up before.

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MR. PAUL: We started to talk about it.

H.M.JR: No, I mean it goes back months.

MR. PAUL: Yes. One of the things that Harry particularly wanted you to know, apart from the memorandum that goes in the file - he didn't want this to go in the file - the agreement to such a proposal would undermine the Treasury's position with respect to blocked assets of all occupied countries and would substantially weaken its influence and work of postwar reconstruction and financial settlements.

Adoption of the State Department's suggestion that the assets be vested in the APC would take those assets out of the Treasury's control and, for all practical purposes, would give the State Department complete and independent authority over the assets.

Such a step would also have the effect of transferring to Crowley the power and influence arising in the control of the assets.

They have plenty of funds through their central banks. We don't believe that that is their real purpose - sort of an oblique attack.

MR. BERNSTEIN: They have a billion dollars in gold and dollars.

H.M.JR: Well, I go along with you fellows.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 28, 1943

TO Secretary Morgenthau
FROM Randolph Paul

You have asked what measures Treasury can take for the purpose of inducing the Government of Martinique to cooperate in furnishing Treasury with information concerning gold held in Martinique and funds held in Martinique for the account of persons in France.

The action that would probably be most effective in producing immediate concern on the part of the Government of Martinique would be to stop payment for the expenses of a ship now in Puerto Rico and about to depart for Martinique with a cargo of Lend-Lease food supplies for the Island. While stopping payment would be effective in producing immediate concern on the part of the Martinique authorities, it would, of course, be fraught with major political considerations since obviously food is a very touchy item in our relations with Martinique. State would doubtless be very apprehensive of using this weapon and it is recommended that this possibility not be utilized except perhaps as an excuse for discussion with State.

Other specific measures which could be employed to bring pressure on the Martinique authorities would be the following:

- (1) Withholding licenses authorizing the operation of the accounts within the United States of the principal banks in Martinique; and
- (2) The refusal to permit the French to provide North African funds to Guiana for the purpose of procuring food and supplies in Brazil.

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Actually, in view of the fact that Martinique is under the control of the French Committee in North Africa and since probably the final decision will have to be made in Algeria, the pressures which we have the power to exert are not confined to transactions with Martinique. Rather they involve all the pressures we can bring against North Africa and these are very great.

On the other hand, such pressures may only be exerted with the consent of State Department and therefore the real issue is to what extent State is prepared to exert pressures to achieve cooperation in Martinique.

A handwritten signature in black ink, appearing to be 'RMA' or similar, located below the second paragraph.

July 23, 1943.

MEMORANDUM TO THE SECRETARY:

The Netherlands Government has submitted a proposal to the State Department and to the Treasury that the Netherlands Government be permitted to pledge privately owned Netherlands assets in this country for the purpose of securing a loan of \$300 million from this Government to be used to finance post-war rehabilitation and reconstruction in the Netherlands. Certain additional sums may also be requested to cover current budgetary expenses.

In order to permit the pledging by the Netherlands Government of privately owned Netherlands assets in this country as collateral, the adoption of one of the following measures would be necessary:

- (a) Recognition by this Government of the validity of the Netherlands vesting decree.
- (b) Issuing directive licenses compelling the transfer of the assets to the Netherlands Government.
- (c) Vesting the assets in the A.P.C., to be held by him as collateral.

The State Department does not want to recognize the validity of the Netherlands vesting decree but is considering proposing that the funds be vested and held in custody subject to agreements entered into between the State Department and the Netherlands Government.

It is our view that the proposals should be rejected by the Treasury for the following reasons:

1. The Netherlands Government (according to its own memorandum) already holds enormous resources in the form of gold, dollar balances, and foreign exchange amounting in all to more than \$1,050 million, of which more than \$900 million is in the form of gold and dollars. These funds are held in the name of

- 2 -

the Governments of the Netherlands, the Netherlands East Indies, the Netherlands West Indies and Surinam, and the central banks and other official agencies of these areas. This is in addition to the privately owned Netherlands assets held in this country.

In view of the fact that the total budgeted expenditures of the Netherlands Government for 1943 - including military and naval expenditures - total only \$65 million, it is obvious that these resources are, to say the least, more than adequate for all of the needs of the Netherlands Government without touching the privately held funds in this country of Netherlands nationals.

It has been said by the Netherlands Government that the gold and dollar assets of the Central Banks are not available for use by the Netherlands Government because they are held for reserve purposes. It should be noted that the British and other Governments have not hesitated to use the resources of their central banks for war purposes. Clearly the funds of official government institutions should be tapped by the Netherlands Government before calling on us to deliver to them the assets of private nationals of the Netherlands.

Moreover, the credit of the Netherlands Government is such that she would have no difficulty in placing orders for post-war delivery with only a small down payment, particularly if she is willing to subject such orders to post-war priority requirements.

2. For this Government to lend \$300 million to the Netherlands Government would require the borrowing by the Treasury of an approximately equal amount. It would be difficult from the popular point of view for the Treasury to justify to buyers of War Savings Bonds the use of their savings to provide a Government holding the enormous assets of the Netherlands with additional funds for expenditure in the post-war period.

3. The vesting of assets in this country of Netherlands nationals would generally be regarded as the beginning of a process of vesting all blocked balances and securities. Undoubtedly, some banks would feel that such prospective action impairs their reserve position and this in turn would affect their attitude toward bond subscriptions. Further, such action would involve the Treasury in much otherwise avoidable litigation with American creditors as well as Netherlands nationals. The

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Treasury ought not to exercise its extraordinary powers on such a matter unless the action contributes directly to the war effort, which clearly the Netherlands proposal does not do.

4. The vesting of these assets at this time would require a large and unjustified expenditure in time and manpower on the part of this Government. When a reconstituted Netherlands Government has been established in the Netherlands it will have full power to enforce its own decrees and will be able at that time to obtain effective control over the dollar and other foreign exchange assets of its nationals with comparative ease. The undesirability of using our limited manpower resources to vest these assets at this time is further increased by the fact that the Netherlands Government, according to its own statement, desires these funds for its postwar reconstruction program.

On the whole, it appears to us that the proposal made by the Netherlands Government is not for the purpose of obtaining funds, of which they have plenty, but rather of strengthening the position of the present government in exile by giving it control over the enormous assets held in this country by private Netherlands citizens.

(Initialed) E.E.F.

Init N.W.

Approved: _____, 1943.

EEM:WCS:GAS:AFL:meu 7/23/43

July 28, 1948
3:45 p.m.

PENSION TRUSTS; FORD MOTOR COMPANY

Present: Mr. Paul
Mr. Surrey
Mr. Smith

(Memorandum dated July 28, 1943, handed to the Secretary, copy attached. Copy of ticker release also attached.)

H.M.JR: Just tell me about this.

MR. PAUL: Last year, 1942, new provisions were put in the bill about pension trusts. During the course of the consideration of the bill by the Finance Committee, a subcommittee was appointed consisting of six people. Taft was on that committee.

At that time a problem which later arose was not anticipated or thought of by us or by the committee, or by anybody else. It involved higher mathematics in actuarial statistics.

When the law was passed and we started to write the regulations we called in experts and consulted with the people most interested. We had a lot of conferences. We also called in an expert on the actuarial end, because our Government actuary couldn't give us enough time.

We finally worked out the regulations, and there was one point involving how much benefits to give people over three thousand dollars a year if they excluded from the operation of the trust people under three thousand.

(Mr. Smith entered the conference.)

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MR. PAUL: We decided that the policy of the statute which said there should be no discrimination made it such that we could not allow people over three thousand, in the case of trusts, which didn't take in anybody under three thousand.

H.M.JR: What do you mean by a trust?

MR. PAUL: Pension trust. We couldn't allow them any greater benefits proportionately than people under three thousand got under social security.

Taft - when we were at the later stage in an advisory way we consulted with George, and he suggested, "Why not call together this little group of last year," which we did. Taft took a violent position in this group meeting. The group never took a position, so it isn't true to say that we issued anything in defiance of anybody.

H.M.JR: Wouldn't it be the simplest way if you came to the press conference tomorrow and tried to explain it to them?

MR. PAUL: I think it would be either good to do it that way, or I think a better way, since the subject is rather highly technical, would be for Surrey and me to have a separate press conference with them.

H.M.JR: What do you think?

MR. SMITH: I don't think - I think it ought to be all in one press conference, because it is highly technical; and if they are in this kind of press conference I think they are more likely to ask questions that will clarify it in their own minds. We don't want to try to clear this up with a technical discussion. Taft isn't very technical; he just says that we are nuts.

MR. PAUL: Then I think in such a conference you either should have Surrey and me or just Surrey, because Surrey has been studying this problem for months.

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H.M.JR: Let's have Surrey.

MR. PAUL: I haven't the slightest doubt of the validity of our interpretation, and I know where all the pressure comes from. There is an organized racket in the United States, and they are high-pressuring Taft.

H.M.JR: What is the organized racket?

MR. PAUL: It is to sell pension trusts to large corporations so that they get a deduction and the Government pays the expense.

H.M.JR: Why not say so? Why not call a spade a spade?

MR. PAUL: That is what it is. In fact, I have been - recently I have had Sam Klaus make an investigation in preparation for the fall when I anticipated there would be trouble about this, burrow around and get at some of the dirty work being done.

MR. SURREY: You couldn't go too far in that, though, because part of it is a racket and part of it isn't a racket. In other words, you will have to be careful. A lot of these pension trusts - the great bulk of them - were in existence for some time. These particular ones that Senator Taft is concerned about came into existence in the last few years.

MR. PAUL: Particularly in '40 and '41.

MR. SURREY: And partly as a result of the Social Security Act stopping at three thousand dollars and partly as a result of the very high rates of corporate taxes.

H.M.JR: Surrey, you came to one of my press conferences and you did a very good job. You have from now until tomorrow morning. Let him do it. Don't call any names until you can back it up twice.

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MR. SURREY: I don't suppose we are free, are we, to give out what went on at the Senate Committee meeting?

MR. PAUL: We can deny Taft's--

H.M.JR: Sure.

MR. SURREY: Vandenberg directly disagreed with Taft on the law.

H.M.JR: He started this thing.

MR. PAUL: Vandenberg came in on account of the Hudson Store in Detroit.

H.M.JR: What was this meeting - was it an executive?

MR. SURREY: An informal meeting of only the Treasury staff, the Senators, and the Joint Committee staff.

H.M.JR: Sure, they all fight dirty. If Vandenberg was in there and disagreed, I would say so.

MR. PAUL: Taft got so mad he started to leave the room, and Vandenberg made him come back.

George never expressed a view.

H.M.JR: This is something that Taft personally is interested in.

On the other hand, Taft - it keeps the Republican National Committee from doing a job on us. Sure, bring in Vandenberg.

MR. SMITH: If you don't think Vandenberg will back up on you.

MR. PAUL: He won't on the correctness of the interpretation. He may disagree with you on the policy.

MR. SURREY: The peculiar thing was Senator Taft said that we were dead wrong on the law, but we might be right on the policy. If the law just weren't written so

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explicitly we could not put that policy into effect. Vandenberg said, "You are right on the law."

H.M.JR: I would tell them the story. It makes a nice gossip, newsy story.

Fred, do you agree with me?

MR. SMITH: I think so; I think it makes something nice for the boys to have. It will make it worth coming for once. (Laughter)

MR. PAUL: You know we don't control the Kiplinger press, don't you? The last Kiplinger Letter said that these regulations were eminently fair and reasonable.

H.M.JR: All right. You (Surrey) be here.

MR. SMITH: You don't think there would be any - I don't know whether this is wise or not - business of calling Vandenberg beforehand and asking him to double check it.

MR. PAUL: No. Then you will get into all sorts of qualifications. He expressed himself; let's stand on what he said.

MR. SURREY: George is not in town, is he?

MR. PAUL: He wasn't the last I heard.

H.M.JR: I would say that as long as this was kind of an informal meeting I will introduce - as long as Senator Taft feels that it is beholden upon him to explain what is in this, why not have both sides of the story. "And this is what took place, and Mr. Taft was very much in the minority, from what I gather."

MR. SURREY: I think he was on the legal point, which was the only one on which he forcibly expressed himself.

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H.M.JR: He said we are doing something illegal; he is being very dirty. What can he come back and say in rebuttal?

MR. SURREY: I don't know what he really can say. The problem never came up. If it had come up, it is hard to say what they would have done. The Senator is conservative and they might have ruled against us. On an open debate - full debate - I think our position is a fair position. Everybody should be treated fairly and equally in these plans.

Senator Taft's position gives a minority in the plan much greater benefits than the great majority. These payroll plans he is concerned about cover on the average about four percent of the employees, those earning over three thousand dollars.

H.M.JR: I don't pretend to understand it, but if you and Paul - don't try - I will get it tomorrow at the press conference. Paul says he wants you to do it, so that is all right with me.

MR. SURREY: I explained it once before to AP and others; they weren't interested at that time.

H.M.JR: Do you read Kiplinger?

MR. PAUL: When it is in my favor. (Laughter) They say, "Reasonably and well-drawn, generally fair."

H.M.JR: I told you all the story about Cabinet - Biddle was going to unmercifully for McNutt on this question of the draft. Then I said - he said he was unfair, he was dishonest, he cheated - I mean, practically everything - and McNutt was taking it. I don't know why. Finally I said - it was the question of classification of an important job - what do they call that?

MR. SURREY: Key.

H.M.JR: "On the key jobs," I said, "as far as Treasury was concerned we had complete satisfaction. I thought it was only fair to Mr. McNutt to say so, whereupon Ickes said, "We don't want to hear from anybody who is satisfied with McNutt." (Laughter)

MR. SMITH: What does he mean there about the Internal Revenue Commissioner considering whether private pension funds provide better benefits to some employees than the Social Security Act?

MR. SURREY: The statute gives to the Commissioner the authority to ascertain which trusts are discriminatory and which trusts are not discriminatory; you have to satisfy the Commissioner of Internal Revenue on that point. It is a clear delegation in the statute.

MR. SMITH: Then what you will do tomorrow is just keep this discussion on the basis that you have interpreted the law right. If Taft doesn't like it and wants to do something about it in Congress, that is something else again.

MR. PAUL: They can always change the law.

MR. SURREY: I think most of the people on the outside who were concerned with the answer we gave think we can give the answer under the law. We can also give some other kind of answer. Our hands are free to go either way. The question is a matter of policy which way we go.

H.M.JR: What is the next thing?

MR. PAUL: You wrote me a letter about--

H.M.JR: Does it concern either of these gentlemen?

MR. PAUL: No.

(Mr. Smith and Mr. Surrey left the conference.)

MR. PAUL: You asked me if we could - how about turning over the information on the Ford Motor?

H.M.JR: Yes.

MR. PAUL: I would think that was a very inadvisable thing to do at this time, particularly for this reason:

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There are two reasons. We have just gotten out the TFR-500 questionnaire on foreign-owned property of American-owned corporations, and everybody in the country is looking under the bed. They will say, "Now you are getting that really for this purpose of turning it over to some Congressional committee." If it served any great purpose - but balancing one thing against another, I think we ought to stall on it until we get some of these other things done.

H.M.JR: Don't forget about it.

MR. PAUL: Yes, if you decide on that ground I don't need to give you the other.

H.M.JR: O.K.

SENATOR TAFT ANNOUNCED THAT WHEN CONGRESS RECONVENES HE WILL INTRODUCE A JOINT RESOLUTION TO DECLARE INVALID RECENT TREASURY REGULATIONS WHICH HE SAID "NULLIFY" TAX EXEMPTION FOR EMPLOYEES' PENSION TRUSTS OF MANY LARGE COMPANIES.

TAFT ALSO PROPOSED TO PREVENT THE INTERNAL REVENUE COMMISSIONER FROM CONSIDERING WHETHER PRIVATE PENSION FUNDS PROVIDE BETTER BENEFITS TO SOME EMPLOYEES THAN THE SOCIAL SECURITY ACT.

TAFT SAID THE TREASURY REGULATIONS WERE ISSUED "IN DIRECT DEFIANCE" OF AN OPINION GIVEN TO TREASURY EXPERTS BY THE SENATE FINANCE COMMITTEE THAT CORPORATIONS COULD DEDUCT, FOR INCOME TAX PURPOSES, THEIR CONTRIBUTION TO PRIVATE PENSION FUNDS. THE COMMITTEE FELT, TAFT SAID, THAT THE DEDUCTION SHOULD BE ALLOWED EVEN WHERE EMPLOYEES EARNING LESS THAN \$3,000 A YEAR DO NOT BENEFIT BY PRIVATE PENSION FUNDS.

7/28--GE1214P 10-0

ADD TAFT

TAFT SAID THE 1942 REVENUE ACT "MADE EXTENSIVE AND DETAILED PROVISIONS REGARDING PENSION TRUSTS TO REMOVE ABUSES WHICH EXISTED." BUT, HE SAID, THE ACT PROVIDED "EXPRESSLY THAT A TRUST SHOULD NOT BE INVALID MERELY BECAUSE IT EXCLUDED EMPLOYEES RECEIVING \$3,000 AND LESS, IF IT INCLUDED SUBSTANTIALLY ALL

- 2 -

EMPLOYES RECEIVING MORE THAN THAT AMOUNT."

"SOME TREASURY OFFICIALS DECIDED, HOWEVER, THAT THEY WOULD HOLD SUCH A TRUST TO BE INVALID IF IT TREATED THE EMPLOYES IN THE TRUST BETTER THAN THE SOCIAL SECURITY ACT TREATS THE EMPLOYES RECEIVING LESS THAN \$3,000 A YEAR," HE SAID.

7/28--GE1217P CT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

July 28, 1943

The particular aspect of the regulations with which Senator Taft is concerned relates to private pension plans which exclude employees not earning more than \$3,000 a year. In conformity with the statutory requirement and policy that pension plans can not discriminate in favor of officers, stockholders, supervisory or highly compensated employees, the Treasury regulations require that the benefits accorded by the private pension plans for those earning over \$3,000 should not be proportionately greater than the benefits received under the Social Security Act by the employees under \$3,000 excluded from the plan. The policy adopted in the regulations is merely in keeping with the \$3,000 dividing line adopted by employers in creating such private plans, since the employees under \$3,000 are excluded on the ground that they receive benefits from the Social Security Act.

The Treasury Department believes that the regulations promulgated by it are entirely in accord with both the spirit and the letter of the pension trust provisions adopted in the 1942 Act. As a matter of statutory interpretation the question is hardly open to debate. As a matter of policy every effort was made to deal with a difficult problem in accordance with the policy of Congress as it was expressed in the Act.

Officials of the Treasury Department informally discussed these regulations before their promulgation with some members of the Finance Committee who composed the subcommittee designated last year to study the pension trust problem. This was an advisory conference. While Senator Taft did express views in the course of this discussion contrary to the views held by officials of the Treasury as respects legal interpretation of the statute and not the merits of the proposed policy, the members of the subcommittee as a group did not indicate

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that the regulations were contrary to the statute. There is no direct or indirect defiance of any opinion given to Treasury experts by the Senate Finance Committee.

It is unfortunate that Senator Taft has raised the question of legislation before any opportunity was granted to ascertain the effect of the regulations in practice. The Treasury Department announced at the time that the regulations were issued that compliance with the regulations did not require any particular formula and that each pension trust would have to be considered on its merits without reference to any preconceived formula. Until those employers interested in the question of pension trusts have had an opportunity to consider their trusts with representatives of the Treasury Department, it is difficult to see how any judgment can be formed as to the effect of the regulations upon existing plans.

You may be interested in the comment on these regulations in the recent Kiplinger tax letter.



Excerpts from Kiplinger Tax Letter
of July 24, 1943

Regulations covering pension provisions have now been issued. This is main reason for making fresh check.

Plans which have been pending before Internal Revenue Bureau should be re-examined by the employers in light of these regulations. Make whatever changes may be necessary. Don't wait for the Bureau to challenge any questionable features or provisions.

Reasonable, well-drawn, generally fair...these are the terms many tax specialists use in discussing the new pension regulations. This doesn't mean that everyone is fully satisfied with every detail.

Treasury wanted a much tighter law, to try to make more certain that only honest-to-goodness bona fide pension plans were benefited, but Congress enacted less rigid law, relying on administrative officials to do the main job of policing pension plans.

Fear that Treasury would try to "legislate" in the regulations has turned out, say many experts, to be unwarranted. On most points, the regulations seem to follow the intent of Congress, despite the fact that the statute itself was loosely drafted...permitted finagling.

NO DISCRIMINATION in the operation of the pension system...this is just about the cardinal principle.

There must be no discrimination in favor of the shareholders, officers, or higher-paid employees. It must be a bona fide pension plan created by an employer "for the exclusive benefit of his employes or their beneficiaries."

Plans which in effect are "deferred salary plans" for key men: Gov't is "after" these systems, wants to see that they don't benefit from the preferential tax treatment provided under the law.

"Plan" implies a permanent setup, not a temporary arrangement. This point is specifically made in the regulations.

Abandonment of plan "in a few years": Regulations make point that such abandonment will be carefully checked...to

be certain the plan was dropped ONLY by business necessity. If it was dropped by employer for any other reason, gov't will contend this is evidence that the plan was not bona fide from the time of its creation. Such a contention by the gov't would, of course, involve charges of "fraud."

Here are some further points on employe-pension regulations, some additional interpretations:

FORM of plan is less important than its EFFECT in operation. For example, a plan might meet certain provisions set out under the law, and on its face NOT be discriminatory. But if plan in actual operation turns out to be discriminatory, it will not be tax-exempt.

A plan which turns out to be a subterfuge for the distribution of profits to shareholders will not be approved, even if other employes who are not shareholders are covered by the plan. It will not qualify as a plan for the EXCLUSIVE benefit of the employes.

Contributory plan which is too burdensome on low-paid workers will be considered as discriminatory in favor of the high-paid workers. This will be true even if the plan is offered to ALL the employes.

Plan must provide "definite actuarially determinable benefits." This is the key...to make sure that deferred-salary-payment proposals don't slip by as employe-pension systems.

Former employes may be covered by a plan and still be OK...the plan still accepted as one for exclusive benefit of employes.

Also workers temporarily on leave...in armed forces, for example.

Plans which supplement the regular social security program may qualify as "acceptable plans"...but there are some strings attached.

Benefits must be based on "total-benefit basis"... which includes amount received under social security. This means that TOTAL benefits must be proportionate... percentage-wise. This means a private system which supplements the social security program must be correlated and

integrated with the social security pension benefits.

This is the provision about which there is the most objection. It is contended that Treasury "departed" from the intent of Congress.

A pension fund must be for the exclusive use of the employes or their beneficiaries in order to qualify under the tax law provisions. It must be "impossible" for the fund to be used for any other purpose.

Advance gov't approval of your pension plan is not a must. If you feel certain that your plan qualifies under the existing law and the regulations thereon, you may wait for gov't OK in due course.

But it's probably safer to get the Bureau of Internal Revenue to give you a ruling on your pension plan now.

Copy of pension regulations may be obtained by getting in touch with your internal revenue collector. Ask for T.D. 5278.

TREASURY DEPARTMENT

48

INTER OFFICE COMMUNICATION

DATE

July 28, 1943

Secretary Morgenthau

Randolph Paul

Attached hereto is a preliminary statement on special postwar reserves. I call your particular attention to page 14 which discusses allowances which may be paid to employees who are discharged at the termination of the war.

RMP

If you wish me
to read this and similar
memos please walk
them in in person
RMP

File 2/10

50

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1943 JUL 28 PM 3 55

BINGHAMTON NY JUL 28 1943 259P

HENRY MORGENTHAU JR

CONFIRMING YESTERDAYS CONVERSATION GANNETT NEWSPAPERS SHOW PRACTICALLY
NO DECREASE IN EMPLOYEE WAR BOND COMMITMENTS SINCE JULY 1ST FOR
INSTANCE BINGHAMTON NO DECREASE ELMIRA AN INCREASE HARTFORD TWO
CANCELLATIONS TOTALLING ONLY FIVE DOLLARS WEEKLY OUT OF THREE
HUNDRED BOND BUYING EMPLOYEES AND SO ON AM MAILING SOME INTERESTING
OBSERVATIONS ON TOPIC REGARDS.

FRANK TRIPP.

Pay-Go Tax Brought Loud Groans At First but 'Pain' Is Forgotten Now

Industrial Executives Say Most Everybody Is Happy

By GEORGE W. TETHERLY
Binghamton Press Staff Writer

Low whistles and loud groans evoked by the new withholding tax were the order of the day not so long ago when Uncle Sam's tax-digging steamshovel started working on John Q. Public's wage check on a weekly 20 per cent basis.

Fervent resolutions were heard the length and breadth of the Valley of Opportunity that promised curtailment of the purchase of everything from chewing gum to War Savings Bonds.

Like having a row of teeth pulled, however, the public "got used to it" after Uncle Sam as dentist pulled dollars from subsequent pays.

Grumbling Dies

It appears that the grumbling has died down; that most weekly wage-earners, after noting the deductions on their wage checks, three pay days in a row, have become used to the idea.

Maybe pay-as-you-go isn't very different from paying in four installments after all. They feel, after they've stopped to think, it's the same old tax they used to pay in from one to four installments.

And they don't appear to be thinking about cutting down on the purchase of War Bonds.

Complaints apparently came chiefly from those employees who were overpaying their taxes slightly because their wages fell in the lower portion of a withholding bracket. An extreme example was this, attributed to a weekly wage-earner:

"My salary gets into a higher bracket by just a few cents. As a result, I'm paying the Government \$20 a year too much. Of course, I get credit on my taxes at the end of the year; but I can't eat credit. I want my money."

Credits Next March

Nevertheless, the tax collector has observed, the wage earner will be glad to have those credits next March, particularly if his income is to be higher this year than it was in 1942.

Aside from this point, however, not seem to be satisfied.

Take it from officials of Triple Cities industries and the general public.

Officials:

JOHN L. BARTON, IBM Chairman of the War Production Advisory Committee (which has under its supervision a subcommittee on bond purchases)—Generally, the 20 per cent withholding tax has no effect on bond purchases. We feel that our employees are aware of the withholding tax in budgeting their expense and that it is a much improved method in comparison with the annual or quarterly payments. As definite proof of this, IBM employees are investing more than 10 per cent of their gross pay each week and 95.5 per cent of the people here are in the payroll allotment plan.

GEORGE W. JOHNSON, president, Edcott Johnson Corp.—I think the plan is O. K. with our people. There might have been some grumbling at first but I believe now the taxes are accepted as a "must." Our people here have accepted it in the same good grace as everything else. They realize taxes must be heavy and are acting accordingly. As far as I know, bond sales have not been affected and I believe they're going to continue to go over with a bang.

CLARENCE HOTCHKISS, president, Slow Manufacturing Co.—There were a few who at first didn't understand the plan but now that it's in operation, I think they like the new method of tax collecting. I haven't heard any complaints.

PAUL TITCHENER, president, E. H. Titchener Co.—The reaction to the plan has been favorable here. There were some questions because of some of the confusing provisions of the tax law, and because it's an entirely different. There has been no effect on bond sales as yet.

JAMES MCGARRITY, treasurer, Vail-Ballou Press—Workers here have accepted the new tax as a matter of course. Our bond sales here haven't fallen off—in fact they increased the week before the tax went into effect.

Spokesmen for two plants said:

AGFA-ANSCO DIVISION—There has been no complaint about the new tax here. Very few cancellations of bonds purchased under the payroll deduction plan have been reported.

LINK AVIATION DEVICES, INC.—We have heard no complaint concerning the pay-as-you-go tax plan. Bond sales are holding up well despite the deductions.

Here are some typical comments from the men and women who are hit by the tax ax. They were selected at random by the interviewer:

JOHN H. WILKINS, mechanic, 31 St. John Avenue—I feel I can stand it if it helps the war effort. It doesn't make much difference although I think the new way makes it easier to pay. I think it will be felt most by those people whose wages are very low.

MRS. F. D. SILVERNAIL, clerk, 51 Mitchell Avenue—I feel we have

to take what we get... but I wish we didn't have to have it all over again next March—it's too complicated. Why don't they collect the tax and we done with it. Yes, I'll continue to purchase the same amount in bonds as before.

GARFIELD M. MCKENZIE, war worker, 23 Rotary Avenue—... Makes it easier for a lot of people; don't have to plan ahead so far. I've heard no complaints. It cuts down on my pay but I won't affect my purchase of bonds. I think people understand but hope that the cost of living doesn't rise higher.

EDWARD L. PERRY, motion picture operator, 100 South Washington Street—I think it's a good plan if it helps win the war. I've heard no complaints and I don't believe the sale of bonds will be affected; I know it won't cut down on my purchase of them.

GLEN L. HOOVER, City of Binghamton Fire Marshal, 10 Stone Street—It doesn't make much difference how the tax will be collected. I think, however, that the sale of bonds will be affected but on the other hand I believe they won't be cashed in to pay quarterly income taxes and for that reason those who buy them from now on will hang on to them.

MRS. ROBERT CLEARWATER, 144 Clinton Street, war worker—I guess it's all the same when you get it all figured out but still in all I'm in favor of the old way of collecting. I've always regarded income tax as a bill and planned accordingly. Now when the pay check comes in it looks awfully small. It seems to have a psychological reaction. I don't believe the tax will affect bond sales except those whose incomes are small. I've heard of some who plan to cut down on their insurance because of the new tax.

E. F. CARNS, policeman, 10 Payne Street—It's O. K. with me. After a couple of weeks' time I don't know it's gone. I've heard no serious complaints and I don't believe it'll cut down on the sale of bonds. I know it won't with me.

FRED O. BLAKE, shop foreman, 4 Ambery Street—The new tax plan has its good and bad points. But under the new plan by the time the end of the year comes, you really know what you have. If we aren't taxed more as time goes on, I guess everyone will get accustomed to it. As far as bonds are concerned, those who are smart will keep on buying them. After all they're doing themselves a favor more than they are the government.

FRANK M. DEWEY, Binghamton Savings Bank secretary, 40 Davis Street—I think most people agree the new plan is a good idea. It'll be hard on some people to get along on less, but it seems to me most everyone will get used to the idea and approve and it's better than having to pay out on a heavy annual tax. As far as bonds are concerned, I believe the country is sold on getting behind the war effort and believe that bonds are the best investment of them all because there's nothing to worry about in them.

July 28, 1943

Dear Mr. Schenck:

I want you to know that I appreciate the loan of Mr. Oscar Doob to the Treasury Department. I am sure that he will be a valuable addition to our War Bond group.

It was very generous of you to lend him to us, and you can count it a real service to the war effort.

Sincerely,

(signed) H. Morgenthau, Jr.

Mr. Nicholas Schenck
President
Loew's, Incorporated
New York, New York

FB:gr
7-28-43

TO:

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Secretary Morgenthau

Dear Mr. Boss:

I did not write the attached. I also have a weak stomach.

I shall, however, rewrite it and return to you with a box of Bicarbonate of Soda attached.



Fred Smith
Room 290 $\frac{1}{2}$

THE SECRETARY OF THE TREASURY
WASHINGTON

July 27, 1943

Dear Mr. Schenck:

This note is just to let you know how appreciative I am of your courtesy in releasing Mr. Oscar Doob so that the Treasury Department may have the benefit of his valuable services during the momentous days that lie ahead.

I am not unmindful of the sacrifice you are making in depriving yourself of Mr. Doob's able assistance, but I am sure that you can add this splendid gesture to the list of your other outstanding endeavors to help in the war effort.

Sincerely yours,

Mr. Nicholas Schenck
President
Loew's, Incorporated
New York City

Fred Smith

*Got much
time down.
Please have a weak
stomach*

Mr. Doob

WAR FOOD ADMINISTRATION
WASHINGTON

OFFICE OF THE ADMINISTRATOR

July 28, 1943

Dear Henry:

I want to thank you for your letter of recent date with enclosure, which I have read with much interest. I found that part of the cable to which you made particular reference especially interesting.

Cordially yours,

W. H. Harrison
Administrator

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

Treasury Department
Division of Monetary Research

56

Date.....19

To: Honorable Tom Connally, Chairman,
Committee on Foreign Relations,
~~From:~~ United States Senate.

This letter was also sent to the following
Senators on the Committee on Foreign Relations:

*Walter F. George
*Robert F. Wagner
Elbert D. Thomas
Frederick Van Nuys
James E. Murray
Claude Pepper
Theodore Francis Green
Alben W. Barkley
Robert R. Reynolds
Joseph F. Guffey
Guy M. Gillette
Bennett Champ Clark
Carter Glass
James M. Tunnell
Hiram W. Johnson
Arthur Capper
Robert M. La Follette, Jr.
Arthur H. Vandenberg
Wallace H. White, Jr.
Henrik Shipstead
Gerald P. Nye
James J. Davis

* Included with another Committee

Treasury Department
Division of Monetary Research

57

Date.....19

To: **Honorable Sol Bloom,
Chairman, Committee on Foreign Affairs,
~~xxxx~~ House of Representatives.**

**This letter was also sent to the following
Representatives on the Committee on
Foreign Affairs:**

**Luther A. Johnson
John Kee
James P. Richards
Joseph L. Pfeifer
Pete Jarman
W. O. Burgin
Wirt Courtney
Herman P. Eberharter
Thomas S. Gordon
Howard J. McMurray
Will Rogers, Jr.
J. William Fulbright
Mike Mansfield
Charles A. Eaton
Edith Nourse Rogers
Robert B. Chipfield
John M. Vorys
Foster Stearns
Karl E. Mundt
Bartel J. Jonkman
Frances P. Bolton
James W. Wadsworth
Charles L. Gerlack
Andrew C. Schiffler**

Treasury Department
Division of Monetary Research

58

Date.....19

To: Honorable Andrew L. Somers,
Chairman, Committee on Coinage,
~~From:~~ Weights and Measures,
House of Representatives.

This letter was also sent to the following
Representatives on the Committee on Coinage,
Weights, and Measures:

John J. Cochran
Compton I. White
Dan R. McGehee
Eugene Worley
John Lesinski
Louis J. Capozzoli
Augustine B. Kelley
William L. Dawson
Chauncey W. Reed
August H. Andresen
Hugh D. Scott, Jr.
Richard P. Gale
William H. Stevenson
Joseph Clark Baldwin
Ranulf Compton
Frank L. Sundstrom
Homer A. Ramey

Treasury Department
Division of Monetary Research

59

Date.....19

To: Honorable Henry B. Steagall,
Chairman, Committee on Banking and Currency,
~~Room~~ House of Representatives.

This letter was also sent to the following
Representatives on the Committee on Banking
and Currency:

Brent Spence
Thomas F. Ford
Paul Brown
Wright Patman
William B. Barry
A. S. Mike Monroney
James A. Wright
John H. Folger
H. Streett Baldwin
Brooks Hays
LaVern R. Dilweg
Roger C. Slaughter
Maurice J. Sullivan
Merlin Hull
Jesse P. Wolcott
Charles L. Gifford
Fred L. Crawford
Ralph A. Gamble
Robert W. Kean
Jessie Sumner
Frederick C. Smith
John C. Kunkel
Thomas Rolph
Henry O. Talle
B. J. Monkiewicz

Treasury Department
Division of Monetary Research

60

Date.....19

To: Honorable Walter F. George,
Chairman, Special Committee on Post-War
From: Economic Policy and Planning,
United States Senate.

This letter was also sent to the following
Senators on the Special Committee on Post-
War Economic Policy and Planning:

*Alben W. Barkley
Carl Hayden
Joseph C. O'Mahoney
*Claude Pepper
Scott W. Lucas
Charles L. McNary
*Arthur H. Vandenberg
Warren R. Austin
Robert A. Taft 1/

* Included in Senate Com. on Foreign Relations

1/ Included in Sen. Com. on Banking and Currency

Treasury Department
Division of Monetary Research

61

Date.....19

To: Honorable Robert F. Wagner,
Chairman, Committee on Banking and Currency,
Exem: United States Senate.

This letter was also sent to the following
Senators on the Committee on Banking and
Currency:

*Carter Glass
*Alben W. Barkley
John H. Bankhead, 2d.
Francis Maloney
George L. Radcliffe
D. Worth Clark
Sheridan Downey
Abe Murdock
Burnet R. Maybank
James G. Scrugham
John L. McClellan
Charles W. Tobey
John A. Danaher
Robert A. Taft
John Thomas
Hugh A. Butler
*Arthur Capper
Joseph H. Ball
C. Douglass Buck

* Included in Senate Com. on Foreign Relations

JUL 28 1943

My dear Mr. Chairman:

When I appeared before the Committees of the Senate and the House of Representatives last April, I informed you that the technical experts of the Treasury, in consultation with the technical experts of other departments, were studying the problem of how to avoid competitive currency depreciation and how to facilitate the stabilization of currencies after the war.

As you know, I wrote to the Finance Ministers of all the United and Associated Nations directing their attention to this problem. I enclosed a preliminary draft of a proposal for an International Stabilization Fund and requested the Finance Ministers to submit this draft to their technical experts for study. I also invited them to send their experts to Washington to discuss with us the feasibility of international monetary cooperation along the suggested lines.

During the past two months we have held informal discussions with the technical experts of nearly thirty countries. On the basis of these informal and preliminary discussions, a newly revised tentative draft proposal has been prepared, a copy of which I am sending to the members of the Senate and House Committees before whom I appeared in April to explain our tentative proposal.

I should like to emphasize that the proposal for an International Stabilization Fund is still in the preliminary and informal stage. We expect soon to discuss with representatives of banking, business and other groups the various proposals that have been put forward for preliminary consideration.

I shall keep the Congress fully informed of the progress we are making in our discussions on international monetary cooperation. When preliminary discussions have been completed and before an official conference is held, I intend to appear before the appropriate Committees of the Congress to advise with them on what is being done and what is proposed to be done to secure the cooperation of the United and Associated Nations in facilitating the stabilization of currencies and the restoration and balanced growth of international trade.

- 2 -

In the meantime, I shall be available to any Congressman or Senator who wishes further information on the proposal for an International Stabilisation Fund.

Sincerely yours,

101 H. M. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Andrew L. Somers,
Chairman, Committee on Coinage,
Weights and Measures,
House of Representatives.

Enclosure.

HDW/EMH/mb
7/21/43

OFFICE
BOARD OF ECONOMIC WARFARE
WASHINGTON, D. C.

July 28, 1943

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

In order to complete the Board records, there are enclosed a revised copy of the report, "Japan's War Economy - 1943" which was sent to you prior to the Board meeting of June 3, 1943, copies of the minutes of the Board of Economic Warfare of July 1 and July 15, 1943, and some suggested modifications to the minutes of several of the Board meetings.

Sincerely yours,



E. W. Gaumnitz

Enclosures

Mr. Dean Acheson suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on August 18, 1942. The paragraph to which reference is made is the third paragraph on page 2. ("Mr. Acheson stated would be called.")

Mr. Acheson stated that the action now proposed was the submission of the draft plan to the President for his instruction as to whether the plan was along lines which met with the President's approval, also as to whether and when any further action should be taken to develop it. He pointed out that both the Vice-President and the Secretary of State wished to discuss this matter with the President, and that the present question did not relate to action but to whether any members of the Board objected to the plan as drafted. He pointed out that, if and when the President wished to go forward with such a proposal, it would be necessary to discuss the matter with the Russian, Chinese and British Governments and, if they were in accord with the general idea, to discuss it then with certain other of the United Nations and finally with all of them.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on November 27, 1942. The paragraph to which reference is made is the second full paragraph on page 2 following Food, ("Mr. Rockefeller opened coal and oil.")

Mr. Rockefeller opened the discussion by saying that in general the food problem in the other American Republics was a matter of transportation, both ocean-going and internal, involving such questions as trucks, tires, railroads, coal and oil.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on November 27, 1942. The paragraph to which reference is made is the fifth paragraph on page 2 following Food, ("Mr. Rockefeller stated development programs.")

Mr. Rockefeller stated that his office was attempting to develop added local food supplies in the Central American area, not only for consumption by the local people, but for sale to the armed forces. The Coordinator's Office is guaranteeing a fixed price for certain foodstuffs being grown in Costa Rica which is considered an exportable surplus.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on November 27, 1942. The paragraph to which reference is made is the first part of paragraph on page 3, last sentence, ("Approximately 4,000 Amazon area.")

Approximately 5,000 people are now employed, the majority being laborers engaged in a variety of activities ranging from drainage to the construction of water supply and sewage systems, hospitals and public health centers. The ratio of American technicians to national technicians is in excess of one to twenty-five; all laborers are nationals.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 17, 1942. The paragraph to which reference is made is the seventh full paragraph on page 3, ("Mr. Rockefeller stated opened to criticism.")

Mr. Rockefeller inquired as to the use of Lend Lease funds in connection with the construction of the highway across Hispaniola and in connection with other supplies to Puerto Rico. He said that recent statements in the press had indicated that in Puerto Rico there had been some criticism of the methods of supplying that Island.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 31, 1942. The paragraph to which reference is made is the fourth full paragraph on page 3, ("Mr. Rockefeller stated significant by itself.")

Mr. Rockefeller stated that it was very difficult to obtain reliable statistics from Bolivia.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 31, 1942. The paragraph to which reference is made is the third full paragraph on page 4, ("Mr. Rockefeller stated was satisfactory.")

Mr. Rockefeller stated that in October of 1941 a nine man mission had been sent to Bolivia. That Mission's report indicated that food valued at around \$6,000,000 was imported into Bolivia and recommended an increase in domestic food production. During the spring and early summer of 1942, the Coordinator twice inquired of the Embassy at La Paz whether there was any shortage in food production and in each case received replies indicating that there was no important shortage.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 31, 1942. The paragraph to which reference is made is the last part paragraph on page 4, and the first part paragraph on page 3, ("Mr. Rockefeller said extended to Bolivia.")

Mr. Rockefeller said that his office was prepared with its health, sanitation, nutrition, and disease control program, which has already been inaugurated in Bolivia, to carry on such constructive work as is deemed appropriate by the Bolivian and U. S. Governments. The agreement covering such fields of activity was signed on July 16, 1942 between the Institute of Inter-American Affairs and the Ministry of Labor, Health and Social Welfare.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 31, 1942. The paragraph to which reference is made is the second full paragraph on page 5, ("Mr. Rockefeller stated might be considered.")

Mr. Rockefeller stated that if the problem was one of better distribution of food so as to get increased production, possibly the serving of well-balanced meals, as was done at Cerro de Pasco, might be considered.

Mr. Bernhard Knollenberg suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on December 31, 1942. The paragraph to which reference is made is the sixth full paragraph on page 7, ("In this connection would be difficult.")

In this connection, Mr. Knollenberg stated that bauxite and mahogany were two items the purchase of which on a cash basis would be difficult to explain publicly.

Mr. John Lockwood suggested the following additional paragraph to the minutes of the meeting of the Board of Economic Warfare held on January 14, 1943, to be inserted after the second full paragraph on page 3.

Mr. Rockefeller pointed out that upon appropriate documentation that both materials and shipping space would not be available for the export of gold mining machinery to Colombia and Nicaragua and upon further documentation that resultant cessation of gold mining operations would create unemployment which would have an adverse effect upon the stability of the countries in question, his Office would work out, with the Department of State, such cooperative programs as might alleviate serious unemployment.

The following modification of the minutes of the Board of Economic Warfare held on May 6, 1943 is based on a letter from Mr. R. P. Patterson and a suggestion from Mr. Adlai Stevenson. The paragraph referred to is the last paragraph on page 3, ("There was general any support to Germany.")

There was general feeling there should be a continuation of negotiations along the lines previously outlined, this opinion not being unanimous however, Mr. Patterson particularly noting that the Army was opposed to any traffic with Sweden as long as it was giving any support to Germany, Mr. Knox stating that he was opposed to further shipments to Sweden until concessions actually had been received, and Mr. White stating that he favored increased Swedish concessions.

Mr. John Lockwood suggested the following restatement of the minutes of the meeting of the Board of Economic Warfare held on June 3, 1943. The paragraph to which reference is made is the last part paragraph on page 4 and the first part paragraph on page 5, ("Mr. Rockefeller pointed out with U. S. paternalism.")

Mr. Rockefeller pointed out that the monopoly in Mexico was created by the Mexicans as a matter of their policy. This would not be changed by either the acceptance of the Cyanamid proposal or that suggested by the Alien Property Custodian. He had recently returned from Mexico and indicated that, as a result of his conversations there, he believed that the Mexicans were very sensitive to action by the United States Government which would seem to tell them how they should run their own affairs. He pointed out that the Mexicans, having determined that they wanted a monopoly, had freely entered into negotiations resulting in the Cyanamid proposal which appeared to be satisfactory to the Mexicans. He feared that for the United States Government now at this stage to offer a new proposal might be resented by the Mexicans as American interference.

Mr. Rockefeller also stated that he was somewhat puzzled on one point. As he understood it, the essence of the situation was that the United States Government, through the Alien Property Custodian, was prepared to underbid Cyanamid. He presumed that the United States Government must be taking this position because the Cyanamid proposal violated some foreign economic policy of the United States and the Alien Property Custodian proposal would aid that policy. But he was not clear as to what that foreign economic policy was. He thought that this policy should be clearly defined and made known so that foreign governments, government agencies and private concerns, such as American Cyanamid, might know where they stood and what were the rules in accordance with which they should act. Without such a definition of policy he felt that the net result of a transaction such as this would be simply to have the Government's temporary control over certain large firms used to underbid and eliminate private companies from business which could be legitimate if the private companies knew what the rules were. He further stated that in the absence of such clear policies the transaction might appear to the Mexicans as simply a case of United States Government paternalism in their own affairs.

The Minutes of the Meeting of the Board of Economic Warfare of June 17, 1943 should be corrected to show Mr. John Lockwood of the Office of the Coordinator of Inter-American Affairs instead of Mr. John Lockwood, representing the Administrator, Lend Lease Administration.

Minutes of the Meeting of the Board of Economic Warfare
Held July 1, 1943, at 10:00 a. m.

A meeting of the Board of Economic Warfare was held in Room 201 Senate Office Building at 10:00 a. m. on July 1, 1943.

The meeting was attended by the following members of the Board:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Harry White, representing the Secretary of the Treasury
Mr. Charles Fahy, representing the Attorney General
Mr. Adlai Stevenson, representing the Secretary of the Navy
Mr. Leslie Wheeler, representing the Secretary of Agriculture
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Nelson A. Rockefeller, Coordinator of Inter-American Affairs
Mr. William Batt, War Production Board
Mr. E. R. Stettinius, Administrator, Lend-Lease Administration

In addition, the following persons were present:

Mr. John Lockwood, Office of Coordinator of Inter-American Affairs
Mr. Harold Neff, War Department
Mr. Herbert Feis, Department of State
Mr. John Lovitt, State Department
Mr. Henry Labouisse, State Department
Mr. Randolph Higgs, State Department
Mr. Melvin Fagen, Board of Economic Warfare
Mr. H. K. Fleming, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare
Mr. W. T. Stone, Board of Economic Warfare

Portugese Trade

With reference to Portugal Mr. Stone stated that there had been in existence a supply purchase agreement with the U. S. and the United Kingdom which had expired June 30, so the question of a new agreement was raised. He stated that we had been securing tungsten from Portugal and that apparently reasonable cooperation had been forthcoming. Recently, however, it was learned that the Portugese government had entered into an agreement with Germany, permitting the purchase of certain "free" tungsten. Previously Germany had been securing approximately 75 per cent of the free tungsten. The new agreement between Portugal and Germany was made without consulting the United States or United Kingdom authorities and probably covered a year, although we have not seen the agreement. It was indicated that Dr. Salazar, the dominant influence in Portugese trade policy, was apparently attempting to treat both Germany and the United Nations on about an equal basis. Mr. Stone pointed out that U. S. and U. K. secure around 65 per cent of the total tungsten production of the present time and that the German-Portugese agreement referred to the so-called free tungsten.

Mr. Stone also stated that Dr. Salazar had announced that Germany would get 45 to 60 percent of the sardine catch which placed the U. S. in a peculiar

position, since we in effect enable the procurement of petroleum used for fishing and also the procurement of steel plates used for trawlers.

The problem in connection with a new agreement was how far we are able to press for concessions.

Mr. White's thought was that with a changed war situation, the U. S. should press for additional concessions. Mr. White stated that Treasury was exploring a "gold" question which might be of some use on conjunction with negotiations where the movement of gold was involved. In effect the proposal was that gold would not be accepted unless title were clear. Previously such a proposal probably would have been ineffective since Germany had ample credit. At the present time, however, there were indications that this situation is changing so that Germany would be forced to pay in gold or goods. A refusal on our part to take gold except title were clear might force intermediate countries to require German payment in terms of goods.

Mr. Stone indicated also that the Joint Chiefs of Staff had been consulted some time ago as to whether there were any military reasons why we should not press for more concessions from Portugal and that the Joint Chiefs had suggested that the negotiators proceed cautiously.

Mr. Stevenson suggested, however, that possibly the situation had now changed so that this point should be checked again.

Sweden

Reporting on the Swedish situation, Mr. Stone stated that the Governments of the United States and Great Britain had reached an agreement in principle with the Swedish Government on trade relations during the current year and 1944. This agreement, negotiated in accordance with the President's directive of November 30, 1942, represents a substantial achievement of the objectives outlined in the Board's resolution of November 12, 1942. The major points of the agreement were outlined as follows:

(1) Reduction in exports. For 1943, exports from Sweden to enemy territory to be at least 13 per cent less by value than 1942. For 1944, total exports to be limited to 700,000,000 kroner, which is 30 per cent below the 1942 level. Exports of iron ore in 1944 to be in the ratio of two tons of ore for one ton of coal received from Germany, with total exports of iron ore limited to 7,500,000 tons for the year. This limitation would represent a reduction of about 13 per cent from the 1942 level. In addition, exports of certain specific commodities such as iron and steel manufacturers in 1943 are not to exceed exports in 1942. In 1944, exports of iron and steel manufacturers, chemicals, lumber and pulp and paper and certain other important commodities are to be limited to 75 per cent by value of 1942 exports. With some exceptions all exports of arms, munitions and means of transport are to be eliminated.

(2) Credits. Except for limited credits to Finland, no new credits to be granted by Sweden to Germany or associated countries.

(3) Military traffic. Unless Sweden gives notice by August 1 that such action is impossible, all enemy troop and military traffic across Sweden to be discontinued by October 1 and non-military goods traffic to be limited to 120,000 tons annually. If the Swedes do not close the traffic, the U. S. and

British are to be free of any obligations to make basic rations available to Sweden.

(4) Miscellaneous concessions. The Swedish Government also agrees to undertake not to replace any ship lost in the course of trade with enemy territory, not to allow the number of its ships in this traffic to increase, to provide full statistics on trade, not to reduce prices on exports to the enemy, not to permit an increase in prices of goods received from enemy territory without a corresponding rise in its own prices, to restrict its exports to Argentina to certain products approved by the United States and to maintain all of its commitments under the agreement, even though the Gothenburg traffic is stopped.

The Governments of the United States and the United Kingdom agree to the following: First, to permit Sweden to import in her own vessels by October 1, 1943 a total of 120,000 tons of petroleum products as the year's quota, such products to be exclusively for the use of the armed forces and to be subject to adequate control to prevent diversion. Agreement on this point was authorized by the President in communications to the Secretary of State under date of June 7 and 11, 1943. The basis for this commitment is the desire to assist the Swedish armed forces to be in a position to resist possible military action by Germany in retaliation for the Swedish ban on military traffic. Secondly, to make available certain "basic rations" which have been approved by the Combined Boards. Third, to permit a sixth ship in the Gothenburg traffic monthly.

There was considerable discussion of the report with a number of weaknesses, being pointed out mainly by Mr. White, Mr. Neff and Mr. Stevenson. These weaknesses, indicating the doubtful value of the agreement to the United States, were summarized by Mr. White as follows: Basically, Sweden was not making large concessions. With reference to exports to Germany, such reductions were small in 1943 and while reductions appeared material for 1944 it was pointed out that such reductions could be expected without any agreement, that the magnitude of the reduction was over-stated since 1942 exports which were used as a base in the calculations were abnormally large. In addition, Mr. White noted that there was some evidence that the Swedes had violated their agreements in the last war, were violating the agreement now in effect, and were in fact violating while the present negotiations were in process. Therefore, there was no reason to expect compliance in the future. Further, it appeared that the Swedes were receiving imports approximating 60 per cent of normal, exporting negligible quantities of goods to the United Nations but at the same time exporting in increased quantities to Germany. With reference to the goods being allowed under basic rations, there were included items of great value to Sweden, including, but not limited to oil. Mr. White also stated that as the war progressed Sweden would become more and more dependant upon the United Nations and therefore the U. S. negotiators should be in a position to exact material concessions and there was no reason why a weak position should be taken.

In response to questions as to whether further action on the part of the Board was desirable and whether the proposed agreement would be referred to the Chiefs of Staff, Mr. Acheson indicated that the terms of the proposed agreement appeared to be within the broad terms of the Board resolution, that the petroleum question had been before the Chiefs of Staff, that the broad outline had the approval of the President and that any further difficulties were to be re-

solved by the Secretary of State. It appeared to Mr. Acheson, therefore, that the negotiators had accomplished the objectives and that the agreement represented a real advance. He stated further that that position was also held by the U. S. authorities, by the negotiators, and by the U. S. Ambassador to England. The Vice President suggested that the views of the several agencies, particularly those of Treasury, War and Navy be brought to the attention of the Secretary of State.

The meeting adjourned at 11:30 a. m.

Minutes of the Meeting of the Board of Economic Warfare
Held July 15, 1943 at 10:00 a.m.

A meeting of the Board of Economic Warfare was held in Room 201 Senate Office Building at 10:00 a.m. on July 15, 1943.

The meeting was attended by the following members of the Board:

The Vice President, Chairman of the Board
The Attorney General
Mr. Adlai Stevenson, representing the Secretary of the Navy
The Secretary of Agriculture
Mr. Wayne C. Taylor, representing the Secretary of Commerce
The Coordinator of Inter-American Affairs
Mr. William Batt, representing the Chairman, War Production Board
Mr. Bernhard Krollenberg, representing Lend Lease Administration

In addition, the following persons were present:

Mr. Herbert Feis, Department of State
Mr. Percy Douglas, Office of Coordinator of Inter-American Affairs
Capt. A. M. Peabody, Office of Coordinator of Inter-American Affairs
Mr. Harold H. Neff, War Department
Mr. Kermit Roosevelt, Jr., State Department
Mr. Monroe Oppenheimer, Board of Economic Warfare
Mr. W. L. Clayton, Department of Commerce
Mr. Milo Perkins, Board of Economic Warfare
Mr. L. S. Gauswitz, Board of Economic Warfare

The Vice President stated that the first matter for discussion was the recent legislative action in connection with the B.E.W. appropriation and asked Mr. Perkins to review the situation.

Mr. Perkins distributed copies of the amendment to the B.E.W. appropriation bill and a copy of his letter to Mr. Cannon, Chairman, House Appropriation Committee. Mr. Perkins reviewed the legislative history briefly, stating that the House hearings were in great detail, following which the House passed the appropriation bill carrying the full amount of \$36,150,000 as requested. The Senate Committee hearings were rather short. Apparently there was discussion in the Senate Committee on an amendment requiring the approval of three cabinet officers on expenditures of B.E.W. funds abroad. This idea was later modified to require majority approval of the members of the Board on all its economic programs and policies and such an amendment was presented to the Senate. On the floor, Senator McKellar introduced an amendment inserting the word "general" before the term "economic programs". That amendment, however, was defeated.

Mr. Perkins stated he then wrote Mr. Cannon pointing out that the effect of the amendment was to give veto power to the B.E.W. over W.P.B. with reference to operations on imports as well as exports, and that the Senate rejection of the word, "general" opened the possibility that the General Accounting Office might take a very narrow interpretation to the amendment requiring that the majority of the Board approve all individual expert licenses, all individual import contracts, and all economic warfare analysis work abroad specifically.

The Conference Committee reinserted the word "general" and it was accepted by both Houses with no discussion.

Mr. Perkins also pointed out that the amendment was not operative until August 15.

Mr. Perkins proposed that the Board arrange to meet on the twenty-second, prior to which time he would attempt to have drafted and circulated proposed broad policy resolutions with supporting data. He pointed out, however, that while resolutions covering broad policy might serve the letter of the law and enable operations to continue, the intent apparently went beyond the letter.

To meet the spirit of the law, he therefore suggested that following the filing of resolutions covering broad programs and policies that members bring up specific programs and policies for additional review. He pointed out that to ask the Board to pass on every purchase contract under the various directives now operative, and on every license would be an administrative nightmare. It was his suggestion that each Board member be free to ask for the presentation of material bearing on any spot problem, however. He stated that he interpreted the amendment to mean that the Congress recognized the Board as a Board, from which it would be possible to secure complete judgment and policy direction on foreign economic programs.

There was general acceptance of the approach outlined by Mr. Perkins. In the general discussion the point was made that while previously the Board was advisory in character with the administrative power in the hands of the Vice President, under the amendment it was necessary that a majority of the Board approve general policies and programs before administrative funds might be expended abroad.

It was also noted that majority approval would require six members as the Board was now constituted. It was also clear that Board members might approve general policies and programs without necessarily being present at meetings of the Board and that alternates were empowered to act.

It was also suggested that a representative of the General Accounting Office be consulted in drafting the resolutions. It was also agreed that approved resolutions be filed with the Department of State, and should be available to Board members. The Attorney General expressed it as his opinion that this was a routine provision of the law.

There was also discussion of the desirability of making the resolution available to the chairman of the House and Senate Appropriation Committees, but because of military security, this matter was left for further consideration.

Wooden Vessels

The Vice President indicated that Mr. Rockefeller was ready to report on the wooden vessels program.

Mr. Rockefeller referred to the Board action requesting the Coordinator's Office to undertake a general program of constructing, purchasing, and opera-

ting wooden vessels under a thousand tons to relieve the shipping situation. Pursuant to those general instructions, the Coordinator's Office had acquired and operated wooden vessels, and had worked closely with War Shipping Administration on the matter of additional constructions. His office had canvassed the possibilities of construction in South America and very briefly the results of that canvass were that there was no place except Mexico where such vessels could be constructed. He stated that a written report had been submitted to the Board. Mr. Rockefeller also stated that upon its inception the Maritime Commission had not been interested in the wooden vessel program. Some three months ago, however, the War Shipping Administration had agreed to take over vessels previously acquired and to operate such vessels. His Office had therefore transferred the vessels to the War Shipping Administration, retaining only the job of construction. He stated also that War Shipping Administration had agreed to the transfer of any vessels which might be constructed.

Presently, however, he had received a letter from Admiral Land recommending the discontinuance of any further construction of wooden vessels because of improved shipping conditions. Prior to the receipt of the letter, but following conversations with Admiral Land, Mr. Douglas of his office had proceeded to Mexico for the purpose of checking the possibilities of cancellation of construction contracts.

In view of the report, and Mr. Rockefeller's further statement that it would take ten to twelve months to construct additional vessels, it was agreed that the program should be discontinued.

The meeting adjourned at 11:20 a.m.

Attachments: Copy of Appropriation Amendment
and copy of letter to Mr. Clarence Cannon

Amendment to the Bill as passed

x

x

x

(2) No part of any funds appropriated or made available herein to the Board of Economic Warfare shall be used after August 15, 1943, directly or indirectly for the procurement of services, supplies, or equipment outside the United States except for the purpose of executing general economic programs or policies formally approved in writing by a majority of the Board and such writing has been filed with the Secretary of State prior to any such expenditure.

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June 30, 1943

Hon. Clarence Cannon, Chairman,
House Appropriations Committee,
House of Representatives.

Dear Mr. Cannon:

We feel that we must express grave concern over the Senate amendment to our appropriation. From an administrative point of view, we are not in favor of it since it gives the Board of Economic Warfare what amounts to veto power over the War Production Board. As things now stand, we operate our imports work under directives received from the War Production Board and also receive allocations from the War Production Board on a large number of materials for export. If this amendment is adopted, the Board of Economic Warfare will be empowered by legislation to over-ride the War Production Board if it desires to do so.

As the amendment now stands, we are frankly uncertain as to what it means.

As you know, it was not adopted by the Senate with the word "general" before the words "economic programs and policies". Senator McKellar, as you know, tried to have the word "general" included.

If the General Accounting Office were to make a narrow, limited interpretation, it might mean that we could not pay for services, supplies or equipment unless a majority of the Board approved all our individual export licenses, all our individual import contracts and all our Economic Warfare analysis work abroad. This, of course, would be impossible from an operating point of view. The legislative history in the Senate is bad, from our standpoint, since an effort was made to introduce the word "general" and the word was subsequently deleted.

- 2 -

I feel that we can do a much more efficient job if the amendment is not adopted in the conference report. If it is adopted, I would hope the House Conference could either reinsert the word "general" or eliminate the words "economic programs", in which case only policies would be subject to Board approval.

The Vice President presides over regular meetings of the Board of Economic Warfare which are held every two weeks when the Vice President is in town. I furnish the complete list of such meetings to the Senate Committee on Appropriations. The Board, as a Board, is enormously helpful in our work on specific policy matters as they arise from time to time, but obviously our operating responsibilities are too vast for day-to-day management by a majority of the Board.

We are deeply concerned about the amendment as it now stands and I hope you will understand the spirit in which we are calling this matter to your attention.

Sincerely yours,

Executive Director

TO HOLDERS OF EP 60 "JAPAN'S WAR ECONOMY - 1943"

A number of important corrections have been made in this report. Please destroy the original text but do not destroy the maps and charts attached to it: the maps and charts should be used with the present version.

EP-60
CONFIDENTIAL

Copy No. 152

BOARD OF ECONOMIC WARFARE
Enemy Branch

JAPAN'S WAR ECONOMY - 1943

CONFIDENTIAL

March 1943

32-2242

Summary and Conclusions

The position of Japan's war economy may be summarized as follows:

1. During the past twelve years, Japan has continuously accumulated stockpiles of combat armament. Wastage of these supplies has been relatively small even since December 7, 1941. Thus, Japan has on hand the equipment to support offensive action on a large scale for a considerable period of time. Japan's capacity to produce war materials, however, is less than that of the chief belligerents - Britain, Russia, the United States, and Germany.

2. Japan now holds the raw materials required to expand its productive system, but lacks the shipping and processing capacity to exploit these resources fully. Japan is handicapped by (a) deprivation of former imports of processed materials, (b) certain technological limitations, and (c) the growing losses and attrition imposed by the war. These handicaps limit the rate at which Japan can increase its industrial processing capacity, including that required for turning out ships and combat armament.

Thus, Japan's economic difficulties are not due to an inability to maintain current levels of production, but rather to the limitations Japan faces in its effort to achieve a large-scale expansion of production. Yet such a large-scale expansion is required if Japan is to retain its present relative position in the face of the growing power of the United Nations.

3. The ability of Japan to keep pace with the growing strength of the United Nations depends mainly on the intensity of the military and naval interference which is exerted against Japan. The extent of such interference will determine whether Japan can (a) continue to build up armament reserves; and (b) proceed with the organization of basic industrial capacity in order to secure a large-scale expansion of production. To date the greatest single retarding factor in the latter respect has been the sinking of Japanese merchant shipping. Sinkings have exceeded launchings during the past six months. To meet this threat, Japan has already undertaken a program which will rapidly increase the tonnage under construction. In spite of this program, if the current rate of sinkings is maintained, Japan's shipping position will deteriorate throughout the remainder of 1943, but launchings will approximately equal sinkings by the end of the year.

4. Because of (a) the lack of sufficient industrial equipment, (b) the threat to Japanese shipping, (c) the expanding power

of the United Nations, and (d) the possibility of the defeat of Germany, Japan has decided to center attention on the resources of the Inner Zone (Japan Proper, Korea, Manchuria, North China and Formosa) rather than on the resources of the Outer Zone (Central China and the southern regions). Certain developments - notably of oil - are necessarily being carried out in the south. But it seems clear that Japan is putting aside the opportunity for large-scale development of the newly conquered areas in order to concentrate on intensive development in the Inner Zone, even though this choice involves an economic sacrifice.

The greater the intensity of United Nations' action in the Far East and the weaker the position of Germany, the greater will be the trend toward (a) a stockpiling of strategic materials from the Outer Zone to strengthen the Inner Zone and (b) the development of these industrial plants and these raw materials which will provide the highest possible measure of self-sufficiency within the Inner Zone. Loss of the Outer Zone would deprive Japan of a major source of war materials; but if this loss were postponed until 1944 or later, the stockpiling program, combined with expansion of Inner Zone capacity, would have reached a stage adequate to cover several years' requirements.

The greatest weakness of the Inner Zone lies in its concentrated industrial areas, both in Japan Proper and Manchuria. The industrial centers of Japan Proper, in particular, are highly inflammable. A program for the decentralization of certain strategic industries, under way for some time past and now being accelerated, will partially eliminate this weakness.

Retention of the principal areas of the Inner Zone - and continued development of their resources - is indispensable to the Japanese war economy.

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The Japanese stopped publishing data on most of the subjects treated in this report several years ago. Japanese periodicals, such as the Oriental Economist, have supplied some materials as late as 1940-1941. However, the bulk of the factual data was derived from specialized studies prepared by BEW analysts over the past year.

The data on oil contained in this report have been furnished by the Petroleum Division.

I. TRANSPORTATION

Summary

Shipping is the most important limitation on Japan's program for economic expansion. It is the only aspect of Japan's economy which has as yet been significantly impaired by the United Nations. Japanese shipbuilding will expand throughout the current year, but if the present rate of sinkings of Japanese ships continues, the rates of new construction and sinkings will not balance until the end of 1943.

Rail transport is also under strain in all parts of Japan's new empire. Additional economic expansion in Japan Proper will require that new rolling stock, replacements, and repairs be increased before the end of 1943. Japan's hope of building a continental rail line from Manchuria to Singapore is not likely to be realized this year due to Chinese interference; the rail lines connecting Indo-China, Thailand and Burma are going forward and will be completed unless halted by action of the United Nations.

As in the case of all other belligerent countries, transportation is a most important present and prospective economic weakness of Japan.

Shipping

Shipping. A Basic Weakness. Japan must move by sea a major percentage of iron ore, coking coal, and bauxite for munitions output, over sixty percent of its petroleum and about seventy percent of the coal for power production. Japan must also move troops, munitions, and supplies to the Greater East Asia sphere fighting fronts, largely by water.

To meet the growing strain on shipping, Japan is (1) shifting coastwise cargo movements in Japan, Manchuria and China to rail, and extending rail lines in Indo-China, Thailand and Burma (these lines are as yet incomplete); (2) increasing production of minerals in Japan Proper and in nearby areas of the mainland to replace supplies formerly obtained from the southern regions; (3) increasing the self-sufficiency of North China, Manchuria, and Korea (which will not only lessen the dependency on supplies from Japan Proper, but will also reduce the volume of tonnage required from Southeast Asia); (4) building up heavy industry on the Asiatic mainland to save the shipping of iron ore and coal to Japan; (5) developing local self-sufficiency, especially with respect to foodstuffs and other civilian needs throughout the entire Greater East Asia Sphere, including Japan; (6) adopting a program for rapid expansion of shipbuilding during the current year, of steel and wooden ships; (7) converting wooden craft to the carriage of basic commodities, and (8) such other measures as building up electric power lines which save shipments of coal, using rafts to transport timber, accelerating timber cutting and charcoal building in Honahu to reduce waterborne movement, and drastic limiting of passenger car services to allow railways to carry more bulk in freight.

In spite of these developments present tonnage is quite inadequate for the full exploitation of the areas under Japan's control. By the end of 1942 Japan was barely able to satisfy minimum basic requirements.

It should be noted, however, that if the southern areas are severed from Japan so that Japanese shipping is driven back to the relatively short lines of communication between Japan, Korea, Manchuria and China, the present available tonnage would be entirely adequate providing it were not subjected to heavier losses.

The Shipping Position on January 1, 1943. On January 1, 1943, it is estimated that the total tonnage available for military and commercial transport was about 5,000,000 gross tons, which was a decrease of some 500,000 gross tons from the amount available on July 1, 1942. These figures may be broken down as follows:

Japan's Shipping Tonnage Position (gross tons)	
Tonnage available December 1, 1941 (vessels of 100 gross or over, including those under Chinese and Manchurian flags but excluding fishing craft, barges, etc.)	6,700,000
New construction to January 1, 1943	320,000
Axis and French tonnage available	250,000
Allied tonnage captured	250,000
Vessels raised and repaired	<u>80,000</u>
 Total merchant marine before subtracting losses	 7,600,000
 Vessels sunk by Allied action	 1,600,000
Ordinary marine losses	70,000
Vessels seriously damaged in the war	450,000
Vessels laid up for ordinary repairs	400,000
Vessels captured which do not add to Japanese shipping potential (i.e. in essential local trade, etc.)	80,000
Ferries, floating canneries, etc., not suitable for ordinary commercial use	<u>80,000</u>
 Total losses including vessels unavailable for use	 2,600,000
 Tonnage available January 1, 1943 for military and essential commercial use	 4,920,000

Shipping Needs in 1943. Of the 4,920,000 gross tons available at the end of 1942, about 1,250,000 gross tons are needed to service army and navy needs in the South Pacific and Southeastern Asia. This leaves 3,670,000 gross tons available for essential non-military requirements. Japan's needs are estimated to be:

Region	900,000 gross tons
Japan Coastal Services	1,500,000 gross tons
Manchuria, Korea, and China	<u>1,500,000 gross tons</u>
 Total estimated requirements	 3,900,000 gross tons

Thus by the end of 1942 Japan could not fully meet its needs from the steamers then on hand and was forced to utilize wooden tonnage. It is estimated that about 600,000 gross tons of wooden ships, equivalent in carrying capacity to some 200,000 tons of steel vessels, were pressed into service. Some further accounts have since been added, but the possibilities of finding additional amounts are now relatively small.

Shipping Position on July 1, 1943. New construction of steel ships aims at 1,000,000 gross tons for the Japanese fiscal year 1942/1943, but actual construction during 1943 is likely to be only about 630,000 gross tons. To this figure should be added an increase of perhaps as much as 80,000 gross tons salvaged. Important additions of wooden tonnage should be made through the new construction program after the middle of the year, but totals to date have been small. As a rough estimate, Japan may add about 300,000 gross tons to its shipping fleet in the first half of 1943 while suffering a loss of about 600,000 gross tons. The apparent gap can be covered in good part by the various expedients listed on page one, and as shipbuilding should increase rapidly in the latter part of 1943 it is possible that Japanese shipping will be little worse off at the end of the year than it is now.

In order to achieve this balance, Japan is supplementing its output of steel vessels by an extensive program for the construction of wooden vessels in all areas under Japanese control in which such construction is possible. Large timber resources of good quality are available for this purpose. Although little can be expected from this source in the next few months, by the end of 1943 it appears probable that large numbers of new wooden vessels (most of them sailing vessels) will be operating along the Asiatic coast and in the coastal trade of Japan Proper. It is impossible to make any close estimate as to the tonnage that can be turned out in this way but between 400,000 and 650,000 tons of new wooden construction appears probable. This would be equivalent to 130,000-210,000 tons of steel vessels.

Land Transportation

Japan Proper. Because of the mountainous character of Japan, very few rivers can be used for transport; nor is there a sufficient number of overland highways or trucks to make overland trucking of significance, except as feeders to rail terminals. Electric and steam rail lines, therefore, carry virtually all of the overland passenger and freight in Japan. By far the most important single line extends from Tokyo by way of Nagoya, Osaka, and Kobe to Shimonoseki and thence by a recently opened tunnel to the island of Kyushu through Moji and Fukuoka to Nagasaki. If this line were crippled at any point it would seriously hamper Japan's war effort.

Practically all of the lines in Japan Proper are narrow-gauge (3'6") which restricts both speed and tonnage.

Present Condition of Equipment. There has been a tendency to neglect rail repair and replacements in favor of war production since July 1937. This fact, coupled with the great increase in traffic due to war operations, has resulted in a steady deterioration of equipment. The present rail facilities of Japan are adequate for minimum needs but cannot be expanded except at a considerable cost to war production. At present Japan, like Germany, must give priority to rail facilities if weaknesses, that are reaching a critical stage, are to be overcome. There has been an increase in the number of locomotives and freight cars since 1937, as the attached tables indicate, but the current program for transferring more coastal shipping tonnage to railroads will demand a continued expansion of rail facilities through 1943.

Continental Rail Facilities Under Japanese Control. The rail lines of Korea, Manchuria and North China are the most important in the Japanese occupied areas. These areas, together with Japan Proper, contain over 60 percent of the total rail transport under Japanese control. Rail lines in Korea and Manchuria, long under Japanese management, are the most efficiently operated of the continental rail lines in "Greater East Asia". Here again, however, (1) the emphasis on war production at the expense of maintenance and repair, (2) the heavy demands made upon these lines under the stress of war, (3) the possible need for shifting rolling stock to China (due to the war and guerrilla warfare), and (4) the considerable expansion of rail lines without a proportionate expansion of rolling stock have combined to create a situation in which losses through fighting or bombing could quickly become serious despite the adequate distribution of rail lines in the area.

The Plan for a Continental Rail Line. There is clear evidence that Japan has been thinking in terms of the possibility of developing a continental rail line extending from Manchuria to Singapore. Assuming the successful seizure and protection of sections of this overland route still in Chinese hands it would be possible for Japan to complete, within one to two years, the gaps in a rail line extending from Manchuria in the north to Singapore and Burma in the south. There would be only one transshipping point on the line: at the Indo-China border where the standing-gauge lines of China, Manchuria and Korea would join the meter-gauge railways of southeastern Asia. The four gaps in the proposed system at present are (1) about 125-200 miles of new track which are needed to connect Burma and Thailand; (2) completion of a bridge across the Mekong River; (3) the 300 mile section between Dong Dang, Indo-China, and Liuchou, China which is already partly graded; and (4) the dismantled sections of the Hangchow-Changsha or Hankow-Changchow lines (in areas now under Chinese control). Completion of this system would offer two important advantages:

(1) It would be possible to continue to provide important supplies to far distant outposts (though in considerably reduced volume) even if the Japanese sea lanes were dominated by the United Nations.

(2) It would provide a flexible system of land transport for servicing a series of air bases extending down the Asiatic coast for the purpose of protecting sea borne traffic by land-based air power.

It does not appear probable that any of the Chinese section can be completed during 1943.

New Lines in Southeast Asia. Japan is in a better position, however, to complete within a year a meter-gauge rail system covering Indo-China, Thailand, Burma and Malaya which can offer an alternative to sea transport in the area most distant from Japan Proper.

Reports indicate that Japan is now constructing a line to complete the 125 to 200 mile gap between Burma and Thailand. The 140-185 mile gap between Saigon and Pnon Penh had probably been closed by the end of 1942, with the exception of a bridge over the Mekong River itself, by laying light track over a good highway between the two cities. This would mean that supplies could be transferred to rail lines in northern Indo-China at Haiphong for transport to Japanese troops in any center in Southeast Asia. The volume would not be large, possibly only 100,000 tons a month each way, but the advantages would be considerable. The transfer of vital minerals and foodstuffs from Burma and Thailand overland to Saigon and Haiphong greatly reduces the strain on shipping in the hazardous waters around the Malay Peninsula.

TABLE 1
Railroad Transportation
(Tentative Estimates for 1943)

Region	Number of Miles	Gauge	Number Locomotives	Number Freight Cars	Number of Passenger Cars	Metric Tonnage Capacity (in millions)
Japan	15,475	3'6"	6,000 4,235 (1937)	110,000 73,184 (1937)	16,000 11,209 (1937)	170 122 (1937)
Korea	2,850	4'8½"	650 315 (1937)	7,580 3,444 (1937)	2,430 754 (1937)	30
Formosa	2,225	Narrow	400			
Manchuria	6,875	4'8½"	2,850	39,200	3,250	72
Occupied China	a/5,200	4'8½"	1,062	14,230	980	23 b/
Indo-China	1,800	meter (main lines)	235	3,650	400	1.268
Thailand	2,075	meter	277 c/	3,833 (1939)c/	370	1.667
Malaya	1,068	meter	173	5,150	500	1.8 (long tons)
Burma	2,058	meter	113	9,602	1,156	4
Philippines	850 (Gov't) 2,300	Narrow	483	4,400		1.547 Manila Ry. only
Netherlands East Indies	2,850	Standard	1,278	27,140	3,614	10.5

a/ Lines and equipment under Japanese control.

b/ Estimates of civilians goods only moved in North China.

c/ It is reported that Japan provided Thailand with 90 "new" locomotives and 300 freight cars.

TABLE 2
Automotive Transportation
(Tentative Estimates)

Region	Miles of Auto Roads	Number of Trucks (Non-Military)	Number of Buses	Number of Passenger Cars
Japan	5,390 (concrete) 107,500 (gravel) 460,000 (dirt)	50,000	29,800	106,000 a/
Korea	19,155 miles	3,500	2,500	2,250
Formosa	100 macadam 10,000 improved	1,242	1,368	1,320
Manchuria	6,400 all year 23,750 seasonal use only	7,650	3,400	3,600
Occupied China	b/	(no data)		
Indo-China	3,450 Asphalt 13,750 Gravel 1,800 Macadam	4,866	2,000	18,045
Thailand	2,500 Gravel and unimproved	5,150	770	6,000
Malaya	5,800 Improved 12,800 Dirt and unimproved	9,841	2,224	32,873
Burma	4,400 Main 2,800 Rural	3,004	4,330	13,875
Philippines	2,900 Improved 9,000 Unimproved	15,664	4,339	33,895

a/ Because of fuel shortage, number in actual use probably not over 25,000

b/ Figures to be supplied later.

II. RAW MATERIALS AND BASIC INDUSTRIES

Summary

Generally speaking Japan's raw materials supplies far exceed the capacity of the shipping and manufacturing industries to develop them. The supply of fibers, which is partially deficient, is an exception to this statement.

Steel production has been given a high priority for 1943 and will probably expand by about ten percent during the current year. Rolling mill capacity is the bottleneck in this industry. Oil production will probably expand more rapidly this year not only because of the reopening of oil producing areas in the Netherlands Indies but also because of the expansion of synthetic oil plants in Japan and Manchuria.

Insofar as shipping will permit, an increasing trend toward the stockpiling of strategic raw materials from South-eastern Asia in Japan Proper may be expected.

Oil

Estimated production and consumption of essential petroleum products by Japan during 1943 indicate a comfortable surplus. The figures (comprising aviation gasoline, motor gasoline, fuel oils and lubricating oils) may be summarized as follows:

	(Barrels)
Total production	68,110,000
Total consumption	50,660,000
Surplus	17,450,000

Actual or prospective difficulties, listed below, considerably modify this favorable picture.

1. Transport. It is estimated that present tanker tonnage is barely able to handle the essential requirements indicated by the above consumption figure. The present rate of sinkings is also thought to be higher than the estimated rate of new tanker construction and if continued will lead to a very critical situation during 1943.

2. Storage. Extensive demolition of storage tanks in the East Indies area was effected. This factor might impose further limitations on the production figure given above.

3. Technical Problems. Of these, the most serious is in the manufacture of high-grade lubricants.

Crude Oil Production. Specific information on Japanese oil-producing activities in the East Indies subsequent to the occupation is still lacking. Estimates by oil experts, however, indicate that Japanese production in the East Indies has already reached substantial amounts and should expand steadily in 1943. These estimates are based on the known potentialities of the East Indian oil fields, the extent of the demolition, and the drilling equipment available to the Japanese. They show that crude oil production in the East Indies may be expected to increase from an annual rate of 39,500,000 barrels on November 1, 1942 to 60,000,000 barrels on July 1, 1943. The following tables, giving a detailed summary of Japan's over-all position in essential petroleum products for 1943, are based on the above rates of East Indian oil production.

TABLE 3
Japan's Estimated Oil Position in 1943
(In 1,000 barrels)

Product	Stocks on Hand 1/1/43 (Including captured stocks)	New Supplies All sources 1943	Total Supplies 1943	Consumption (Total economy) 1943	Stocks on Hand 1/3/44
High Octane Gasoline	11,600	3,660	15,260	3,660	11,600
Motor Gasoline	6,000	21,020	27,020	5,800	21,220
Total Gasoline	17,600	24,680	42,280	9,460	32,820
Fuel Oils	25,700	41,950	67,650	39,000	28,650
Lubricating Oils	2,950	1,480	4,430	2,200	2,230
Total Products	46,250	68,110	114,360	50,660	63,700
Crude Oil Equivalent	51,150	75,500	126,650	56,000	70,650

TABLE 4

Japan's Estimated Oil Production by Sources, 1943

(In 1,000 barrels)

Product	Japan & Formosa (crude)	Karafuto (crude)	Manchuria (shale oil)	Japan, Korea, Manchuria (synthetic) a/	East Indies (crude)	Totals
High Octane Gasoline	400	-	-	360	2,900	3,600
Motor Gasoline	<u>520</u>	-	<u>1,200</u>	<u>6,300</u>	<u>13,000</u>	<u>21,020</u>
Total Gasoline	920	-	1,200	6,660	15,900	24,680
Fuel Oils	1,150	550	1,750	5,500	33,000	41,950
Lubricating Oils	<u>530</u>	<u>200</u>	-	-	<u>500</u>	<u>1,480 b/</u>
Total Products	2,600	750	2,950	12,160	49,400	68,110
Crude Oil Equivalent	2,850	900	3,500	13,300	54,700	75,500 b/

a/ Includes substitute products at following equivalents (in barrels): coke and gas (1,410,000); benzol (1,000,000); alcohol (500,000).

b/ Includes 250,000 barrels of substitute lubricating oils.

Refining Capacity. The above production estimates assume that Japan has sufficient refinery capacity to process the large anticipated East Indian output of crude petroleum. Present estimates indicate that this capacity is available and in operation with a considerable excess capacity in Japan not in use. The estimates are as follows:

Barrels

Estimated East Indies production, 1943
 Natural fuel oil 12,036,000
 Quantity to be refined 42,664,000

Estimated 1943 refinery output in East Indies:

	Barrels
Pladjoe refinery	15,600,000
Lutung refinery	7,200,000
Balikpapan refinery	<u>3,500,000</u>
Total	25,700,000

East Indian crude oil to be refined, 1943 42,664,000
 To be refined in the N.E.I. 25,700,000
 East Indian crude to be refined in Japan 16,964,000

Refinery capacity in Japan 34,000,000
 Required for local production 7,000,000

Available refinery capacity in Japan for imported crudes 27,000,000
 East Indian crude to be refined in Japan 16,964,000

Apparent excess refinery capacity in Japan during 1943 10,036,000

The Pladjoe refinery is the crucial factor in the above tabulation. Reports on the current status of this refinery are conflicting. To meet the production quotas assigned (Tables 3 and 4), the Pladjoe refinery would have to have reached a processing rate of some 12,000,000 barrels per year as of January 1943 and a rate of 18,000,000 barrels by July 1943. By the latter date the Japanese will have had some 15 months in which to completely rehabilitate the refinery. Demolition at Balikpapan and Lutong is reported to have been complete, but these plants, too, are now considered to be in operation at rates which will process the above total in 1943. Under war conditions very simple refining equipment can suffice to process the fuel oils which form the largest part of total consumption.

In fuel oils, Japan will be entirely dependent on East Indies production by March 1, 1943, except for the limited amounts produced at home. For the supply of these bunker and Diesel oils, a large East Indian output of the scale here anticipated is essential.

In gasoline, Japan is well fortified by large stockpiles of motor and aviation gas accumulated before the war started. If necessary, production of high octane gasoline can be increased by hydrogenation of part of her excess stocks of motor gasoline. The Pladjoe refinery, moreover, had a capacity of 625,000 barrels per year of 100 octane fuel. Capacity of this plant for 92 octane fuel, on which Japanese planes are reported to operate, would be rated at about 780,000 barrels a year.

In high-grade lubricating oils, Japan's position is less strong. The stockpile held at the outset of the war is not sufficient to cover the needs of a protracted conflict. It is not certain that Japan possesses the specialized knowledge needed to make the high-grade oils required for aviation and motorized equipment, although German technicians may have filled this gap. East Indian crudes are not very adaptable to the making of lubricants; in normal times, virtually no lubricating oils were made from these crudes. It would seem therefore that Japan will have to depend heavily on its hydrogenation equipment to supply high-grade lubricants in the amounts required for a long war, or else change to the use of inferior lubricants with consequent inferior performances. The best clue to this potential weakness should be supplied by analyses of lubricant samples from captured enemy equipment.

Consumption and Transport. Assuming that production goals were met in accordance with the above estimates, Japan would still be faced with a formidable transport problem. Large amounts of crude oil, aggregating nearly 17,000,000 barrels in 1943, must be carried from the East Indies to Japan for refining. In addition, considerable quantities of the gasolines and fuel oils used by the Japanese navy, army and merchant marine must be shipped from Japan or the East Indies to the fighting fronts. Table 5 shows an estimated breakdown of consumption by principal uses.

TABLE 5

Japan's Estimated Consumption of Oil Products by Uses, 1943
(In 1,000 barrels)

Product	Merchant				Total
	Navy	Army	Marine	Civilian	
High Octane Gasoline	1,520	2,140	-	-	3,660
Motor Gasoline	-	4,880	-	1,000	5,880
Total Gasoline	1,520	6,940	-	1,000	9,460
Fuel Oils	27,000	-	7,000	5,000	39,000
Lubricating Oils	870	470	300	560	2,200
Totals	29,390	7,410	7,300	6,560	50,660

According to these estimates, Japan would be expected to use 50,660,000 barrels of gasolines and oils in order to satisfy full requirements during 1943.

The effective tonnage capacity of the Japanese tanker fleet during 1943 may be roughly estimated at 350,000 tons. This estimate allows for sinkings and damage, replacements, and assignment of 12 tankers to the active fleets. On the basis of 12 voyages per year per ship, the effective carrying capacity would be 4,200,000 tons, or approximately 30,000,000 barrels.

The basic transportation problem is approximately as follows:

1. The movement of the estimated 17,000,000 barrels of crude from the Indies to Japan for refining;
2. Movement of oil products from refining centers to various points of consumption in the Japan, Korea, Manchuria, North and Central China areas;
3. Supply of fleet units and fighting forces in the southwest Pacific and other outlying bases and military areas from the production centers in the East Indies; and
4. To fill other minor and local needs in the Occupied Areas.

It is now estimated that Japan's existing tanker tonnage is just about able to meet these basic or essential requirements, and no more. There had been earlier reports that the tanker fleet was not fully employed, suggesting that the movements of oil were not occurring on the scale required by the above consumption estimates. However, present indications are that the full tonnage is being used, and it is further thought that if tanker losses continue at the present rate Japan's oil consumption will be limited by a tanker deficiency in 1943.

Steel

Japan's Steel Position. During 1942, Japan's steel production reached an estimated rate of 8,750,000 ingot tons and 6,300,000 metric tons of open-hearth and electric furnace steel for finished products. This output is not so small as to prevent Japan from engaging in extensive military operations, but it is small enough to restrict over-all ability of the Japanese to produce vessels, munitions and other heavy equipment and to expand production facilities.

Production rates and capacities attained during 1942 may be estimated as follows:

	<u>Production</u>	<u>Capacity</u>
	(metric tons)	
Pig Iron	6,160,000	8,269,000
Gross Steel Ingots	8,750,000	9,526,000
Semi-Finished Steel,		
Total	6,300,000	6,300,000
Alloy Steels	1,200,000	
Cast Iron	800,000	800,000

The primary limitation on Japan's steel output is processing capacity. Particularly serious is the lack of rolling mill capacity, which holds the production of finished steel below the point at which it could be maintained by current open hearth and electric furnace capacity and by blast furnace capacity. The latter in the order named, are secondary bottlenecks which must be removed to permit the further expansion of the iron and steel industry as projected. Raw materials of all essential types are available to Japan in ample quantities for present needs and in sufficient amounts to permit an increase of 25 percent in iron and steel output. Manpower is adequate for existing needs and for a moderate expansion, although any considerable plant expansion would probably have to overcome a shortage of skilled labor and technicians. Transportation represents a potential weakness. Large amounts of iron ore,

coking coal and ferro-alloys must be obtained from sources outside Japan proper. Cargo vessels were available, however, in adequate volume for these shipments at the beginning of 1943. Rolling mill capacity is, therefore, taken as the primary limiting factor in the following detailed estimate of basic capacity and output in the industry:

TABLE 6

Estimate of Japan's Basic Steel Capacity and Output, 1943

	<u>Utilized</u>	<u>Capacity</u>
	(metric tons)	
1. Iron Ore	15,750,000	19,250,000
2. Metallic Iron in Ore (av. 45-1/2 percent of Item 1)	7,073,000	8,760,000
3. 5 percent Loss in Concentrating	- 353,000	
4. Total Fe from Iron Ore	6,720,000	
5. Sponge Iron (For use in electric furnaces - see item 14)	- 400,000	400,000
6. Blast Furnace (In terms of pig iron product)	6,320,000	
7. Coke Charge in Blast Furnaces	6,320,000	11,715,000
8. Blast Furnace Losses (2-1/2 percent)	- 160,000	
9. Iron Content of Pig Iron Total	6,160,000	8,269,000
10. Foundry Pig Iron (For iron castings--see item 8 below)	- 1,000,000	
11. Pig Iron Available for Steel Making	5,160,000	
12. Scrap Supply to Open Hearth Furnaces (40 percent mix)	+ 3,440,000	
13. Total Fe in Open Hearth Furnace Charge	8,600,000	
14. Total Fe in Electric Furnace Charge (from item 5)	+ 400,000	

TABLE 6 (Cont'd)

	Utilized (metric tons)	Capacity
15. Total Fe Charged to Steel Furnaces	9,000,000	
16. Less Melting Losses (Approx. 3 percent)	- 250,000	
17. Gross Steel Ingots (Open-hearth and electric)	8,750,000	9,526,000
18. Less Cropping Losses (20 percent)	<u>-1,750,000</u>	
19. Gross Open-hearth and Electric Furnace for Finishing Steel Processes (Rolling Mill Steel 6,700,000) (Cast Steel 300,000)	7,000,000	
20. Loss in Finishing (10 percent)	<u>- 700,000</u>	
21. Open-Hearth and Electric Furnace Steel for Finished Products	6,300,000	6,300,000

Recapitulation

A. Total Steel (sheets, plates, shapes, rods, castings, etc.) for Use in Manufacturing Finished Articles	6,300,000	
B. Total Cast Iron for Use in Finished Articles (from Item 10 above, allowing 20 percent loss)	<u>+ 800,000</u>	800,000
C. Total Steel and Iron	7,100,000	

During 1943, rolling mill capacity will continue to be the principal limitation on Japan's steel production. Scheduled construction calls for the completion of an additional 1,400,000 tons of rolling mill capacity up to 1943-44. This expansion will necessarily be attained at a slow rate and there are definite indications that the construction of new rolling mill capacity has lagged behind other phases of the Japanese iron and steel expansion program. In 1943, perhaps an additional 700,000 tons of rolling mill capacity beyond the figure shown

in the above table will be available to Japan. This addition will account for newly-commissioned mills, for small but unknown capacity in Japanese Navy yards, and for the increased effectiveness brought about by strict rationalization of production, giving a total rolling-mill and steel-casting capacity of about 7,000,000 metric tons. To supply its rolling mills and foundries operating at this rate, Japan would require an open-hearth and electric furnace capacity of 9,722,222 metric tons of gross steel ingots, a figure slightly above estimated ingot capacity in 1942, which is placed at 9,526,000 metric tons. By expanding all of the foregoing to the point where present blast furnace capacity could be used, Japan could produce almost 12,000,000 tons of gross steel ingots and about 8,500,000 tons of steel for finished articles. The following table shows details of capacity and projected construction:

TABLE 7

Iron and Steel Furnaces and Primary Rolling Mills

Summary of Capacities

	Totals as of 1937	As scheduled through 1941	As planned to 1943-44
(metric tons per year)			
Blast Furnace Capacity (Pig Iron)	3,332,000	8,269,000	9,849,000
Steel Furnace Capacity (Ingots)	7,068,000	9,526,000	10,766,000
Primary Rolling Capacity (Slabs, billets, blooms)	4,930,000	6,030,000	7,446,000
Coke Oven Capacity (Coke)	---	14,519,000	---

Raw material supplies now under Japanese control are more than adequate to maintain production of 6,300,000 tons of finished steel and 800,000 tons of cast iron. For the essential raw materials, Japan's position is estimated as follows:

- Iron Ore. Japan will utilize only about 7,100,000 tons of iron (metallic content) of the 8,760,000 available in the next twelve months. The latter figure could be increased still further by more intensive exploitation of Philippine and Malayan iron ore reserves.
- Scrap. Most of the 3,440,000 tons required will be obtained from mill croppings and recovery (2,650,000), final handling of steel products (630,000), conquered areas and stockpiles (160,000).
- Coking Coal. Total coke oven facilities under Japanese control would supply more than 14,500,000 tons of coke, of which an estimated 80 percent, or about 11,715,000 tons, would be suitable and available for pig iron production. This much coke would support an output of 12,400,000 metric tons of finished steel.
- Limestone and Cleansing Agents. Adequate supplies of ferro-manganese and ferro-silicon, and apparently of fluorspar are available.
- Ferro-alloy Ores. Supplies and stockpiles are sufficient to maintain a 20 percent alloy-steel ratio for all present and projected levels of steel production. Details of Japan's position in this crucial field of the alloys are given in the following table:

TABLE 8

Japan's Estimated Supply Position with Respect to Ferro-Alloys, 1943
(Reference is to the entire area now controlled by Japan)

Metal	Estimated	Estimated	Estimated	Estimated	Appraisal	Remarks and qualifications
	stocks on hand 1/1/43	New Supplies 1943	Consumption 1943	stocks on hand 1/1/44	of Japanese position	
Manganese (metric tons M)	300,000 or less	91,500	70,000-100,000	291,500-327,500	Stable	Production can be expanded if needed.
Chromium (metric tons Cr)	30,000-40,000	43,000 potential	15,000-30,000	43,000-68,000	Improving but not secure	Production is potentially far in excess of needs but 93 percent comes from the Philippines
Nickel (metric tons Ni)	4,000	12,500	10,000	6,500	Improving but not secure	Supplies are potentially ample, but if production in the Celebes (more than 70 percent of total) were interrupted, the situation would be critical.
Tungsten (metric tons 60% W ₂ O ₃)	10,000 or more	14,800 potential	6,000	18,800 potential	Improving	Tungsten position assured indefinitely assuming continued access to Burma, and, by smuggling and currency manipulation, to Free China.
Molybdenum (metric tons Mo)	2,460 or less	150	4004	2,210	Strong	Since the tungsten supply is ample, the molybdenum situation becomes unimportant.

TABLE 8 (Continued)

Japan's Estimated Ferro-Alloys Supply Position, 1943

Metal	Estimated stocks on hand 1/1/43	Estimated New Supplies 1943	Estimated stocks on hand 1/1/44	Appraisal of Japanese Position	Remarks and qualifications
Cobalt (Metric tons Co)	In manu- factures only	116- 266	16- 166	Insecure, but unim- portant	Other ferro-alloys can sub- stitute. All but about 16 m.t. will come from the Bowdoin Mines which are not secure from damage.
Vanadium (Metric tons V)	At least 650	400	900	Improving	Productive capacity poten- tially ample and stocks on hand equal at least 4 years' supply. Tungsten can substitute.

Since large amounts of iron ore, pig iron and coking coal, and virtually all the ferro-alloy ores, have to be brought to Japan Proper by sea routes, ocean transportation is a critical factor in maintaining the levels of steel production already reached. If southern ores are to be fully utilized, estimated tonnages to be carried for current levels of production are as given in the following tables. Cargo vessels currently available are believed more than adequate to handle these tonnages. Further substantial losses of merchant shipping, however, would make it necessary for Japan either to limit very strictly its other uses of shipping or to increase iron ore production in the Inner Zone and Central China.

TABLE 9

Shipments of Iron Ore and Pig Iron to Japan
(in metric tons)

From	Ore	Ore Concentrates	Pig Iron
Malaya	1,400,000		
Philippines	1,300,000		
Yangtze Valley	600,000		
North China	500,000		100,000
Manchuria	260,000		1,000,000
Korea		2,000,000	600,000
Totals	4,060,000	2,000,000	1,700,000

Shipments of Coking Coal for All Purposes
Within the Empire

From	To	Metric Tons
North China	Japan	4,500,000-5,000,000
Karafuto	Japan	1,500,000-2,000,000
North China	Manchuria and Korea	1,000,000
		7,000,000-8,000,000

Recapitulation

Commodity	Tonnage	Shiploads (5,000 tons average)
Iron ore and pig iron	7,760,000	1,552
Coking coal	7,000,000-8,000,000	1,400-1,600
Ferro-alloys		108
	14,760,000-15,760,000	3,060-3,260

Other Raw Materials

Estimates in the accompanying chart which pictures Japan's raw materials position are made with reference to the needs of Japan's war economy as represented by the industries of Japan, Korea and Manchuria. In connection with foodstuffs and fertilizers, only the needs of Japan Proper are considered.

Ferro-Alloys. The ease with which ferro-alloys can be substituted for one another tends to make Japan's general ferro-alloy situation relatively secure. There are, however, at least three weak points apart from the general factor of shipping. Some 93 percent of the chromium production available to Japan is concentrated in the Philippines; a relatively small area in the Celebes produces over 60 percent of the nickel supply; and nearly all of Japan's cobalt must come from the Bawdin Mine in Burma. In addition, while tungsten supplies are potentially far in excess of needs, and tungsten has been offered to Germany by Japan, the two chief sources of supply, Free China (by smuggling), and Burma, cannot be considered entirely secure.

Non-Ferrous Metals. Sources of bauxite, alunite and aluminous shale are potentially sufficient to meet the needs of Japan's capacity for producing finished aluminum. All of Japan's bauxite, however, must be shipped over long distances; some 60 percent of the total production is concentrated in the Bintan-Singapore area. Production of magnesium in Japan and Manchuria is potentially far in excess of needs.

Production of lead and zinc is potentially in excess of needs, but in both cases the shipping factor is important, and the slowness with which production at the Bawdin Mine is apparently being restored will probably create a tight situation. Although stocks of copper are sufficient for several years, assuming a continued production of new supplies at the estimated rate for 1943, eventual depletion of the stockpile is believed to be inevitable. Aluminum is, however, a possible substitute in many important uses provided fabricating capacity can be expanded to take care of the resulting increase in requirements.

Stocks of mercury are very large, but proven production available in Japanese Asia is insignificant. Japan is known to be making strenuous efforts to prevent the depletion of stocks by the development of deposits of cinnabar in North Borneo, and by smuggling from Free China and blockage running from German Europe. Japan's position with respect to both antimony and platinum is uncertain. Unless antimony can be smuggled out of Free China, supplies appear to be inadequate.

TABLE 10

Summary of Japan's Supply Position with Respect to the Basic Raw Materials
(at the beginning of 1943)

Commodity group	Adequate Supplies		Inadequate supplies	
	Adequate within the Inner Zone	Surplus within Occupied Areas available for export	Adequate but dependent on shipping from the Outer Zone	Deficiency to be relieved by smuggling
Iron ore and ferro-alloys	Iron ore Vanadium	Tungsten	Manganese Nickel Chromium Cobalt	No known additional sources available
Non-ferrous metals	Alunite, etc. Magnesium Silver Arsenic	Tin	Bauxite Lead Zinc Copper	Mercury Antimony Platinum
Fuels			Molybdenum	
Macmillaneous non-metallic minerals	Fluorspar Graphite Mica			
Materials basic to Chemical Industry	Sulphur Nitrogen	Sugar		
Raw Fibers	Abaca Sisal Kapok Silk	Abaca Sisal	Petroleum Asbestos	Diamonds
				Jute Cotton Wool, Wood pulp for staple fiber and rayon

TABLE 10 (Continued)

Summary of Japan's Supply Position with Respect to the Basic Raw Materials
(at the beginning of 1943)

Commodity	Adequate supplies		Inadequate supplies	
	Adequate within the Inner Zone	Surplus within Occupied Areas available for export	Adequate but dependent on shipping from the Outer Zone	Deficiency to be relieved by smuggling
Staple foodstuffs	Fish Soybeans Wheat	Rice Tea Fats and Oils		No known additional sources available
Fertilizers				Organic fertilizers Nitrates Phosphates Potash
Miscellaneous		Bristles Quinins Rubber	Leather Lumber	
			Vegetable tanning materials	

Production of platinum in Japanese Asia is insignificant, and Japan is therefore almost totally dependent on smuggling and on stocks of unknown size.

The available production of tin is many times Japan's requirements. It is believed that Japan is making efforts to run tin through the blockade to Germany in exchange for mercury, machine tools, and other materials in which Japan is deficient.

Requirements for silver are highly flexible. Japan can probably use as much as can be conveniently had, but this metal is not essential. There is a substantial production within the home islands. Japan has been a regular exporter of arsenic in the past.

Miscellaneous Non-Metallic Minerals. Japanese requirements for fluorspar are flexible and Japan should have no difficulty in meeting them. Production of graphite, both amorphous and crystalline, is believed ample. Production of mica is sufficient only if the Korean deposits can be made to yield enough of the high grade necessary for critical uses. If not, Japan will be dependent on smuggling for high grade mica. Production of asbestos is only about one-fourth of needs, but Japan has stocks sufficient for several years. It is believed that Japan faces a shortage of industrial diamonds unless they can be smuggled in, but in all except a few critical uses artificial abrasives probably can be substituted.

Materials Basic to the Chemical Industry. Although salt production in Japanese-controlled areas can probably be expanded to meet Japan's needs, it is possible that at the present time a shortage of salt due to the shipping situation may be a somewhat limiting factor in the production of such basic chemicals as caustic soda and soda ash. In addition, Japan faces the necessity of building stocks of salt against the possibility of a drop in production because of unfavorable weather conditions. Supplies of sugar for the production of alcohol are potentially ample, but in view of the shipping situation, Japan is known to be making efforts to use domestically available starches for alcohol production in order to alleviate the necessity for importing sugar. There is, however, a substantial sugar surplus in some of the occupied regions, and some of this may be available to Germany if it can be run through the blockade. Sulphur production in Japan Proper is adequate. Production of nitrogen is probably adequate for military uses, but a shortage of nitrogen for fertilizers has been reported. Supplies of coal for the manufacture of coke oven by-products are sufficient assuming adequate shipping.

Raw Fibers. In the past a large part of silk production has been for export purposes. Production has been allowed to decline somewhat since the outbreak of the war. There is still a surplus, however, some of which will be used to substitute for other textile fibers in which Japan is short, and some of which may be run through the blockade to Germany. The Japanese situation with regard to cotton and wool is very tight, possibly critically so. Kapok will be mixed with these fibers, and will be made to substitute to some extent in padded clothes, but it is believed that Japan will have serious difficulty in meeting even essential consumer needs in some of the occupied territories. Consumption of kapok will be increased many times because kapok can be substituted partially for cotton and wool, but it is believed that there will still be a surplus available for Axis Europe.

With the loss of imports of high grade pulp wood from Scandinavia, the United States and Canada, Japan will face some difficulty in making enough satisfactory rayon and staple fibers from the low quality wood and reed pulp now available. Of hard cordage fibers, abaca and sisal, Japan will have ample supplies, both for itself and for possible trade with Germany, providing they can be shipped. Of jute and other fibers suitable for bagging, Japan may face a shortage which may impede its ability to transport such products as grains and sugar.

Staple Foodstuffs. Japan is nearly self-sufficient in most of the foodstuffs basic to its normal diet. Soybeans and wheat, in which Japan tends to be somewhat deficient, are available in Manchuria and North China. Japan has abnormally large stocks of rice on hand at the present time in addition to potentially very substantial imports from occupied areas. Although crop yields in Japan Proper are declining at present as a result of shortages in agricultural manpower and fertilizers, it is unlikely that Japan will allow any considerable depletion of stocks. Of tea Japan has an exportable surplus which may be available for trade with Germany. Japan also has a surplus of fats and oils which likewise are desperately needed by Germany.

Fertilizers. Japan faces a continuing shortage of almost all important fertilizers. The amount of self-supply manures is expected to decline because of the lack of experienced manpower for making compost. Of commercial organic fertilizers--soybean cake, other oil cakes, fish waste, pupae waste, and bone meal--the only kind of which there is a normal supply is soybean cake, and this is not believed to be susceptible of much expansion. Shortages of all important chemical fertilizers, ammonium sulphate, calcium cyanamide, sodium nitrate, phosphoric acid fertilizers, and potash fertilizers have been repeatedly

reported. The shortage of fertilizers will probably not be critical unless Japan loses access to the surpluses of foods in the regions now under its control, but Japan may be faced with the necessity of choosing between allowing home production of food to fall to a possibly dangerously low level, and using shipping space that could be more economically used in transporting food itself, to transport fertilizers from the occupied regions.

Miscellaneous. Supplies of bristles potentially available to Japan from Manchuria and North China are about ten times the requirements. Some may find their way through the blockade to Germany. The supply of hides and leather is probably adequate for minimum military and essential civilian needs. Stocks of vegetable tanning materials are sufficient for several years but it is believed that new supplies are not sufficient to prevent the steady deterioration of the stockpile. Supplies of chrome tanning materials are believed to be adequate assuming continued access to chromium in the Philippines.

Japan now controls most of the world's production of guanine and rubber, and at least some of the surplus of these products finds its way to German Europe through the blockade as payment for goods needed by Japan from Germany.

III. ELECTRIC POWER

Summary

Japan's electric power output seems adequate to handle the current level of production, although reserve capacity becomes critically low during the winter months. As levels of production are raised, however, shortages will develop in some areas, especially during the winter. Stocks of coal at steam plants in the Tokyo-Osaka-Nagoya area have been exceedingly low; operation of these plants is critically dependent on an unrestricted transport of coal supplies.

Moderate expansion of electric power facilities, limited to about 10 percent in 1943, can probably be achieved. In case of need, a considerable portion of steam generating plants in China, the Philippines, and Southeastern Asia aggregating some 1,500,000 kilowatts of installed capacity could be moved to Japan.

Capacity

The total rated capacity installed in the Inner Zone^{1/} was approximately 17 million kilowatts as of January 1, 1943. Of this total, 9.3 million kilowatts was installed in hydro-electric generating stations and 7.7 million kilowatts in steam electric stations. Japan Proper contributed 13.2 million kilowatts, Korea 2.0 million, Manchuria 1.4 million, and Formosa 0.4 million.

Power Available During 1943

The Inner Zone will produce a gross of 75 billion kilowatt-hours of electric energy during 1943, unless drought is serious and widespread, shipments of coal are interfered with, or important plants are destroyed by aerial attack. Over two-thirds of this energy will be produced by hydro-electric generating stations. Practically all of the remainder will be produced by steam electric stations.

After allowing for transmission and distribution losses, a net of about 64 billion kilowatt-hours of electric energy will be available for utilization by the Japanese war industries and other consumers. Approximately 14 billion kilowatt-hours will be used by the chemical industry; 8 billion by the iron and steel industry; 6 billion by the non-ferrous metals industries; 7 billion by the transportation and coal industries; 14 billion by other strategic industries; and the remaining 15 billion by other essential civilian and governmental users.

^{1/} North China, with approximately 200,000 kilowatts of installed capacity, is not included in this summary.

An estimated summary of the over-all position of the electric power industry in Japan's Inner Zone (exclusive of North China) is given in the following tables:

TABLE 11A

Estimated Installed Generating Capacity
in the Inner Zone
January 1, 1943

(In millions of kilowatts)

	Hydro	Steam	Total
<u>Japan Proper</u> (including Karafuto)	7.00	6.20	13.20
Northern Islands	0.30	0.23	0.53
Northeastern Honshu	0.30	0.07	0.37
Tokyo Power Supply Area	3.30	2.00	5.30
Osaka Power Supply Area	2.10	2.00	4.10
Southwestern Honshu	0.23	0.67	0.90
Shikoku Island	0.17	0.13	0.30
Kyushu Island	0.60	1.10	1.70
<u>Formosa</u> (Taiwan)	0.33	0.07	0.40
<u>Korea</u> (Chosen)	1.40	0.60	2.00
<u>Manchuria</u> (Manchukuo)	0.55	0.85	1.40
	9.28	7.72	17.00

TABLE 11B

Estimated Production of Electric Energy
in the Inner Zone
during the year 1943

(In billions of kilowatt-hours)

	Hydro	Steam	Total
<u>Japan Proper</u> (including Karafuto)	38.15	17.69	55.84
Northern Islands	1.50	0.92	2.42
Northeastern Honshu	1.65	0.28	1.93
Tokyo Power Supply Area	16.15	4.00	22.15
Osaka Power Supply Area	11.55	4.00	15.55
Southwestern Honshu	1.15	3.02	4.17
Shikoku Island	0.85	0.52	1.37
Kyushu Island	3.30	4.95	8.25
<u>Formosa</u> (Taiwan)	1.80	0.21	2.01
<u>Korea</u> (Chosen)	8.40	2.40	10.80
<u>Manchuria</u> (Manchukuo)	3.30	3.40	6.70
	51.65	23.70	75.35
Less .15 percent Transmission and Distribution Losses			64.00

TABLE 11C

Estimated Requirements for Electric Energy, 1943,
by Principal Classes of Consumers in the Japanese Empire and Manchuria

Class of Consumer	Electric Energy Requirements (in billions of kilowatt-hours)
<u>Chemical Industry</u>	14
Nitrogen fixation (plus calcium carbide produced for acetylene and other purposes)	9.0
Other chemicals (caustic soda, chlorine, etc.)	5.0
<u>Iron and Steel Industry</u>	8
(Mining iron ore, producing iron and steel, and fabricating heavy iron and steel products)	
<u>Non-ferrous Metals</u>	6
Aluminum, including the production of alumina	4.5
Other metals; zinc, magnesium, copper, etc.	1.5
<u>Coal</u>	3
(Mining, transporting and loading coal)	
<u>Transportation</u>	4
(Principally for electrified railways)	
<u>Other Strategic Industries</u>	14
(Including paper and pulp, shipbuilding, ordnance, machine tools, aircraft, etc.)	
<u>Other Essential Civilian and Governmental Uses</u>	15
Total.....	64

Power Supply Areas

In general, the hydroelectric stations are scattered in mountain regions throughout the entire area. In Japan Proper these stations are quite numerous; although most of them are relatively small, their total generating capacity is substantial. In Formosa, Korea, and Manchuria, the hydroelectric stations are usually large.

The principal steam electric generating stations are concentrated in Central Honshu Island on the water fronts of Kawasaki, Amagasaki, and Nagoya, or located near the coal mines. Until recently the steam electric stations at Kawasaki, Amagasaki and Nagoya were used principally for the purpose of supplying electric energy during the winter months when there are shortages of water for the hydroelectric stations. However, a number of large "base load" steam electric stations were reported to have been installed in these areas during the past three years. The steam electric generating stations which are located near coal fields are usually "base load" stations.

The Inner Zone is divided into a number of electric power supply areas, both by natural obstacles and by lack of uniformity in the frequency used. The Tokyo power supply area is the most important with approximately 30 percent of the total generating capacity. The Osaka-Nagoya power plant supply area is second with 24 percent; Korea is third with 12 percent; and Kyushu Island is fourth with 10 percent. The remaining generating capacity is distributed throughout the six other supply areas, each area containing generating capacity representing between 2 to 8 percent of the total capacity installed in the Japanese Empire and Manchuria.

Prospective Increases During 1943

If raw materials and plant facilities were available, Japan doubtless could increase its generating capacity to the extent of about 10 percent a year, but whether in fact they will be available remains in doubt. The probability is that if expansion of generating equipment is undertaken, it will be only at a sacrifice of other war equipment.

A 10 percent increase in electric power facilities during 1943 would require approximately 400,000 metric tons of steel ingots, 60,000 tons of iron, and 10,000 to 60,000 tons of copper, depending on the amount of aluminum and steel which the Japanese are able to substitute for copper. Competition for scarce metals by the shipbuilders and other war industries, and also

for the facilities which are normally used in the production of electric power facilities, will be the principal factor limiting the expansion of Japan's electric power industry.

The production of electric energy in 1943 will be limited by the amount of water which will be available for the generation of hydroelectric energy, and by the amount of coal which will be available for the operation of the steam electric stations. A total of approximately 20 million tons of coal will be required to operate the steam electric stations during 1943 at an average of 3,000 hours per kilowatt of capacity. Of this total, approximately 10 million tons will have to be shipped considerable distances to the Tokyo and Osaka power supply areas.

In addition to the power facilities of Japan's inner zone, there are 1,500,000 to 2,000,000 kilowatts of generating capacity installed in thermal stations of territories occupied since 1936. A considerable proportion of this capacity could be moved from the Yangtze Valley and the southern regions to the Inner Zone.

IV. CONSUMER GOODS PRODUCTION

Summary

Consumer goods rationing in Japan began five years ago, but deficiencies of supply are not, as yet, critical. Food stocks are adequate (but provide little variety) and in some respects reserves are above normal. The carry-over of rice, for example, is over twenty-five percent higher for the current year than it was during 1941-42 and is nearly four times the carry-over of 1940-41. By American standards the normal Japanese diet has never been "balanced", however, being deficient in fats and proteins. This deficiency has been intensified during the past three years.

The lack of cotton and wool has been partially offset by low quality staple fiber garments which provide neither warmth nor durability. Leather shoes for civilian use are severely rationed, but the masses of the Japanese are accustomed to wooden "geta" and rice straw sandals. Hence, the rationing of leather represents little or no hardship. Shortages of charcoal and other household fuels have had a detrimental effect on health, particularly in the northern areas. As in most warring countries, local transportation for war workers is inadequate. The over-crowding of local busses and electric lines and the frequent breakdowns in bus service are a significant drain on the strength of Japanese labor. The effort of workers to meet this difficulty by moving into industrial centers has caused acute housing shortages in particular areas.

All of these conditions have contributed to a significant decline in health. In spite of the government's effort to curb them, there has also been an extensive growth of "black markets" which tend to disrupt ration and price controls.

Japan has not yet reached the limit beyond which additional conversion of consumer goods industries to war production cannot be made, but is rapidly approaching that limit. The bulk of the future expansion of war industry cannot come out of the conversion of present consumer goods industries to war production but must be attained through the exploitation of the new resources which Japan has acquired.

The gradual conversion of consumer goods industries to war production began as early as 1931 and was sharply increased in 1937. Between the beginning of the war with China in July 1937, and the attack on Pearl Harbor, December 7, 1941, Japan adopted practically all of the drastic measures for converting consumer

goods industries to war production that are in use in other belligerent countries.

These include: (1) a heavy tax program and a system of forced saving in order to cut down consumer buying power; (2) the adoption of a gradually expanding ration system; (3) the stoppage of nonessential industries; (4) the passage of laws strictly governing prices and providing severe penalties for black market and similar operations; and (5) the creation of a system of priorities governing the use of transportation, electrical power, and other service industries.

In order to analyze the impact of war economy on consumers' goods consumption, it is necessary to consider the chief consumer goods groups separately.

Food

Food, representing the greatest single expenditure group in Japan, was rationed first. Japan's ability to supply its population with food hinges primarily on supplies of rice and fish. Wheat and other grains, sugar, and soybeans are next in importance.

Farmers in Japan are required to sell rice, other cereals, beans, green vegetables, eggs, and other products through government channels and at a fixed price. They can put aside for themselves only the amount of each product which corresponds to the rations allowed to the city population. Prices paid by the government are so low that in some cases the farmer cannot afford to transport his produce to town.

Rice. Rice is the best single index of Japan's food position. Rice production in Japan and Korea is below the amount required for domestic consumption under the present rationing system. The major factors in the decline of rice production are (1) the reduction in the quantity of available fertilizers; (2) the diversion of farm labor into war industry, and (3) unfavorable weather in several recent years. Japanese agriculture is adjusted to an intensive application of labor per unit of output. The mechanization of agriculture would offset the decrease in labor but such mechanization is impossible under present conditions.

Other information, obtained from Japanese prisoners captured in the Solomons, indicates different regulations applying to rice. According to this information, each farmer is forced to sell to the government only a certain quota of his rice, fixed on an average basis. BEW Weekly Notes on Current Economic Information, March 17, 1943.

Government control over the rice market has been gradually tightened in recent years. Following a serious shortage of rice which occurred in Japan in the late fall of 1939 owing to heavy wartime consumption, the people were urged to voluntarily reduce consumption, and the polishing of rice was reduced to 70 percent. In April 1940, the first local rationing system went into effect in Kochi, Shikoku. During the late summer and fall of 1940 the mixture of wheat, barley, buckwheat and even beans with rice was enforced by the local officials in various areas. In April 1941, rice rationing was put into effect in Tokyo, Osaka, and Kobe, with allowances ranging from 570 grams per day for extra-heavy workers down to 300 grams for persons over 61 years of age not engaged in manual labor.

In the opinion of recent residents in Japan, the ration of rice to families with several children is not sufficient and signs of undernourishment are noticeable. Wealthy families are obtaining rice in the black market.

One purpose of the strict rationing of rice is to increase Japan's stockpile. As a result of heavy imports from Southeastern Asia, Japan now possesses over fifteen million koku (brown rice - one koku equals 322.4 lbs.) which is nearly double the normal carry-over.

The tables on the following page indicate recent changes in Japan's rice position.

Other Grains. Wheat, barley and naked barley are the principal subsidiary grains grown in Japan. Although far below rice in importance, they are almost equal to all of the beans, potatoes, fruits, and vegetables combined as a source of food for the people. Although wheat production rose in 1940, the peak year, to a total of nearly double the 1932 figure, two factors have tended to prevent the civilian population from obtaining all the wheat they require, (1) the necessity of supplying Manchuria with substantial amounts of flour (some flour is also shipped to China), and (2) the abnormally heavy domestic demand which has been largely due to insufficient rice supplies, and to higher than usual consumption by the armed forces.

The distribution of the subsidiary grains is controlled by the government. All production in excess of the farmer's actual requirements must be sold to the government. These supplies are distributed to the consuming areas on a monthly basis. A limited number of cities have individual rationing

TABLE 12
Supply of Rice in Japan Proper
(In 1,000 metric tons)

Rice Year	Carry-Over from previous year	Production during previous year	Imports from Foreign colonies countries a/	Imports from Foreign countries a/	Total
1934-35	2,403	7,581		1,904	11,888
1935-36	1,453	8,403		2,076	11,932
1936-37	1,171	9,848		1,737	12,756
1937-38	1,099	9,699		2,233	13,031
1938-39	1,242	9,633		1,430	12,305
1939-40 d/	585	9,067	512	1,769	11,933
1940-41	585	8,921	1,170	2,047	12,723
1941-42	1,682	8,043 b/	1,755	1,609	13,089
1942-43	2,194	9,067 g/	731	1,204	13,016

- a/ The average imports for the first five years were about 20,248 metric tons annually.
- b/ Some authorities believe that this crop amounted to 8,482,000 metric tons.
- g/ Some authorities believe that this crop amounted to not more than 8,804,000 metric tons. "Official" and other reports vary from 9,169,000 to 9,871,000 metric tons.
- d/ After 1938 figures are estimates.

TABLE 13

Rice Demand in Japan Proper
(In 1,000 metric tons)

Year	Exports	Carry-over at end of year	Consumption	Total
1934-35	116	1,453	10,319	11,886
1935-36	80	1,171	10,680	11,931
1936-37	95	1,099	11,563	12,757
1937-38	85	1,242	11,703	13,030
1938-39	111	594	11,600	12,305
1939-40 ^{a/}	73	585	11,275	11,933
1940-41	73	1,682	10,968	12,723
1941-42	73	2,194	10,822	13,016
1942-43	73	2,267	10,676	13,016

^{a/} After 1938, figures are estimates.

TABLE 14

Estimated Imports of Rice into Japan
by Country of Origin
(in 1,000 metric tons)

Country	1940	1941	1942	1943 (Expected)
Burma	468	477	73	73
Thailand	278	541	585	219
French Indo-China	468	731	804	585
China	556	278	146	146
Total	1,770	2,047	1,608	1,023

tickets for bread, but in Tokyo and some of the large cities this system has not been extended to the consumer. Throughout 1941, the actual distribution of flour was running far behind the schedule allotment dates. Americans who returned in August 1942 reported that long bread queues could be seen outside of all bakeries.

Fish. The fish supply depends entirely on outside factors, such as the availability of vessels, fuel, and labor and the lack of interference from enemy naval forces. The shortage of fish—reported by all observers—is attributed to shortage of oil, military demand for vessels, and the government's price policy (i.e. officially fixed prices were too low to induce fishermen to transport goods to towns). The government is urging the population to replace fish with potatoes and vegetables.

The rationing system for fish was introduced in Tokyo on February 5, 1942. At that time only about 100 to 200 metric tons of fresh fish per day were available, against a normal demand for 600 tons. Sales were restricted to 30 monme per family every other day (1 monme equals 0.132 ounces). In subsequent months supplies have increased to about 500 tons per day and daily purchases of 30 monme per family have been permitted since March 30, 1942.

Soybeans. Soybeans are at present scarce in Japan, due to reduced output in Manchuria, lack of adequate transportation, and heavy demand of the armed forces. Soybeans are being rationed, but details of the system are not available.

Sugar. The sugar supply for the Empire is sufficient. But production in Formosa has been reduced in favor of rice while the problem of transportation from Formosa and the southern areas has caused the curtailment of consumption in Japan Proper. Sugar was the first foodstuff rationed on a national basis. Rationing was introduced in the six major cities on June 1, 1940 and was extended to the prefectures on July 1. The quota varies in the different localities. In Tokyo all persons are allowed 0.6 kin (one kin equals 1.323 pounds) per month. In the country it is 0.4 kin. Special allotments are granted to infants and for special occasions.

In June 1942 the sugar ration was doubled from 0.6 kin to 1.2 kin per month per person. About 600,000 tons of sugar were available in the Philippines at the time of their capture. There were also slightly less than a million potential tons in the form of unharvested sugar cane.

Meats. The domestic consumption of meats was increasing prior to the war, but meat is now very scarce. Transport difficulties are said to have caused imports to decrease, and a shortage of foods for animals probably is another unfavorable factor. With the exception of a small upper class group, however, meat constitutes a very minor item in the Japanese diet. In rural areas it is eaten only on unusually important festival days.

Eggs. Egg consumption per capita was estimated to be about 50 per annum. Most recent information indicates that an average of one egg per Japanese household (about five persons) per week is allowed.

Eggs thus constitute an insignificant item in the present Japanese diet.

Milk. Production and consumption of milk has increased during the past decade but consumption in the urban centers has now been rationed. It is only available to small children and invalids and through doctors' certificates. Reduced milk production is said to be a shortage of animal food.

Salt. A salt shortage has existed for some time in spite of domestic production and imports from China and Manchuria. The extent of the shortage is evidenced by the fact that table salt was put under the rationing system on January 1, 1942. The ration is 200 grams per person per month.

Tea. The domestic output of tea averages about fifty percent more than consumption. It seems probable that the acreage planted in tea will be reduced to increase the area available for more essential foods.

Other Items. Butter, edible oils and fats are very difficult to obtain in Japan in spite of the huge potential of supplies in the occupied countries. Fruits and vegetables, although extremely scarce in big cities, are not rationed, but are sold to first comers as long as they last.

Clothing

An examination of the supply of textile fibers points to a scarcity of most of these materials from which clothing is made.

The Japanese situation with regard to cotton and wool is critical. With the loss of imports of high-grade pulp wood from Scandinavia, the United States and Canada, Japan faces difficulties in making enough satisfactory rayon and staple fibers from the low quality wool and reed pulps now available. Production of silk has been allowed to decline; there is still a surplus, however, some of which can be used to substitute for other textile fibers of which Japan is short.

Rationing of textile goods went into effect on February 1, 1942. Coming under the restrictions was practically all clothing of cotton, wool, silk, rayon and other fibers, including all kimonos, socks, stockings, hand-suits, underwear, sport clothes, neckties, socks, stockings, handkerchiefs, towels, blankets, sewing threads and related items.

Rationing is carried out under the point system. Each person, including children, receives a card entitling him to purchase 100 points worth of clothing in cities, and 80 points in rural districts; each article has a specified point value. The ticket is to last for a year. Only 50 points could be used to July 31. In January 1943, new regulations were issued, reducing the available quota. The Ministry of Commerce and Industry explained this move by the fact that to avoid waste, many people returned their ration cards unused. If this is true, the conservative spending on the part of consumers may be attributed to the fact that ration cards were issued in excess of the supply of clothing now available for distribution. The change probably is intended merely to shrink the ration down to the available supply.

Wearing apparel and clothing materials are said to be inferior in quality, and not always possible to obtain.

Leather and rubber boots are also rationed. Cards have been issued only to those to whom footwear is essential for their work. Boot repairs are difficult on account of a shortage of sole leather.

Fuel

Shortages of charcoal, coke, coal, wood and gas are reported by most observers. The shortage of charcoal is felt keenly in Japanese households as it is the leading fuel for domestic use, primarily for cooking, secondarily for heating purposes.

Regulations effective from April 1942, provided that a family of three, living in a house with a floor space of 20 mats (360 square feet) should receive six bales of charcoal a year, or about one-half of moderate needs. (One bale of charcoal weighs about 25 pounds). Available reports suggest that the amount of charcoal made available to households during the winter of 1942-43 was only half the already restricted amount supplied in 1941-42. There is a great demand for wood to help out the fuel supply, but it is very difficult to get, although it is not rationed.

Gas has been rationed since October 1941. New rationing regulations were issued for the five months beginning January 1, 1942. They were to allow a household with a single member four calories; 10.5 calories when there are five members to a household. Extra quotas were to be allowed for sick persons.

To conserve electricity for the munitions industries, a drive was made during the winter of 1941-42 to reduce private consumption by means of heavy surcharges on the monthly bill. Arbitrary action to reduce consumption of electric power in homes has also been taken in some instances.

Local Transportation

Busses and trucks are in a run-down condition. The few busses and trucks that are operating are crowded and overloaded. Private cars, except for the use of officials and the military, have disappeared. The unsatisfactory condition of motor vehicles is attributed primarily to the necessity of substituting other fuels for gasoline. The majority of trucks, taxis and busses were being operated on charcoal, wood, coal burners, and gasoline, with a certain percentage of alcohol and propane gas. Approximately 30 percent of the units equipped with charcoal, wood, and coal burners are out of operation as a result of the shortage of fuel.

The inconvenience and the slowness of transport to and from work is a drain on the strength and morale of Japanese labor.

Housing

As transportation by train, bus, street-car, and taxis became difficult, many Japanese who previously lived in the suburbs tried to move into Yokohama. This resulted in a serious shortage of housing.

The building of new houses is severely restricted. The government has undertaken to build low-cost houses in a number of cities. As every effort is being made to save raw materials, it is estimated that the type of house now constructed saves from 25 to 70 percent in materials as compared with the older houses.

Standard of Living and Industrial Efficiency

On the basis of all available information the conclusion may be drawn that while there are no indications of critical food shortages at present, the amount of food available is not equal to the amount the Japanese people normally consume. There are some evidences of malnutrition, especially among children and poor people, particularly in cities. On the other hand special rations are given to heavy workers and extra-heavy workers.

Excessive hours, the employment of young and inexperienced personnel, and inadequate diet have contributed to rising accident rates. In the year 1939-40 a survey made by the Labor Bureau of the Welfare Ministry of the accidents among 2,200,000 workers in 8,000 factories, disclosed that 590,000 or 27 percent of the total were more or less seriously injured and 749 were killed. This may be compared with the accident rate of 15.5 percent in 1937 and of 21 percent in 1938-39.

Deterioration in public health is reflected in the growing number of tubercular patients. Insofar as this is related to the diet, it probably is the result of the reduction in the consumption of protein foods such as fish or soybean. A report in 1937 stated that there were 1,200,000 patients in 1937 when the death rate was 120,000 a year. In 1938 there were 1,500,000 patients and 148,872 deaths, a rate 50 percent higher than in 1936. The serious inroads of the disease in the industrial field is indicated by the number of tubercular workers sent home--92,000 in 1937, 110,000 in 1938, and 140,000 in 1939. More than half of the tubercular workers were between the ages of 15 and 23. The government's concern over health conditions is apparent from a recent broadcast stating that 80 percent of the budget of Yen 132,000,000 of the Welfare Ministry for 1943-44 will be devoted to an anti-tuberculosis campaign.

Black Markets

Notwithstanding the government's efforts to control the distribution of daily necessities, black markets are widespread in practically all commodities. Prices in the black markets are exorbitant. The black markets are obviously patronized extensively by the well-to-do, but even their standard of

living is lowered as shortages deprive them of many of their accustomed luxuries.

Conversion of Consumer Goods Industry to War Production

Japan is rapidly approaching the limit beyond which additional transfer of equipment and labor from consumer goods industries to war production will actually reduce the efficiency of war production.

Non-essential industries have been out of production for over two years and there are very few points in essential consumer goods industries at which additional cuts can be applied without creating extremely severe shortages.

V. COMBAT ARMAMENT

SUMMARY

Processing capacity constitutes the principal limitation on the production of combat armament. It should be noted, however, that stockpiles of combat armament, which have consistently been accumulated during the last twelve years, and the large quantities of machine tools that have been imported since 1935 help to compensate for technical limitations on the mass production of war supplies.

Alloy steels will be produced in substantial amounts in 1943, but their quality, in many instances, is inferior to the best western products. This deficiency will prevent optimum utilization of the alloy steel output. Uneven quality of high-speed and other alloy steels will also affect the performance of cutting tools adversely and thus slow down production.

Inexperience in designing and manufacturing the finer types of machine tools and bearings, as well as efficient jigs and fixtures, has been a retarding influence in the general application of mass production to the armaments industry.

These limitations will chiefly affect aircraft and trucks and armored vehicles. The production of aircraft will probably not exceed 10,000 planes of all types during 1943. Approximately 60,000 trucks and armored vehicles will be produced during the current year but probably no more than 4,000 tanks. The production of the latest model anti-aircraft and anti-tank guns will also be somewhat limited by technical difficulties. For other types of ordnance, however, processing capacity does not constitute a serious bottleneck.

The Technical Efficiency of Japanese Industry and its Effect on the Production of Combat Armament

The technical efficiency of Japanese industry, measured by reduced unit costs and increased unit output per worker increased very considerably in the decade 1930-1940. The textile industries, the paper and ceramic trades, the basic mining industries, the production of steel, many branches of chemical manufacture, the metal and engineering trades, and a wide range of manufactures were increasingly modernized during this period. In mining, technical processes were refined, mechanical conveyors replaced hand labor, larger and more efficient equipment was substituted. In manufactures, there was a marked concentration of

output in large and well-equipped plants at the expense of traditional production in a multitude of very small workshops. Of particular importance was the development of many kinds of machine tools which not only fostered the use of machinery but made possible significant progress in the standardization which is necessary for the adoption of mass production techniques.

Increasing Self-Sufficiency. In these years Japan took measurable strides toward industrial self-sufficiency. In 1932, Japan became a net exporter of steel. The range of manufactured products was steadily increased and their quality was rapidly improved. The heavy industries, which are basic to industrial strength, fully shared this progress. Japanese foundries reached a level of development which enabled them to supply the largest and most elaborate of iron and steel castings. The domestic steel industry began to produce a wider range of alloys. The machinery and machine tool industries undertook the manufacture of more complicated types. Boilers and prime movers of all kinds, especially steam turbines, were manufactured in quantities adequate to meet virtually all home demands. Imports of boiler tubes were reduced, and Japanese technical skill increased to a point which made possible the design and manufacture of power plants of the highest pressure and temperature. Industrial labor also became more skilled and the Higher Technical Schools graduated many new specialists for Japan's growing industries.

Remaining Technical Weaknesses. To estimate the significance of recent technical progress in Japanese industry, it is necessary, however, to see industry in proper perspective. By western standards, the Japanese position suffers from the fact that industrialization in Japan began within the past sixty years. Although remarkable progress has been made from the low levels of fifteen years ago, Japanese industry is not as yet abreast of western industry in methods or efficiency. Producing units in Japan's large-scale industries are smaller than those in the West, and are less highly specialized. As long as imports were available, Japan still relied on foreign countries for high-quality special steels and for the critical machine tools in precision production. Japan's motor industry was never substantial; hence facilities for the manufacture of motorized military equipment are inadequate. The trained labor supply is insufficient in all fields in which production has been expanded. Relying on the West, Japan has never been responsible for important technical innovations in industry. As a result, Japan's war-time economy suffers from definite deficiencies in both the quantity and quality of technical equipment as indicated in the following discussion.

Alloy and Tool Steels. Shortages of alloy steels, particularly high speed steels, have undoubtedly proved a serious hindrance to Japanese metal and machinery manufacturers. It is not that Japan has lacked an alloy steel industry, but rather that this industry has developed relatively slowly:

TABLE 15

Expansion of Special Steel Industry in Japan, 1926-1936
(tons)

Year	Total Special Steel (crucible and electric furnace)	Alloy Steel
1926		10,000
1928		16,000
1932	69,740	23,000
1933	139,561	49,000
1934	208,790	56,000
1935	241,649	66,000
1936	316,475	76,000

Since 1936, many new electric furnaces have been installed. Production in the Japanese special steel industry may be expected to reach 750,000 tons in 1943. Because of war demands, it will consist almost entirely of alloy steels. By utilizing some open hearth furnace capacity for the same purpose, Japan will command a total probable production of 1,200,000 metric tons of alloy steel during the coming year. Analyses of captured Japanese armament material show that mild or carbon steel is sometimes used where American practice would dictate the use of alloy steel. It appears probable that, because of inferior quality, part of the production cannot be used where high performance is vital.

There is abundant evidence of the difficulty which the Japanese have experienced in learning the techniques necessary for the production of new alloy steels. "Domestic alloys lagged far behind imported German and other alloys in quality and there are no good reasons to assume that this deficiency was made up since July 1941." (Dispatch from Ambassador Grow on exchange M.S. "Gripsholm", August 18, 1942). "However, bear in mind that every time we tried to demonstrate any machines in Japan, the tools and material to be machined were of an inferior quality." (Letter from Mr. W. P. Lots, Landis Tool Company to Mr. Toll Berna, Executive Director, National Machine Tool Builders' Association, March 25, 1942).

It is not that the techniques cannot be acquired but that several years must elapse before they are completely mastered. An expansion in alloy steel production since 1936 of the dimensions indicated magnifies the difficulties involved. Meanwhile, with so small a total output of steel, the Japanese cannot afford to discard entirely batches of steel which do not measure up to specification, nor can they stop production until uniformity of composition in the various types of alloy and tool steel is attained. As a result, poor grades of tool steel are often employed. Inferior tools directly affect the speed and hence the quantity of armament production. It is necessary either to reduce the speed of cutting in machining parts, or to interrupt production more often to replace tools. Whichever alternative is adopted, output suffers.

Another deficiency in Japanese metallurgical practice affecting armament production is the great lack of uniformity in carbon content of high-grade steels made in Japan. This makes it very difficult to obtain a uniformity in heat-treatment, and results in a varied degree of strength, hardness and machinability after the material is treated. Although this lack of uniformity does not affect the accuracy of parts as machined, it takes a constant toll of cutting tools in the machining process when they encounter metal of greater strength and hardness than that for which they are designed.

Machine Tools. In Japan units valued at less than \$100 are classified as machine tools. Many of these obviously cannot be power-driven cutting and grinding machines that work on metal. Hence, many machines included in the following tabulations do not figure in the mass production of arms, munitions, tanks, aircraft, motor vehicles, and other war equipment.

In presenting value figures as an indication of the degree of self-sufficiency of the Japanese machine tool industry, the following explicit reservations must be made. (1) The value of the average machine tool made in Japan is considerably below that of the average imported machine tool. (2) The number of Japanese machines represented by a given monetary value is such greater than the number represented by imported machine tools. (3) The majority of machine tools produced in Japan are of the standard, low production, and non-precision types, whereas the majority imported are of a critical type, as far as their importance to the manufacturing industries of the country is concerned.

Even on the quantitative side, there are further reservations to be made. The percentage of Japanese self-sufficiency in machine tools was said by Japanese authorities to have dropped from 72 in 1936 to 50 in 1937, when demand jumped to an index figure of 180 on the base, 1936 = 100. In 1938, on the same base,

TABLE 16

Japan: Production and Import of Machine Tools, 1929-1938

(in unit values)

Year	Production		Importation (1000 Yen)	Exportation (1000 Yen)	Demand (1000 Yen)	Production as percent of demand
	Number	Value (1000 Yen)				
1929	464,252	5,586				
1930	32,737	4,437				
1931	114,756	3,943	3,070	220	6,793	53.05
1932	33,654	8,198				
1933	50,103	15,503	16,247	566	31,184	49.71
1934	330,863	23,459	21,433	1,189	43,701	53.68
1935	72,425	30,176	18,296	1,941	46,531	64.85
1936		36,503	18,865	4,907	50,461	
1937		50,000		5,790		
		approx.				
1938				9,570		

TABLE 17

Japanese-produced Machine Tools

(in unit values)

Year	Yen	Dollars
		(Average annual exchange rates)
1929	12	6.
1930	135	68.
1931	34	17.
1932	238	71.
1933	306	77.
1934	71	21.
1935	415	124.

demand is said to have risen even more sharply to an index figure of 710, as Japan attempted to swing its armament industries into mass production. Although no figures were issued for production in 1938, it appears probable that the Japanese industry could supply only one-eighth to one-quarter of the indicated demand. As further evidence of the dependence of Japanese industry on imported machine tools, the results of a reliable investigation of 12 machinery factories made in 1937 may be cited. They show the number of homemade machine tools in use as against foreign-made:

	Home-Made	Foreign-Made
Lathes	819	788
Drilling Machines	207	277
Milling Machines	79	256
Planers and Shapers	399	851
Grinders, etc.	399	851
Total	1,631	2,347

The evidence of value figures is also useful in indicating roughly, on the quantitative side, the present Japanese position in machine tools as compared with, for example, the United States. In the following table, Japanese production and import figures have been combined on the basis of average annual rate of exchange. Certain modifications have been made to conform to export statistics from supplying countries:

TABLE 15

Additions to the Japanese Machine Tool Inventory

Year	Japanese production	Imports from United States, United Kingdom, and Germany	Total, rounded
1932	\$ 2,300,000	\$ 1,890,326	\$ 4,100,000
1933	3,850,000	3,733,347	7,600,000
1934	6,350,000	6,571,656	13,000,000
1935	8,080,000	4,965,989	13,000,000
1936	12,150,000	6,090,999	18,000,000
1937	15,674,000	16,465,746	32,000,000
1938	(approx)		
	18,000,000	34,585,662	53,000,000
1939	(approx)	(approx)	
	21,000,000	26,000,000	47,000,000
1940	(approx)	(approx)	
	25,000,000	24,000,000	49,000,000
1941		930,000	

For comparison, the following table is useful:

TABLE 19

Additions to the U.S. Machine Tool Inventory, 1932-1942

Year	Production	Exports	Inventory increase
1932	\$ 22,000,000	\$ 8,705,000	\$ 13,295,000
1933	25,000,000	6,476,000	18,524,000
1934	50,000,000	16,056,000	33,944,000
1935	85,000,000	22,820,000	62,180,000
1936	133,000,000	34,047,000	98,953,000
1937	195,000,000	52,136,000	142,864,000
1938	145,000,000	83,269,000	61,731,000
1939	200,000,000	101,247,000	98,753,000
1940	430,000,000	224,741,000	205,259,000
1941	775,000,000	191,034,000	583,966,000
1942	1,400,000,000 (approx)		

The preceding tabulations show that in the period 1932-40, the Japanese machine tool inventory increased about \$236 million of which \$142 million (or less) were Japanese production and \$125 million were imported. By contrast, during this period, the United States machine tool inventory increased \$735 million--more than three times as much. If estimates are added covering 1941 and 1942, the Japanese increment probably did not exceed \$80 million, (imports ceased), while the United States inventory expanded by about \$1,100 million, or more than 22 times that of Japan. For 1943 a further Japanese expansion of some 20 percent may be estimated. Thus, if Japanese production reached, say, \$35 million in 1941 and \$45 million in 1942, production this year may be expected to run between \$90 million and \$60 million. This compares roughly with the figure of 200,000,000 set as the goal of the expansion program to be achieved in 1941. The weight of evidence, including repeated references from Japanese sources to the difficulties encountered by this program makes a two-year delay in achieving its objective a reasonable assumption.

The Problem of Precision in Machine Tools. In aircraft engines and to a lesser degree in tanks, guns, and automotive equipment, it is necessary that parts be finished to a tolerance of not over 0.001 inch. For certain parts, the limitations are much smaller. The Japanese have usually failed in their efforts to produce machines that will operate within such close limits.

As has been indicated, Japanese tool makers, to a great extent, confined their product to a limited variety of sizes and types of second-grade standard machine tools, such as are used in this country in garages, jobbing shops or repair shops. They have always had trouble with gear-making, depending almost entirely upon the United States for gear cutters, hobs and broaches. Although in these fields there have been many Japanese attempts to make durable cutting tools capable of producing satisfactory parts, these efforts met with little success. The failures were in metallurgy and in the geometry of cutting. Thus, one of the principal bottlenecks in the automobile industry and in producing aircraft engines occurs in the number of gear-cutting machines available.

The present Japanese supply of imported machines permits of no substantial expansion of mass production methods. Moreover, the upkeep of machines in operation is notoriously less efficient in Japan than in western countries. Under the most favorable circumstances, before the Japanese machine tool industry would be capable of replacing worn-out machines or equipping new plants without substantial loss in efficiency, a minimum of several years would have to elapse. It will not be within the probable duration of the present war, in the opinion of many American engineers.

Mass Production Techniques. Another critical bottleneck that would exist in the Japanese automotive and aviation industries if major changes were made in the direction of mass production output, is the inability of the Japanese to make jigs, fixtures, and dies, and a lack of tool facilities for producing them expeditiously. Not only are tool-making facilities limited, but there is a dearth of trained personnel that can design such equipment and work to the exacting clearances required. If a well-designed fixture requiring a minimum of time to transfer the work is used, production can be maintained at a maximum, but if this fixture or jig is of poor design, the production capacity of the machine will be affected accordingly.

It is also necessary to emphasize the importance of perishable cutting tools and hand machines. Regardless of the high productivity of a power-driven machine tool when properly operated and equipped, such a machine will prove no more efficient than the cutting tools with which it is provided. For example, a machine may be capable of very high speeds and feeds resulting in rapid production, but if low-grade cutting tools or poorly heat-treated tools instead of tungsten carbide tools are used, then the speeds and feeds must be cut to conform to the low-grade tooling. In terms of production, the difference

between a carbon steel cutting tool and a tungsten carbide cutting tool is the difference between fifty feet and 300 feet per minute. The Japanese have little experience in the manufacture of these higher speed cutting tools. Although imported machine tools were equipped with high speed cutting tools, these cutting tools are perishable and the Japanese had no opportunity to accumulate stocks. Thus, the rate of production of their best power-driven machine tools will depend to a large extent on their ability to attain production of effective cutting tools.

Anti-Friction Bearings. The importance of ball and roller bearing production was very belatedly recognized in Japan, with the result that reliance on foreign bearing products increased with the growth of home production in machinery, automobiles, and airplanes. In 1940-41 it was estimated that, as a result of strenuous efforts by the army and navy, total Japanese anti-friction bearing production of all types (roller and ball) was about 55,000 per day. In addition to this, SKF was furnishing Japan with approximately 10,000 pieces per day. Under present schedules in the Japanese automotive, airplanes and machine tool industry, it has been estimated that 65-70,000 units per day would be needed, inclusive of service replacements. It would appear that this over-all quantitative requirement is being met. The above estimates are, of necessity, approximations, but they point to an output probably sufficient to cover the number of pieces necessary, not only for production purposes, but also for replacements. The quality of the output, however, is a different matter.

Anti-friction bearings fall roughly into two categories: precision and ordinary bearings. The manufacture of even ordinary bearings of good quality is a complicated and difficult job. The manufacture of fine precision bearings, whose tolerances are on the order of two to eight ten-thousandths of an inch, is an art which has been mastered by only a few firms in the world. It is particularly difficult to produce precision bearings in either very small or very large sizes. Although SKF carried in stock in Japan from 1,800 to 2,000 types, the Japanese, in order to step up their over-all production, decided to concentrate on popular sizes running up to 100 mm., but not including the small bearings required for such equipment as magnetos, signal apparatus and the like. It is believed that any attempt on their part to make all the sizes required would reduce their over-all production below their estimated quantitative requirements. As late as October 1941,

the Japanese automobile industry was very hard pressed for lack of several special bearing types, then not even in production.

The Japanese were unsuccessful in their last minute efforts to accumulate any reserve stocks of bearings. Although shipments from Sweden via Spain and Italy have undoubtedly run the blockade, these could supply only a fraction of the Japanese need for fine bearings. As of 1941, Japanese stockpiles of bar steel for races seemed sufficient for two years' requirements, but this stock covered only the popular sizes on which the Japanese manufacturing industry has concentrated. Much had to be sacrificed to make the smaller-sized bearings.

Japanese steel for both races and steel balls is inferior; it is interesting to note that both the Japanese Army and Navy specified imported steel in these categories. Another factor which will militate against makeshift arrangements is that results have been poor when domestic balls have been used with imported races, or with races made from imported steel. This is because the imported steel is harder than the domestic steel going into the ball.

Not only are the Japanese faced with the dual problem of maintaining simultaneously a quantitative and diversified production, but they have yet to overcome serious technical obstacles impeding their production of fine precision bearings. As early as 1940 they had begun to replace precision bearings with ordinary bearings wherever this was possible. As an example, in the machine tool field, precision bearings in the gear boxes were replaced with ordinary bearings. Probably technicians from Germany or Sweden are assisting the Japanese in their efforts to overcome these difficulties. Without additional equipment, however, it is hard to see how much progress can be made.

In the opinion of experienced bearing engineers, Japan's ball and roller bearing industry is far behind the West in respect to capacity, technique, and precision machinery and on that account constitutes a most serious problem in the Japanese war economy. This bottleneck is further aggravated by lack of facilities for production of steel balls above one-half inch in size and tapered as well as cylindrical rollers. Japanese-made ball bearings as a general rule have a lifetime only about one-third that of first class foreign products.

Industrial Personnel. The technological problems indicated above are very serious obstacles to the expansion of production in the Japanese armament industries. They are aggravated by the

shortcomings of industrial personnel. The increasing demands of industry have resulted in a severe shortage of almost all kinds of trained labor. The Japanese are skillful artisans and under able supervision become efficient industrial workers. Facilities for training new workers while maintaining full industrial production are limited, however, and in the absence of a tradition of mass production the difficulties involved are magnified. It takes longer to develop competent workers. There is an especial shortage of supervisors at the shop foreman level. Moreover, the supervisory class as a whole is less efficient and less competent than are the workers. Japanese technical engineers are frequently highly trained, but more specialized than those in the West and hence less versatile. Even in the same industry they cannot be shifted so easily from one branch of production to another. Foreign technicians especially German and Swedish advisers who may be present in Japan, will find difficulty in duplicating their European practice because Japan is relatively so much newer to modern industrial technique.

The strict caste system prevailing in Japanese industry constitutes another obstacle. The mechanic with more than average technical knowledge cannot be advanced to a position of authority. The technical engineer is prevented from obtaining the practical experience required to qualify him for the position of supervising a factory. Management is frequently uninformed on technical problems. There is thus a wide gap between the technical and practical sides in the management of Japanese industries. This gap is an important reason for the inefficiency so often noted in the management of Japanese industries, and in the present critical period its effects are another limiting factor in the expansion of armament production.

The following sections deal with the present position and future potential of the Japanese armament industries in view of limitations indicated in the preceding pages.

Aircraft Production

Analysis of data concerning the Zero type single seater fighters indicates that initial production was started in a single plant late in 1940. The production rate appears to have climbed by stages to a peak at the end of 1941 of about 60 planes per month. At this point a second plant came into production but the initial producer appears to have begun a process of converting over to a new model of the same type. The loss of production during this conversion process was not fully compensated for by the production of the added facility and the combined rate during the second quarter

was below that prevailing at the close of 1941. The third quarter, however, began to show the effects of the combined effort and by the end of 1942 the Zero single seater fighters were being produced at the rate of about 150 per month, with an additional 35 Zero planes of the float type.

It is believed that the Japanese have had relatively greater success in achieving fair production rates in single engine fighters than in other types. Such evidence as there is at hand suggests that difficulty has been encountered in the production of multi-engined bombers, and the apparent reluctance of the Japanese in the field to risk bomber losses to an extent comparable to their frequency free use of fighters tends to confirm the evidence on production.

Output. Latest available information leads to the following preliminary estimates for the Japanese aircraft industry for 1943:

Fighters	Other Operational Types	Non-Operational Types	Total
2,400	4,100	3,250	9750

These estimates assume that the fighter plane production rate during 1943 will remain approximately at the level attained late in 1942, and that some of the difficulties that apparently held down bomber production in 1942 have by now been overcome.

Development and Organization of the Industry

The Japanese aircraft industry is comparatively young. Lacking experience it has relied upon foreign technical assistance for development, at first principally French and British, and later American and German. Lacking strong supporting and related industries, it has had to develop these concurrently.

Japanese aircraft and aircraft engine design reveals the heavy dependency upon foreign technical knowledge that has characterized the growth of the industry. Imitations and

adaptations predominate. This is not always or necessarily a sign of weakness, however, for some of the results have been decidedly efficient.

Organizationally, the Japanese have tended to favor centralization of assembly within relatively few companies, but dispersal of production of components and sub-assemblies among a great number of companies. At the same time, and probably as part of the same general plan, there has been a relatively high degree of standardization of plane design. For instance, the famous Zero-type fighter is used as a land-based fighter, as a ship-borne fighter, and as a float-type fighter.

The present organization of the aircraft industry in Japan is directly the result of government planning and direction. From early paternalism toward the industry, the government has rapidly advanced to outright control.

In 1939, 14 companies, headed by Mitsubishi Heavy Industries and Nakajima Airplane Mfg. Co, were licensed by the government for the manufacture of aircraft, airframes, engines and components. In August 1939, the government granted the Kanegafuchi Spinning Company permission to establish a fifteenth company - the Nippon Kokusai Koku Kogyo K.K. In addition to these private companies, the Japanese government assembles, repairs, and produces components at a number of Army and Naval arsenals.

In 1939 the Japanese Government enforced the National Mobilisation Law adopted March 24, 1938, and assumed control of the aircraft industry. In December 1941, the Aircraft Manufacture Ordinance was revised, and in addition to government control over the manufacture of aero-engines, airframes and propellers, the new plan included control over all manufacturers carrying on production of parts.

At present there are probably well in excess of 200 companies contributing significantly to Japanese aircraft production. 209 companies are reported as regularly registered members of an industrial association formed in late 1942 of concerns producing aircraft and parts for the Army. At least 140 companies and 175 factories have been identified by intelligence sources as producing planes or components for the Japanese armed forces.

While Japanese aircraft production is definitely greater and more advanced than was generally recognized before Pearl Harbor, continuing expansion will be possible only if many difficulties are overcome. No single, outstanding bottlenecks are known to exist. Production limitations appear generally to be those arising from the problems involved in the development and expansion of mass production in a highly technical industry without the support of well-established industries in related and supporting fields.

Tanks and Trucks

Japan's automotive industry, like its airplane industry, is of comparatively recent developments. Significant progress in domestic output was not achieved until after 1937-38. By 1940 total production of motor vehicles is estimated to have reached 23,525 units, of which 23,450 were trucks. Included within this latter figure would be Japan's output of armored vehicles.

Based on estimated capacity, total production of trucks and armored vehicles is not believed to have exceeded 50,000 units for 1942 or likely to exceed 60,000 units in 1943. The number of armored vehicles included within this total is not known. The Japanese army, however, is thought to have 85 mechanized divisions, supported by 15 units of special tank brigade forces. These divisions and tank brigade units would require 4,400 light and medium tanks and 7,300 motorcycles with side cars, in addition to trucks and cars.

The combined requirements for tanks and other motor units are not excessive and are probably within the capacities of the Japanese motor vehicle industry. It would appear, however, that the Japanese army is not heavily mechanized in comparison with the forces engaged in continental Europe. Quantity

production of tanks above 16 tons seems doubtful, although experimental models are known to exist. Current fighting is not of such a nature as to cause Japan much loss of tank strength. Losses to date in tanks, except possibly for those on transports which were sunk, have been negligible. The wastage imposed by large-scale and long continued land conflict, however, would place a heavy strain on Japan's motor vehicle industry.

Production. In March 1941 an estimated 175,000 automobiles were under license or in military service in the Japanese Empire. However, not more than 75,000 to 100,000 of these were in operation during 1941, owing to fuel shortage and other economic difficulties. Under these conditions, trucks outnumbered cars by perhaps three or four to one. Estimated motor vehicle production in Japan during recent years is shown in the following table:

TABLE 21

Motor Vehicle Production in Japan

<u>Year</u>	<u>Passenger Cars</u>	<u>Trucks</u>	<u>Total</u>	<u>Cycle Cars</u>
1932	---	675	675	---
1933	191	1,617	1,808	---
1934	35	1,915	1,950	895
1935	30	1,780	1,800	5,000
1936	460	2,848	3,308	6,423
1937	650	3,280	3,930	10,500
1938	500	6,600	7,100	10,000
1939	300	18,500	18,800	---
1940	75	23,450	23,525	---

It may be expected that the rapid progress in automotive production achieved by Japan up to 1940 has since continued, although the volume of production is still relatively small. Large stockpiling of accessories and spare parts, accomplished prior to the Anglo-American "freezing" regulations of July 1941, would help to counteract the difficulties met by the industry in being thrown solely upon its own resources after that date. The following table summarizes the capacity and possible output of the industry in 1942-43, estimated on the basis of an uninterrupted flow of materials and parts to meet steady production under wartime pressure.

TABLE 22

Estimated Output of Motor Vehicle Industry, 1942-1943

Companies	Product	Estimated Capacity	Estimated Possible Production	
			1942	1943
Nissan Jidosha Kaisha	Standard Trucks	25,000	15,000	17,500
Nissan Jidosha Kaisha	Small Scout Cars	4,000	2,400	2,800
Toyoda Jidosha Kogyo	Standard trucks	25,000	15,000	17,500
Tokyo Jidosha Kogyo	Military trucks and tanks	8,000	4,800	5,600
Mitsubishi Jukogyo	Armored vehicles and tanks	6,000	3,600	4,200
Kawasaki Jukogyo	Heavy armored cars and tanks	600	360	420
Ishikawajima Dockyards Company	Tractors, tanks and trucks	5,400	3,240	3,780
Ikegai Company	Armored cars and tanks	5,000	3,000	3,500
Niigata Iron Works	Military trucks and tanks	2,000	1,200	1,400
Manchuria Motor Car Company	Diesel engine trucks	1,500	900	1,050
Total		82,500 ^{a/b/}	49,500 ^{a/}	57,750 ^{d/}

a/ To be considered 100 percent capacity.

b/ A higher figure, arrived at through calculations based on known supply of key machinery, is given in EW report EO-81, March 25, 1943

c/ Based on 60 percent capacity operation.

d/ Based on 70 percent capacity operation.

The above table does not furnish a breakdown on Japan's production of armored vehicles, information on which is not available. However, it is believed that the automotive industry supplies Japan's full output of these vehicles, leaving the arsenals to mount the guns and special equipment. Estimated production of 23,000 trucks in 1940 was probably sufficient to cover Japan's military requirements at that time.

Military Requirements. Needs of the Japanese army for armored vehicles, indicated in Table 23 are estimated on the basis of 85 divisions. It is not known whether all 85 divisions are completely equipped with the vehicles included in the table.

TABLE 23

Estimated Japanese Requirements in Armored Vehicles

Type of Vehicle	Number Needed for 85 Divisions
Tanks - 4 ton	1,020
Tanks - 8 ton	425
500 gallon tank trucks	425
Trucks - 2 ton	28,645
Automobiles	3,315
Motorcycles (with side cars)	7,310
2 wheel carts (500 lbs. capacity)	70,890
2 wheel horse ambulances	14,130
Radio trucks	425

Special Tank Brigade

Type of Tank	Number Needed for 15 Units
Light tanks - 8 tons	795
Medium tanks - 16 tons	1,410

Recapitulation (Tanks and Special Motor Units)

	Special Tank Brigade		Total
	For 85 Divisions	For 15 Units	
Tanks - 4 ton	1,020		1,020
Tanks - 8 ton	425	795	1,120
Tanks - Medium - 16 ton.		1,410	1,410
Radio and Tank trucks	850		850
		Heavy Motor Power Units	4,400
Motor cycles (with side cars)			7,300
		Required Total	11,700

Ordnance

Procedure for Making Estimates. Due to the secrecy with which Japan proceeded with its rearmament program after 1937 very little is known of the extent to which munition plants have been expanded and increased in number. Therefore, indirect methods of estimating ordnance production capacity have to be employed. The method followed in drawing up the estimates made in the attached tables was, first, to ascertain how much carbon and alloy steel Japan can allot in 1943 for ordnance and ammunition after meeting all other essential minimum requirements. The tentative estimates arrived at by this method disclose that Japan has available roughly 2,774,600 metric tons of carbon steel and 987,400 metric tons of alloy steel for all categories of military and naval ordnance in 1943. Including the needs of vital industries, 53 percent of Japan's total rolling mill steel production is allotted to military purposes. (Table 24).

It is tentatively estimated that in 1943 Japan will be able to increase its production of ordnance and ammunition by at least 20 percent over 1942 and 162 percent over 1937. (Table 25)

TABLE 24

Tentative Estimates of Japanese Allocation of Carbon and Alloy Steels for 1943

(Metric Tons of Rolled and Forged Steel)^{a/}

	<u>Carbon</u>	<u>Alloy</u>
<u>Total Steel Production</u>	<u>5,400,000</u>	<u>1,350,000</u>
<u>Civilian uses</u>	<u>2,625,400</u>	<u>362,600 b/</u>
Power Installations and Construction	230,400	57,600
Railroads	645,000	5,000
Machinery, machine tools, mining, shipyard, plant, harbor and other construction, public services, agriculture, etc.	1,750,000	300,000
<u>Military uses</u>	<u>2,774,600</u>	<u>987,400 c/</u>
Naval ships and guns (308,000 S.D.T.)	202,382	191,675
Merchant ships (620,000 GRT)	423,502	3,530
Planes (10,000 plus engine replacements)	3,300	97,670
Tanks, trucks, tractors, trailers, general service cars, motorcycles and spare parts	200,000	120,000
Allocated to Navy and shipping programs (other than ships)	433,175 d/	246,649 d/
Allocated to Army and Air programs (other than planes, tanks, trucks etc.)	1,512,441 d/	367,876 d/

- a/ Rolling mill steel production is estimated to be 70 percent of ingot steel production.
- b/ In addition to this figure there is available upwards of 1,000,000 M.T. of cast iron for "civilian uses".
- c/ The amount of steel available for military purposes in 1943 amounts to over 53 percent of Japan's total steel production. According to a report of the B.M.E.W. dated October 20, 1942 Germany allotted 60 percent of its steel production for military purposes. The United States, in the second quarter of 1943, allotted 46 percent of its production for all military purposes. The merchant ships construction programs of all three nations are included in the above estimates.
- d/ It is estimated that 1,000,000 M.T. of carbon steel and 500,000 M.T. of alloy steel of the total here allocated might be allotted to guns, bombs and ammunition. This allotment may be compared with the 5,600,000 M.T. the B.M.E.W. estimates Germany allocated for ordnance in 1942.

TABLE 25

Estimates of the Amount of Steel in Japan Available for Military Purposes, 1937-1942 a/
(Metric Tons of Rolling Mill Steel) b/

Year:	Carbon Steel	Alloy Steel	Total Production	Percentage allotted for all: military and naval purposes and categories of ordnance	Amount consumed in China "war d/	Amount devoted to expansion of armaments production each year	Percentage of increase in armament production each year
1937:	4,101,300	308,700	4,410,000	40.5	500,000	1,288,000	—
1938:	4,221,000	469,000	4,690,000	47.2	700,000	1,512,000	17.4
1939:	4,410,000	490,000	4,900,000	48.6	700,000	1,680,000	11.
1940:	4,515,000	735,000	5,250,000	45.5	430,000	1,960,000	16.6
1941:	4,648,000	952,000	5,600,000	43.6	200,000	2,240,000	14.2
1942:	4,900,000	1,225,000	6,125,000	48.4	200,000	2,765,000	23.4

Total allotted for military purposes from 1937 to January 1, 1943 (exclusive of losses in the China War), in metric tons of rolling mill steel 11,445,000

a/ Includes merchant and naval ship construction.

b/ Rolling mill steel production is estimated to be 70% of ingot steel production.

c/ After deducting basic needs for civilian economy, railroads, mining, industry in general, electric power facilities, etc. estimated to be an average of 2,800,000 metric tons of rolling mill steel a year.

d/ Based on a statement made by Major-General Sato, Chief of Military Affairs Section of the War Ministry in a speech on March 10, 1942 as reported in the *Japan Times and Advertiser* to the effect that the China War had consumed up to that time 20% of the steel allocated for military purposes.

VI. MANPOWER

Summary

It is expected that in 1943 Japan will be able to increase employment in war industries by about 615,000, and to enlarge its armed forces by about 495,000 through comb-outs from civilian occupations. After these re-allocations, Japan's male labor supply will be about exhausted, but there will still remain female labor reserves of about three millions.

While administrative control of manpower has not yet been completely unified, official controls have been operating in the field for many years, and it may be assumed that manpower recruitment, training, and allocation will be handled with increasing efficiency.

Industrial Requirements

It is estimated that during 1942 Japan will require an additional 615,000 persons for its war industries. To effect this increase, transfers can be made from civilian occupations, in some cases through a net reduction in the civilian occupations, in others through the substitution of female labor for male labor. These transfers can be made as follows:

TABLE 26

Transfers of Manpower to War Industries, 1943

Industries	Estimated Releases Jan. - Dec., 1943 (in thousands)		Estimated Increases Jan. - Dec., 1943 (in thousands)		Total
	Males	Females	Total	Males	
War Industries					
Metals, Machinery					
Shipbuilding,					
Ordnance			370	185	555
Chemicals			48	12	60
Total			418	197	615
Mfg. & Bldg.					
Building	50	50		12	12
Ceramics	25	25			
Clothing	5	20		7	
Elect. & Gas.				1	8
Food & Drink	25	25		25	25
Lumber, Woodwork	55	5	60		
Paper, Printing	65	10	75		
Textiles	27	106	133		
Other Mfg.	13	12	25		
Total	265	153	418	7	38
Agriculture	100	100		100	100
Commerce	380	380		80	80
Professional & Administrative	25	25		25	25
Other Civilian Occupations	150	50	200		
Total	655	50	705	205	205
Grand Totals	920	203	1,123	425	440
					865

TABLE 27

Japanese Population and Labor Force 1930 and 1943
Distribution by Industries and the Number in Armed Forces

	1930 (Japanese Census)			1943 (Estimates)		
	Total	Male	Female	Total	Male	Female
Total Population	64,450,005	32,390,155	32,059,850	74,954,000	37,504,000	37,450,000
Unoccupied	34,173,365	12,816,518	21,356,847	39,706,000	14,453,000	25,253,000
In Labor Force or Army	30,276,640	19,573,637	10,703,003	35,248,000	23,051,000	12,197,000
Percent in Labor Force	47.0	60.4	33.4	47.0	61.5	32.6
Farming	14,140,107	7,743,065	6,397,042	13,500,000	6,700,000	6,800,000
Marine	546,624	501,078	45,546	756,000	635,000	121,000
Mining	251,220	210,174	41,046	552,000	359,000	193,000
Industry	5,699,581	4,269,151	1,430,430	8,470,000	6,587,000	1,883,000
Commerce	4,478,098	3,013,903	1,464,195	4,000,000	2,200,000	1,800,000
Transport	1,107,574	1,028,595	78,979	1,250,000	850,000	400,000
Public Service	1,801,151	1,448,803	352,348	2,250,000	1,825,000	425,000
Domestic	781,319	84,203	697,116	500,000	25,000	475,000
Miscellaneous	570,966	488,265	82,701	400,000	300,000	100,000
Unemployed	320,000	206,400	113,600			
Armed Forces	580,000	580,000	—	3,570,000	3,570,000	—

Military Requirements

War Department estimates for the numbers engaged in the armed forces of Japan as of December 31, 1942, are as follows:

Army (including Army Air Corps)	2,750,000
Navy (including Naval Air Force)	<u>325,000</u>
Total	3,075,000

According to estimates in the foregoing table, some 920,000 males can be released from civilian employment in 1943. Of these, some 425,000 will be needed to increase the employment in war industries, thus leaving 495,000 available for the armed forces. The addition of this number to those already in the armed forces at the end of 1942, gives a total of 3,570,000 for 1943. Estimates of casualties for the past five years have averaged 200,000 a year. Assuming that casualties for 1943 will be met from last year's conscripts, and that these, in turn, will be replaced up to about 300,000 by the annual male increment to the population, the 495,000 new males released from industry would represent a potential net increase to the Japanese armed forces.

Labor Reserves

Males. Male labor is believed to be fully utilized. Estimates of Japanese population and employment show that the labor force already contains in excess of 1,000,000 male workers under 15 and over 65 years of age.

Females. An employable reserve of about 3 million women was believed to exist at the close of 1942. Japan may draw on about 110,000 from this reserve to replace males in the coming year. To replace these, in turn, there will be the annual increment of about 300,000 from the growth in population. Of these, many will never enter the labor market. A continuing reserve of about 3,000,000 women in 1943 seems, therefore, to be likely.

Industrial Expansion

Large withdrawals for military service during and after 1937 coincided with a tremendous expansion in heavy industry. Between 1931 and 1940 the general index of industrial production (all industries) increased 100 percent. Production of consumers' goods increased only

slightly--between 10 and 20 percent--as compared with production of producers' goods which increased by more than 150 percent. Among the producers' goods that expanded most were those in the iron, steel and machinery industries where the index in 1940 stood at 341 percent of the level of 1931-1933.

The exhibit on Private Factory Employment (Chart I) shows the steep curve of increase in the war industries between the beginning of 1937 and the middle of 1939. Employment in the machine trades increased over 100 percent; in tools and instruments, over 85 percent; in shipbuilding, metal work, vehicles, over 50 percent; in fertilizer, over 40 percent. Whereas recruitment in the metal industries, for example, in 1933 had been at the rate of 5 to 6 percent a year, by 1938 it had reached nearly 30 percent a year; over the same period of time the rate of recruitment in the machine and tool manufacturing industries had jumped from 4-5 percent to 45 percent; in shipbuilding and conveyance manufacture from 1-2 percent to 25 percent per year.

During this period of sweeping industrial conversion, rapid and critical adjustments had to be made. Serious shortages of manpower appeared, particularly in skilled labor and technicians. The facilities of technical schools proved entirely inadequate to meet the demand. In 1938, 44,000 jobs were offered to the 7,500 graduates from "A" Class Engineering Schools. The discrepancy in the engineering field between trained men and positions offered was evident as far back as 1933; by 1937 the demand was already more than 4 times greater than the supply.

Training Programs and Labor Mobilization

Since that time, however, Japan has taken steps to organize manpower and to train and allocate it for maximum efficiency in war. The first step, after registration of all civilians in August 1938, was the passage of an Ordinance compelling the training of technicians and skilled workers. Under this Ordinance all important private industries were required to give 2 to 3 year training courses following detailed government prescription and under close government supervision. In addition to these, government training schools were also set up to meet the need.

Soon thereafter, employment of all workers in war industries was restricted and made dependent upon consent of the government employment offices. Then followed, between July 1939 and September 1940, the National Civilian Conscription Act, making males between 15 and 50 in designated (war) industries subject to labor

assignment by the state; the Ordinance restricting the employment of young and juvenile workers (male 12-30, females 12-20), rationing the supply by quotas and giving preference to war industries; and the Ordinance to stop labor turnover, which instituted a universal system of work-record passbooks as a means of forcing labor market stability. Later, an industrial manpower directorate was created under the Labor Service Readjustment Ordinance, enforced on January 10, 1942. Employment and dismissal of workers in key industries, and assignment of training school graduates, were placed under control of the director of a National Employment Instruction Institute established by this Ordinance.

By now, Japan's training and apprenticeship program has been in effect nearly four years. The first class of graduates, trained in skills and technical knowledge, joined the active labor force in March 1942. This program should provide an increasing number of the skilled workers which effective prosecution of the war requires.

In manpower organization, the early difficult adjustments have been made. Needed transfers have been effected from non-essential to essential production; from agriculture to war industry. Administrative control of manpower is still not unified, since the National Employment Institute lacks control over (1) military conscription, (2) agriculture and allied occupations, (3) government personnel, and (4) designated Welfare-Ministry occupations. Official controls operate in all spheres, however, and it may be assumed that manpower recruitment, training and allocation will be handled with increasing efficiency.

VII. PROBLEMS OF WARTIME ECONOMIC ADMINISTRATION

Summary

During the latter half of 1942 a continuous series of readjustments in economic administration reflected Japan's efforts to meet the demand for greatly increased arms production. In January 1943 radical proposals vesting much greater powers in Premier Tojo were submitted to the Diet in ordinance form. By February, while the ordinances were still being railroaded through the Diet, a specific program affecting the key industries from which greater production is required in the current stage of the war was being effectuated.

Five so-called "main" or "nucleus" industries--aircraft, shipbuilding, iron and steel, coal mining, and the light metals--have been given priority status with respect to materials, labor, capital, power, and transport facilities. Operational authority over these key industries is being centered in the Cabinet under Tojo's immediate direction. This program of "planned production" thus involves a radical centralization of administrative controls previously divided between the Cabinet Planning Board, the Ministries, and the Industrial Control Associations.

Difficulties in administrative coordination which prevailed in 1942 will be largely remedied under this new system. Production in the key spheres of iron and steel, coal, shipbuilding and aircraft will thereby be accelerated in 1943, thus adding a further increment to Japan's economic potential.

Nature of the Administrative Struggle

At the beginning of 1943 the Japanese were engaged in a radical overhaul of their system of economic administration, looking towards more centralized state control and operation of industry. Tojo himself, representing the Army, was seeking direct operational authority over the basic war industries, including iron and steel, coal, and chemicals. Resistance to this effort by the industrial leaders had created a minor, and probably temporary, crisis in wartime administration.

Underlying this struggle was a crisis in war production, mainly arising from the enormously increased tasks laid upon Japanese industry. The basic problem of vastly expanding shipping and armaments production against relatively inflexible limits of plant equipment, machine tools, and trained

personnel had passed into an emergency stage. These concrete difficulties in the production sphere were intensified by a lack of effective centralization in the administration of Japan's wartime economy. Administrative powers were scattered through a half dozen Cabinet Ministries, inadequately coordinated by the Cabinet Planning Board. A unified policy was thus lacking at the top, within the Cabinet itself. Under such conditions it was impossible for the Cabinet to give centralized direction to a newly organized set of Industrial Control Associations, which exercised semi-autonomous powers within the field of industrial management and operation.

The program submitted to the Diet by Premier Tojo in January 1943 was mainly designed to overcome this administrative disunity. Under the program, Tojo will be given authority to issue economic directives to any of the Ministries and to transfer administrative functions from one Ministry to another. Tojo will thereby be empowered to assign to a single Ministry, probably the Ministry of Commerce and Industry, centralized authority over the management of the key war industries. To facilitate this transition, the industries so affected will be directly taken over by the state, under powers conferred by the National Mobilization Law.

An internal struggle of considerable proportions is occurring while the new system is being put into effect. Once the change is made, however, it may be expected that a much more effective administration of wartime production will result. During 1943 this improved administrative system will materially assist Japan's efforts to increase production, thus adding a new increment to Japan's war potential.

Background of the Crisis

The full scope and magnitude of the economic problems confronting Japan have emerged only during the past six months. The initial tasks of the war, primarily involving conquest of Southeast Asia and the Southwest Pacific archipelagoes, were successfully accomplished by utilization of the stocks of finished munitions and the shipping tonnage accumulated during previous years. In the summer of 1942, with the beginning of the United Nations' counter offensives in the Solomons and New Guinea, such greater economic tasks had to be faced.

On the home front, industrial production had to be raised to new levels. The output of basic industry, especially iron and steel, coal, aluminum and copper, had to be increased. Industrial processing capacity had to be rapidly expanded in combat armament (notably aircraft) and shipbuilding.

Activities in the newly occupied territories had to be geared into this domestic program. Only the barest minimum of capital goods equipment could be allotted to the exploitation of the southern regions. Developmental projects had to be strictly adapted to the immediate requirements of Japan's home industry. Economic activity in the south was therefore mainly directed toward the rapid extraction of certain key minerals and agricultural products in which Japan was deficient and for which equipment and labor power were largely available on the spot. Machinery and tools were supplied to relatively few enterprises, among which the most vital were oil processing, extraction of a few of the key metals (lead, zinc, chrome and nickel), and possibly shipbuilding at Hongkong and Singapore.

Administrative Differentiation: Outer Zone vs. Inner Zone

These factors set the pattern for the major changes in Japan's administrative structure which have occurred during the war. Careful limitation of effort was required in the south, rapid expansion was needed in the north.

Outer Zone. The military governments in the south have meticulously regulated the degree of exploitation permitted by the Japanese business interests and carefully limited the flow of trained personnel into this area. Establishment of the Greater East Asia Ministry on November 1, 1942 was essentially aimed at confirming the rigid control over economic policy in the Outer Zone (mainly the southern territories) already being exercised by the local military administrations. The Army was determined to prevent a flood of private investors and entrepreneurs from sweeping over the southern regions. It was keenly aware that no comprehensive long-term development of the new southern conquests could be permitted while the issue of the war was still undecided. It was intent on one aim--subordination of exploitative and developmental activities to the requirements of war.

The local southern military administrations could not of themselves assure the attainment of this aim. Authority over the broad lines of Ministerial policy in Tokyo had to be obtained. The Greater East Asia Ministry, vested with over-all administrative powers in occupied territories and dominated by the Army, was established in order to nail down this authority and make it secure. Jurisdiction of this Ministry extended to Manchuria, Occupied China, Southeast Asia and the Southwest Pacific, i.e., the territories

occupied since September 18, 1931. The old-line Ministries retained authority over the pre-1931 Japanese Empire (Japan Proper, Korea, Formosa, Karafuto, and the Mandated Islands).

The Inner Zone. The actual economic line of division, it should be emphasized, differs from this formal administrative line of division. The essential Inner Zone, which Japan must retain at all costs if its war economy is to function effectively, includes Japan Proper, Karafuto, Korea, Manchuria, North China, and Formosa.

The central problem of wartime economic administration did not lie in the southern territories. It lay rather in the Inner Zone and particularly on the home front in Japan Proper, where the munitions industry is largely concentrated. Here the task of raising productive capacity to new levels has proved complex, as indicated by a steady series of administrative readjustments. The year 1942 was marked by the formation of Control Associations in all fields of economic activity and by the increased powers assigned to the Cabinet Planning Board. These devices for unifying and centralizing the administration of war-time production were still inadequate. In January-February 1943, as already indicated, several basic industries were being subjected to government control and operation, while Tojo was seeking Diet approval for a set of unprecedented powers designed to concentrate full authority over wartime economic administration in his hands. A complex group of administrative problems lay behind this series of readjustments.

Administrative Problems on the Home Front

Japan's war economy is planned and administered not by special agencies but by the Cabinet headed by General Hideki Tojo. (See Chart). Over-all programs are initiated by the Cabinet Planning Board but are subject to Cabinet approval. Assignments of production schedules to the Control Associations are made by the competent Ministers. In order to make clear the difficulties which have arisen the roles played by these agencies must be examined in reverse order: (1) the Control Associations, (2) the Planning Board, and (3) the Ministries.

The Control Associations. Since the autumn of 1941, the greater part of Japanese industry has been marshaled into semi-official cartels. The ordinance empowering this program, known as the Major Industrial Organizations Control Ordinance, was approved on September 1, 1941. By June 1942 Control Associations had been formed for each key industry such as coal, iron, machinery and chemicals. Presidents of these Associations

were designated by the competent Minister and could be removed if they acted against the "public interest". In most branches of industry, however, private cartels had previously existed and the newly appointed presidents of the Control Associations were drawn virtually in toto from the leading executives of these organizations. Each Control Association was placed under the authority of a competent Minister of State; most of the Associations were responsible to the Minister of Commerce and Industry, the Minister of Finance, the Minister of Communications, or the Minister of Agriculture and Forestry. (See Chart in Appendix). Over-all production schedules, drafted by the Cabinet Planning Board, were assigned to the Control Association by the competent Minister. Each Association was then responsible within its field for control of production, the supply of funds, material and labor required, and the allocation of schedules among its member enterprises.

This streamlining of economic administration had obvious advantages. It helped to simplify the problem of scheduling production under emergency wartime requirements. Cabinet Ministers or members of the Cabinet Planning Board, in framing schedules and assigning quotas, were able to deal with broad over-all fields of industry, headed by a small group of business executives in the Control Associations. Ultimate responsibility for production, once the schedules were fixed, was placed on the Control Associations.

On the other hand, in actual operation the system revealed important drawbacks. It represented a compromise between the Army and big business which toned down the former's demand for strict government control. The Control Associations were organized essentially on lines proposed by the business monopolies (the Zaibatsu). They retained a large degree of autonomy in management. The various Ministers holding economic portfolios, moreover, might be inclined to give greater weight to the views of the Control Associations than to the demands of the Army. Under these conditions, it is difficult to assess the extent to which a "business-as-usual" attitude may have prevailed in the Control Associations.

More significant was the lack of effective centralization of administrative authority. The Planning Board drafted the over-all production schedules, but these schedules had to be approved, and formally assigned to the Control Associations by the Ministries. Three different Ministries (Commerce and Industry, Communications, Agriculture and Forestry) were

involved in this process, while ordnance and naval ship-building were handled by factories directly controlled by the Army and Navy Ministries. The differing jurisdictions of the Planning Board, the Ministries, and the Control Associations created possibilities for delay and friction. The semi-autonomous powers of the various Control Associations permitted competition for raw materials and manpower which the several different Ministries could not themselves control.

These serious limitations on efficient administration of war production did not immediately become apparent. An indication of the difficulties encountered was the fact that in May 1942 the aluminum industry was subjected to full state control. Details in this case are lacking but, judging from later developments, the operational autonomy of the industry was abrogated in favor of direct administration by a government department, presumably the Ministry of Commerce and Industry.

Toward the end of 1942 a more serious, and much more general, crisis in the administration of the war economy developed. By this time the necessity for a large-scale expansion of munitions production to meet the demands of a long war had become urgent. The weaknesses of the existing system of economic administration had meanwhile become so pronounced that drastic changes were seen to be necessary. At the outset the problem was tackled through the Cabinet Planning Board.

Planning Board. The Cabinet Planning Board was, in effect, an instrumentality of the Army, designed since 1937 to function as an economic general staff and industrial mobilization agency. But, though its powers had gradually increased, especially through assumption of the authority to draft over-all production schedules, the Planning Board had never been able to set aside the ultimate control over the national economy exercised by the various Ministries. It considered bills drafted by the Ministries, prepared opinions on such bills, and could itself draft proposed legislation, but its actions were not binding on the government. In all cases, its recommendations had first to obtain Cabinet approval before being put into effect. It had largely influenced the drafting of the National Mobilization Law in 1938, but in 1940-1941 its program for outright state control of industry had been set aside in favor of the Control Associations' system proposed by the Japan Federation of Industry and the Japan Chambers of Commerce. In recent years, its most important function has been the drafting of production schedules--which, however, were subject to approval and enforcement by the Ministries.

The serious problem existing at the end of 1942 was first met by an attempt to strengthen the powers and coordinating influence of the Planning Board. A Committee for the Increase and Strengthening of Emergency Production was set up within the Cabinet in November. It was composed of representatives from each Ministry and its chairman was Lieutenant-General Teichi Suzuki, chief of the Planning Board. The Committee was empowered to formulate and put into execution plans to increase emergency production of strategic commodities. This program was to be achieved by adjusting and unifying the administrative duties of the various Ministries with respect to labor, materials, transportation, vital consumption goods and the enterprises concerned with same. To facilitate application of the program, regional Deliberative Coordinating Councils based upon local administrative areas and composed of members of the various district offices of each Ministry were established. The first meeting of the new Committee was held in mid-December 1942, when plans were discussed for improving the distribution of materials and enhancing productive capacity. By this time, however, it had already become apparent that the new Committee would not be able to meet the demands of the situation. Much more radical moves, revealed at the Diet session in January, were already being prepared. These moves had been foreshadowed on November 20, when the aircraft industry was placed under direct administrative authority of the War Ministry.

Direct Government Control of Key Industries. Important steps in the direction of full state control of certain key industries (in addition to aluminum and aircraft) were announced at the end of January. The industries involved were iron and steel, coal and chemicals. In the latter case it was stated that the Commerce and Industry Minister would consolidate "167 medium and small (chemical) enterprises into a cooperative and strong enterprise," and would "carry on a comprehensive management centered around a large-scale factory with superior facilities and techniques". These moves evidently envisaged unrestricted government appointment of the executives in the industries concerned as well as wholesale invasion of the sphere of management and operation. Such a program, applied to the great iron and steel and coal industries, was far different from the case provided by the relatively small and compact aircraft industry.

To put this radical program into effect, Premier (and War Minister) Tojo evidently felt that even greater administrative powers had to be placed in his hands. To this end, two ordinances were framed and submitted to the Diet for approval.

1. The first ordinance has not been outlined in detail. It is merely stated that it will give Tojo "a position one step above the other Ministers". This revolutionary constitutional innovation is apparently necessitated by reason of the economic directives he will henceforth be empowered to send to the various Ministers.

2. In regard to the second ordinance, it is stated: "The control of Japanese war production, which at present is apportioned among the Ministries, will be consolidated and put under the supervision of the Premier." To do this, the ordinance will empower Tojo (1) to take over special powers directly with regard to labor, transport, materials, power, and capital; and (2) to transfer Ministerial powers, i.e., to order the Commerce and Industry Minister, for example, to take over powers held by other Ministries.

These draft ordinances, along with the proposals to take over key industries, have given rise to an internal struggle of considerable proportions. The one-week postponement of the Diet session was apparently made necessary by the opposition which had developed to Premier Tojo's demands for increased economic powers. It seems unlikely that the opposition will be able to prevent approval and enforcement of the new program laid down by Tojo. The internal struggle thus precipitated may have the temporary effect of slowing down production rather than increasing it, especially as the issue runs so deep. The Army can in no sense bureaucratize industry completely; it does not have the trained men to do such a vast job. It can only take over supervisory and managerial authority, working through the Ministries and the Cabinet Planning Board. Such authority may be so extensive that the resentment of the business leaders will be reflected in the productive sphere. On the other hand, the Army evidently thinks it can get improvement by forcing a much greater and more direct measure of state control. As in previous instances it is likely that, once a decision is reached, the business leaders will accept the situation and work with the Army effectively.

By mid-February, even before the ordinances had gained Diet approval, the new program was being put into effect. A group of five industries--the so-called "main" or "nucleus" industries--had been set apart for special treatment. These were the aircraft, shipbuilding, iron and steel, coal mining, and light metal industries. For such industries (and for others expected to be added to the list) a program of "planned production" is to be applied, involving the following major elements:

1. They will be brought under Tojo's supervision through his new ordinance powers.

2. A schedule of production increases will be worked out by the Planning Board.

3. This schedule will no longer be tendered as "advice" to the Ministry concerned. Instead, Tojo will be able to order the competent Ministry to carry out the program.

4. In effectuating the program, the competent Ministry will be empowered to coöpt materials, labor, capital, power, transport facilities, and living necessities (for the factory or mine workers).

5. The competent Ministry will assume much more direct administrative control over the "nucleus" industries. It will be able to appoint new directors, expand the industry, consolidate member units, etc., as it sees fit.

Under Tojo's new powers, as expressed in this system of "planned production" the centralization of authority over economic administration previously lacking will be obtained. This factor should materially increase efficiency of production during the coming year, especially after the immediate crisis over the readjustment has passed.

VIII. FACTORS AFFECTING JAPAN'S FUTURE ECONOMIC POLICIES

Japan is in the midst of a transition from a policy of expansion and conquest to a policy of consolidation and defense. This shift is not due to a present weakness or to a prospective decline in Japan's economic war potential. In fact, it is probable that Japan's capacity to produce combat armament will expand throughout 1943. It is due rather to the fact that Japan's relative position appears to be weakening because of (1) the expanding power of the United Nations (particularly in respect to naval construction in Japan as compared to that of the United States), (2) to the apparent weakening of the German position, and the possibility of a defeat of Germany which would leave Japan alone against the world.

These future considerations are influencing current Japanese economic policy. On the one hand Japan is making preparations to hold on to areas presently possessed as long as possible; on the other hand, provision is being made against the possibility that these areas cannot be held. Japan is, therefore, attempting to build the most complete economic self-sufficiency possible within an inner zone of defense.

Economic Factors Affecting Offensive Policies

This analysis should not be interpreted to mean that Japan lacks offensive power at the present time. It means rather that military factors have become relatively more important and economic factors less important in the determination of Japan's offensive policy now that the needed raw materials are in Japanese hands.

China. Insofar as economic considerations do influence policy, however, it may be said that the strongest inducement to offensive action lies in an effort to defeat China. China is the key to the economic consolidation of Japan's position, if not to its further expansion. The complete defeat of China would reduce the economic drain which guerrilla warfare and the maintenance of a large active army in China entails. It would also make possible a much more effective exploitation of the resources of China which Japan already possesses.

India. The second most important economic inducement to offensive action is in northeastern India. The triangle formed by Calcutta, Jamshedpur and Burnpur constitutes the industrial heart of India. Three-fourths of all war production including nearly all of the munitions plants are located here.

Virtually all of India's iron and steel are produced in the Tata Iron and Steel Works at Jamshedpur and in the Bengal Steel Corporation's plant at Burnpur.

The principal mica deposits now available to the United Nations are at Hazaribagh just north of this district. The only jute producing region and the world's largest jute manufacturing industry is nearby, northwest of Calcutta. The principal iron ore deposits and the principal coal fields are immediately south of this industrial triangle. From the point of view of Japan the processing capacities (particularly the steel and munitions plants) are more important than the raw materials. The obvious advantage of depriving the United Nations of the only remaining important industrial base in Asia is also a significant consideration.

Siberia. The immediate economic inducements to offensive action in Eastern Siberia are relatively unimportant. Hence, if action is taken in this area, it will probably be due to military rather than economic considerations.

On the other hand, it should be noted that the economic base for offensive action against Siberia (in terms of stockpiles, arsenals, strategic rail lines and port facilities) is the most powerful in any area outside of Japan Proper. It should also be noted that Japan's present imports from Korea and Manchuria require over sixteen clearances a day from ports in these areas. These ships carry less than one-half of a full cargo on their return voyage from Japan, thus making it possible to ship men, munitions and supplies to Korea and Manchuria without increasing the need for new tonnage. Hence, an all-out offensive against Siberia would not interfere with Japan's economic program as seriously as the size of these operations would imply.

From an economic point of view the opposing considerations are that Japan's two greatest economic weaknesses are shipping and the great Japanese industrial centers, both of which are threatened in case of action against Siberia. In considering offensive action in this area, Japan would thus need to balance the military advantages against the possible economic disadvantages of submarine action against Japanese shipping and bombardment of Japanese industries. The answer would depend upon the rapidity of Japan's occupation of the coastal area from which Russia must employ these tactics.

Continental and Island Air Bases to Consolidate
Japan's Economic Position

Under existing conditions there is a logical trend from sea power to land based air power as a basis for the consolidation and defense of Japan's present empire. Such a system would be made up of a network of air bases extending down the Asiatic Coast and dotting the islands of the Southwest Pacific. Its complete development would require an inland rail transport system extending along the Asiatic coast from North China to Singapore arranged so as to give maximum support to such air bases. It would also require a sufficient development of machine shops, productive facilities and assembly plants to provide the equipment necessary for their maintenance.

To complete such a program would require a greater economic effort than Japan can make in 1943. Many steps have been and can be undertaken, however, which will yield immediate advantages that make them worthwhile. A program of this sort tends to emphasize the importance of offensive action in China in order to consolidate Japan's continental position and to make it possible to develop a genuine continental rail system from Manchuria to Singapore.

The Prospective Increase in Japan's Economic
Potential During 1943

Japan possesses raw materials in quantities potentially sufficient to employ from two to three times the present volume of Japanese shipping and processing capacities.

Because of limitations in these latter respects, however, the actual overall increase in Japanese productive capacity during 1943 will be only a small fraction of this potential.

It is estimated, for example, that the steel and the power output of Japan will increase only by about 10 percent during the current year. Since most of this increase is devoted to combat armament, however, increases in the production of war material will be considerably greater. The production of aircraft probably will increase about 25 percent, tanks and trucks 16 percent, ordnance 22 percent, locomotives 10 percent and freight cars 15 percent.

The Economic Position of Japan as Compared
With Other Major Powers

Prior to the attack of Pearl Harbor Japan's economic potential was under-estimated, but because of the powerful

Japanese offensive during 1942, there has been a tendency to swing to the other extreme. Japan's basic economic capacities are considerably smaller than those of any other major belligerent power with the exception of China. Table 30 provides a basis for comparison in the three leading categories of steel, coal and electrical power. The great superiority in the basic economic strength of the United Nations is not meaningful, however, until it is embodied in combat armament and the capacity to transport it. A comparison between Japan and the United States alone indicates how rapidly Japan will be out-distanced in these respects during the current year. It is estimated, for example, that the United States will construct over 15,000,000 deadweight tons of new shipping during 1943 whereas Japan will probably construct not more than 650,000 gross tons (approximately 1,000,000 deadweight tons). The total aircraft production in Japan during the current year will approximate 9,000 planes of all types whereas the United States will produce approximately 100,000 planes. Similar differences are to be found in naval construction, tanks and trucks, and ordnance.

The following factors, however, largely offset these advantages of the United Nations:

- (1) Four to five times as much economic potential is being devoted to the European theatre as is being devoted to the Far Eastern theatre of action.
- (2) The shipping of the United Nations is insufficient to make available combat armament fully effective at those points where it is required.
- (3) Japan has been stockpiling combat armament for over a decade. Hence, even if Japan were forced to a much higher level of war activity, a considerable period would elapse before reliance would have to be placed upon current production.
- (4) Japan has achieved geographic positions both on the continent and in the island areas of the western Pacific which give maximum protection to the heart of the Japanese economic system. The heart of this system and the essential elements of Japan's war potential are concentrated in a northern Inner Zone, embracing Japan Proper, Korea, Manchuria, North China and Formosa.

TABLE 28

Estimated Current Annual Production in Three Key Industries, in
United States, United Kingdom, U.S.S.R.,
Japan, Axis Europe, 1943

Country	Steel Ingots (1000 metric tons)	Coal (1000 metric tons)	Electric Power (1,000,000 kilowatt hours)
Japan	7,200	59,500	55,840
Japan, Korea, Manchuria and North China	9,000	103,000	75,350
U.S.S.R.	14,000	90,000	22,500
U.S.S.R. (Pre-1941)	20,500	171,000	58,500
Axis Europe	40,000	611,000	135,000
United Kingdom	12,000	250,000	31,000 ^{h/}
United States	82,600	603,500	237,000

^{h/} May now be less; last available figure is for 1938.

IX. THE CONCENTRATION OF JAPAN'S ECONOMIC POTENTIAL IN THE INNER ZONE

Japan is concentrating on a long-term program designed to make the inner zone self-sufficient for war purposes. There is a popular impression that the occupation of the rich raw materials area in Southeast Asia led to a suspension of this program. On the contrary, the raw materials in the inner zone have been exploited more intensively. The building of synthetic oil plants, the utilization of aluminum shale, and the extraction of iron ore, for example, have all been promoted in order to increase self-sufficiency in this area. At the same time the development of basic processing capacity already centered here has been carried on as rapidly as possible.

As a result of these policies the continental areas near Japan (Korea, Manchuria, and North China) have become a very substantial part of Japan's total war economy. In the processing industries important in war (particularly iron and steel), these areas have become so closely integrated with industry in Japan Proper as to constitute an indispensable part of the whole. The following summary indicates (1) the growing dependence of Japan Proper on the other parts of the inner zone and, (2) the remarkable degree of self-sufficiency which has now been achieved within the inner zone.

Processing Capacity

Well over 90 percent of the processing capacity of the greater East Asia sphere is concentrated in the north. The concentration of war industry in the Inner Zone is almost complete.

Heavy industry, moreover, is no longer centered almost entirely in Japan Proper. A complete picture of the industrial plants in Manchuria and Korea is not available, but enough is known to indicate a substantial increase in Japan's dependence on the continent's processing capacity during recent years. This dependence is most marked in the iron and steel industry. In other fields, such as the production of chemicals, the processing of bauxite and alum shales, the output of ordnance, synthetic and shale oil production, and assembly (and partial manufacture) of airplanes, tanks and trucks, Japan's reliance on the rest of the Inner Zone has also increased.

Figures on electric power installations afford a rough measure of the Manchurian-Korean-Formosan contribution to the Inner Zone's processing capacity. Of total installed capacity of roughly 17,000,000 kilowatts, Japan Proper has 77.7 percent,

while Korea, Manchuria and Formosa together have 22.3 percent. (If these figures are accepted as an index of processing capacity, nearly one-quarter of the Inner Zone's processing now takes place outside Japan Proper.) In 1937 Korea, Manchuria and Formosa possessed considerably less than 20 percent of the power installations.

Iron and Steel

As a result of the pressure to increase iron ore extraction and to expand blast furnace capacity in the Inner Zone during recent years, virtual independence of outside supplies has now been assured. A summation of production rates reached by Japan's iron and steel industry in 1942 may be expressed in a series of four figures: iron ore utilization (16,000,000 tons); pig iron production (6,200,000 tons ^{2/}); gross steel ingots (9,000,000 tons); semi-finished steel (6,300,000 tons ^{3/}). (See the chart of Production of Ferrous Raw Materials, Iron and Steel in the Appendix).

The only possible Inner Zone shortage in this series would be in the iron ore. Of the 16,000,000 tons of crude ore utilized at this rate, the Inner Zone would supply at least 13,000,000 tons. It may well have supplied an even greater proportion. The amount will increase this year. In case Japan were forced to rely solely on the iron ore resources of the Inner Zone, the required amounts could be produced. Meanwhile, imports of Central China, Malayan or Philippine iron ore facilitate the transition to complete Inner Zone self-sufficiency. Not lack of iron ore but lack of rolling mill capacity is the limiting factor in Japan's steel output. The iron ore comes almost entirely from the ² continent. Of the 13,000,000 tons of iron ore allotted to the Inner Zone in 1942, Japan Proper supplied only 6.5 percent. The other 93.5 percent was produced by Korea, Manchuria, and North China.

An output of 6,200,000 tons of pig iron was estimated for 1942. (There was also an additional 400,000 tons of sponge iron). Blast furnace capacity of the Inner Zone, however, has already been developed to the point at which it could easily reach pig iron output of 8,000,000 tons. Manchurian-Korean blast furnace capacity is being steadily extended, indicating that the continental regions of the Inner Zone are being made the pig iron center of the empire. The idle blast furnace capacity which now exists is in Japan Proper. The Inner Zone supplied virtually all the pig iron of the Greater East Asia sphere in 1942. Of the 6,200,000 tons, Japan Proper produced 56.5 percent, Manchuria 30.6 percent, and Korea 12.9 percent.

^{2/} Excluding an additional 400,000 tons of sponge iron
^{3/} Excluding an additional 800,000 tons of cast iron

Approximately 9,000,000 tons of gross steel ingots were produced in 1942. Steel furnace capacity (open hearth and electric) is also somewhat larger than the 1942 output. Excess capacity is much less than in the case of blast furnace capacity, however. Of the 9,000,000 tons of gross steel ingots, Japan Proper supplied 80 percent, Manchuria 16.7 percent, and Korea 3.3 percent.

During 1943 rolling mill capacity will continue to be the main limitation on steel production. Some increase will be attained, but at a slow rate. By the end of 1943 the present annual rate of 6,300,000 tons of steel for finished products may possibly have reached a rate of 7,000,000 tons. Of the 6,300,000 tons output, Japan Proper supplied 80.4 percent, Manchuria 16.4 percent, and Korea 3.5 percent. (This breakdown excludes an additional 800,000 tons of cast iron).

In summary, the processing capacity of the iron and steel industry is concentrated almost 100 percent in the Inner Zone. Only iron ore, and that in small amounts, comes from the Outer Zone. Under pressure the steel industry could dispense with these southern ores and still maintain production at current or even considerably increased rates.

In this industry, Japan Proper is heavily dependent on the continental parts of the Inner Zone. Manchuria, Korea and North China supply 93.5 percent of the Inner Zone's iron ore, 43.5 percent of its pig iron, 20 percent of its gross steel ingots, and 19.6 percent of its semi-finished steel.

Coal

A third basic economic index is coal. The Inner Zone supplies virtually the whole of the Greater East Asia sphere's output of coal--that is, roughly 100,000,000 tons out of a total of possibly 112,000,000 tons. Japan Proper supplies 52.1 percent, the rest of the Inner Zone 41.4 percent, and the Outer Zone only 6.5 percent.

In this connection, it should be noted that Japan's total consumption of coking coal is supplied by the Inner Zone. Japan's dependence on the continental sector of the Inner Zone is increased by the fact that large amounts of coking coal are derived from North China. Also, more than half of the coke oven capacity is on the continent--Japan Proper supplying 45.8 percent, Manchuria 49.9 percent, and Korea 4.3 percent.

Other Economic Potential

Salt. Production of salt (basic for a number of important chemicals) is also largely concentrated in the Inner Zone. Out of an estimated 1943 consumption of 2,650,000 tons in Japan Proper, the Inner Zone will contribute 85.7 percent. Of this amount Japan Proper will supply 22.6 percent, and the rest of the Inner Zone 64.1 percent.

Foodstuffs. The Inner Zone has been traditionally self-sufficient in foodstuffs. Although the food supply has grown tighter in the last few years, the basic situation has not been essentially altered. In 1943, estimated on the basis of a poor Korean crop, the Inner Zone will supply 91.8 percent of Japan Proper's consumption of the food staple--rice. Of this amount, Japan Proper will supply 84.9 percent, leaving only 6.9 percent to be supplied by Formosa and Korea. In a normal year, Korea would supply a greater amount. There is also a large stockpile of rice in Japan Proper.

Transport. Should Japan be forced to withdraw into the Inner Zone, its lines of communication would be greatly shortened. The shipping deficit would be turned into a shipping surplus, although heavier attacks from nearer United Nations bases might make this result temporary. The Inner Zone, moreover, is provided with the best land transport facilities of the G.E.A. sphere. It contains roughly 65 percent of the railway mileage and more than 75 percent of the rolling stock of the whole sphere.

TABLE 29

Concentration of Japan's Economic Potential
in the Inner Zone ^{a/}

	Inner Zone Percent of G.E.A. Sphere	Percent of Total Supplied by Inner Zone Excluding Japan Proper
Processing Capacity	well over 90	possibly 25
Iron Ore	well over 80	93.5
Pig Iron	virtually 100	43.5
Gross Steel Ingots	virtually 100	20.0
Semi-finished steel	virtually 100	19.6
Coal	93.5	41.4
Coke Oven Capacity	well over 90	54.2
Salt ^{b/}	86.7	64.1
Rice ^{b/}	91.8	6.9

^{a/} Recapitulation of indiges presented above

^{b/} In percentages of total consumption by Japan Proper

Stockpiling of Raw Materials from Outer Zone

Japan's dependence on the raw materials of the Outer Zone, as already indicated, does not extend to coal, iron ore, salt, or rice. In the case of many other southern raw materials, however, an extreme measure of dependency has existed. All evidences point to a deliberate policy since the latter half of 1942 to reduce this dependency -- (1) by continuing the development of the Inner Zone, and (2) by stockpiling from the south where Inner Zone deficiencies exist. In 1943, as the military position of Germany deteriorates and as the pressure of United Nations' operations increases on the periphery of the G.E.A. sphere, the Japanese will intensify their efforts to fortify the Inner Zone in these respects. By the end of 1943 they will already have gone far in this direction.

Progress in this effort can be measured by estimating the extent to which stockpiles accumulated in 1942-1943 will carry the Inner Zone through 1945. A rough estimate of this kind yields the following results:

1. The supply of a number of raw materials has already been assured through 1945. This list includes manganese, tungsten, molybdenum, vanadium, copper, and mercury. Inner Zone production of vanadium now covers requirements, while molybdenum is covered by Inner Zone production and a large stockpile. Imports of manganese, tungsten, copper, and mercury plus Inner Zone production, have already assured a supply through 1945.
2. A second list would include tin and rubber. Relatively small amounts of these commodities have to be brought in from the south in 1943 to complete a stockpile adequate to carry the Inner Zone through 1945.
3. Two groups of raw materials present special problems:

Bauxite will probably not be imported in sufficient amounts in 1943 to cover needs through 1945. Alum shales in the Inner Zone, however, represent a substitute for bauxite, while the large Korean and Manchurian magnesite deposits can be developed for the production of magnesium. Aluminum requirements can be adequately met from these substitute materials, plus the stockpile of bauxite that will exist.

Fibers (and analogous materials) for clothing and other uses present a more complicated and somewhat more difficult problem. There is an absolute shortage in cotton, wool, and jute. Substitutes from the Outer Zone include kapok, hard cordage fibers, hides and leather, and rubber. Substitutes from the Inner Zone include rayon, staple fiber, silk, hides and leather, and furs. Although some difficulty is being

experienced (indicated by the 25 percent cut in the 1943 clothing ration for Japan Proper), it may be anticipated that the considerable range of substitutes will meet the problem.

4. This leaves a small group of seven raw materials which apparently cannot be stockpiled from the south in 1943 on a scale adequate to carry through 1945. The list includes oil, lead, zinc, nickel, chromium, antimony and cobalt. By the end of 1943, however, at least one year's stockpile of oil, antimony and chromium, and close to one year's stockpile of lead, zinc, nickel and cobalt, will exist.

The oil problem deserves special mention. Intensive development of synthetics, shale oil and crudes is steadily increasing the Inner Zone's production. Oil experts estimate that about 18,000,000 barrels will be produced in the Inner Zone during 1943. Of this total, 10,500,000 barrels are from synthetic processes, 4,000,000 from natural crudes, and 3,500,000 from shale. The regional breakdown shows 44.8 percent from Japan Proper and 55.2 percent supplied by the rest of the Inner Zone. In this field, also, the degree of dependence of Japan Proper on the rest of the Inner Zone is significant.

Japan's 1943 consumption of petroleum products is estimated at 50,600,000 barrels, equivalent of 56,000,000 barrels of crude oil. The estimated 18,000,000 barrels of crude oil produced in the Inner Zone accounts for nearly one-third of the total consumption, and nearly one-quarter the estimated annual fuel oil requirements. Withdrawal to the Inner Zone, however, would bring a large decline in Japan's oil requirements. For 1943 the Japanese navy and merchant marine will consume an estimated 36,690,000 barrels of petroleum products. This item, in particular, would be considerably reduced if Japan was forced back into northern waters.

Under these conditions, Japan would possess an estimated 18,000,000 barrels of domestic production, plus the stocks on hand. As estimated by the Oil Committee, the stockpile of petroleum products will total 61,920,000 barrels on January 1, 1944. It is perhaps unlikely that the whole of this amount would have been transported to Japan by that time. Nevertheless, it seems probable that the stockpile within Japan Proper, plus the Inner Zone production, would then be adequate to cover all needs for at least a year, with naval and merchant marine requirements at the present level. If Japan withdraws to the Inner Zone in 1944, the demands of the Navy and Merchant Marine for fuel oil may be cut by one-half. Under these conditions, Japan's supply of petroleum products in all categories would be sufficient to last at least two years.

In conclusion, it is clear that the heart of Japan's economic strength lies in the north. Under the present and prospective circumstances of the war, the southern regions form little more than a raw material appendage to the Inner Zone. They are rapidly being milked of their easily available and most essential supplies. Japan has been in possession of the southern areas long enough -- or will have been by the end of this year -- to fortify its position in the north for a prolonged stand. Only defeat in the Inner Zone and the breaking of Japan's grip on Manchuria and Korea, therefore, will effectively cripple the Japanese war economy.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Eu

July 28. 1943

My dear Mr. Secretary:

I have received your letter of July 27, 1943,
enclosing the text of a telegram concerning the
provision of raw materials in the form of lend-lease,
which you wish transmitted to Ambassador Winant and
have been glad to send the telegram with Mr. Acheson's
addition which you approved by telephone.

Sincerely yours,

Cordell Hull

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



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*Photostats to Messrs.
Paul & Bernstein 7/28/43*



DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
WASHINGTON

July 28, 1943

Dear Mrs. Klotz:

Pursuant to our conversation yesterday, I take pleasure in enclosing a paraphrase of a telegram which Secretary Hull sent to the American Consul General in Martinique today.

With kind regards,

Sincerely yours,

A handwritten signature in dark ink, appearing to read "John F. Stone", is written above the typed name.

John F. Stone,
Office of the Secretary

Mrs. Henrietta S. Klotz,
Office of the Secretary of the Treasury,
Washington, D. C.

PARAPHRASE OF TELEGRAM SENT
JULY 28, 1943

American Consul,
Fort de France.

We fully appreciate the progress which with your assistance Mr. Ball has made but Secretary Morgenthau is deeply interested and wants very much for Ball to examine the bank's books freely.

Ball's messages indicate to us that it may be difficult to make further progress through negotiations direct with the bank managers without Hoppenot's active support. He does not seem to understand this question's importance from the point of view of economic warfare. It is accordingly desired that you further endeavor to convince him that for us to get complete cooperation is in the best interest of the French as well as of our common cause. You might add to him that such cooperation is offered normally without question and we accordingly believe we are all the more entitled to this cooperation in view of what we have done and will do in the future to help him in connection with his present and future economic problems.

PARAPHRASE OF TELEGRAM SENT

U. S. URGENT

TO: AMEMBASSY, LONDON
NO.: 4523
DATE: July 28, 1943, 2 p.m.

FROM SECRETARY MORGENTHAU FOR THE AMBASSADOR:

I am disappointed that I have not yet had reply from you to my cable no. 4206 of July 10. At your earliest convenience please personally see the Chancellor of the Exchequer and tell him that I would like a "Yes" or "No" answer to whether or not they will supply us during the coming year with between \$200,000,000 and \$300,000,000 of raw materials in the form of lend-lease in reverse.

FROM THE SECRETARY OF STATE:

The British Embassy tells us that it expects an early reply which it seems to think will be favorable. I should like a report on the situation tomorrow and I agree that unless a favorable reply appears to be imminent, you should stress the importance of early action. It is not desired to prejudice a favorable reply by demanding an immediate one, as the manner of presentation is left to your discretion.

HULL

OFFICE
SECRETARY OF TREASURY

NOT TO BE RE-TRANSMITTED

1943 JUL 29 PM 12 04

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

TREASURY DEPARTMENT

OPTEL No. 248

Information received up to 7 a.m., 28th July, 1943.

1. NAVAL

On 27th morning our light forces engaged enemy trawlers and mine-sweepers northeast of CHERBOURG. 2 ships were left burning. Our forces sustained some damage and there were 7 killed and 34 wounded.

On 27th/28th our light forces in the Channel were in action against E-boats. No details yet available. F.W. 200 aircraft attacked a south bound convoy from U.K. when west of LISBON 26th and followed up with 10 further attacks morning 27th. A 9,500 ton ship was sunk (101 survivors) and 2 other ships totalling about 15,000 tons have been damaged.

2. AIR OPERATIONS

WESTERN FRONT. 27th. Coke ovens at ZEEBRUGGE and 4 airfields in Northern FRANCE, BELGIUM and HOLLAND were bombed. Fighters on escort duty, sweeps and patrols inflicted casualties 16, 3, 6. We lost 2 aircraft.

27th/28th. 840 aircraft despatched - HAMBURG 787 (17 missing); DUISBURG 3 (1 missing); Intruders 29; Seaming 6; anti-shipping 4; leaflets 11. Preliminary report HAMBURG - weather clear, fires still burning. Markers placed very accurately, bombing concentrated and attack considered most effective. 2 enemy night fighters destroyed. 73 air crew personnel were saved in NORTH SEA by air-sea-rescue operations during the 48 hours ended 0615 A.M. 28th.

SICILY. 25th. A Spitfire Squadron intercepted 30 escorted JU 52's near MESSINA. 21 JU 52's and 6 fighters were destroyed. 1 Spitfire lost.

SARDINIA. 26th. Special Beaufighters sank a 1,500 ton enemy ship in convoy and Warhawks destroyed 7 enemy aircraft. 2 Beaufighters missing.

CORRECTION

OPTEL 246 - 100 corrupt groups;

"Total of 693 tons were dropped on NAPLES in attacks covering a period of 24 hours. Railway centre arsenal and oil storage area were all hit. Continuous heavy attacks on communications and airfields in South ITALY and SICILY in which considerable damage caused and many enemy aircraft destroyed both on the ground and in the air.

July 29, 1943
9:00 a.m.

GROUP

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. Smith
Mr. Haas
Mr. Blough
Mr. Bernstein
Mr. Charles Bell
Capt. Kades
Mrs. McHugh

H.M.JR: Paul, with McConnell coming down here Monday, I don't feel - I think O'Connell has felt he was his baby, so to speak, while he was up in General Aniline Dye, but now that he is coming down here to do an entirely different job, I want McConnell to feel he is directly responsible to me. Then if he wants legal advice, I think he ought to go to you.

MR. PAUL: That is fine.

H.M.JR: That is all right?

MR. PAUL: Yes. The job he is doing has got some overlapping with tax reserves, and so on. We will all have to work together on that end of it.

H.M.JR: That is right, definitely.

MR. PAUL: But so far as completely non-tax things, he will come to us for advice.

H.M.JR: I mean, O'Connell has nursed him along--

MR. PAUL: They are very close friends by this time.

- 2 -

H.M.JR: I meant while he was doing General Aniline Dye. That doesn't mean he can't go to O'Connell, but I don't want O'Connell to feel he is responsible for him while he is here.

MR. PAUL: I will see that that is straightened out.

H.M.JR: In other words, let your shop help - I think it ought to start with you.

MR. PAUL: It is very agreeable to me because McConnell and I get along as well as O'Connell and I.

H.M.JR: Good. Then he and Kades, being next to each other, they will collaborate. Right?

CAPT. KADES: Yes, sir.

H.M.JR: Does that sound all right to everybody? I don't want to - this sounds all right, but I think I would like to sit down with you people and get a plan, what you are going to do and after we have a plan, let's submit it to everybody. (Indicating Mr.OConnell's memo of July 26)

CAPT. KADES: Mr. Secretary, this isn't our plan. This is what McConnell said he thought he was supposed to do.

H.M.JR: Now, I don't have to call him up on the phone or anything to tell him I expect him down here? Is that taken care of?

MR. PAUL: I understand it is all settled that he will be here Monday. However, I will confirm it, and you won't have to call. I don't know what arrangements there are in Charlie Bell's office.

H.M.JR: Between Charlie Bell and Kades, they will see he is made welcome.

Herbert?

- 3 -

MR. GASTON: I haven't anything. I made some inquiry about that man whom you saw yesterday and didn't get a favorable impression.

H.M.JR: We will forget him.

MR. GASTON: I turned him down.

H.M.JR: Good. What else?

MR. GASTON: I think nothing else.

MR. SMITH: What time, not before noon, would you like to look at this tax - what is going to happen on the tax thing?

H.M.JR: What time not before noon?

MR. SMITH: Yes.

H.M.JR: A little depends - I am holding open for this general of the Tank Corps for two-thirty - I forget his name - from Fort Knox, who has just returned from Sicily. If they let me know, I am going to take him over to War Bonds at two-thirty.

MR. SMITH: Could you just take a look at it after you come back from War Bonds?

H.M.JR: Possibly.

Incidentally, this thing with Elliott Roosevelt went so extremely well that I am going to take these people that are fresh back from the front over and I think that any of you - I will notify you if and when we go and anybody in the staff group that would like to go over are welcome.

Elliott Roosevelt told me more - I got more information about the war from Elliott than I did from his father, because he told me stuff I didn't know, as far as the war is concerned, I mean. And according to this Colonel Fitzgerald - this man that is back - he will tell us just how many tanks

- 4 -

we lost, how many tanks the Germans lost, and how well each tank did. It is very interesting.

I think, if you wouldn't mind telling Ted Gamble - because I said he was going to talk off the record and I think there should be a Secret Service man at the door and make everybody show a pass that goes in. I don't want a reporter from Cissy Patterson showing up or something like that. And I don't want to have happen what happened without my permission, having a news photographer. I don't want that.

MR. SMITH: All right.

H.M.JR: But everybody has to show their pass when they go in - I mean that they are a Treasury employee. I don't want the Washington War Bond people because I don't think they have taken an oath. Do they take an oath?

MR.C.BELL: They take an oath of office, yes, sir, every one of them.

MR. BELL: If they are on the roles they do.

MR. CHARLES BELL: Allegiance to the United States.

H.M.JR: But they will have to have identification.

What is the name of the chairman for the District?

MR. BELL: John Reilly.

H.M.JR: Would you have him there?

MR. BELL: Yes, I would.

H.M.JR: I only know myself, I feel so distant from the war, and so remote, and then these people come in and tell you what happens and you get re-enlisted.

This colonel said he would be glad to tell you which tanks are good because, "After all, you people are paying for them." I mean, there is a nice attitude.

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Next week we will have the general in charge of the paratroops who landed in Sicily. He is going to come over and give a talk. He left town, but he will be back and he will come over. I know it is good for me. I think it is good for them. It brings the war home to them.

I know the time I went down to one of these camps and I took Doctor Daniels around with me. When I made that survey at Camp Bragg, he said, "I have seen more of the war with you in half a day than I have in a year. I don't know what is going on; they never show me - never tell me." He said, "I have really seen something today.

Henry, for instance, in his regiment hadn't any idea - he has never seen the Second Division. He doesn't know who the corps people are. He has no idea - and they are attached to a division and they never have any contact with the division - have never seen them, don't know anything about them, and never have anything to do with them. He lives a life within his regiment.

MR. BELL: Are these people going to travel around any, or just come to Washington?

H.M.JR: Who?

MR. BELL: The people you are now having.

H.M.JR: These people are just here - they are from - I think they are right out of General Marshall's office - people he sent to observe. I am doing this through General Marshall. I am not planning to see people who travel, I am just trying to put some war spirit into these War Bond organizations.

MR. BELL: I think where you need it is in the States.

H.M.JR: Maybe somebody will get some ideas out of this. I am going to try it again this afternoon. What I am trying at the moment is to fire these organizations, you see.

Take this fellow in New York, or Ohio - let them make a speech there - is that what you meant?

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MR. BELL: Yes. I think - get a group together some place and let them talk to them. It would be very good just before the drive. There is where you want your fire.

H.M.JR: With your people - the salesmen?

MR. BELL: Yes.

H.M.JR: It may come out of it. At least I started something, anyway. It is good for me. You were there?

MR. SMITH: Yes.

H.M.JR: Didn't he do a good job?

MR. SMITH: Very good job.

H.M.JR: He is a good speaker.

MR. PAUL: That sort of a fish always swims. (Laughter)

H.M.JR: Yes, but this boy is always good. He really is good. He did it in a nice way, too.

MR. HAAS: I haven't anything.

MR. BERNSTEIN: That telegram from Secretary Hull came last night and appears to be a very strong one.

H.M.JR: It came here first. I was overwhelmed. Let's tell them.

Hull sent a telegram down to Martinique for me which was a pip, wasn't it?

MR. BERNSTEIN: I thought it was.

H.M.JR: Now, what else?

MR. BERNSTEIN: I tried to get Mr. Fels and he wasn't in, but he is to call me back.

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H.M.JR: To put more pressure on it?

MR. BERNSTEIN: Yes, sir.

H.M.JR: Now, I had dinner last night with Governor Lehman and those of you who were there Monday heard what he said - Paul reported it - I was shocked.

Here is the situation. I want to see what you people think.

MR. PAUL: Nobody else but I was there, so it is news to them.

H.M.JR: Well, the point is, let's assume that Italy falls in our lap and they use eight million tons of coal a year and a large amount of cotton - I forget how much --

MR. PAUL: Ten million of coal.

H.M.JR: He said eight last night.

MR. PAUL: He was low. They corrected him at the meeting.

H.M.JR: Ten million tons of coal. Now, nobody - get this, Dan - nobody in this Government has made any plans that when Italy surrenders, how they can start up and get the coal which Germany has been supplying them with, and everything else that goes with it - the question of credits, and so forth and so on.

Now, what I was thinking of doing - Governor Lehman said there is some committee - which committee would that go to?

MR. BERNSTEIN: There is a committee that handles all these problems. This is Acheson's committee. But in addition to that, a group from Governor Lehman's office have come around the last three days to the Treasury for help in formulating a financial plan for the United Nations Relief Organization.

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So far it has been astounding that the men that the Governor has sent have no notion whatever of where to start or what to do on their plans.

H.M.JR: Who are those people? I don't think he knew they were over here.

MR. BERNSTEIN: Yes, they have been over now for three days and Pehle's people, Mr. White's people, and Mr. Paul's people have been working with them. The men are Eugene Staley, Veach - McDougal, their General Counsel, came yesterday - Condliffe, and two or three youngsters.

MR. PAUL: Governor Lehman pointed out another thing at this meeting. Not only is the condition as you describe it with reference to Italy as one country - the supply situation with respect to coal, cotton, and rayon is desperate as to Italy, but in addition, any supplies to Italy, however difficult they may be to procure from England or this country, must be fitted into a world strategy because you will be into Greece before you know it, or Yugoslavia, or this other country across from Italy - Albania - and no coordinated plan - there is nothing being done.

And furthermore, not only do they have no plans directly for Italy - no world supply strategy - but they don't know which organization is going to take charge of which country. They have no philosophy. The Budget man says--

H.M.JR: His name is Smith. (Laughter)

MR. PAUL: No, Wayne Coy. Wayne Coy said--

H.M.JR: It is a hard name to remember, I know. (Laughter)

MR. PAUL: He never communicates with you when you try to get hold of him. He said that his philosophy was that countries like Italy would be taken over by the Lehman organization - that Italy would have no government; whereas, a country like Belgium, where there is an established government, would be taken over by Lend-Lease.

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Monday they were in the middle of the fight between Lend-Lease and Governor Lehman's organization, which I understand Lend-Lease lost.

MR. GASTON: State is coordinating, isn't it?

MR. PAUL: So the thing is - of course, the military has been so far ahead of any contemplated schedule that there is some excuse - but there is no excuse for not having covered a lot of these problems.

H.M.JR: This is what I was thinking of doing, calling up Cordell and simply saying, "Look, Cordell, here we are on the verge of having Italy fall in our lap. What plans have been formulated to resume peacetime trade?" That is the language he understands.

MR. PAUL: Incidentally, at the last minute, Tuesday of this week, the man that they had selected for Area Director became unavailable.

H.M.JR: Welles was his name, and they have offered it to your ex-partner?

MR. PAUL: McCollester.

H.M.JR: Is he going?

MR. PAUL: I don't know.

H.M.JR: Let me just call up Hull. We had one - as a matter of fact, we haven't done badly this week.

MR. BERNSTEIN: Very good, so far.

H.M.JR: He backed us up pretty well on my cable to Winant.

MR. PAUL: Lehman has expressed himself quite frankly at this meeting.

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H.M.JR: Because, you see, if they would say to me - give us - Bell and the rest of us - a chance - the way I look at this thing, Dan, the Central Bank of Italy used to be a good bank. It was well run. We could sit down with those fellows - I remember particularly the fellow they used to send to Paris, anyway - he was a very able person - and establish credits for these people. In a not very long time we could arrange credits for them to go ahead.

MR. PAUL: We can cover that part of it, but the physical supply - where is that coming from?

H.M.JR: Yes, but I mean, it should be joint with England and ourselves. I mean, the English Treasury and ourselves should be given the job of establishing credits.

MR. BERNSTEIN: They wouldn't be getting credits, Mr. Secretary.

(The Secretary held a telephone conversation with Secretary Hull.)

MR. PAUL: Now hell will break loose. (Laughter)

H.M.JR: I will hear from Acheson, now. (Laughter)

I have been having a good time this week. I have got the War Bond thing off my chest. Harry will be sore because he will say, "While I am here the boss won't give me any time. Just as soon as I leave town you begin to think about some of my problems." (Laughter) but the answer is, I have had a little time to think.

MR. BERNSTEIN: I don't think he has realized how bad the situation has been.

H.M.JR: Who - Harry?

MR. BERNSTEIN: Yes, sir, on Lend-Lease and relief because they only came to us on Monday.

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H.M.JR: Did you hear his comment that "I thought that you and the War Department were doing it"?

MR. GASTON: Yes.

H.M.JR: Do you think the old man really thinks that?

MR. PAUL: Of course, the truth is that what little has been done has been done by his department and the War Department.

H.M.JR: I had an amazing conversation with Acheson yesterday. Do you people like me to gossip with you a little bit?

MR. GASTON: Yes.

H.M.JR: Because I am thinking all the time.

Acheson called me up to read me this cable to Winant on Lend-Lease in Reverse.

I said, "How are you, Dean?" - because this is very indicative - and he said, "I am tired. You know, I am tired. And for the first time in my life I find myself blowing up. I get angry - I get cross at people."

He said, "I am just worn out."

The result is, he was charged with this thing and he isn't forceful enough. He is a nice fellow. He is an intelligent fellow; he is a sweet fellow and a decent person, but he just can't drive this thing through.

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MR. GASTON: They had a lot of stuff focused on Dean at a time when it wasn't especially important, and now this stuff is all coming to a head. I think he has just got an immense amount of stuff that ought to be in other hands.

MR. BELL: I had breakfast yesterday morning with Floyd Blair, vice president of the National City Bank, and he mentioned this lack of planning, particularly in the coal field for Italy. I told him that I thought the Finletter Committee and Lehman were taking care of it. He said he didn't think so.

Then the conversation got on to the Russian situation, and he said that he knows a man in this country who is a big coal dealer, handles the English coal and also the Russian coal. Apparently he has been very close to the Russians for a great many years and they trust him. Not long ago they sent for him and told him that by January 1 they would be in the market again to sell coal.

H.M.JR: To Russia?

MR. BELL: Yes. And he said, "Well, you have got me stumped." He said, "Your mines are in the hands of Germany; how do you expect to be mining coal by January 1?"

They said, "In thirty days we will have those mines."

He thought they were crazy, but in thirty days they had the mines, and he said that they are going to be able to market coal by January 1. He said they wanted him to take charge of the sale of coal in this country.

H.M.JR: In this country?

MR. BELL: Yes. Now, that was sort of gossip over the breakfast table. It didn't impress me very much. But if that man has the connections that Floyd Blair says he has, he may be a good man to get in on this coal.

MR. GASTON: Where are those coals?

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MR. BELL: Some place around Orel.

(The Secretary held a telephone conversation with Under Secretary Patterson.)

H.M.JR: Two minutes - ten minutes, there is the situation. And if you told that to the world nobody would believe it.

MR. GASTON: It isn't just the financial credits. It is a question of where the supplies are going to come from.

H.M.JR: It is interesting - two minutes - ten minutes.

MR. PAUL: Mr. Bernstein has a point here.

MR. BERNSTEIN: Mr. Secretary, it is very much more the fact that they haven't the least notion of how much supplies, where the supplies are to come from and who is to pay for them - this side - than it is the Italians not having the money to pay, because presumably the Italians will get funds from Army expenditures once we are ready for trade, plus any exports from that area. There won't be any severe shortage of funds in Italy for paying for goods from this country, but no one has any notion of where the goods are coming from here and how much will be needed.

H.M.JR: Well, no, it is broader than that, Bernstein. After all, let's say that you can do business with the Central Bank of Italy. Somebody should be charged with the responsibility of sitting down with those people and saying, "All right, between England and the United States we will work out arrangements whereby you can have so many credits," and so forth, and so on.

MR. PAUL: If you have any conference like you suggested, it might very well be that that problem will be in the lap of the area director, whoever he may be.

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MR. BERNSTEIN: There will be a Treasury man in charge of finance under him, and presumably he would carry it for the Treasury on the spot.

H.M.JR: I am not worrying about the area director; I am worrying about - I would like to get the thing headed up so that Hull will say he will do it or we should do it or the Army should do it, or somebody does it. That is all. But let me ask you this, Bernstein: Am I right that this - that we are not issuing any more gold-seal money in North Africa? Is that right?

MR. BERNSTEIN: That is right.

H.M.JR: Now, Dan--

MR. BELL: Probably they are using it in Sicily.

H.M.JR: But they are not using it there. Do we pay our troops in North Africa - how do we pay our troops today?

MR. BELL: In francs.

H.M.JR: And those francs we get from where?

MR. BELL: Central Bank.

H.M.JR: Of what?

MR. BELL: Well, the Bank of Algiers if it is Algiers.

H.M.JR: And that is the way they dispose of their dollars, is that right?

MR. BELL: We give them dollars for those francs. They are piling up dollars in New York as a result of that.

H.M.JR: To their credit?

MR. BELL: Yes. That is the dollars they use to pay for Lend-Lease to the extent of twenty-five million.

H.M.JR: What about this thing when I decided to go joint account with the English on buying - black-market Iranian money, wasn't it?

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MR. BELL: Gold.

H.M.JR: Yes, the gold.

Now, somebody brought out the point that under the law you have to pay U.S. troops in dollars. I couldn't use that Iranian currency to pay our troops in--

MR. BELL: They are getting around that; they are paying the equivalent of dollars.

MR. BERNSTEIN: At the official rate.

H.M.JR: They pay at the official rate?

MR. BELL: Yes.

H.M.JR: Who makes the profit?

MR. BERNSTEIN: The general fund of the Treasury will get it, won't they, Mr. Bell?

MR. BELL: I don't think that has been quite decided. That is what General Carter would like to do, continue to pay the Army obligations at the official rate, and the difference will be the Treasury's profit.

MR. PAUL: We had that problem up with respect to China.

MR. BERNSTEIN: Last Saturday Major Patton from General Carter's office came around to say that the Army didn't care how we accounted for this exchange profit provided they were on the same position as the British Army.

I spoke to Mr. Waley, who assured me that the British Treasury handles the exchange transaction and the exchange profit goes into the funds of the British Treasury. The Army buys the reals from the Treasury at the official rate of exchange.

I then spoke to Major Patton, who was to send a cable back to the commanding general in Iran, and he said the Army would be satisfied with that arrangement.

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H.M.JR: Say that again.

MR. BERNSTEIN: The Army said it wanted to be in the same position as the British Army with respect to the British Treasury. I spoke to Sir David Waley, who said that in Britain the Treasury buys the reals for gold. It is now on joint account with us. They then resell the reals at the official rate to the British Army, and the British soldiers get paid at the official rate.

The exchange profit from the gold sale goes into the British Treasury. I told Major Patton that that was the case in Britain, and he said the Army would be satisfied to have that done the same way here.

H.M.JR: That takes care of that.

George, supposing you put your boys right away to work on what was the peacetime import and export trade of Italy and some of those countries around the Mediterranean. Supposing you get whatever figures you have.

MR. HAAS: You mean that and the Balkans if they are going in there?

H.M.JR: Yes. There wouldn't be any other figures available, would there? Would we know what they got from Germany during the war?

MR. BERNSTEIN: We have something, I think.

H.M.JR: Who has those?

MR. BERNSTEIN: I think we have a study already prepared for this purpose on Italy's economic and financial position. We would be glad to show you that part of it if you wish, or all of it. There is a section on foreign trade of Italy.

H.M.JR: You have it?

MR. BERNSTEIN: Yes, sir.

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H.M.JR: Let me see it. The sooner the better.

You be thinking, Dan - all of you - if we do go to a meeting we ought to have some suggestions. O.K.

Roy?

MR. BLOUGH: I just want to report that that chart which you mentioned yesterday wasn't on the wall apparently was made, although it wasn't put on the wall. At least it is available.

H.M.JR: Which one?

MR. BLOUGH: The chart on the refundable tax with the allowances for spendings - I mean, for savings.

H.M.JR: Where is it now?

MR. BLOUGH: Mr. Banyas' office.

MR. HAAS: You saw it, Fred.

MR. SMITH: I remember now; Wes took that down when Mr. Baruch was here because it was so complicated. I have forgotten just why. He didn't want to go through it with Baruch.

H.M.JR: When this meeting is over, I will go in there.

MR. BLOUGH: It isn't in there.

H.M.JR: You can get it down. You can go and get it; and then you and Paul and Smith and Lindow - let us go into it. Do you want to be there, George?

MR. HAAS: It doesn't make any difference. There are some inconsistencies. As long as Wes is there it is O.K.

H.M.JR: You be there, too.

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MR. HAAS: All right.

MR. BELL: The Department of Agriculture is working on a plan to--

H.M.JR: Why don't you get that organized now?

(Mr. Blough left the conference.)

MR. BELL: ... pay food subsidies through issuance and redemption of coupons, stamps, or currencies. It is practically currency that will circulate in the community.

H.M.JR: Who is going to do this?

MR. BELL: The Department of Agriculture.

H.M.JR: Did you know about it?

CAPT. KADES: No.

MR. BELL: That is the reason I am bringing it up. They have been working with the boys up in the Bureau of Accounts. The accounting end of it just came to my attention this morning. I think that Kades ought to get on to it and sit in on those conferences. It is now in the formative stage. They are planning to submit a bill to Congress on it.

There has already been one bill introduced. They are planning to report on that bill and make some suggested amendments, coming around to this plan.

MR. GASTON: It cuts right across OPA authority, doesn't it?

MR. BELL: I assume that it is part of the OPA program, probably the Jones program, for paying subsidies.

I don't know enough about it to say how it will operate, but they want us to handle the accounting through our disbursing officer, and want the banks to handle coupons,

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which is quite a problem from the manpower standpoint.

CAPT. KADES: I didn't know the Department of Agriculture was working on it, but I knew about the bill. We sent it to George, and I have an adverse memorandum on it from George.

MR. BELL: They are trying to amend the bill so that it will fit into their scheme.

MR. HAAS: We are trying to absorb purchasing power, and this is creating more.

CAPT. KADES: George says it contributes to inflation.

MR. PAUL: Dick Gilbert has some other plan.

MR. BELL: I want Kades to sit in on these conferences.

H.M.JR: Will you do that?

MR. BELL: Yes.

H.M.JR: You (Kades) are appointed, just so you don't get bored. (Laughter)

CAPT. KADES: There is no danger of that, Mr. Secretary

MR. BELL: We ought to send the President the statement as to reduction in his salary, the withholding tax.

(Letter to the President signed by the Secretary.)

(Mr. Blough reentered the conference.)

H.M.JR: What is all this?

MR. BELL: That is just the file. That is just the file on the withholding.

CAPT. KADES: When I saw Ezekiel I asked him specifically about any such proposal because of the bill. He said they weren't working on that.

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H.M.JR: How well do you know Mordecai?

CAPT. KADES: Not very well.

MR. PAUL: We know him very well. (Laughter)

H.M.JR: The point - well-- (Laughter)

MR. CHARLES BELL: If we get it revised--

H.M.JR: Is this Bell finished?

MR. BELL: Yes.

H.M.JR: Now the other Bell.

MR. CHARLES BELL: If we get the last tax letter down today to the Government Printing Office they promised us August 15 as a delivery date. That is going to throw us a little behind in getting the letter and the forms out to the public, which you ought to know about.

H.M.JR: They have to do it quicker than that.

MR. CHARLES BELL: August 20 was the date. I know how you feel about it. I put them down to August 14 or 15 - ninety-five percent. It is a physical impossibility to get it out any sooner.

H.M.JR: Why get it out--

MR. CHARLES BELL: They got it out already into four contracts throughout the country. They have had to make those plates, and they are not going into a new contract.

H.M.JR: How far have they gone?

MR. CHARLES BELL: They have only printed up a handful of the earlier letter. They haven't used any paper. There has been no paper wasted on it so far.

H.M.JR: Will it cost more money to have it replated?

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MR. CHARLES BELL: It isn't so much a matter of cost; it is a matter of minutes.

H.M.JR: I would rather have a good letter late than a bad letter early. I hope this will teach them a lesson.

MR. CHARLES BELL: This will give us a month before the filing period.

H.M.JR: I say, I hope it will teach them a lesson.

MR. SMITH: They originally hadn't planned to get any of this out until August 5.

MR. CHARLES BELL: That is true. August 5 was not a proper date. The deadline was August 15. They were going to start making deliveries August 5.

H.M.JR: Will you fix me an order to sign so this sort of thing won't happen again?

MR. CHARLES BELL: I am going to fix that, yes, sir.

H.M.JR: The last day Sullivan was here he got all excited because I said we would take a look at this thing, and Horne had been there two days.

MR. CHARLES BELL: He is back this morning.

H.M.JR: Is he here for good?

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

H.M.JR: What is the use of having him come in and mess around for a day or two?

MR. CHARLES BELL: I understand he cleared this letter for Norman Cann.

H.M.JR: That is the same way they cleared - remember that other they cleared?

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MR. SMITH: That wasn't the understanding we had. The thing was to clear through Schwarz and through me. Neither Schwarz nor I saw it.

MR. CHARLES BELL: I thought you (Smith) and I would talk with Horne and have it out.

H.M.JR: You can't have a man here two days a week.

MR. BELL: That is all you can get him, I think.

H.M.JR: I would rather not have him at all. He can't be so wonderful that in four days a month he can do a job on taxes. Charley, I would much rather not have a man at all; if he can't come here and be here steadily, I don't want him. We can get somebody. A man dropping in a couple of days a week to supervise the Internal Revenue publicity is no good as far as I can see.

MR. GASTON: Guy Helvering has a vacant position over there - this man McGrew left - fifty-six hundred dollars a year - and there is a spot for a good man. A good man is needed in that spot. Am I right, Fred?

MR. SMITH: There is, yes.

MR. CHARLES BELL: That man would ordinarily come under Fred Smith indirectly.

H.M.JR: Directly, or indirectly?

MR. CHARLES BELL: Indirectly. He comes up through Chick Schwarz.

H.M.JR: Why not let's follow Gaston's suggestion and get a full-time man and put him in there?

MR. GASTON: I think Guy has been kind of nursing that job; he wanted to make an appointment. I think it is too important; we need the man. We need a high-grade man in that stuff.

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MR. CHARLES BELL: I think if we had the man we wouldn't need the order you speak of. I thought if we could associate this order with Public Relations work solely on items that deal with the population, we might be able to fix it.

H.M.JR: Why not let's say we want to fill the position?

MR. CHARLES BELL: We will go to work on that.

H.M.JR: That man would come under Schwarz, would he?

MR. CHARLES BELL: Normally, yes. He would come up through you (Smith).

MR. SMITH: That is all right.

H.M.JR: Do we want this fellow Horne unless Sullivan wants him around to write speeches for him? I don't want anybody around for two days a month messing around with a thing as important as this.

MR. CHARLES BELL: As Danny says, I think Horne came in pretty much on his own terms this time. He didn't want to come back.

H.M.JR: Well, to hell with him.

MR. BELL: He is helping Sullivan more than--

H.M.JR: Yes, but don't let him mess around. I wish you would find out whether he O.K.'d this letter.

MR. CHARLES BELL: August 15 is more agreeable to you than August 9?

MR. SMITH: Yes, that gives us a little more leeway.

H.M.JR: I want this thing buttoned up, and I think we will do it the way Gaston suggested.

(Letter to Lawrence Banyas regarding promotion signed by the Secretary.)

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H.M.JR: Can I do that?

MR. CHARLES BELL: Yes, sir.

H.M.JR: Legally?

MR. CHARLES BELL: Yes, sir.

H.M.JR: Why didn't we do it before?

MR. CHARLES BELL: I didn't get any orders.

H.M.JR: Why didn't you push for Banyas' increase? He is under you, isn't he?

MR. HAAS: It is legally all right, but we had to put him in a different category. We now call him an economist.

H.M.JR: But why don't you push for some of these boys, George?

MR. HAAS: I have been pushing for him. Look at his record. I brought him over here, and brought him in at scratch. He is now, ~~I~~ think, the highest priced man in the Government for that kind of work.

MR. CHARLES BELL: We are kind of taking him away from graphing and making him an economist, but he is an economist.

MR. HAAS: That is--

H.M.JR: Is he an economist?

MR. CHARLES BELL: Yes, sir.

H.M.JR: Is that his history? (Indicating paper.)

MR. CHARLES BELL: No, sir, that is just the work paper.

H.M.JR: He is an economist?

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MR. CHARLES BELL: Yes, sir, graduate economist.

MR. HAAS: As a matter of fact, I think we - I am giving so many promotions in that place I will have trouble with Taber in the Appropriations.

H.M.JR: What?

MR. HAAS: I mean, we have given so many promotions. You mentioned why don't we push - the record is excellent from our point of view, but I am afraid the Appropriations Committee may not think so.

MR. CHARLES BELL: I think it is a normal record on both sides. I don't think anything has been done that couldn't be justified.

H.M.JR: Who is chairman of the Treasury budget?

MR. CHARLES BELL: Schoeneman.

H.M.JR: Is this worrying him?

MR. CHARLES BELL: No, sir.

MR. BELL: Got an appointment down there for Mr. Smith this morning from Boston - the president of the New England--

H.M.JR: I have Gamble down for eleven. Where is Gamble?

MR. BELL: I don't know. He will be here earlier if you would like to see him. He came down on the night train. I got Charley here to take a berth away from a Secret Service man.

MR. GASTON: You took a berth away from a Secret Service man? (Laughter)

MR. CHARLES BELL: We put him on a plane, though. He was happy about it. (Laughter)

MR. BELL: We had to work fast.

H.M.JR: All right. I want to meet Blough and those boys - give me until ten o'clock.

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MR. BELL: He has to be in New York this afternoon, and we promised to get him on the one o'clock train. He really said at first he couldn't come.

H.M.JR: Give him a workover so he will say yes when he comes in.

MR. BELL: I didn't say a word to him about what you wanted to see him about. I just asked him if he would come to Washington. He said he would do anything the Treasury wanted him to do, which was a good start.

H.M.JR: Why don't you give him a workover between now and eleven? Are you coming in with him at eleven?

MR. BELL: If you want me to.

H.M.JR: Is he your friend?

MR. BELL: I know him quite well. He comes in every time he comes to Washington just to say hello.

H.M.JR: I would like Gaston in on this, too. This is for chairman for Massachusetts.

MR. GASTON: What time will that be?

H.M.JR: Eleven. Why don't you (Bell), Gaston, and Gamble get together on this fellow between now and eleven to make it easy for me?

MR. BELL: Yes.

MR. GASTON: Yes.

H.M.JR: O.K.

JUL 29 1943 25

My dear Mr. President:

Arrangements have been made to comply with the request in your letter of July 24, that future payments of your salary as President be made subject to applicable provisions of the Current Tax Payment Act of 1943 (Public Law 68 - 78th Congress), approved June 9, 1943.

Under the provisions of the above-mentioned act and regulations issued pursuant thereto, you are entitled to an annual withholding exemption of \$1,248, which leaves a balance of \$73,752 subject to the withholding tax of 20 percent. The computed tax amounts to \$14,750.40 per annum which leaves a balance of \$60,249.60 in your favor or a net monthly salary of \$5,020.80. The withholding tax will be held in a special account by the Treasurer of the United States for subsequent payment to the Collector of Internal Revenue.

A statement showing the method of computation is enclosed for your convenient reference.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

LLC:ek
7/28/43

*Photo of this document & copy of same for
file copies with Mr. Callie
Sent by L.D. 11/35*

I. DISTRIBUTION OF THE PRESIDENT'S
SALARY IN ACCORDANCE WITH HIS
LETTER OF JULY 24, 1943

	<u>Monthly</u>	<u>Annually</u>
President's salary	<u>\$6,250.00</u>	<u>\$75,000.00</u>
To be paid to the President	5,020.80	60,249.60
Withholding tax (see below).....	<u>1,229.20</u>	<u>14,750.40</u>
Total	<u>\$6,250.00</u>	<u>\$75,000.00</u>

II. COMPUTATION OF 20% WITHHOLDING TAX

Gross salary	\$6,250.00	\$75,000.00
Withholding exemption ...	<u>104.00</u>	<u>1,248.00</u>
Amount subject to 20% withholding tax	<u>6,146.00</u>	<u>73,752.00</u>
20% withholding tax	<u>\$1,229.20</u>	<u>\$14,750.40</u>

THE WHITE HOUSE
WASHINGTON

July 24, 1943

Dear Mr. Secretary:

In order to comply with applicable provisions of the Current Tax Payment Act of 1943 (Public Law 68-78th Congress), approved June 9, 1943, I am enclosing a duly executed Employee's Withholding Exemption Certificate for use in connection with deductions from my salary as President.

I would thank you to handle future payments of my salary so as to comply with the above-cited law.

Very truly yours,



Enclosure

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

FORM W-4
EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE
(Collection of Income Tax at Source on Wages)

Name Franklin D. Roosevelt
(Print full name)

Address The White House
(Print home address)

Social Security No. _____

- I. Check the box in the line below which applies to you on the date this form is filled in:
- Married person living with husband or wife but claiming none of the personal exemption..... (1)
 - Married person living with husband or wife but claiming half of the personal exemption..... (2)
 - Single person (not head of a family) or married person not living with husband or wife (not head of a family)..... (3)
 - Married person living with husband or wife and claiming all of the personal exemption (spouse claiming none of the exemption)..... (4)
 - Head of a family (a single person or married person not living with husband or wife who exercises family control and supports closely connected dependent relative(s) in one household)..... (5)
- II. Number of dependents receiving chief support from you who are either under 18 years of age or incapable of self support because mentally or physically defective. _____

I declare that the entries made herein are a true and complete statement as of the date indicated, pursuant to the Internal Revenue Code and the regulations issued under authority thereof.

Date July 23, 1943, 16-64500-1 (Signature) Franklin D. Roosevelt

July 29, 1943
9:20 a.m.

168

HMJr: Hello.

Operator: Secretary Hull.

Cordell
Hull: Hello, Henry.

HMJr: Good morning, Cordell.

H: What's going on?

HMJr: Well, first may I thank you for the excellent telegram you sent to your counsel in Martinique.

H: Oh well, that was - you were entitled to anything ---

HMJr: That was....

H:cooperation.

HMJr: That was very helpful. Now, what I'm calling you up about - it's been brought to my attention that if we should be so fortunate as to have Italy drop in our lap....

H: Yeah.

HMJr:there are no financial arrangements that have been thought through to permit her to resume her peace time trade.

H: Well, I wondered - I supposed you people and the War Department had done that.

HMJr: No. As near as I can find out, Cordell, it's all up in the air.

H: Is it?

HMJr: Yes.

H: Well, there ought to be a conference right away.

HMJr: And....

H: The fact is, it's possible for all that Balkan country to go into a state of anarchy or collapse or something, you know.

HMJr: Well, I think if you'll inquire, you'll find that the people have been sort of looking to the State Department and I can't find anything definite for any country.

H: Well, I will call my fellows in here at once....

HMJr: Yeah.

H:and I've got Sol Bloom coming in right at the moment....

HMJr: Yeah.

H:but in the course of the next half an hour or so I'll get them in here and then let you hear from us.

HMJr: Fine, and if I can be any help, please call on me.

H: Yes, sir.

HMJr: And, hello?

H: Now this - Henry?

HMJr: Yeah.

H: The particular point here relates not to the value of the lire and....

HMJr: Oh, no. I'm talking about - let's say that sometime within the next month Italy should fall in our laps....

H: Yeah.

HMJr:and they want to buy---I understand their normal purchases of coal are ten million tons a year....

H: Yeah.

HMJr:and they need so much cotton - and they've been getting their coal from Germany. Well, they want coal - they want cotton. How are they going to get it and how are they going to establish their credits?

H: Yeah.

HMJr: Now the credit part would be where we might be of some help.

H: Yes, I see.

HMJr: And jointly with the English.

H: Yes, I see.

HMJr: I haven't - nobody's asked me, and....

H: Well, we here, you know, are not in charge of exports - haven't been - the BEW, you know....

HMJr: Well, I think if you got into it and you care to have me sit at your side....

H: Yeah.

HMJr:I'd be more than pleased to do so.

H: Well, I'm glad you brought it up and I'll take it up and see what about it.

HMJr: Thank you.

H: Yeah.

HMJr: Thank you.

H: Thank you.

July 29, 1943.
9:29 a.m.

171

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello.

Robert
Patterson: Hello, Henry.

HMJr: Bob.

P: Yeah.

HMJr: Can I talk to you in confidence?

P: You bet.

HMJr: Is there somebody on your wire.

P: Nope.

HMJr: Good. I just called up Hull and said this to him that I was disturbed because I can't find that anybody has planned once Italy has fallen in our lap, to assist them with their peace time demand, such as coal and cotton, you see?

P: Yeah.

HMJr: On the financial front.

P: Yeah.

HMJr: Well, he's - his answer was, "Well, I thought that the Army and the Treasury had that in hand." So I said, "Well, speaking for the Treasury, nobody has discussed it with us and I know there is no plan." So he said, "Well, that's terrible." So he said, "I'll get my people together and...."

P: The Army - the Army planned to this extent, Henry, they will do supplementary feeding and medical supplies...

HMJr: Yeah.

P:but beyond that - that's the limit of ours.

HMJr: But look, Bob old man, supposing these people need so much coal - let's just use that as the example - see?

P: Yeah.

HMJr: They have been getting from Germany and you people have got an army of occupation and there are no plans - that, I know - and then you have an anarchy on your hands - uh - do you know of any plan - anybody's plan beyond what you just said?

P: No. I don't know of any.

HMJr: The....

P: I know that the Army is charged with the distribution of enough extra food....

HMJr: Yeah.

P:to keep them on a - well not a fancy basis, but a subsistence basis and also medical supplies. That's as far as we go, I believe.

HMJr: Well, out of - what do you do that out of - Army appropriations?

P: Yeah, we've got the - yes, I think so.

HMJr: Yeah.

P: The distribution at any rate - our distribution officer is in charge with that duty and we've put in ship tonnage for it and we'll get that all right.

HMJr: Well, if he calls a meeting, you certainly want to be there, don't you?

P: Yeah. The food - they say they don't need a full ration - they've got quite a lot of food. They need certain things....

HMJr: Yeah.

P:and we'll distribute those. You're particularly concerned about coal, of course, and....

HMJr: No. I'm - let's say I don't care whether it's a week or a month or three months - sometime certainly within the next six months, they'll be - they won't be fighting. Hello?

P: That's right.

HMJr: Now, they'll want to resume peace time trade.

P: Yep.

HMJr: They'll want to buy things.

P: Yep.

HMJr: And no - the point I make is nobody is charged with the responsibility to assist them to make or arrange for financial credits.

P: Yeah.

HMJr: That's what I'm talking about.

P: Yeah.

HMJr: Not to give them the stuff, but to help them buy the stuff and pay for it.

P: Yeah.

HMJr: See?

P: Yeah. Of course, there are plenty of people charged with the job of....

HMJr: That's it.

P:getting coal. They may not have done any planning on it but I suppose that Lend-Lease and Board of Economic Warfare....

HMJr: Now, that's what Hull said.

P: They would both be charging around in it, wouldn't they?

HMJr: Who? Yeah. Well, Hull said, "Well, that's OEM, etc." Well, anyway, he's going to call a meeting and I know you well enough that I can say this to you and you're not going to tell anybody - I don't want you to repeat it, you see?

P: No.

HMJr: But I want you to be thinking about it.

P: Yeah.

HMJr: I mean, I didn't want it known that I called you up and said I'd just talked with Hull, you see?

P: No, I won't.

HMJr: But I wanted you to be thinking about it. I think what will happen - he'll call a meeting either today or tomorrow.

P: Yep. Yep.

HMJr: All right.

P: Thanks, Henry, I'll be posted on it.

HMJr: You and I seem to hit it off pretty well.

P: Yeah. I think our minds agree generally.

HMJr: Okay. Thank you.

P: Good bye.

July 29, 1943
12:36 p.m.

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello.

Operator: Go ahead.

Robert
Patterson: Hello.

HMJr: Hello. Henry.

P: Henry?

HMJr: Yes, Bob.

P: This is Bob. On Italy and coal.

HMJr: Yeah.

P: General Boykin Wright has talked to me some time about it.

HMJr: Yeah.

P: He's in charge of our International Division.

HMJr: Yeah.

P: He says that the responsibility for coal for Italy along with other supplies like food....

HMJr: Yeah.

P:and medical supplies....

HMJr: Yeah.

P:had been agreed upon as a military responsibility.

HMJr: I see.

P: That is, it's lodged with him and....

HMJr: Pardon me?

P: It is lodged with him.

HMJr: I see.

P: There's only one complication in it.

HMJr: Yeah.

P: And that is that it has never been clearly settled yet what part the British are to take and what part we're to take.

HMJr: I see.

P: But so far as American agencies are concerned, the War Department is the responsible agency for the initial supply until something else is done and it's to be deemed "military supplies."

HMJr: I see.

P: Procured, transported and issued like rations.

HMJr: I see.

P: And no plan immediate for repayment - that would be a matter of - to be settled by reparations....

HMJr: I see.

P:or something like that but it would be delivered to them without any arrangement for payment. The plan is at present to give them 250,000 tons a month which may be too small....

HMJr: Yeah.

P:for the operation of necessary utilities and railroads....

HMJr: I see.

P:but the British were supposed to pick up some of that.

HMJr: Yeah.

P: The British are - they're having a meeting this afternoon of what they call the Combined Civil Affairs Sections.

HMJr: Yeah.

P: That's an agency of the joint - of the combined Chiefs of Staff. It has British members and American members....

HMJr: I see.

P:and McCloy presides at the meeting.

HMJr: I see.

P: I don't think the State Department has any plan because - natural enough, it wouldn't have if this is due to the military responsibility to be discharged by the War Department.

HMJr: I see.

P: Now, they - in view of the new political developments over there, I think they've got to accelerate....

HMJr: Yeah.

P:their plans. They had directed their people - this was - oh - some weeks ago....

HMJr: Yeah.

P:to be prepared on September 30th to make actual shipments of all this stuff....

HMJr: I see.

P:including coal.

HMJr: Yeah.

P: That - I presume, in view of what has happened, this afternoon they'll probably direct that that be accelerated.

HMJr: I see.

P: The real loose end in the thing, though....

HMJr: Yeah.

P:is the part to be played by the British.

HMJr: I see. Well, I didn't get the General's name who is handling that.

P: Wright.

HMJr: General - what's his first name?

P: Boykin.

HMJr: Boykin.

P: Wright.

HMJr: And he's in charge at this end.

P: Yes.

HMJr: I see.

P: Yes, he's in charge of the American end of it and he's in command of the International Division here of the Army Service Forces.

HMJr: Well, then there isn't much for me to worry about.

P: I'm sure - I'm sure there isn't - although I'm glad you stirred it up.

HMJr: Did I stir it up?

P: Sure.

HMJr: Well, ~~it~~....

P: You certainly did because I got him in and it was evident that there were some unbuttoned things so far as the British responsibility and the American responsibility was concerned. The British, of course, are not too well off on coal....

HMJr: Yeah. But now....

P:themselves and yet it's a much shorter haul and a much quicker trip if they can supply it from there.

HMJr: Well, now one other thing - as long as you've gone this far - could you as your own idea or anyway you want to do it, Lehman doesn't know where he's at on this....

P: Yeah.

HMJr: See?

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P: Yeah.

HMJr: He has no idea where he's at.

P: Yeah.

HMJr: Could he be informed directly?

P: Yeah.

HMJr: That would be fine.

P: Yeah. I'll tell him.

HMJr: Good. Well, I'm glad I called you.

P: Well, I'm glad you did, too.

HMJr: Thank you, so much.

P: All right, Henry.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29, 1943

TO Secretary Morgenthau
FROM Charles Bell *pull*

Norman Cann and Harold Graves feel strongly that they should be given about five minutes this afternoon to explain certain possible difficulties which may arise as a result of getting the redraft of letter out nine days later than was earlier contemplated. They do not wish to discuss the merits of the letter.

I feel that in the absence of Mr. Helvering, since they will have to sign for him and acquiesce in the redraft, you might wish to grant them the time requested. I have explained this to Fred Smith, who indicated that he would like to be in on the interview if you grant it.

3 P.M. Appt. arranged
by Chas Bell

Cann
Graves } Admitted
Smith } 3.02
Chas Bell
af

TREASURY DEPARTMENT
1943 JUL 29 PM 2 35
OFFICE SECRETARY OF TREASURY

July 29, 1943
3:00 p.m.

TAXES

Present: Mr. Smith
Mr. Gaston
Mr. Graves
Mr. Charles Bell
Mr. Cann

MR. CANN: Our problem is this, Mr. Secretary: As a substantial part of the program of helping the taxpayers get this declaration filed, as is customary we want our deputies to get out into the towns and counties and small places as they do, you know, in connection with the annual filing of returns. That takes time.

Now, when we originally talked about the release date for the declaration form we talked about the 15th of August. When we got back to the shop, we got to discussing it and realized how difficult it was going to be for the taxpayers to get the form within that period of time, that is, thirty days - get them filled out, get our deputy collectors out to where they could render the assistance that they ought to render.

We said the thing to do is to see if we wouldn't get the Printing Office to step this thing up so we could advance the date on which we would send out the forms. So we contacted the Printing Office, and they advised us that there would be forms out there so that we could make distribution on the 5th day of August. I called Sutherland on the phone and told him of the situation - told him that it was our thought that to be helpful to the taxpayers we ought to advance this date of distribution as rapidly as we could, with which view he concurred.

We then prepared our instructions - we have also been - to the Collectors to that effect.

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Then we have had numerous requests from the tax services, from the trust companies, and other organizations, which handle large numbers of returns for taxpayers, as to whether we couldn't release that form at an earlier date. So with that thought in mind we did consummate it.

Now, we feel that entirely apart from the merits or demerits of the doggoned notice we would be doing a great deal more for the taxpayer, Mr. Secretary, if we could use that time in helping him, by this advance distribution, to accomplish through some other type of publicity the points that we were driving at here and the points which Fred has got in mind in his letter.

We do believe that as between the two things that that period of time and the help our people could do is worth a great deal more to the taxpayers than this letter. That is the story.

H.M.JR: That is part of the story. It so happens that Sullivan isn't here and Helvering isn't here, so I come in contact with you, see. When you are going to get out a letter like that that is so important, why don't you clear it with my office?

MR. CANN: Mr. Secretary, the procedure agreed upon was this, as I understand it: I was called over to a meeting which was attended by Mr. Gaston, Mr. Sullivan, Mr. Smith, Mr. Horne, which meeting, as I understand it, was ordered by you, to work out a publicity campaign. I attended that meeting.

H.M.JR: When was the date of that?

MR. CANN: Some time last week.

MR. SMITH: Week before last.

H.M.JR: It wasn't last week.

MR. SMITH: Week before last.

MR. CANN: So I was told --

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H.M.JR: Was this before or after I got excited about the form?

MR. CANN: After.

MR. SMITH: This was immediately after the form was accepted. We came in with the form, showed you what it was, and you said, "Get together on the publicity."

MR. CANN: So I was told - or rather, we agreed as a result of that meeting more or less this way, that Mr. Horne would take charge of the publicity campaign attendant to this declaration.

H.M.JR: Excuse me, was that your understanding?

MR. SMITH: He was to coordinate, but it was to clear through Chick and me before anything went to the public. And the letter, if I am not anticipating, was specifically brought up, Norman, at that time. You said that a letter was being prepared, and I said that we had better see that, because that is the most important thing we have in the whole procedure.

MR. CANN: All right.

MR. SMITH: I wanted that to clear over my desk.

MR. CANN: That may be so, Fred, but certainly whether that is so or not, I was told to clear everything with Horne.

H.M.JR: By whom?

MR. CANN: That was the understanding in the meeting.

H.M.JR: Let me get Mr. Gaston in here. We will wait. (Mr. Gaston entered the conference.)

Herbert, they are using your name in vain, so I think you had better come in. What I am trying to find out is how this letter going to forty million people got by without coming to my office. He (Cann) is referring to a meeting--

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MR. CANN: I am referring to that meeting, Herbert, that we had in John's office at which you were present, Fred was present, I was present, John was present, and Bill Horne. I think that was the group.

MR. GASTON: That is right.

MR. CANN: At that time you stated and laid down the theme song for this, with which we all agreed, namely, that we would attempt to make the appeal, that this thing wasn't difficult but that it was an easy thing - relatively easy - and we all agreed.

MR. GASTON: Wouldn't magnify the difficulties.

MR. CANN: That is correct, and we agreed that in the coordinating of this thing Bill Horne was to be the man that would do the coordinating.

MR. GASTON: I believe so, yes.

MR. CANN: I was to clear with Bill Horne. My particular plea in that conference, you remember - the thing that I was keenly interested in was that the technical material that would go into any publicity would be cleared with the Bureau. That was really my plea.

MR. GASTON: That is right. I was left with the understanding that the responsibility would be in there, in John Sullivan's office, for any further clearance. That would be my impression.

MR. CANN: So then we had a meeting that afternoon, at which time Fred and I and Bill Horne and representatives of the OWI were there.

MR. GASTON: But this first meeting was just a preliminary discussion of timing, tactics, and the general character of the appeal.

H.M.JR: Were you under the impression that if Bill Horne O.K.'d it that ended it?

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MR. GASTON: I wouldn't have anything to do with that. We weren't discussing the final mechanics of the clearing of this thing.

H.M.JR: That is the point he is making.

MR. GASTON: The point that Norman is making, as I understand it, is that he would look to people over here in Sullivan's office; in other words, he would look to Horne to do any further clearance of the document that was necessary.

H.M.JR: We had the same thing once before with Horne. Horne isn't here, Sullivan isn't here - how can you function? But I mean, if Horne said O.K. nobody else had to see it? Fred Smith didn't have to see it?

MR. GASTON: That question wasn't even discussed.

MR. CANN: Let me go a little bit further on that, Mr. Secretary, if I may. That afternoon - because Herbert, after he got through and we reached an agreement as to the type of publicity, and so forth, then it was adjourned and we had the afternoon meeting.

In the afternoon meeting - OWI, Fred, Horne, and myself - again it was agreed that Horne would coordinate, but that it would go through Chick Schwarz, and then, I suppose, through the OWI.

Now that, Mr. Secretary - of course, I think maybe they were thinking in terms of publicity that might go out over the radio or possibly through the newspapers. But in any event, that was the agreement reached that afternoon. So as far as the Bureau of Internal Revenue is concerned, we would have cleared everything through Horne in the absence of Sullivan or--

H.M.JR: He wasn't here. And you called up Roy Blough and said, "Roy, I have sent this over. It doesn't make any difference what you say; it is on the presses already."

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MR. CANN: No, no.

H.M.JR: I got that directly from Roy Blough.

MR. CANN: May I clear that?

H.M.JR: He talked with you directly.

MR. CANN: That is correct.

H.M.JR: You said, "It doesn't make any difference on Monday what you think; it is on the presses anyway."

MR. CANN: No.

H.M.JR: That is what he said, word for word.

MR. CANN: May I make a complete statement on that?

H.M.JR: Sure.

MR. CANN: All right. Mr. Blough was not here that week.

H.M.JR: That is right.

MR. CANN: Mr. Shere was not here that week; Mr. Surrey was not here that week.

Now, I had cleared with Horne. I wanted to clear with them, and would have cleared with any of those men if they had been here.

H.M.JR: They weren't all three out at the same time.

MR. CANN: Yes, I think they were.

H.M.JR: I think Surrey was here, because he was working with--

MR. CANN: Surrey was out all last week, so far as I know, on a vacation. Isn't that right?

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H.M.JR: I don't know. Let's say you cleared with Bill Horne. When did you clear with Bill Horne?

MR. CANN: That was Saturday afternoon.

MR. GRAVES: I think so; I think it was Saturday afternoon. Horne came down and spent an hour going over this form with us and O.K.'d it.

MR. SMITH: Incidentally, on your original preliminary report that you had there that had to clear with Horne and Schwarz, I got left out of that; but even so, Schwarz never saw that.

MR. CANN: If we follow the routine of clearing, which we customarily do in the Bureau, Mr. Secretary, to the Treasury - we route it, and then it is rerouted where it is received to the people over here who it is going to.

H.M.JR: Who is it to go to over here? You see, I have been doing Sullivan's work for the last two weeks.

MR. CANN: My definite understanding was that I was to clear with Horne, and I naturally assumed that when I cleared that if there was anything else to be done over here it would be cleared from the Treasury man who received it.

H.M.JR: I think that is a fair assumption that Horne should clear it. Well, he didn't; but let me get down - if this thing were a good thing - if I were satisfied, I wouldn't give a damn if it hadn't been cleared with anybody.

There are two things. In the first place I am not satisfied. There are forty million things going out, and on this whole approach - anything going out of the Bureau on this thing - I haven't been satisfied. In the final analysis, no matter whose name is on it I have to face the public on this.

I am not satisfied, and I want the thing - I brought down the best man I could get. I can't work with a man

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who appears here for two days every other week. I never see the man. I don't even - I have shaken hands with Horne once in my life. He is not going to pass on things for me. Let's get this procedure thing first.

What I want the Commissioner to do - and I want him to do it promptly - you have a fifty-six hundred dollar vacancy over there, see, and I want a man put in there who can do this kind of work and who will look to Schwarz to clear his things in the Treasury. I put Schwarz under Fred Smith, so that will take care of that.

MR. CANN: I might say, Mr. Secretary, that for a long time - certainly since I have been over there, and I think Chick Schwarz will bear me out - we haven't cleared anything there except through Chick Schwarz.

H.M.JR: That is the way I want it.

MR. CANN: We never clear any publicity otherwise.

MR. SMITH: You mean clear it through or distribute it through? We are talking about getting clearance on these things before they are distributed.

MR. CANN: The Bureau of Internal Revenue for a long time - it doesn't make any press releases over there. They just don't do that.

MR. SMITH: I don't know about that.

MR. CANN: I do. They don't.

H.M.JR: Then, that is easy. But this vacancy - I don't know how long - I want it filled.

MR. CHARLES BELL: That is McGrew's vacancy.

H.M.JR: As to procedure, Gaston and Smith or somebody can make recommendations. You people can make recommendations and they will go to my Administrative Assistant for final approval, but I want somebody in there soon.

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If Mr. Horne can only come down two days a week or every other week, he is no good to me. Nobody is any good to me on a two-day-a-week basis.

MR. GASTON: There is this to be said about this particular document--

H.M.JR: I had the same thing happen once before.

MR. GASTON: There wasn't any hard and fast arrangement made as to clearance of this document at the preliminary meeting at which I sat. I would suppose that--

MR. CANN: That is right.

MR. GASTON: I would suppose that Mr. Cann, if Sullivan had tagged Horne with responsibility, would look to Horne to make the clearance.

You have spoken about the procedure of press releases. Of course, this isn't a press release, so you would naturally expect a somewhat different arrangement in which John Sullivan's office would be the point of clearance, with which the Secretary wished them to clear.

H.M.JR: It doesn't necessarily have to go through Sullivan's office.

MR. CANN: I was going to ask you that question.

H.M.JR: When he comes back, you (Bell) talk to him. This is a public relations matter, and I want you to draw a procedure for me. I want them to fill that vacancy over there with a top-notch person who will be working for the Bureau. Then when the thing is still in a fluid state - where it goes to the public - that person can clear directly with Schwarz.

Now, Sullivan can make whatever arrangements he wants with Schwarz when he gets back. Schwarz is now under Smith, so that takes care of Smith. But the stuff should originate with the Bureau; and then if I don't

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like it, it is up to them to get it to me before it is on the presses. But we had better formalize this thing in writing. Any question?

MR. GASTON: The only thing I was going to say - the only thing very definite about this meeting was this, that Norman Cann requested, and it was agreed to, that nothing would be sent out from here without being cleared with the Bureau.

H.M.JR: That is lend-lease in reverse.

MR. CANN: I just wanted to be sure we had a chance to check the technical material.

MR. SMITH: That has to be done; there is no question about that.

H.M.JR: Now you get a first-class publicity man over in the Bureau. Get him just as soon as you can. He will be there, and the thing will be written so it is technically correct; it comes over here; it goes to Schwarz, and it is up to Schwarz to see who in my office - Sullivan is part of my office. But I don't want, frankly, another publicity bureau under Sullivan like Horne. It seems to me that the thing should be in the Bureau.

Get the people; give them all the help you can. If we don't like it, we will say so - pass on the man - they can take the initiative of finding somebody. Go out and find somebody. If anybody in the room knows anybody make a recommendation. But let's get an able man or woman. Then we will give them all the help we can.

I think one of the mistakes is sort of running a separate publicity bureau over here.

MR. GASTON: The routine they follow with me as to releases that affect Customs or any of those people - they usually dig up a story or I may suggest it to them. But they always submit it to me - Schwarz' office always submits it to me for my O.K. before they put it out.

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H.M.JR: Norman says that it is the way it is always done. He will be for it.

O.K., Harold?

MR. GRAVES: Yes, sir.

H.M.JR: The only question is Sullivan's relationship - where he comes in the picture. He will be back Monday?

MR. CHARLES BELL: Yes, sir.

H.M.JR: You can talk to him. I don't want to go over it a third time. I don't want a separate publicity bureau there. The setup at this end is all right if it can get to Schwarz.

As to that, are you (Graves) all right?

MR. GRAVES: That is right.

H.M.JR: Are you (Cann) all right?

MR. CANN: Yes.

H.M.JR: We will put the thing in writing.

As to this thing - I have listened to you - I am going to turn you down.

MR. CANN: I am sorry. Would you like to say anything on that, Harold?

MR. GRAVES: I would like to say that in my opinion it would be much better to allow these declarations with instructions to go out as planned on the 5th of August, to be followed by distribution of this material through whatever other means we can arrange, than to hold up the distribution of the forms to forty million people.

H.M.JR: You mean hold up - can the thing go without this? (Indicating letter)

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MR. SMITH: Not without the letter.

MR. GRAVES: Yes, it can go. We had originally planned to send the declaration forms with instructions which are all in the make now, without this letter, which was a sort of afterthought.

Now, if this letter is to be changed--

H.M.JR: It is, but let's say when it has been changed.

MR. GRAVES: When it has been changed it will mean that instead of these tax blanks being ready to go to the taxpayers on the 5th of August, they wouldn't be ready until the 20th, and that is awfully close to the 15th of September when the blanks must be filed.

I think it would be a gross mistake for us to delay the distribution of those forms to get in this letter here, which is not indispensable to an understanding of the form.

H.M.JR: What do you think of that?

MR. SMITH: I don't agree.

MR. GASTON: You would distribute the forms without this letter - distribute the forms themselves, then follow it with the revised circular of instructions - to be distributed by other means?

MR. CANN: Let's be sure we understand that.

MR. SMITH: Here is the situation, though, Herbert, on that: This form will then go with instructions - just cold instructions - to forty-two million people, of whom only fifteen have any interest in it. So you are going to make twenty-eight million people sore when you only need to make fifteen million people sore, to begin with.

Consequently, if you send a letter - a decent, friendly letter explaining right in the very first paragraph that

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this only affects fifteen million of the forty-two million people who are going to get it; and if you make them feel pretty good when they get it right off the bat, then you are not in the position of trying through publicity and other devious means to tell them that we are nice people.

Then the one direct way we have of reaching them - just kicking them in the teeth practically--

MR. GRAVES: I think that very much overstates the case. The instructions that are to go with the form contain a very simple statement at the very beginning as to who is required to file the declaration.

MR. SMITH: That is right, but it is all so cold, so simple, and so unfriendly. That is the whole thing.

MR. CANN: Mr. Secretary, one point on that is that for years, as you know, we have sent out our tax blanks about the 5th of January. We send nothing with the tax blanks.

H.M.JR: But you haven't had things like OPA and a thousand other things to put the people in a state of irritation. Heretofore we have been the only thing that has irritated the people.

MR. SMITH: You didn't have a bond drive before, either.

H.M.JR: You had all kinds of things.

Now the people - they have open wounds; they are sore; they are mad.

You originally only intended to send these tax forms out on the 15th?

MR. CANN: That is correct, Mr. Secretary, but like I said--

MR. GRAVES: That was because of the delay in printing.

MR. CANN: When we found out we were to do it--

H.M.JR: Isn't there some way of getting this letter out quicker?

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MR. CANN: As I understand it, your people checked over here on that.

MR. BELL: Get this letter out?

H.M.JR: Yes.

MR. BELL: No, sir, we can cut that time to the 15th of August but not a day earlier.

H.M.JR: They are not all going to be finished on the same day, are they?

MR. BELL: Ninety-five percent will be finished on the 15th of August.

H.M.JR: They won't begin to flow before that?

MR. BELL: They won't give me those dates.

H.M.JR: But they come off the press, I mean, as they - they don't all come off the press in twenty-four hours.

MR. BELL: They will have two or three days before the 15th that they will start feeding this to the collectors' offices, yes, sir.

H.M.JR: Won't it be more than that? I mean, this is such a simple thing.

MR. CANN: We delivered this, Mr. Secretary, for the first proof nine days ago.

H.M.JR: But I still say I have seen printing presses work and the stuff begins to come off.

MR. BELL: Their date was the 20th. That is the date they want. But we clipped them five days this morning through the Public Printer.

MR. GRAVES: But the trouble is that the printing facilities being used by the Government Printing Office

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also have to turn out these tax blanks and instructions in very large quantities.

H.M.JR: I don't see why you can't begin to put them in the mail. This (indicating letter to taxpayers) goes with the form?

MR. CANN: That was the idea; it would go with the form with the instructions.

H.M.JR: Where are they put together?

MR. CANN: Ten different locations.

MR. GRAVES: They are mailed from the sixty-four collection districts.

H.M.JR: I mean, where do they sort of put them in the envelopes?

MR. CANN: In the collectors' offices. They come folded.

H.M.JR: Then they stuff them in?

MR. CANN: Right.

H.M.JR: As they begin to come off the press they begin to be mailed.

MR. CANN: They will be doing that.

H.M.JR: I should think some of them would come off the press by the 20th.

MR. CANN: Mr. Secretary, we ran into some difficulties with the Government Printing Office on our March 15 filing. You may have forgotten it. And to be honest with you, I know we have got to get the forms out and I wouldn't want to tell our collectors to--

H.M.JR: What is a person going to do with this once he gets this?

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MR. CANN: The form?

H.M.JR: Yes.

MR. CANN: The instruction on it is a simple statement. As a matter of fact, we will freely admit to you we think that the simplified form looked pretty good, so I think they are not going to have any troubles with it.

MR. GRAVES: Many people who receive the form and the instructions will begin to write letters to the collector asking questions, and it is going to--

H.M.JR: You most likely won't agree with the statement I am going to make now. We wouldn't have had the simplified form if we hadn't raised hell about it.

MR. CANN: I think that is a correct statement.

H.M.JR: Do you think it is?

MR. CANN: I don't think it is. It is.

H.M.JR: Thank you for that. That is something.

MR. CANN: There is a long story about that. I am not going to bore you with it. Some day I am going to tell you about that, too.

H.M.JR: You most likely think I am going to be a little arbitrary, but I am going to say something and you might just as well know how I feel. I think that the Bureau has got to be "told" a little bit. Maybe that is all wrong, but that is the way I feel. The little contact I have had the last two weeks, unfortunately that is the way I have come out. And leaving Fred Smith out of the picture - this isn't Fred Smith - but the other people around me here - Sullivan is away - feel the same way. You don't know me very well. He (Graves) knows me. When I have something on my chest, I say it.

MR. CANN: I like that, Mr. Secretary.

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H.M.JR: I don't go around - Harold knows me very well.

MR. CANN: The only thing that I could say to that, if it is referring back to the matter of the form--

H.M.JR: No, this is an accumulation. I have been asking questions the last two weeks, see? And at the end of two weeks with Sullivan away and the Commissioner away, that is where I end up.

MR. CANN: Of course, Mr. Secretary, that probably - to some extent I might say that that is some reflection on me, and--

H.M.JR: I don't know where. I think it is the whole spirit over there. I think that there is - I mean, there is an isolation spirit over there.

MR. CANN: No, you are as wrong in that, Mr. Secretary, as you can be.

Now, look, let me just tell you; for seven years - you don't know it, but you have had me on one detail or another - in that said seven years I suppose I have had maybe five weeks away from the office. And I am not the only fellow over there. I don't think there is a division of the Government in Washington that has got the morale the Bureau of Internal Revenue has got, and it is forty and forty-five-year-old, and fifty-year-old people carrying the load. There isn't an outfit that has got the pride, and there isn't an outfit that is any more a part of the Treasury than the Bureau of Internal Revenue.

I have heard that before, that there is a tendency on the part of some to say, "There is the Treasury at the end of Pennsylvania Avenue, but we are all by ourselves down here, and to hell with that." But that isn't so. That very definitely isn't so, and I think it is unfortunate that you feel that way, because the hours that some of our people have worked for you down there the last few weeks without regard to themselves and their health, the number of men here in the last - I suppose the last three or four months that have retired - and it is attributable directly to this extra burden that we have put on our folks.

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I think what you say, unless you have some concrete instances, which there might be, on the other side to explain it, I really think that is unfortunate, because you have just got the best bunch of folks in the world down there. Their bond drive - their response to you on that is outstanding.

H.M.JR: It is very good.

MR. CANN: On your Community Chest drive they always lead the Treasury. On an overtime operation, we don't bother with compensatory leave down there. We don't have time to fool with it.

I will admit I am, as you know, very biased about it - very proud of the Bureau. After all, twenty years - but as I say, I just simply feel that what you say is a reflection on me.

H.M.JR: I don't know - I wasn't being personal. But that is the feeling I got. But I am from Missouri and my mind is always open. I haven't any prejudices, or anything like that, but I am certainly going to put myself closer to the Bureau for a while.

MR. CANN: I wish you would.

H.M.JR: Until I have satisfied myself one way or the other. I have been too removed - detached. Maybe it is my fault.

MR. CANN: Can I ask you this?

H.M.JR: You can ask me anything you want to.

MR. CANN: What phase of the Bureau's work, or failure in the Bureau's work, would lead you to that conclusion?

H.M.JR: I mean, I would have to name names. I don't want to name names. It is a succession of incidences. It may be my fault that I haven't - I have had too many people between myself and the Bureau.

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MR. CANN: Of course, as I say--

H.M.JR: Let's just see, and let's go along now, and I am going to ask you to do it my way, and I am asking you to get somebody to fill that vacancy over there, and that person can handle the public relations - deal with Schwarz. Let's see how we get along.

I have got only one object in mind, and that is to make the path between the Treasury and the public smoother. That is what I am trying to do. When I see what has happened to OPA and OCD and those other organizations like that, it makes me sick. I don't want it to happen in the Treasury.

MR. CANN: Wouldn't you agree with me, Mr. Secretary, that there has probably been less criticism on the part of the public directed to the Bureau of Internal Revenue than any organization in the Federal Government, and that more commendatory remarks have been written about it?

H.M.JR: I couldn't say.

MR. CANN: All I can say is from clippings - the only reference I can take is clippings.

H.M.JR: I will say that I think that considering that you are the tax collector, that it is amazing how little criticism there is. I will say that.

MR. CANN: We had an amusing letter the other day.

H.M.JR: Amusing?

MR. CANN: It was very critical of our circular to employers.

H.M.JR: I don't know what you refer to.

MR. CANN: You saw the circular we prepared for employers. This letter was written by a gentleman in Jacksonville to you personally.

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H.M.JR: I didn't see the letter.

MR. CANN: I know you didn't. It came over to us directly. He congratulated us on writing, but he said that it was the most terrible writing that had been written since the beginning of time. So we were rather proud of that employers' circular - employers generally have written us letters more or less commending us upon it, so we examined the paragraph in question and the paragraph in question was the law as Congress wrote it, word for word. (Laughter)

Your last word on this, Mr. Secretary, is not to hold it up?

H.M.JR: My last word is just what I told you over the telephone. I don't want that circular to go and I want--

MR. CANN: I understand that, but do you want us--

H.M.JR: I want the circular and the forms to go out together, please.

MR. CANN: All right.

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

July 29, 1943

TO Secretary Morgenthau
FROM Ted R. Gamble

As you know I have been conducting a series of meetings during the past 45 days with the Office of War Information, the War Advertising Council, the War Activities Committee and the Allied Newspaper Council. In each instance the request for cooperation in the Third War Loan has not only been granted but has been amplified as a result of discussions with each of these groups.

We are working on an idea to spear-head this campaign so that an infectious atmosphere of enthusiasm and excitement will be generated throughout the nation.

This idea revolves around an entertainment World Caravan. This Caravan will include 40 to 50 of the top motion picture personalities. It also will include representatives of the legitimate stage and will carry its own musical organization. In addition it is contemplated that we might use speakers selected from our leading Congressmen.

The cities have already been selected for this operation and will include all of the large cities in the country, some 15 in all. A secondary tour will visit the next 20 cities in size.

Listed among the personalities who have already made arrangements to join this tour are:

James Cagney, Jean Arthur, Walter Pidgeon, Greer Garson, William Powell, Judy Garland, Hedy Lamar, Fred McMurray, Fred Astaire, Norma Sinsayer, Jeanette McDonald, Ray Milland, Edward G. Robinson, Joan

Page 2 Continued

Crawford, Marlene Dietrich, Orson Welles, Wallace Berry, Mickey Rooney, Dorothy Lamour and Spencer Tracy.

This is but a partial list, and we are informed by the Motion Picture Industry that the major studios will, if necessary, close down during this tour in order to avail to us a complete roster of their people.

We know from our experiences of last September that there is no single device that we can use to better advantage for the kind of campaign that we want to put over this September than an activity such as this.

As a result of our conversations with O.W.I. and representatives of Networks we are convinced that a most impressive launching ceremony can be broadcast to the nation as a result of having this great pool of talent concentrated in one spot.

I would like, therefore, to recommend to you that this Caravan be brought to Washington and that our Third War Loan be launched here on the evening of September 8, by the President of the United States.

We would like for the President to officially launch the Third War Loan in a short message as the feature of this broadcast. In addition to giving us the kind of help which we feel is a vital need for "Kicking Off" this monumental job, we would at the same time be able to obtain invaluable newsreel shots and picture material for use throughout the Campaign.

Page 3 Continued

I would like to make it clear to you that I have discussed this program very carefully with all the groups involved and we are agreed that a program of substance, dignity and sincerity can effectively be wrought from such an occasion. As our whole Campaign will stem for this activity, we would like to know as soon as possible if the Commander-in-Chief can take part.

July 29, 1943

I called Grace Tully today and told her that we would like to have the President launch the Third War Loan Drive on the night of September 8th. I told her that a great many of the movie people are going to be helping us, and we could get any ones he wanted to come over that evening, such as Greer Garson, Judy Garland, Hedy Lamar, Norma Shearer, Marlene Deitrich, Dorothy Lamour, etc. I suggested that perhaps he would like to either go on the air or else make a movietone. She said she would ask the President about it and then let me know.

July 29, 1943

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THE WHITE HOUSE
WASHINGTON

July 29, 1943

Dear Mrs. Klotz:

Will you let us know about Dr. Welch, who is head of music at Princeton and "Consultant to Secretary Morgenthau" as reported in Seattle? He is to speak in Seattle - is it for War Bonds?

Sincerely yours,

*Malvina C. Thompson*Secretary to
Mrs. Roosevelt

Mrs. Henrietta Klotz
Office of the Secretary
Treasury Department
Washington, D.C.

*Mrs. Klotz**phoned Miss Thompson**7/31/43*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

July 29, 1943

I asked Carl Shoup of Roy Blough's office to look at the hearings before the Ways and Means Committee to ascertain Vinson's attitude, and he has given me the attached memorandum.



July 28, 1943

TO: Mr. Paul
FROM: Mr. Shoup

In accordance with your suggestion I have looked through some of the hearings before the Ways and Means Committee a few years ago to ascertain the attitude of Fred M. Vinson, then a member of the Committee. I get the general impression that Mr. Vinson kept closely in touch with technical developments, and to the business man who appeared before the Committee he must have seemed an acute, even sharp, questioner - - almost as a sort of "hatchet man" for the administration, although in a courteous manner. Mr. Vinson was adept at taking to pieces anyone who came before the Committee with only a vague sense of injustice, without specific facts at hand for his own business, and without specific knowledge of the tax law. Nothing in the parts that I have reread suggest any lack of sympathy with what were then the administration's chief tax aims. This impression must be qualified, however, by the fact that I have not gone carefully through every section of the hearings. My survey covered part of the 1936 hearings and part of the 1938 hearings. It checks, however, with an impression that I recall having obtained several years ago when I had occasion to follow the hearings fairly closely.

CS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/29/43

TO Mrs. McHugh.
FROM The Secretary.

*Sullivan
B. K. -*

Last week I wrote Fred Vinson a letter asking why he didn't give us a ruling on salaries above \$5,000 and he answered me, I believe, that he was waiting on two other departments. If we don't get an answer by next Monday or Tuesday, I want to write him again. Please see that Mrs. Klotz reminds me.

finished

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

July 29, 1943

TO Secretary Morgenthau

FROM Randolph Paul

I am sending herewith a memorandum by Joe O'Connell regarding an employee of the Federal Government being at the same time employed by a private corporation.

RP —

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Mr. Paul
FROM Mr. O'Connell

July 28, 1943

There is no existing Federal law which precludes an employee of the Federal Government from being at the same time employed by a private corporation, or from accepting compensation from such a corporation for services performed for it. Of course, if the holding of the two positions involved a conflict of interest there would be very strong reasons of public policy for attempting to prevent it, but there is no statute which addresses itself expressly to such a problem. It is also obvious that if the private employment resulted in an interference with the performance of the public duties there would be strong reasons for not continuing the man in the public employ.

There is a general statute which provides that no Federal employee may accept compensation from any private source for services performed for the Federal Government. There are several Attorney General's Opinions construing this general statute from which it is reasonably clear that the private compensation must have been for the purpose of paying the man for the service performed for the Federal Government in order to come within the statute.

There is no provision in the FDIC legislation which would result in a different rule. The only prohibition contained in that statute which touches at all on this sort of situation is one which prohibits a director in FDIC from being at the same time a director in any insured bank.

We have been unable to find any provision in the mail-pay or other subsidy legislation which prohibits an air line company from paying director's fees to a man in Government service.

In so far as the Treasury Department is concerned there is a Treasury regulation which prohibits any Treasury employee from engaging in any outside employment without the approval of the Secretary. It is my understanding that such approval has been given sparingly.

JUL 29 1943

Dear Prentiss:

I know you are busily engaged in waging the fight against inflation on many fronts. I also know that you have always favored the elimination of special privileges for any economic group.

Consequently, I feel justified in calling to your attention the demoralizing effect on persons of modest means of the present policy of allowing hotels and restaurants to serve rationed foods without requiring their patrons to surrender coupons. In the case of certain foods, such as meat, this policy discriminates in favor of the well-to-do who can afford to supplement their meat ration by eating out regularly.

I have always understood that the point ration system was intended primarily to secure an equitable distribution among all classes of consumers, rich and poor alike, of those foods for which demand varies widely or which are available in such small quantities that an equal ration would be insignificant.

In theory, the system is designed to achieve a rough measure of social justice. In practice, it is creating a privileged class of expensive hotels and restaurants which cater to a well-to-do clientele.

I doubt if anyone will seriously dispute the fact that there are not enough hotels and restaurants to feed industrial and white collar workers at prices which they can afford to pay. Nor is there widespread acceptance of the curious view (which I have heard advanced in defense of existing OPA regulations) that eating food "off the ration" at fancy prices is a form of recreation which the Government should encourage.

Surely, it does not improve the morale of a worker who has put in a full day's work in an office, at a store or

By Messenger

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factory, or in a mine or quarry, under tense and difficult circumstances, to know that if he wants roast beef he can get it without surrendering a coupon, by paying two or three dollars at a first-class hotel.

It is common knowledge that choice cuts of meat can always be found on the tables of hotels and restaurants, even when the shelves of retail butchers are bare. This is perhaps the natural consequence of the OPA regulation allowing hotel supply houses which fabricate primal cuts into roasts, steaks, and stews to charge 20% more than the zone price. Of course, it might also result from black market operations on the part of expensive hotels and restaurants trying to satisfy patrons to whom high prices are no obstacle. In any event, the present system of rationing hotels and restaurants according to the number of meals served, without regard to how much meat the customers may have consumed at home, may well discredit the ration system.

I realize that any solution of this problem involves many administrative difficulties. But you and I know how many of the most constructive measures of this Administration were originally condemned as administratively impracticable and proved, when tried out, to be very successful.

It is true that in England hotel and restaurant customers need not give up coupons for meals. However, the British Ministry of Food strictly regulates the number and contents of courses of meals served, and limits not only the price charged for meals, but also their nature.

Perhaps applying the point ration system to hotels and restaurants is not the sole solution. Perhaps the answer lies in reducing the proportion of the available civilian supply of meat allocated to hotels and restaurants. Or, perhaps hotels and restaurants charging more than a specified price for portions of meat should be deprived of choice cuts altogether.

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I do not want you to think that I am wedded to any particular solution, and I know that you must have considered suggestions from many sources. I feel, however, that a re-examination at this time of this problem might result in some preferable alternative which would iron out inequities due to inequality of income.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Prentiss Brown,
Administrator, Office of Price
Administration,
Washington, D. C.

CLK:rgs
7/28/43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29, 1943

TO Secretary Morgenthau
FROM Mr. E. M. Bernstein

Subject: Exports of Coal and Cotton to Italy

1. At a meeting of the Coordinating Committee for Liberated Areas on July 27, General Hildring informed the Committee, including Governor Lehman, that the Army was prepared to guarantee the supply of all import items for Italy for a period of six months. During this period, no civilian agency need be responsible for sending supplies to Italy.

The Army arrangements will presumably follow the general pattern already worked out in North Africa. The Army will procure these goods with dollars in this country. Such goods as the Army sells in Italy (as distinguished from what it furnishes as relief, etc.) presumably would be sold against Italian lira currency or credit, which it could then use for the payment of troops or the procurement of supplies in Italy. Under this arrangement, the question of the payment of dollars by Italy need not arise.

2. When Governor Lehman assumes responsibility for this work, this mode of financing could, of course, be continued -- at least until more permanent arrangements are formulated.

3. In the case of coal, the Army has made it evident in North Africa that it considers coal to be primarily an Army supply problem. Coal is vital for successful railroad operation and for the maintenance of public utilities. In North Africa, only that small proportion of coal that is sold to industrial or other consumers is handled by civilian agencies which recover dollars from the French in these instances. In the case of Italy, coal is absolutely essential for the maintenance of the power plants which manufacture the electricity to operate the railroads and other industries throughout Italy which are of primary concern to the Army.

- 2 -

Even after the six-month period of Army supply, the Army presumably will continue to handle coal as it has continued to do in North Africa. The Army presumably would be paid for this coal by Italian lira currency or credit, which it would be free to expend in the area for pay of troops or local supplies. Should any part of the coal program ultimately be turned over to one of the civilian agencies, it can be financed as indicated in (4) below.

4. The case of cotton will be handled the same as other civilian supplies such as food, drugs, etc. After the six-month period of Army supply is over, civilian supplies for Italy will be handled by civilian agencies. In so far as these supplies may be required for out and out relief purposes, no charge will be effected. In so far as supplies are sold to the Italians, the civilian agencies would presumably receive Italian lira currency or credits in exchange. OFRRO, which will be the main recipient of such lira currency or credit for such civilian supplies, may make such Italian credits available to OEW for the purchase of goods within Italy for export to the United States. OEW may be asked to settle for such credits at the official rate of exchange in dollars, thereby reimbursing OFRRO in the United States with American currency or credits.

5. Because imported goods sold in Italy can be paid for in lira currency and credits, the means are available for financing Italian purchases of imported goods without making special credit arrangements.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 29, 1943

TO Secretary Morgenthau
FROM E. M. Bernstein
Subject: Italian Foreign Trade

Annual Volume of Merchandise Trade, 1937-1940

During the four years, 1937 to 1940, Italy's average annual exports amounted to 8,304 million lire (\$432 million) and her average annual imports amounted to 11,839 million lire (\$616 million).

Although figures showing total exports and imports for the years after 1940 are not available, it is reported that Italy had an export surplus in 1941. This was probably due to a shortage of imports of raw materials and food-stuffs while at the same time Italy was increasing her exports to Germany.

Distribution of Trade by Countries

In 1938 the principal sources of Italian imports were Germany 26.7 percent, United States 11.9 percent, and United Kingdom 6.5 percent. Germany's share in this trade had been rising steadily since 1934.

In 1938 the principal consumers of Italian exports were Germany 19.1 percent, Eritrea 12.6 percent, United States 7.5 percent, and United Kingdom 5.6 percent. Since 1934 Germany's share in Italian exports had been rising while that of the United Kingdom had been falling.

Table I shows the value of Italian merchandise trade with ten principal colonial and foreign suppliers and markets for the years 1934 and 1938.

Italy's trade with Germany increased in terms of reichsmarks from 547 million in 1938 to more than 2,000 million in 1941. Prices of imports and exports, however, increased by about one-third during the same period.

- 2 -

Principal Commodities Entering into Italian Trade

In recent years Italy's most important imports have been coal and coke, and cotton, which in 1938 accounted for 15.6 percent and 7.5 percent of Italy's imports. Since the outbreak of war Italy has imported substantial amounts of coal and machinery from Germany.

In 1938 Italy's chief exports were cotton cloth which accounted for 6.4 percent of her total exports, citrus fruits 5.2 percent, and dried fruits and nuts 4.9 percent.

Since the war Italian exports to Germany (aside from labor) have consisted primarily of fruits, vegetables, rice, olive oil, wine, silk fabrics, synthetic fibres, and other manufactures. The Italians also provide the German war machine with those few raw materials which are available in their country - notably sulphur, pyrites, mercury, hemp, flax and raw silk.

Table II shows the ten principal commodities entering into Italy's foreign trade in 1934 and 1938.

TABLE I

Italy's ten principal foreign suppliers and markets, 1934, and 1938
(Value in millions of lire)

1934			:	1938		
Country	Value	Percent of total value	:	Country	Value	Percent of total value
A. Principal Suppliers						
Germany	1,213	15.8	:	Germany	3,016	26.7
UNITED STATES	957	12.5	:	UNITED STATES	1,338	11.9
United Kingdom	707	9.2	:	United Kingdom	728	6.5
France	437	5.7	:	Switzerland	376	3.3
British India and Ceylon	353	4.6	:	Poland and Danzig	320	2.8
Switzerland	293	3.8	:	Argentina	274	2.4
Argentina	274	3.6	:	British India and Ceylon	269	2.4
Australia	234	3.1	:	France	254	2.3
Belgium-Luxembourg	229	3.0	:	Czechoslovakia	254	2.3
U. S. S. R.	220	2.9	:	Rumania	253	2.3
All other countries	<u>2,758</u>	<u>35.8</u>	:	All other countries	<u>4,191</u>	<u>37.1</u>
Total	7,675	100.0	:	Total	11,273	100.0
B. Principal Markets						
Germany	633	15.9	:	Germany	2,002	19.1
United Kingdom	529	10.1	:	Eritrea ^{1/}	1,325	12.6
Switzerland	438	8.4	:	UNITED STATES	782	7.5
UNITED STATES	388	7.4	:	United Kingdom	587	5.6
France	353	6.7	:	Libia ^{1/}	526	5.0
Argentina	218	4.2	:	Switzerland	495	4.7
Libia	176	3.4	:	Argentina	405	3.9
Yugoslavia	140	2.7	:	France	328	3.1
Netherlands	134	2.6	:	Ethiopia	295	2.8
Hungary	130	2.5	:	Egypt	267	2.5
All other countries	<u>1,886</u>	<u>36.1</u>	:	All other countries	<u>3,485</u>	<u>33.2</u>
Total	5,225	100.0	:	Total	10,497	100.0

^{1/} Italian dependency

TABLE II
Ten principal commodities entering into Italy's foreign trade, 1934 and 1938
(Value in millions of lire)

1934			1938		
Commodity	Value	Percent of total value	Commodity	Value	Percent of total value
A. IMPORTS					
Coal and coke.....	857	11.2	Coal and coke.....	1,758	15.6
Cotton, raw.....	722	9.4	Cotton, raw.....	828	7.4
Wool, in the grease, and washed, wool waste, and flocks.....	513	6.7	Machinery, apparatus, and parts.....	759	6.7
Machinery, apparatus, and parts.....	371	4.8	Mineral oil, crude, and residues from: the distillation of.....	657	5.8
Lumber, common, rough, squared, or sawed.....	270	3.5	Wool in the grease and washed, wool waste, and flocks.....	420	3.7
Wheat.....	185	2.4	Wood pulp.....	393	3.5
Fish (except shellfish, caviar, etc.):	178	2.3	Copper and its alloys, in ingots and scrap.....	327	2.9
Oil seeds.....	172	2.3	Fish (except shellfish, caviar, etc.):	244	2.2
Hides and skins, raw, except furskins.....	171	2.2	Lumber, common, rough, squared or sawed.....	236	2.1
Mineral oils (except crude and residues from the distillation of):	162	2.1	Iron and steel scrap.....	233	2.1
All other.....	<u>4,074</u>	<u>53.1</u>	All other.....	<u>5,418</u>	<u>48.0</u>
Total.....	7,675	100.0	Total.....	11,273	100.0
B. EXPORTS					
Artificial fibers.....	299	5.7	Cotton cloth.....	675	6.4
Citrus fruits.....	279	5.3	Citrus fruits.....	540	5.2
Cotton cloth.....	260	5.0	Dried fruits and nuts.....	511	4.9
Dried fruits and nuts.....	220	4.2	Grapes and other fresh fruit, except citrus.....	370	3.5
Cotton yarns, except sewing thread...:	173	3.3	Artificial fibers.....	364	3.5
Cheese.....	153	2.9	Machinery, apparatus, and parts.....	340	3.2
Wines and vermouth.....	146	2.8	Wool cloth.....	304	2.9
Hemp, flax, and other vegetable fibers, raw, except cotton.....	146	2.8	Wines and vermouth.....	283	2.7
Machinery, apparatus and parts.....	142	2.7	Automobiles.....	264	2.5
Grapes and other fresh fruit, except citrus.....	129	2.5	Hemp, flax, and other vegetable fibers, raw, except cotton.....	235	2.2
All other.....	<u>3,278</u>	<u>62.8</u>	All other.....	<u>6,611</u>	<u>63.0</u>
Total.....	5,225	100.0	Total.....	10,497	100.0

Treasury Department
Division of Monetary Research

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Date July 29, 1943 19

From: Mr. E. M. Bernstein

To: Secretary Morgenthau

I spoke to Mr. Feis and he was very sympathetic. He had seen Secretary Hull's cable and he appeared eager to help get cooperation for our man in Martinique. He is going to speak to the European division of the State Department and inform us whether there would be any objection to the Treasury's holding up some general licenses for the Martinique banks in order to induce them to cooperate with the Treasury in investigating collaborationist financial dealings.

July 29, 1943

Memorandum of a Telephone Conversation with Mr. Feis
July 29, 1943

In accordance with Secretary Morgenthau's instructions I called Mr. Feis and spoke to him of the Treasury's desire for the cooperation of the State Department in facilitating Mr. Ball's investigation of Martinique bank accounts and the inventory of the gold held in Martinique.

Mr. Feis said he had seen the telegrams from Ball and the telegram Secretary Hull had dispatched at the suggestion of Secretary Morgenthau. I told Mr. Feis that the Secretary appreciated Mr. Hull's telegram.


I then mentioned to Mr. Feis the importance the Treasury attaches to having Mr. Ball proceed with the investigation of the Martinique bank accounts. If pressure would induce a greater degree of cooperation from the Martinique authorities, the Treasury would like to exert some pressure in a manner that would be in harmony with the objectives of the State Department.

As a concrete illustration, I told Mr. Feis the Treasury would not want to go so far as to deny licenses for the expenses of a ship now in Puerto Rico which is about to depart for Martinique with Lend-Lease food supplies. We know such action involves too great pressure. We do feel, however, that by denying general licenses to Martinique banks and by compelling them to act on a specific license basis, we could indicate to them the desirability of cooperation with the Treasury in investigating collaborationist financial dealings, without impeding the economic life of the people of Martinique.

Mr. Feis told me it would be necessary for him to speak to the European division of the State Department, and that he would let me know their views.

E. M. Bernstein

E/M/B

July 29, 1943. MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

DiLucia has told me something of the difficulties and handicaps he encountered as Financial Attache in Madrid, where his primary responsibility was to furnish information to O.S.S. Both Ambassador Hayes and Beaulac, the Counselor of the Embassy, resented his coming and threw many difficulties in his path. They had not been adequately instructed as to the work he was to do. He had been authorized to direct the activities of a crew of twelve men already in Spain, all but one of whom were former American oil company representatives in Spain. The twelfth man was Joe DaFine, a former Narcotics Agent who had been sent over previously by O.S.S. DaFine gave him effective assistance; the others did not. He says that these oil company men told him frankly that they were not going to do anything to prejudice the interests of the American companies whom they had previously represented. Also they were used by the special oil representative sent to Spain by the State Department to check on the use made of oil imports to make investigations for him. In these investigations they disclosed their identity in such a way as to make them useless as undercover agents.

DiLucia found that the Embassy had been regularly and periodically reporting to the State Department that an invasion of Spain by Hitler was imminent. He made some investigations as to the disposition of German forces in France and became convinced that there was not the slightest prospect of a German invasion and he so reported to Washington. Later the Embassy turned to predicting a Spanish invasion of Portugal and DiLucia was asked by the Army to check on this. He found that the state of the Spanish Army as to lack of transportation, equipment, armament, shoes and clothing was such that there was not the slightest possibility of a Spanish invasion of Portugal and he so reported. Again he tangled with the Embassy in endeavoring

- 2 -

to send a cable stating that Franco was about to dismiss Serrano Suner. The Embassy told him that his prediction was absurd and that they had contacts through which they would learn of such events if they were about to occur and they knew that nothing of the kind was going to happen. This prediction was stricken out of a cable he had offered for transmission. He wrote the same information in a letter and put it in a pouch addressed to O.S.S. Suner was dismissed four days after he mailed the letter.

The British resented and still resent American intelligence work on the continent and told DiLucia so quite plainly.

There is a struggle for authority in the intelligence field between the Army, the Navy, the State Department and O.S.S. The F.B.I. gets into the picture occasionally through sending men over ostensibly to investigate particular cases.

However, Dyar in Bern seems to have gotten along all right. He is a very shrewd and diplomatic fellow with a good deal of foreign service experience.



**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 Statement No. 95 -- Aircraft Despatched
-- for week ended July 20, 1943.

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

July 29, 1943.

STATEMENT NO. 95

Aircraft Despatched from the United States
Week Ended July 20, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Catalina IV	U.K.	U.K.		1	
Coronada GR I	U.K.	U.K.		1	
Liberator GR V	Bahamas	Nassau		6	
Liberator GR V	U.K.	U.K.		7	
Liberator GR V	W. Africa	W. Africa		5	
<u>BREWSTER</u>					
Bermuda	Bahamas	Nassau		3	
<u>CURTISS</u>					
Kittyhawk	M.E.	Port Sudan	19		
Kittyhawk	New Zealand	Auckland	10		
Seamew	U.K.	U.K.	3		
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		7	
Dakota III	M.E.	M.E.		5	
Dakota III	India	India		5	
Dakota III	S'Africa	S'Africa		2	
<u>FAIRCHILD</u>					
Fairchild PT 26	Algiers	Algiers	10		
<u>GRUMMAN</u>					
Martlet V	U.K.	U.K.	7		
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		7	
<u>NORTH AMERICAN</u>					
Harvard	New Zealand	Auckland	4		
<u>VULCANE</u>					
Vengeance	India	Karachi	10		
<u>VEGA</u>					
(A) Ventura GR V	Canada	Canada			3
Ventura GR V	S'Africa	S.Africa		1	
			<u>TOTAL</u>	<u>63</u>	<u>50</u>
					<u>3</u>

British Air Commission
Movements Division
July 24, 1943.

(A) Including one exported week ended July 13.

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 249

Information received up to 7 a.m., 29th July, 1943.

1. NAVAL

On 28th Beaufighters escorting ships of the Home Fleet north of SHETLANDS shot down two enemy aircraft. Aircraft from one of H.M. Aircraft Carriers shot down two more. H.M. Sloop on BISCAY patrol 28th sank 5 Spanish trawlers fishing in prohibited waters. The crews were sent back in a 6th trawler. Another 7,000 ton ship in the Southbound convoy off PORTUGAL has been damaged by air attack but is still with convoy. On 28th evening homeward convoy was repeatedly attacked by 7 F.W. 200's off CAPE FINISTERRE. Two were shot down by escorting Liberators and one was damaged by two aircraft catapulted from ships in the convoy. The pilots were rescued. No damage to ships in convoy.

2. AIR OPERATIONS

WESTERN FRONT. 27th/28th. HAMBURG. 2,313 tons dropped including seven 8,000 lb. and 323 4,000 lb. H.E. and 1,209 tons of incendiaries. A good concentration of marker bombs was well maintained throughout the attack and crews had no difficulty in identifying them. A/A fire intense at first but later seemed overwhelmed. Searchlights numerous but ineffective.

28th. Out of 302 Fortresses sent out 32 dropped 107 tons on a fighter component factory at CASSEL. 28 dropped 62 tons on an aircraft assembly factory near MAGDEBURG and 17 bombed other objectives with fair to good results. 23 Fortresses missing. Medium, Light and Fighter Bombers attacked industrial objectives and airfields in the Low Countries and Northern France. Fighters destroyed 9 enemy aircraft for the loss of one.

28th/29th. Aircraft despatched - HAMBURG 4; DUSSELDORF 4; Seaming 15; Leaflets 4; Intruders 8. Four enemy aircraft came in over ESSEX.

ITALY. 27th. 62 escorted medium bombers attacked the airfield at SCALEA 110 miles southeast of NAPLES. 21 heavy bombers dropped 45 tons on CAPUA airfield and 18 others bombed railway and other objectives east of NAPLES.

SICILY. 27th. 107 Light Bombers successfully attacked the port of MILAZZO.

OFFICE
SECRETARY OF TREASURY
1943 JUL 29 12
TREASURY DEPARTMENT

THE WHITE HOUSE
WASHINGTON

July 30, 1943.

AW HEN:

The weather is hot and I
am goin' off fishing.

I decline to be serious
even when you see "gremlins"
which ain't there!

F. D. R.

FDR

July 30, 1943.

My dear Dr. Wise:

In connection with your letter of July 23, 1943 I know you will be interested to learn that earlier this month we advised the State Department that we were fully sympathetic to the proposal of the World Jewish Congress and the American Jewish Congress for the evacuation of Jewish refugees from Rumania. The Treasury is prepared to take the necessary action to implement this proposal.

Sincerely,

Secretary of the Treasury

Dr. Stephen S. Wise
40 West 68th Street
New York, New York

AFL:bbk
Retyped hkw
7-29-43

BBK hkw

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~~In this field, as in others, actions speak louder than words. However, I do want you to know that we too are deeply concerned regarding the Jewish victims of Hitler and that we shall continue to do everything we can, consistent with our war effort, on their behalf.~~

Sincerely,

Secretary of the Treasury

Dr. Stephen S. Wise,
40 West 68th Street,
New York, New York.

AFL:bbk - 7/29/43

W. J. C. W. G. B. M.

116 sufficient for reply
230

AMERICAN JEWISH CONGRESS

330 WEST 42nd STREET NEW YORK CITY

STEPHEN S. WISE, PRESIDENT
CARL SHERMAN, CHAIRMAN, EXECUTIVE COMMITTEE
NATHAN D. PERLMAN } VICE-PRESIDENTS
LEO H. LOWITZ }
LOUIS LIPSKY, CHAIRMAN, GOVERNING COUNCIL
M. MALDWIN FERTIG, CHAIRMAN, ADMINISTRATIVE COMMITTEE
JACOB LEICHTMAN, TREASURER

CABLE ADDRESS 'CONGRESS'
TELEPHONE LONGACRE 5-2600

Dr. Wise's personal address to
which replies should be sent is:
40 West 68th St., New York City.

July 23 1943

The Hon. Secretary of the Treasury
Washington D. C.

Dear Secretary Morgenthau:

At the White House yesterday I had the opportunity of discussing with the President a proposal which Dr. Goldmann of the World Jewish Congress and I had previously taken up with Secretary Welles. He stated at the time that the matter would, of course, have to be discussed with and considered by the Treasury Department, and I believe that some officials of your Department have had the matter under consideration and that before this it may have come to your attention.

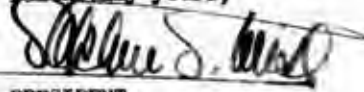
I explained the proposal to the President and he was entirely sympathetic thereto and said that he would take it up with you either yesterday or today. I feel that you too will understand that nothing is more urgent than that any and all steps be taken to make possible the release of these Jewish victims of Hitler from that situation which means death unless somehow they be rescued. The officials in the Treasury Department will, of course, have explained to you that not one penny of the funds to be held in escrow in Switzerland will reach any representative of the Axis governments until after the war shall have ended, and it may be expected that some of the people with whom our friends in Europe are dealing will not even survive.

I know how deeply sympathetic you will be to any undertaking which may save the lives of those otherwise doomed Jews, and I shall be very happy to learn either from you or the President that the arrangement thus proposed and which must, of course, have your sanction, has gained your support.

I enclose a copy of the letter which I have just sent to the President.

With most cordial greetings and hoping that Mrs. Morgenthau is much better after her illness, always

Faithfully yours,



PRESIDENT

SSW:tw
enc

Dr. Wise's personal address to
which replies should be sent is:
40 West 68th Street, New York City

July 23 1943

The President
The White House
Washington D. C.

Dear Chief:

It gave me deep satisfaction to find while with you yesterday that out of the depth of your understanding sympathy with Hitler's victims you welcome the proposal which is now before the State and Treasury Departments to permit funds to be forwarded to Switzerland by Jewish organizations of our country. These funds are, of course, to be held in escrow by our Government representatives or such people as they may designate, and would not be handed over to officials who may survive of the satellite powers until after the war. These officials, with whom the arrangements will be undertaken, will create such conditions within the Hitler territories as shall enable many Jews in those countries to survive, to escape deportation and ultimately to come out of those countries, continued residence in which would mean torture and death. The whole arrangement is to provide especially for the saving of many little children. We feel that these funds may make possible the salvation of thousands of otherwise doomed beings, especially in Roumania, Slovakia and France, without, I repeat, not one penny falling into the hands of enemy representatives for the duration.

I am happier than I can say to think that this proposal, which deals in a feasible and concrete way with an unspeakable situation, commands itself to you, and that you will be good enough to discuss it with the Secretary of the Treasury, whose subordinates are dealing with the problem.

I cannot make clear enough what it would mean to us, and indeed to all civilized people, if you once again, and for the last time, uttered a solemn warning to the representatives of the Nazi regimes in the Hitler conquered territories with respect to the crimes committed against civilians, especially Jews marked out, as you know, for slaughter as no other people. Is not the recent announcement of the Commission on the Crimes in the Fascist countries a suitable occasion for such warning as is likely to have a deterrent effect, especially upon Nazi officials within the satellite states?

Faithfully yours,

PRESIDENT

SSW:tw

JUL 30 1943

FORCE DISAVOWED BY PALESTINE JEWS

But Jewish Agency Official
Warns Against 'Deeds of
Despair' Before 'Injustice'

POST-WAR ACTION URGED

New Policy to Use Palestine
in Solving Jewish Problem
Is Advocated

By C. L. SULZBERGER

By Cable to The New York Times.
CAIRO, Egypt, July 29.—Moshe Shertok, head of the political department of the Jewish agency in Palestine, issued a statement today saying that while the Jews of Palestine had no intention of forcing the issue of settling their fate in that disputed mandated territory during the war. "It would be wrong to consider the Jews incapable of deeds of despair if driven to extremes of exasperation by a decision to preserve in what is to them a cruelly unjust policy."

Mr. Shertok said:
"Rumors are current about alleged Jewish intentions to fight out the issue by force. Nothing is farther from the thoughts of the Jews than to try to force the issue at all so long as the war lasts—provided no adverse commitments are taken in the meantime or of ever leaving on their own initiative the path of political negotiations in exchange for direct action."

"At the same time, realism compels the conclusion that it would be wrong to consider the Jews incapable of deeds of despair if driven to extremes of exasperation by a decision to persevere in what is to them a cruelly unjust policy."

Conferences Held

Mr. Shertok's statement follows closely a series of meetings between Nuri as Said Pasha, Iraqi Premier, and Nahas Pasha, Egyptian Prime Minister, who, it is known, has been discussing possibilities of formulating some joint program to promote an Arab federation after the war. Until now

there has been no indication that any unified decision has been obtained by the two statesmen.

It is also reported here by reliable sources that Britain and America after due consultation with their Allies are on the verge of publishing a concrete statement concerning their proposed policy regarding the Middle East and Palestine, where the war has ended, any post-war application of the Atlantic Charter looms.

In light of these circumstances it is interesting that Mr. Shertok, who has been conferring with British officials here, states: "With a general retreat from the idea of an Arab federation as a political concept, problems of joint economic development are coming to the fore. Such development calls for initiative and coordination. The question of cohesion must be solved by the Arab States themselves, but example and drive the Jews can supply in no inconsiderable measure. But to make that contribution on a proper scale they must feel firmly established in Palestine."

Tragic Experience Cited

Mr. Shertok said that now that the war was moving toward a conclusion, problems of the post-war settlement were taking shape and "among these, the question of European Jewry is one connected with the origins of the war and tragically aggravated by its course. It is idle to expect the remnants to feel safe in Europe even after liquidation of the Nazi rule."

"The problem of Palestine per se also is on the post-war agenda. The attempt to solve it by the White Paper of 1938 under the strains and stresses of that hapless period must be relegated to the limbo of the appeasement era. A new solution is called for, conceived in a spirit of comprehensive responsibilities and resting upon the leading United Nations."

"The new policy must aim at making the utmost of Palestine for a solution of the Jewish problem and paving the way for large-scale development of the Middle East * * *

"The subject is one of major international responsibility for the fate of Jewry and the future of the Middle East. The hour calls for a bold and far-sighted approach. The turning point created by the war offers a unique chance in history which it would be tragic to miss."

MEMORANDUM FOR THE SECRETARY.

~~SECRET~~
July 30, 1943.

Mail Report

The rut into which last week's mail fell was worn a little deeper this week. The gist of the fairly heavy receipts was that somebody had failed to receive a Bond, or had lost one, or couldn't understand why his tax deduction had been so unreasonably high. There were, of course, a few constructive ideas about both taxes and Bonds, but most of the communications took such a negative turn that all of this week's excerpts concerning these two subjects fall under the heading "unfavorable".

Reaction to the withholding tax continued to be almost entirely adverse, not only in our direct correspondence, but also in that referred by the White House. Most of the protests have come, however, from those in the lower income brackets who have no quarrel with the principle of the withholding tax, but with its impact on their own incomes. Some persons insisted that they are not subject to the tax, even though it has been deducted; others explained that the amounts withheld are incorrect; and others told of hardships that followed its collection. Now and then there was a demand that 1942 payments already made in full be refunded.

Much of the Bond mail was connected with the organization of War Finance Committees in the various states -- especially cordial replies coming from those invited to accept places on the Committees. Each week brings several repetitions of the idea that noninflationary salary increases can be made possible through the issuance of a special Bond not redeemable until maturity. Although news that Bonds are to be smaller in size has drawn very little comment, the change has been heartily approved by those who have spoken of it.

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Memorandum for the Secretary.

July 30, 1943.

A few country banks pointed out the injustices done them when subscriptions to Treasury offerings are closed the same day they are opened. One irate writer said that he would buy no more Bonds until those that have been inscribed "P.O.D." are corrected to read, "payable on death to". Government wastefulness and practices of O.P.A. stand first among the reasons that have been advanced as to why sales to individuals will lag in the Third Bond Drive.

The 48 Bonds submitted for redemption represented a slight increase over last week's count. On the other hand, complaints from personnel of the War Department decreased even further, and were limited nearly altogether to undelivered Bonds paid for during 1942.

Opposition to the new pennies ran high this week, probably because of newspaper comment that the coins are here to stay for the duration. Several asked that they be dipped in acid or plugged before they are released by the Mint.

S. E. Forbush
by Kay Pearson

General Comments

James Leong, San Francisco, California. I hope you would not think me rude to ask you to take consideration of the Mint problem, as I am only thirteen years of age. My father has been running a lunchroom in the Crocker First National Bank for a period of time. But since you have put out the new pennies, many people have tried, and succeeded, in putting these new steel pennies in the so-called "kitty". Since my father makes all his things himself, he loses a lot. About four or five do this constantly, and there is no other way of stopping this unless you, as Secretary of the Treasury, make some way of distinguishing new pennies from dimes. I know this is a serious problem, but consider many of these restaurants, cigar stores, etc., who are fooled every day. * * * If you have read this far, I would thank you very much and I would like very much for an answer.

Beautiful Lily, Brooklyn, N.Y. PEACE Again it is my pleasure to be of assistance to Uncle Sam. Enclosed please find U. S. Money Order for \$200.00. This is money I owed many years ago. I am unable to locate the party so am carrying out the teaching of Father Divine in giving the money where it will be used to good advantage. I consider my first duty at this present time is to help my country all I can. I thank you to acknowledge this to Rev. M. J. Divine.

John I. Sloat, Cashier, Commercial and Savings Bank, Winchester, Va. In connection with the offering of 7/8 Treasury Certificates of Indebtedness, Series D - 1944, as of July 22, we beg to call your attention to the manifest unfairness in the limited time of the said offering, as far as country banks are concerned. Rarely does the mail from the Federal Reserve Bank reach this institution until noon, or later, and the purchase of Government Securities must be approved by the Board of

General Comments

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John I. Sloat, Cashier, Commercial and Savings Bank, Winchester, Va. In connection with the offering of 7/8 Treasury Certificates of Indebtedness, Series D - 1944, as of July 22, we beg to call your attention to the manifest unfairness in the limited time of the said offering, as far as country banks are concerned. Rarely does the mail from the Federal Reserve Bank reach this institution until noon, or later, and the purchase of Government Securities must be approved by the Board of

- 2 -

Directors of the average country bank. Since you limit the offering to one day only, you therefore play directly into the hands of the city banks, and we small country fellows are left out in the cold. Our subscription for fifty thousand dollars of these Certificates is in the mail as of today; but announcement of the closing of the offering has just come to my desk, and we will be unable to secure the Certificates subscribed for. The country banker is called upon to render, and is rendering a multitude of services for the Government -- most of which carry no remuneration -- and we feel that it is only fair and equitable that we have a chance to compete with the banks in the Federal Reserve cities who, for the most part, get the jump on us by one day in any offering which the Government may make to the banks, or to the public. * * *

W. L. Lahman, Cashier, The First National Bank, Stillwater, Okla. We have supported our Government at all times in purchasing our share of its Bond issues, and had planned to subscribe for the above issue (7/8% one-year Bonds) in a substantial amount, but understand the subscription closed last night at midnight, the day of offering. We feel that we should be given the same consideration to subscribe as the banks in the large cities. We know that these banks get advance information. They have specialists watching the Bond markets, and they get their mail early in the day. We are fortunate to get ours by 2:00 p.m. One train a day is not conducive to early mail delivery. * * * We believe that closing these issues the day they are offered is unnecessary and unethical, and is unfair to the great bulk of country banks. * * *

Allan Schechter, Erwin Adelman, Dick Kahl, Paul Dunn, Detroit, Mich. Enclosed find check in the amount of \$2.25. This money was raised when The Filthy Four Kobby Club had an Army and Navy Relief Show, which

- 3 -

was held in the garage of 2973 West Grand Avenue. Please give this money to the Army and Navy Relief. (Letter written in pencil and on paper which is appropriate to the name of the boys' club.)

Flora Y. Hatcher, Washington, D. C. Some of us, as citizens, are very much disturbed at what impresses us as a slowness to devise sound methods of compulsory lending to assist in controlling inflation. We do not understand, Mr. Secretary, why you do not give leadership and initiative to such a program. The voluntary method, so far as helping control inflation is concerned, appears (even to a lay person) to be a failure. A required system of lending, devised on an income tax method allowing exemptions for those carrying special responsibilities, and for savings, such as insurance, etc., would greatly aid in controlling inflation. You would find the American people thoroughly in sympathy with such a plan. Certainly it is to be preferred to the unfair tax methods which place the real burden of taxation primarily on the middle income and low income groups. * * *

W. S. Gilman, Winter Park, Fla. (Suggestion re new pennies.) Of course you do not remember me, but I shall never forget you for the reason that you treated me fairly when I was in trouble over my income tax. I am glad to say that I am better off now. So I thought I would offer a suggestion which would, I think, do some good, and make you other friends. Just forget it was not your own thought. I'll never brag about it. People with poor eyesight are bothered by these new pennies. Why not pay a compliment to our Chinese friends and save metal and trouble by punching holes in these pennies. The holes could be square, round, or S-shaped. There could be one hole in the one-cent piece, two in the two-cent piece, three in the three-cent piece, or any number of ways that you could decide.

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Unfavorable Comments on Bonds

Mrs. Milton H. Koch, Mt. Vernon, Iowa. In the last letter I had from my boy, Samuel Stuart Koch, U.S.N., on the ill-fated Atlanta, was written on November 7, and in it he told me he had bought a \$50 Bond, and I would receive it in January, and not to write about it for awhile, but November 13 he went down with the Atlanta. Now how can I get track of the Bond? I figured it would be on record in your Department. Can you let me know about it sometime soon? I'll be expecting an answer soon. There should be a record somewhere of his Bond. A shipmate told me he knew Sam bought one, but he was killed so soon after, of course, I never got any more mail.

Gertrude Schermeyer, Floral Park, Long Island, N.Y. On or about January 5, 1943, I reported to the Division of Loans and Currency, Chicago Branch, that I had destroyed 3 Bonds by fire. I furnished them with the numbers of two of the Bonds, but was unable to give them the number of the third, a \$50 Bond purchased through a payroll deduction plan with the Metropolitan Life Insurance Company. I received a reply, dated April 23rd, from the Chicago Branch, stating I would be further advised about duplicate Bonds. To date, no reply has been received. It seems to me that when a person is investing their money in Government Bonds, there should be some way in which the owner may get duplicate Bonds without such a delay -- 6 months. * * *

H. William Nolde, President, Nolde Brothers, Inc., (Bakery), Richmond, Va. In reply to your letter of July 19, please be advised that our auditor has been on his vacation and just returned. He had enough Government reports to make out to last thirty days. We will give you this information as soon as we can. We are buying Bonds every week, and doing everything we can to sell more. It is almost impossible to keep up the many reports we have to make out.

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Unfavorable Comments on Taxation

Joseph G. Engert, Real Estate Investments, Chicago, Ill. I have a constructive criticism of the method used to collect the 20% withholding tax. I am an employer and I dread the work required to deduct the necessary sums from each employee, making deposits monthly in stated banks, filing reports regularly, etc. As a tax-paying citizen, I regret the cost of hiring thousands of employees that will be necessary to properly credit each taxpayer each month with each deduction from his pay check. I believe I have a plan which will make all this work unnecessary, and I am submitting it to you for your consideration. Etc., etc.

J. J. Myler, Secretary-Treasurer, Neisner Brothers, Inc., Rochester, N.Y. As you undoubtedly know, the brackets in the current tax payment Act of 1943 are worked out for the median of the wage bracket listed. As a result, employees in the lower half of the bracket are penalized, while those in the upper half are benefited. We operate a chain of variety stores in sixteen states. We have had many complaints of too much money being withheld from the first group of employees, but none from the second. The explanation that it will be adjusted next March does not satisfy our employees. They feel that more is being deducted than is necessary and they have less money for their personal needs. These employees are in the lower income groups, and we are inclined to agree with them. * * * The withholding tables in the law are unsatisfactory for the reasons given. The straight 20% method would throw a considerably greater amount of clerical work upon our present short and busy staffs. Therefore, we ask your permission to use the Wage Bracket Withholding Tables submitted herewith for our employees.

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T. S. Pendergrass, Business Counselor, Oakdale, Calif. According to a report in the daily press the forms on which the taxpayers are to file an estimate for their 1943 tax will probably be available by the first of September. If this is the earliest date on which taxpayers may receive these forms, and the accounting firms are not able to render assistance to the taxpayers under this muddled up tax law, I can assure you that the pay-as-you-go program for 30,000,000 taxpayers will prove an absolute failure. It will not be possible for these forms to be filled in and filed in so short a time, and under the law, each of these taxpayers who fails to get their declaration of estimate filed by the 15th of September will suffer the penalty prescribed in the Act. * * *

Mrs. Farrar Burn, N.Y.C. We paid our income tax in full, afraid we should never have it again if we didn't, since we had saved for that. Now that we are making so much less than last year, and since they are taking out 20% of that, we are finding it tougher going than usual, even for us, quite toughened to doing without. What are the chances of getting half of our \$730.64 back? We sent you a check on January 27, 1943, from the San Juan County Bank, Friday Harbor, Washington, through the Collector of Internal Revenue, Tacoma, Washington. Nowhere on your stamp, however, does it say "income tax in full" so how on earth can it be proven that it was the tax in full? * * *

Thomas C. Hennessey, East Lynn, Mass. On March 1, 1943, I paid an income tax of \$192.06 to the Collector of Internal Revenue at Boston, Mass. This amount paid represented my taxes for the entire year of 1942. I paid this amount thinking that whatever part was forgiven, an equivalent amount would be refunded to me within a reasonable time. Several weeks ago I wrote to the Collector and there has been no reply. I later phoned their office

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and was informed that there was nothing they could do in regard to a refund as they had no authority from Washington to do so. I relied a lot on this money to help pay the taxes on my home, and also to keep my regular purchases of U. S. Government Bonds continuing. This action of the Internal Revenue in withholding my money without my consent is very high-handed, and wholly unwarranted, and further serves to decrease considerably my war effort. It is hard to believe that your office condones such conduct. * * *

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 30, 1943, 1:39 p.m.

NO.: 1337

The following information which was communicated to us by a reliable foreign source was originally received from a responsible Chinese who left Shanghai this year in June.

1. As a consequence of the very restricted market for United States dollar notes there is a large variance in rate. The Chinese mentioned above required ten days to dispose of \$45,000 United States money, and the rate in that time had fallen from CFB 70 to 1 to 62 to 1. The rate fell to 51 to 1 after these sales and then rose back as far as 59 to 1. However, the rate has been as high as 75 to 1. It appears that the Japanese are not interested in United States dollar notes and the informant does not believe they take part in the buying and selling. Europeans handle some of the transactions.

2. CFB 5000 is the fixed price ceiling for gold per ounce, but CFB 4800 was the recent selling price (see Embassy's 1149, July 10, paragraph 11). The informant is not aware that the Japanese are owners of gold, although at times they have old gold.

3. Altogether CFB 100 million has been sent to Chungking from Shanghai to purchase United States dollar savings certificates for Chinese buyers, it is estimated by informant; he himself remitted CFB 50 million for the purchase of certificates (telegram cited above, paragraph 16).

4. CFB currency had increased in circulation by June 30, 1942, from an estimated 100 million at the beginning of the hostilities between Japan and America to about 500 million. Fapi was then recalled from circulation. By July 1, 1942 there was about CFB two billion in circulation after CFB 1,500 million had been exchanged for fapi three billion. The Japanese have used this fapi to purchase from Free China and the guerilla areas such

articles

-2-

articles as cotton, teiwood, silk, oil, etc., in large amounts. The Central Reserve Bank, Shanghai will give merchants faoi to purchase goods from these regions and sell them to the Japanese. About faoi two billion is still in the Japanese hands the informant believes.

5. CRB 171.70 was the most recent rate for faoi drafts on Chungking, sold in Shanghai. About CN 1.50 for CRB 1 is a lower rate which exists in Chungking because of the long transit time. About CRB 1 for CN 1.20 is the Shanghai black market rate for faoi because many persons expect the redenatation of the CRB currency eventually and therefore want faoi on hand (telegram cited, paragraph 10). Since April 1, 1943, on which date Chow Fu Hai Nanking Finance Minister admitted that CRB 400 million had been issued in total, the informant believes that the issuance of CRB currency has increased by approximately one billion per month. This would mean that by August 1, 1943 the total issue would be approximately CRB nine billion. CN 8.80 to 9 for CRB 1 is the present Chungking Peiping rate.

6. Military yen has been withdrawn from circulation in all parts of occupied China except Hong Kong and issue has been stopped. It has replaced Hong Kong currency since June 1943 at the rate of military yen 1 for Hong Kong 4, which is the forced conversion rate. Out of the monthly issue of CRB, 400,000,000 is being used to recall military yen and the balance of CRB 600 million issued monthly is used for the maintenance of the Japanese army stationed in the areas of occupied China where CRB currency is used, according to estimates. This area extends southward from Feng Puenwei (from there northward to the border of Manchukuo is the FRB area) and CRB 20,000,000 is estimated as the total daily cost of the Japanese army.

7. The monthly budget for Nanking Regime at present is approximately CRB 100,000,000, an increase over the CN 25 million before Pearl Harbor. This was brought about for the most part by the large increase in the numbers of puppet troops. The consolidated taxes contribute to this but tax revenue is very limited. Because official shipments by the Japanese comprise the majority of the trade the customs revenue is also small. Squeeze in the collection of revenue is rife.

Please give Treasury a paraphrase at Adler's request.

ATCHESON

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL N o. 250

Information received up to 7 A.M., 30th July, 1943.

1. NAVAL

One of H.M. Monitors was slightly damaged in an air attack at AUGUSTA on 23rd/24th. Two enemy aircraft were shot down. The Monitor had five fatal casualties. A tank landing craft was sunk by bombs off SYRACUSE on 27th. The Northbound convoy was again unsuccessfully attacked yesterday by 7 F.W. 200 in the Bay of BISCAY. 1 was destroyed by Beaufighters.

Reference OPTEL No. 229, paragraph 1. SHIPPING CASUALTIES. For "One Norwegian ship sunk and one U.S. ship (still afloat) in convoy off mouth of ST. LAWRENCE" substitute "One U.S. ship and one Norwegian tanker sunk in convoy off mouth of AMAZON."

2. AIR OPERATIONS

WESTERN FRONT. 29th. 250 Fortresses went out. 90 attacked shipbuilding yards and the naval dockyard at KIEL. Some cloud, poor visibility, severe A/A and strong fighter opposition. 32 attacked HELIGOLAND and 54 bombed the Heinkel Fighter Assembly Factory at WARNEMUENDE where weather was excellent and good results obtained against average A /A and slight fighter opposition. 8 Fortresses missing and 2 crashed into the sea. Escorted medium, light and fighter bombers attacked 3 airfields and a power station in Northern FRANCE.

29th/30th. 837 aircraft sent out - HAMBURG 782 (28 missing); DUSSELDORF 4; seaming 6; leaflets - Northern ITALY 9; leaflets - FRANCE 3; Intruders 33 (1 enemy aircraft destroyed). At HAMBURG weather was good and the attack is considered successful. The glow from fires still burning could be seen on arrival. Defences had been considerably strengthened. 8 enemy aircraft crossed the K.W.F. Coast and 4 operated off shore. Beaufighters destroyed 1 M.E. 210.

MEDITERRANEAN. 27th. Beaufighters sank 3 small craft and damaged 5 others in the AEGEAN and IONIAN SEAS.

29th. 410 Spitfires on anti-shipping patrols and sweeps scored 29, 1, 3 for the loss of 1. The 29 destroyed included 21 JU 52's.

NEW YORK
Herald Tribune

July 31, 1943

Dear Mr. Secretary:

When I wrote you a few days ago I intended to send you the most recent editorial on "Forced Savings" that has been published in the Herald Tribune.

I can find no trace of any one on the staff believing in them and the record seems to show that the paper has always been in favor of the voluntary procedure.

Certainly that is the opinion of our executives.

Sincerely yours,

John Hayes Reid

The Hon. Henry Morgenthau Jr.

NEW YORK
Herald Tribune



Friday, June 11, 1943

The President on Forced Savings

The President's sudden and offhand espousal at his press conference this week of a fiscal program embracing forced savings was, to put it mildly, in questionable taste. It was a needlessly gratuitous and uncalled-for repudiation of his own Secretary of the Treasury, who, as Mr. Roosevelt and every one else knows, is a staunch believer in voluntary war loans and who has steadily improved the machinery in recent months for putting that policy on a successful basis.

Moreover, the President, it seems to us, is on the wrong side of this issue. Why this is so is illustrated by a colloquy that occurred here on Monday of this week when Secretary Morgenthau held a press conference to announce the new set-up of the war-loan organization. One of the interviewers asked if it were true that the war-loan officials and the Secretary of the Treasury expected every one to raise his war-bonds subscription to 25 per cent of his income. W. Randolph Burgess, the new chairman of the War Finance Committee for New York State, said that the government hoped to achieve that as an average, but could not expect every worker to reach it. "That," observed Mr. Morgenthau, "is the advantage of the voluntary plan. A forced-savings plan would cut right across without making allowance for individual circumstances."

This is, of course, a vital distinction, particularly at this stage of the war effort when persons with fixed incomes are finding the strain of high taxes, the high cost of living and pay-roll savings subscriptions exceedingly heavy, while millions of war workers have more money to spend than they ever had before. The allocation of 10 per cent of his salary for war bonds may mean a real hardship to a person in the former category, whereas three times that might be little, if any, burden to a person whose income has been doubled or quadrupled as a result of the war.

So far as corporations are concerned, it is an accepted principle of war finance that they should not be permitted to enjoy a windfall as a result of a war boom. In pursuance of that principle, American corporations now pay 90 per cent of their war-time profits (in addition to a large proportion of their normal profits) to the government in taxes. This is simple, it is logical and it is thoroughly just. Yet, for purely political reasons the same principle has never been adopted with reference to the taxation of individuals. It has been urged by economists and editorial commentators from time to time (this newspaper has frequently pointed out the virtues of such a program), but Washington has invariably turned a flaky eye upon the idea. The President has frequently protested against adoption of a sales tax because it would discriminate, in its incidence, against those in the lower-income brackets; but it does not seem to have occurred to him that his proposal for compulsory savings would place a wholly disproportionate burden on those with fixed incomes.

The point has been reached in the financing of the war where this vital distinction between those with fixed incomes and those enjoying windfalls as a result of the war boom should be recognized. If we are to turn to compulsory savings, then such forced loans should be exacted, as the excess-

profits tax is, in proportion to the increase of individual incomes over a pre-war base period. That would be a political compromise with the principle of excess-profits taxation, but it would be equally effective as an anti-inflation weapon; for it is this war-time increase in individual incomes that constitutes the "inflation gap," which is talked about so much but about which so little that is realistic has been done.

TO:

Memo

Sir Ronald Campbell of the British Embassy has an appointment with Secretary of State Hull for 3:30 P.M., Monday, August 2, 1943, to hand Secretary Hull a communication on reverse lend lease with special relation to furnishing of raw materials to the United States.

Monday

12:50 P.M.

7-31-43

Mr. Gray of Mr. *Hull* Hear' office.From: Ensign Westwater *JW*

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**ELEVENTH REPORT TO CONGRESS
ON LEND-LEASE OPERATIONS**

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For the Period Ended July 31, 1943

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**ELEVENTH REPORT TO CONGRESS
ON LEND-LEASE OPERATIONS**

For the Period Ended July 31, 1943

.....

"The President from time to time, ~~but~~ not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose."

[From Section 5, subsection b of "An Act to Promote the Defense of the United States" (Public Law No. 11, 77th Congress, 1st Session).]

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PRESIDENT'S LETTER OF TRANSMITTAL

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

I am transmitting herewith to the Seventy-eighth Congress a report of operations under the Lend-Lease Act for the period ended July 31, 1943.

In the month of July alone, lend-lease aid exceeded a billion dollars. Lend-lease supplies are hastening the day of final victory.

Sicily has fallen. The fascist dictator has been thrown out of power. For the first time the United Nations forces occupy part of the homeland of the enemy.

The subjugated peoples of Nazi Europe are now aware that the European fortress is not impregnable. The great offensives of the Soviet Army on the Eastern Front, the continued heroic struggle of the Chinese, and the British offensives in other areas, aided by lend-lease munitions and supplies, are having their repercussions both on and behind the battle lines. Our might and that of our allies is being felt in the Axis satellite nations of the Balkans and Middle Europe, and in Nazi Germany as well. From Hamburg on the North Sea to Ploesti in Rumania, the people know from first-hand experience with what crushing force the United Nations can strike.

Except for the responsible fascist leaders, the people of the Axis need not fear unconditional surrender to the United Nations. I have said that we shall bring food for the starving and medicine for the sick in the areas liberated by the United Nations. We have done so, under lend-lease, in North Africa. We are doing so in Sicily. We shall continue to do so in other areas, as they are liberated, to prevent economic breakdown and to aid the liberated peoples to produce and to help themselves. We shall provide these necessary civilian supplies in support of our military operations and as a matter of

simple humanity. The people of Axis-controlled areas may be assured that when they agree to unconditional surrender they will not be trading Axis despotism for ruin under the United Nations. The goal of the United Nations is to permit liberated peoples to create a free political life of their own choosing and to attain economic security. These are two of the great objectives of the Atlantic Charter.

But until the day of unconditional surrender, the United Nations will continue with the force of all their power to hit the enemy. We are striking hard and ready to strike harder. Greatly increased United States forces and greatly increased lend-lease supplies are on the way to the battle fronts. The longer this war goes on, the stronger the United Nations will become.

The United Nations are growing stronger because each of them is contributing to the common struggle in full measure—whether in men, in weapons, or in materials. Each is contributing in accordance with its ability and its resources. Everything that all of us have is dedicated to victory over the Axis powers. The Congress in passing and extending the Lend-Lease Act made it plain that the United States wants no new war debts to jeopardize the coming peace. Victory and a secure peace are the only coin in which we can be repaid.

This report on lend-lease and reverse lend-lease activities should be both an assurance and a warning to our enemies. The power of the United Nations is great. The will of the United Nations is fixed. In this common war we fight as one man, for one victory—and we shall have it.

Franklin D. Roosevelt.

(Filed August 25, 1943, with the Secretary of the Senate and the Clerk of the House of Representatives as provided in Section 5-b of the Lend-Lease Act.)

Chapter 1

THE LEND-LEASE PROGRAM TO DATE

The munitions, food and supplies which we send abroad as lend-lease aid constitute a relatively small part of this country's total war costs—an estimated 12 percent. The lend-lease program is, however, of fundamental importance to the successful prosecution of the war by the United Nations. The other United Nations produce most of the munitions and other war supplies which they use, but lend-lease provides many weapons which they are not in a position to produce themselves, food which augments their inadequate supply, and raw materials and industrial equipment which enable them to expand their output of finished munitions and to meet essential civilian needs.

Total Aid

From the passage of the Lend-Lease Act on March 11, 1941, to July 31, 1943, lend-lease aid—goods transferred and services rendered—has totaled \$13,973,339,000 (Table 1). Of this amount, munitions were 50 percent, industrial products 21 percent, and food and other agricultural products 14 percent. The remaining 15 percent consisted of shipping, ship repairs, and other services, and the construction of plant facilities in the United States for the production of lend-lease goods.

Chart 1 shows the amount of lend-lease aid for each month through July 1943. In June of this year the monthly total reached the one billion dollar mark for the first time.

Lend-Lease Exports

Transfer figures are inadequate to show where lend-lease goods have been sent, as the name of the country to which goods are transferred does not always indicate to which of the war areas they have gone. Lend-lease export figures give a better indication of the ultimate destination of the articles. These are shown on a cumulative basis in Table 2 and by months in Table 3. They are also shown on a quarterly basis in Chart 2.

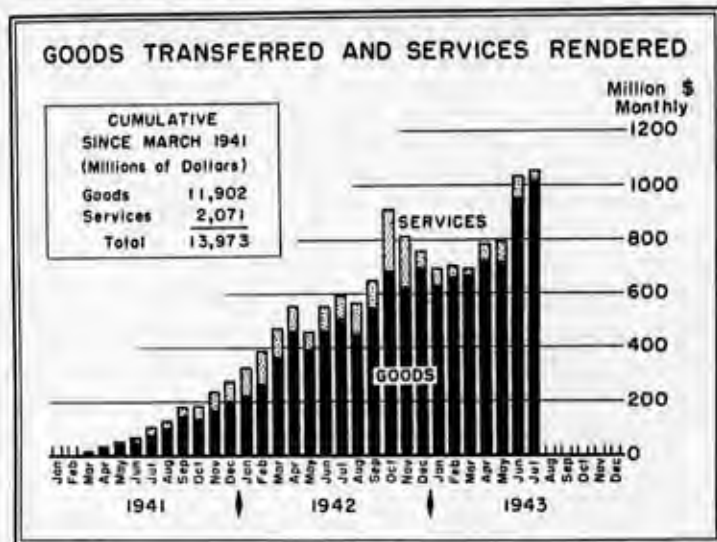


Chart 1

The export figures, of course, do not include shipping, ship repairs and other services rendered, or plant facilities constructed in the United States and, as explained in the footnote to the tables, they do not include all goods transferred; they do, however, give a substantially complete picture of the distribution of lend-lease goods.

The relative amounts of military articles, industrial materials and agricultural products exported under lend-lease during the period from July 1, 1941, to June 30, 1942, and during the period from July 1, 1942, to June 30, 1943, are shown in Chart 3.

TOTAL LEND-LEASE AID

Thousands of Dollars

	July 1943	June 1943	May 1943	Cumulative Mar. 1941 through July 1943
Goods Transferred.....	1,018,026	954,009	715,699	11,901,972
Services Rendered.....	32,381	76,268	74,484	2,071,367
Total Lend-Lease Aid.	1,050,407	1,030,277	790,183	13,973,339

The above figures are exclusive of the value of goods consigned to United States commanding generals for subsequent transfer in the field to lend-lease countries. The total value of such consignments to July 31, 1943 was \$250,481,000.

Table 1

Lend-lease exports of munitions in the past year were equivalent to 15 percent of our munitions production in that period. We sent to our allies under lend-lease in the year ended June 30, 1943, 17 out of every 100 bombers we produced, 25 out of every 100 fighter planes, 22 out of every 100 light tanks, and 36 out of every 100 medium tanks.

Redistribution of Materials

Procurement of lend-lease materials is based on careful planning which takes into account the needs of our allies in relation to the needs of our own armed forces and civilian population, available shipping facilities, and other relevant factors. The exigencies of warfare frequently cause shifts in the needs for different articles, diversions of shipping from one route or from one country to another and other unpredictable changes which require the redistribution of materials.

In the case of munitions, which are procured and distributed by the War and Navy Departments, such redistribution is controlled by the Munitions Assignments Board, which determines the use to which they can best be put in carrying out the world-wide strategy of the United Nations. For industrial

materials and products, the Lend-Lease Administration early this year created a Materials Redistribution Committee to work with the lend-lease countries and with the Redistribution Division of the War Production Board in putting to immediate war use such articles as cannot be shipped within a reasonable time to the country for which they were ordered, or because of the changing strategy of the war, are no longer urgently required by that country.

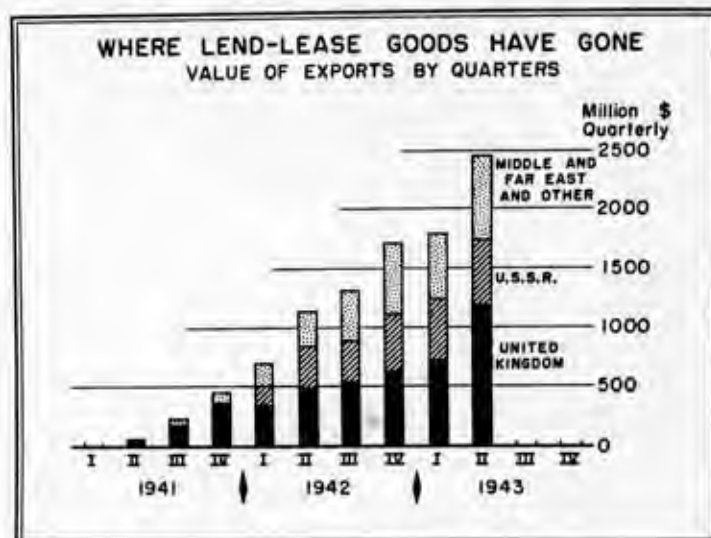


Chart 2

Materials and supplies of all kinds are being redistributed, steel being one of the most important items. Last fall a substantial amount of steel destined for Great Britain was diverted to American armament production because it could not be moved on account of the shipping requirements of the North African campaign. Also, approximately 250,000 tons of finished and semifinished steel purchased for Russia are being redistributed to other lend-lease countries and to American industry. This steel has been made available in part by the increasing need for food in Russia, which has required the use of the limited shipping space for that purpose rather than

**LEND-LEASE EXPORTS—CUMULATIVE—MARCH 1941
THROUGH JUNE 30, 1943**

Millions of Dollars

	United Kingdom	U. S. S. R.	Africa, Middle East and Mediterranean Area	China, India, Australia, and New Zealand	Other	Total
MUNITIONS						
Ordnance.....	192	70	133	103	52	550
Ammunition.....	374	246	218	163	53	1,054
Aircraft and Parts.....	507	522	249	196	188	1,662
Tanks and Parts.....	369	183	204	127	43	926
Motor Vehicles and Parts...	143	316	183	147	35	824
Watercraft.....	125	56	17	12	17	227
Total.....	1,710	1,393	1,004	748	388	5,243
INDUSTRIAL ITEMS						
Machinery.....	260	188	73	78	10	609
Metals.....	425	302	110	131	16	984
Petroleum Products.....	310	15	43	62	5	435
Other.....	223	130	72	65	36	526
Total.....	1,218	635	298	336	67	2,554
AGRICULTURAL PRODUCTS						
Foods.....	1,213	373	57	30	27	1,700
Other Agricultural Products..	317	43	4	19	2	385
Total.....	1,530	416	61	49	29	2,085
TOTAL EXPORTS.....	4,458	2,444	1,363	1,133	484	9,882

The above figures and those in Table 1 do not include (1) articles transferred to foreign countries but used in the United States, such as trainer planes for the instruction of United Nations pilots; (2) some ships which leave the United States under their own power; (3) some goods consigned to United States commanding generals for subsequent transfer to lend-lease countries; (4) materials which have been transferred but not yet exported; (5) goods purchased outside the United States and sent directly to lend-lease countries; and (6) some other items of relatively small amount.

The figures include the value of planes flight delivered which were not included in data presented in previous Reports to Congress.

Table 2

LEND-LEASE EXPORTS—MONTHLY

Millions of Dollars

	United Kingdom	U. S. S. R.	Africa, Middle East and Mediterranean Area	China, India, Australia and New Zealand	Other	Total
1941						
Mar					1	1
Apr	1		1		4	6
May	9		5	1	1	16
Jun	26		6	1	2	35
Jul	49		19	1	3	72
Aug	46		14	5	2	67
Sep	74		8	2	2	86
Oct	141		12	12	1	166
Nov	107		10	18	2	137
Dec	119	1	21	12	2	155
1942						
Jan	105	15	24	19	13	176
Feb	79	55	27	21	12	194
Mar	150	97	25	45	12	329
Apr	144	164	45	55	16	424
May	143	70	37	47	8	305
Jun	209	110	35	36	13	403
Jul	173	103	66	59	21	422
Aug	152	150	58	56	18	434
Sep	213	102	71	67	18	471
Oct	222	126	98	83	29	558
Nov	199	191	95	56	16	557
Dec	208	167	111	98	21	605
1943						
Jan	180	157	91	72	18	518
Feb	215	184	44	49	30	522
Mar	311	202	105	67	69	754
Apr	363	233	111	69	63	839
May	394	178	142	81	43	838
Jun	426	139	82	101	44	792
TOTAL EXPORTS..	4,458	2,444	1,363	1,133	484	9,882

(See note to Table 2)

Table 3

for shipping the steel. Some of it consists of barbed wire, the need for which has been reduced as a result of the Soviet Army's shift from the defensive to the offensive along large portions of the fighting front. Another part is being returned to American industry because improvements in the technique of manufacturing munitions have made obsolete certain types of shell steel which had been procured for Russia.



Chart 3

Expansion of U. S. Plant Facilities

In order to manufacture the munitions and supplies urgently needed by our allies, it has been necessary to expand production facilities in the United States and an important part of this expansion has been financed with lend-lease funds. There had been allotted as of June 30, 1943, \$869,500,000 of lend-lease funds for this purpose, of which approximately \$600,000,000 has been expended. In the postwar period these production facilities will be a permanent part of our industrial capacity.

Chapter 2

LEND-LEASE IN THE THEATERS OF WAR

As the United Nations move forward against the Axis with ever-growing strength, munitions, industrial materials and food flow from the United States to those places from which the most damaging blows can be struck at our enemies. Table 4 shows the value of lend-lease goods that were sent to the main theaters of war in 1941, 1942, and in the first 6 months of 1943.

	1941	1942	Jan-June 1943
Africa, Middle East, and Mediterranean Area.....	\$95,915,000	\$691,954,000	\$575,084,000
U. S. S. R.....	545,000	1,349,170,000	1,093,892,000
United Kingdom.....	572,620,000	1,997,328,000	1,887,951,000
China, India, Australia and New Zealand....	52,218,000	640,711,000	440,010,000
Other Areas.....	19,605,000	198,969,000	265,531,000
TOTAL.....	740,903,000	4,878,132,000	4,262,468,000

Table 4

AFRICA, MIDDLE EAST, AND MEDITERRANEAN AREA

Lend-lease shipments to Africa, the Middle East, and the Mediterranean Area through June 30, 1943, totalled \$1,363,000,000. As shown by Table 5, nearly three-fourths of the shipments have consisted of munitions. This table does not,

however, include munitions consigned to the American commanding generals in this area for transfer to the armed forces of lend-lease countries. The value of such goods consigned to June 30, 1943, amounted to \$102,518,000 additional.

	1941	1942	Jan-June 1943
Ordnance and Ammunition.....	\$33,267,000	\$173,619,000	\$144,163,000
Aircraft and Parts.....	2,022,000	114,283,000	133,002,000
Tanks and Parts.....	30,573,000	48,408,000	125,362,000
Motor Vehicles and Parts.....	10,758,000	116,289,000	55,659,000
Watercraft.....	1,820,000	10,794,000	4,530,000
Industrial Items.....	14,683,000	194,138,000	88,702,000
Foodstuffs, etc.....	2,792,000	34,423,000	23,666,000
TOTAL.....	95,915,000	691,954,000	575,084,000

Table 5

Military Aid

Lend-lease aid to this area has been principally for use in two campaigns. The first, which was designed to expel the Axis forces from North Africa, ended successfully on May 8, 1943, with the surrender in Tunisia. The second, which began on July 10, 1943, with the invasion of Sicily, will conclude only with the unconditional surrender of Italy and Germany.

Both of these operations have been in every sense a united military effort. The forces of many nations—the United Kingdom, Australia, India, New Zealand, South Africa, Poland, France, and the United States—participated in the North African campaign and lend-lease materials played their part. The British Eighth and First Armies were partially equipped with lend-lease supplies, as were the soldiers commanded by General Giraud as well as the Fighting French who fought their way north from Lake Chad in the French Sudan. Equally vital to the campaign were the docks, naval facilities, supply bases, air ferry routes and repair bases developed in the Middle East with the aid of lend-lease funds.

Though British, Canadian and American troops have played the major roles in the opening phase of the second campaign, the invasion of Sicily, forces of other United Nations, equipped in part with lend-lease weapons, will play an increasingly important role in the Mediterranean area. Greek forces have already participated—units of the Greek Navy helped to prepare the way for the invasion of Sicily and the Greek Air Force has been bombing the island of Crete.

In accordance with our announced policy of supplying weapons to the peoples of territories liberated from Axis control, a French army of over 300,000 men recruited in North and West Africa and supplied with lend-lease equipment will soon be added to the United Nations forces hammering at the Axis' European fortress. Several divisions have already been equipped with new weapons and are now being trained in their use. French fliers have been brought to this country, where they will be trained in the use of American planes and furnished lend-lease planes with which to fight the Axis.

Shipments to South Africa have been primarily military equipment for the forces of the Union of South Africa, some of which have been fighting with the British Eighth Army. Approximately one-half of the military shipments consisted of planes for the South African air force. The remainder included guns, bombs and ammunition, and tanks and other military vehicles. The nonmilitary shipments comprised equipment and materials for South African war industries.

Civilian Supplies for French North and West Africa

When the American and British armies landed in North Africa in November 1942, they found a country in which wheat, meat, and fabricated goods were in short supply. The Nazis had permitted imports of some of the goods normally brought from the continent, such as cotton textiles for clothing, leather for shoes, fabricated goods, and certain foods. With the landing of American and British troops, imports from Europe ceased abruptly. The regular commer-

cial channels of distribution were disrupted and importations from the United Nations were essential.

Shipments of civilian goods to North Africa began in December 1942, when the British diverted a large convoy originally destined for Malta. Subsequently, it was agreed that the United States should supply approximately 30,000 tons of civilian goods a month in addition to petroleum products and coal. The British agreed to provide 82,500 tons of coal per month and other products that might be available from the British Empire.

Arrangements were made with the French authorities to pay the United States for the civilian goods, and it is expected that payments will be equivalent to the cost of civilian supplies shipped plus ocean freight. The distribution of the supplies was planned so as to minimize profiteering by local merchants, and to maintain retail prices at levels prevailing on November 8, 1942.

To coordinate the economic activities of the United States and Britain, General Eisenhower created the North African Economic Board, which is constituted with British and American representatives as follows:

- (1) The Import Division, principally staffed by representatives of the Office of Lend-Lease Administration,
- (2) The Procurement and Development Division, staffed by representatives of the Office of Economic Warfare,
- (3) The Financial Control Division, principally staffed by representatives of the Treasury Department,
- (4) The Coal Division, principally staffed by British experts, and
- (5) The Relief and Welfare Division, principally staffed by representatives of the Office of Foreign Relief and Rehabilitation Operations.

The Lend-Lease Mission to North Africa, operating as the Import Division of the North African Economic Board, has supervised the distribution of most of the civilian goods.

Lend-lease supplies, consisting principally of milk for children and some of the food and clothing for the inhabitants of Tunisian cities, have been distributed free of charge by the Office of Foreign Relief and Rehabilitation Operations, working as the Relief and Welfare Division of the North African Economic Board.

Up to June 30, 1943, the United States had shipped to North Africa some 190,000 tons of civilian goods, valued at approximately \$48,000,000. These have included such foods as flour, milk, sugar, wheat, and tea; seeds, soap, matches, cotton piece goods, clothing, spare parts for agricultural machinery and motor vehicles, and some materials to repair damaged utilities and buildings. We have already received from the French on account for these goods \$25,000,000, and expect shortly to receive payment for the balance.

The policy of supplying civilian goods to these areas has produced favorable results. Vigorous efforts have been made to bring about a fair and equitable distribution of supplies, thereby discouraging hoarding and black market activities. Critical metals, concealed from the Germans, have come out of hiding and been made available to the United Nations. With the help of supplies from the United States and Great Britain, North Africa is being gradually restored to a state where it will be self-sufficient in food and also produce a surplus for export. Negotiations are now under way between the North African Economic Board and the French authorities to supply a part of the food needs of our military forces stationed there and in contiguous areas from North African production. The volume of such supplies will depend upon the size of the harvest and the requirements of the civilian population.

Substantially the same course has been followed in French West Africa, which includes not only the strategic Dakar area but is one of the most important edible oil producing regions in the world. Almost 20,000 tons of civilian supplies have thus far been shipped to French West Africa. These have consisted principally of cotton piece goods and rice substitutes.

Negotiations for payment for these civilian supplies are now being carried on with the French officials in Dakar and Algiers.

U. S. S. R.

Lend-lease shipments to the U. S. S. R. through June 30, 1943, totalled \$2,444,000,000. Aid has been supplied to the U. S. S. R. under agreements known as protocols by which we have agreed to make available specified quantities of weapons and supplies during specified periods of time. The first protocol, signed October 1, 1941, covered the nine-month period to June 30, 1942. The second covered the period from July 1, 1942, to June 30, 1943. The third protocol, which will cover the period from July 1, 1943, to June 30, 1944, is now under negotiation. Without waiting for this protocol to be signed, we have continued to supply lend-lease aid. In July the tonnage of goods shipped to Russia was at a high level and in August the volume is expected to be the highest for any month since the program began.

Table 6 shows lend-lease shipments to the U. S. S. R. by categories through June, 1943.

About 57 percent of the goods sent to the U. S. S. R. since the inception of the first protocol have been munitions such as airplanes, tanks and guns. We have sent more lend-lease

	1941	1942	Jan-June 1943
Ordnance and Ammunition.....	\$75,000	\$213,918,000	\$102,279,000
Aircraft and Parts.....		300,641,000	220,577,000
Tanks and Parts.....	35,000	176,804,000	6,504,000
Motor Vehicles and Parts.....		149,092,000	166,824,000
Watercraft.....		11,020,000	44,886,000
Industrial Items.....	435,000	312,881,000	321,825,000
Foodstuffs, etc.....		184,814,000	230,997,000
TOTAL.....	545,000	1,349,170,000	1,093,892,000

Table 6

planes there than to any other country. Large quantities of supplies for her transportation and communication systems have been sent to aid the movement of the weapons of war over vast distances to her armies at the front. We have shipped to the Soviet Union more than 100,000 tons of rails and accessories. Quantities of automatic block signal system equipment for the U. S. S. R. are in production. We have shipped more than 150,000 motor vehicles, over 600,000 miles of telephone wire and approximately 190,000 field telephones.

Shipments to the U. S. S. R. have also included thousands of tons of raw materials and machinery to help replace the output of war plants in areas now occupied by the Nazis. Included in these shipments have been aluminum, copper, steel and large amounts of chemicals and explosives used in the manufacture of ammunition and bombs. We have purchased a few existing plants in this country and shipped them to Russia with machinery for new ones as well.

More than one-fourth of the tonnage of goods exported to the U. S. S. R. has been food to maintain the fighting strength of the Red Army. We have shipped more than 1,300,000 tons of food, about one million under the second protocol alone. Elsewhere in this report the Soviet need for lend-lease food is described in more detail.

UNITED KINGDOM

Lend-lease exports to the United Kingdom through June 30, 1943, totalled \$4,458,000,000. In addition, shipments of munitions and other goods to the United Kingdom that were purchased for cash in the same period totalled \$1,450,000,000. Of the lend-lease exports to the United Kingdom 42 percent were shipped in the first six months of 1943, as shown by Table 7.

The United Kingdom has received approximately 45 percent of all lend-lease exports, but only 33 percent of lend-lease munitions. Lend-lease shipments of industrial materials to the United Kingdom are designed to help keep her arsenals, plane and tank factories, and shipyards in operation so that they may supply the United Nations forces. Approximately 27 percent

	1941	1942	Jan-June 1943
Ordnance and Ammunition.....	\$30,761,000	\$250,400,000	\$284,806,000
Aircraft and Parts.....	13,330,000	267,762,000	225,719,000
Tanks and Parts.....	10,521,000	35,998,000	322,360,000
Motor Vehicles and Parts.....	14,558,000	61,950,000	66,946,000
Watercraft.....	6,003,000	45,906,000	73,011,000
Industrial Items.....	165,357,000	604,218,000	448,574,000
Foodstuffs, etc.....	332,090,000	731,094,000	466,535,000
TOTAL.....	572,620,000	1,997,328,000	1,887,951,000

Table 7

of the shipments to the United Kingdom have been sent for this purpose. About 34 percent of lend-lease exports to Great Britain has consisted of foodstuffs. In Chapter 3 the British need for our food is discussed in more detail.

The tools, machinery, and raw materials we send to the United Kingdom are needed in the operations of war plants; the petroleum products are required by the R. A. F. and the British Navy, as well as to maintain her industries. The output of British war materials is tremendous and until the first quarter of 1942 was larger than the United States output. While a large proportion of this production is retained for use by the United Kingdom forces, part is furnished to Russia and part supplied to British Empire forces fighting the Axis in the Mediterranean Area, India, and the Southwest Pacific. The amounts shipped abroad are indispensable to the United Nations forces.

To help get lend-lease supplies to the United Kingdom and deliver the output of her war industries to United Nations forces fighting in other theaters, we have supplied approximately \$1,000,000,000 of shipping services and ship repairs to the British.

Shortly after Pearl Harbor it was agreed between the British and ourselves that we would construct most of the merchant

ships needed by the United Nations. As a result, the United States undertook the greatest shipbuilding program ever attempted by any nation. The size of our merchant fleet has increased 250 percent since Pearl Harbor and is growing at the rate of five new ships every 24 hours. In 1942 we built 746 merchant ships; in the first seven months of 1943 we built 1,023. Production of ships is proceeding at such a pace that we have had difficulty in supplying adequately trained and skilled crews to operate them.

While our merchant fleet has been growing, that of Britain has been dwindling due to sinkings and to the fact that she has not built many replacements but has instead relied on us for production of merchant ships. The British, therefore, have a reserve of experienced seamen. To utilize the services of these men, we will charter to the United Kingdom about 15 new ships a month for the next 10 months. These ships are being chartered only for the duration of the war; title will remain with the United States Government, and the uses to which they may be put will be determined by the Combined Shipping Adjustment Board.

CHINA, INDIA, AUSTRALIA, AND NEW ZEALAND

Total lend-lease exports to these areas from March 11, 1941, to June 30, 1943, have been \$1,133,000,000. As shown by

	1941	1942	Jan-June 1943
Ordnance and Ammunition.....	\$9,560,000	\$165,106,000	\$91,183,000
Aircraft and Parts.....	7,995,000	96,779,000	91,370,000
Tanks and Parts.....	1,934,000	100,264,000	24,296,000
Motor Vehicles and Parts.....	17,856,000	75,028,000	54,298,000
Watercraft.....	68,000	2,849,000	9,154,000
Industrial Items.....	11,523,000	170,156,000	154,239,000
Foodstuffs, etc.....	3,282,000	30,529,000	15,470,000
TOTAL.....	52,218,000	640,711,000	440,010,000

Table 8

Table 8, about 61 percent of these shipments were made in 1941 and 1942, and 39 percent in the first six months of 1943.

China and India

Approximately 70 percent of lend-lease shipments to China and India have been munitions. Those shipped to India have equipped the Indian Army with specialized instruments of war which India's substantial armament industry is not able to produce. Those shipped to China have included airplanes, critical tools and materials to keep her airplanes flying, communications equipment, and spare parts for trucks. Airplanes lend-leased to China played their part in the June victory of the Chinese Army on the Ichang front.

The amount of aid supplied to China has been restricted by transportation difficulties. Since the closing of the Burma Road, shipments have moved principally by air transportation. Constant efforts are being made to develop new supply routes. In the meantime, preparations are being made in collaboration with the British for the time when these routes are opened. New equipment made available by lend-lease has been issued to the Chinese troops who retreated into India after the fall of Burma, and they are being trained by United States Army officers in the use of this equipment. A program to train Chinese pilots, mechanics, and other technicians in India and in the United States was launched some time ago and is constantly expanding.

Further, steps have been taken to make India a great supply base for operations against the Japanese. Stockpiles of material for China are being established there in increasing quantities as transportation facilities become available. Raw materials and machine tools are also being sent so that India's own production of munitions of war may be increased. Aircraft repair facilities are being equipped with lend-lease tools. Materials are also going to India to maintain and expand her port facilities and transportation and communications systems

so that munitions and essential supplies can be transported quickly where they are needed, including strategic materials for the United States.

Australia and New Zealand

Approximately 61 percent of lend-lease shipments to Australia and New Zealand have been munitions, including airplanes, tanks, landing boats, guns, and ammunition. These items are being used by Australian and New Zealand forces fighting beside the Americans in New Guinea, the Solomons and other parts of the Southwest Pacific. They have played an important part in the recent victories in that area.

While munitions have made up the largest proportion of lend-lease aid to Australia and New Zealand, shipments of other items have been extremely important. These two countries are fast becoming tremendous supply bases for operations against the Japanese. Increasing emphasis is being placed upon the development of their natural resources, arsenals, and transportation systems. Thirty-five percent of the goods shipped to Australia and New Zealand from March 11, 1941, to June 30, 1943, has consisted of machinery, tools, and raw materials.

Plans are also under way to expand food output in Australia and New Zealand, which have always produced exportable surpluses of grains, meats, and dairy products, so that these countries may supply an even greater share of the requirements for the United Nations armed forces in the Southwest Pacific. Emphasis is being placed upon the production of vegetables. Thousands of additional acres have been planted in truck crops. Lend-lease agricultural machinery and seeds have been shipped to facilitate planting, cultivating, and harvesting. In addition, machinery for new canning and dehydrating plants is being lend-leased to both Australia and New Zealand so that these foods may be preserved for transportation to the fighting forces at the front.

This program will of necessity benefit the civilian population of the United States by reducing the quantities of food that

must be shipped to our forces in the Southwest Pacific. An agreement has been reached with the governments of Australia and New Zealand under which a large portion of the output of the canning and dehydrating plants equipped with lend-lease machinery will be allocated to the United Nations forces in that theater of war.

Chapter 3

LEND-LEASE AND FOOD

Food is as essential to victory as are planes, tanks, guns, or ships. It is being shipped to our Allies for use by their armed forces and by their civilians working behind the lines. Lend-lease food is going principally to the United Kingdom and the U. S. S. R., which together have received 93 percent of all lend-lease food shipments through June 30, 1943 (see Chart 4). Deliveries are limited principally by our own restricted supplies and by the volume of available shipping space. So critical is the Soviet Union's need that in some instances munitions available for shipment from American ports have been left behind to provide space in the ships for cargoes of food. Exports of food to North Africa have been decreasing, but large amounts of seeds for planting have been sent in order to expand food production and diminish the necessity for further food shipments.

THE NEEDS OF OUR ALLIES

United Kingdom

For almost a century the United Kingdom has had to import a large portion of the food consumed by her population. Prior to the war, she produced only 40 percent of her requirements. By plowing up and planting grasslands, parks, lawns, golf courses and other areas, and by converting her agriculture to a total war economy, she has increased production to 70 percent. The other 30 percent of her needs must, however, be imported. The greater part of this 30 percent continues to come, as before the war, from British dominions and colonies and from South American countries. The food

which the United Kingdom gets as lend-lease aid from the United States represents less than 10 percent of her entire requirements but this percentage is extremely important as it constitutes the margin between having enough so that she can fight effectively and not having enough to carry on.

U. S. S. R.

The Soviet Union's need for lend-lease food also is great. About 40 percent of her most fertile cropland has at one time

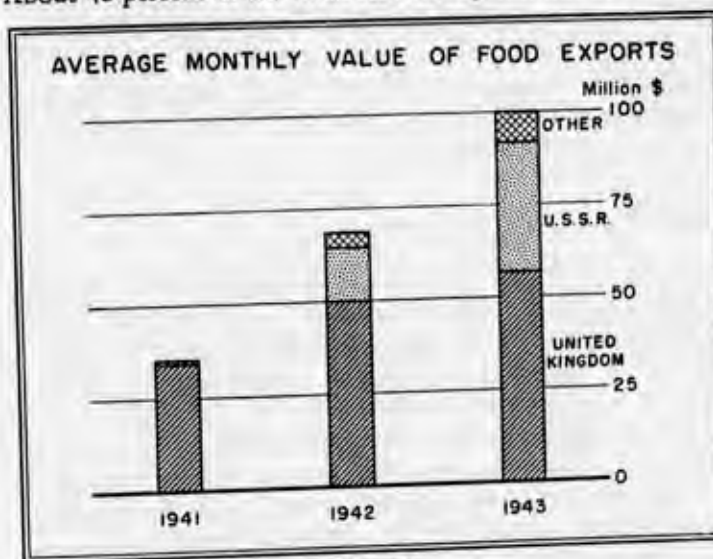


Chart 4

or another been under Nazi control. The Nazis now occupy for the third consecutive growing season one of Russia's richest agricultural regions, the Ukraine. In the summer of 1942, the Nazis also overran her second great agricultural region, the North Caucasus. The resulting shortages of food have been serious. Some Soviet factories could and did move to new locations behind the Urals, but land cannot be moved. Although the U. S. S. R. has made remarkable strides in developing new agricultural regions, she is not producing nearly enough food to satisfy her minimum needs.

To meet Russia's needs, we have shipped hundreds of thousands of tons of wheat, flour, meats, sugar, fats, and oils. While these have been of material assistance to her war effort, they have not been large enough to improve greatly the diet of the civilian population. Russian rations limit civilians to a woefully inadequate diet. Under rationing even the most favored worker is allowed less than 2 pounds of meat per month. No milk whatever is provided in the large population centers for any group except children under six years of age. Butter is seldom available.

Because of Russia's urgent need for food, the composition of shipments has changed—foodstuffs during recent months have constituted a much higher percentage of total exports to the U. S. S. R. than a year ago.

French North and West Africa

French North and West Africa have required small amounts of lend-lease food. When British and American troops landed in North Africa, supplies of foods normally imported, such as milk, sugar and tea, were extremely scarce. Supplies of foods such as wheat, dried fruits and mutton, of which North Africa normally produces exportable surpluses, were inadequate. The Germans had taken away a large percentage of the 1942 harvest. As a result, wheat stocks were an estimated 100,000 tons below the amount necessary to carry the population through the 1942-43 winter.

Foods were shipped to North Africa to tide the civilians over until the 1943 crop could be harvested. With the aid of more than 400,000 pounds of lend-lease seeds, large crops were planted and are already being harvested. Today the flow of food to French North Africa is diminishing. No cereal products have been sent since the harvest in June.

LEND-LEASE AND THE U. S. FOOD SUPPLY

The current domestic food shortages have not been caused to any appreciable extent by lend-lease shipments, which

represent a relatively small percentage of our total food supply. In 1942, they amounted to only 6 percent. In 1943, it is likely that we will ship approximately 10 percent.

While lend-lease exports have taken as much as 30 percent of our supply of some foods, for many items in short supply the proportion has been less than 5 percent. For example, from January through June of this year we shipped 45,400,000 pounds of beef and 8,100,000 pounds of butter. While these totals are large, they are unimportant in terms of total available supply. The beef was 1 percent of our supply for that period, an amount equivalent to two-tenths of an ounce per week for each person in the United States. The butter was only 0.7 percent of our production during that period, an amount equivalent to four one-hundredths of an ounce per week for each person in the United States. Table 9 and Chart 5 show the percentages of our total supply of foods shipped to our Allies as lend-lease aid during the first six months of 1943, and the ounces per week per capita.

The domestic food situation must be viewed in the light of present conditions. Members of our armed forces are eating more than they did as civilians. While the average American civilian eats about 3½ pounds per day, the average man in uniform eats about 5½ pounds. The resulting increased consumption is equivalent to adding four to five million persons to our population. Many Americans who are not in uniform are also eating more than they have ever eaten before. This increased consumption by many civilians is due in part to increased consumer income. It is also due to the diversion of purchasing power to food from other articles that can no longer be purchased.

Exports of food have been relatively smaller during this war than in the comparable period of the first World War. In 1915, the first full year of the last war, our food exports amounted to \$978,000,000. In 1940, the first full year of this war, they were only \$255,000,000. In 1916 and 1917, they amounted to \$1,085,000,000 and \$1,331,000,000, respectively. In 1941 and 1942 our exports of food were \$530,000,000 and \$993,000,000, respectively. In 1918 exports were \$1,990,-

LEND-LEASE FOOD EXPORTS IN RELATION TO SUPPLY AND U. S. POPULATION

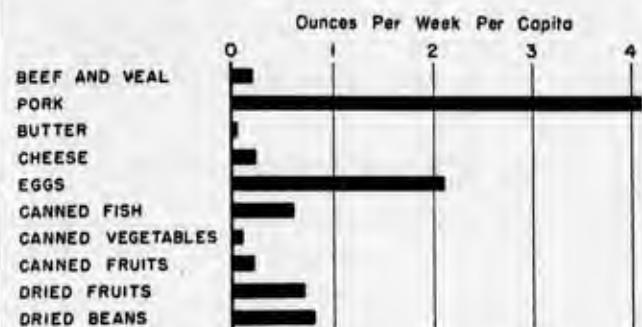
	Exports in Percent of Supply		Exports per U. S. Civilian (Ounces per Week)	
	Year 1942	Jan-June 1943	Year 1942	Jan-June 1943
All Meats.....	5.0	7.7	2.8	4.7
Beef and Veal.....	0.3	1.0	0.1	0.2
Lamb and Mutton.....	0.4	15.6	0.01	0.4
Pork.....	9.7	12.2	2.7	4.1
All Milk Products (Fluid Milk Equivalent).....	3.4	2.2	10.5	6.6
Dry Whole Milk.....	6.1	15.0	0.01	0.02
Dry Skim Milk.....	23.0	41.8	0.3	0.6
Condensed and Evaporated Milk.....	7.2	14.5	0.9	1.5
Butter.....	0.7	0.7	0.04	0.04
Cheese.....	23.1	7.9	0.8	0.2
Eggs.....	10.0	11.2	1.7	2.1
Edible Fats and Oils.....	13.2	14.5	1.8	2.1
Canned Fish.....	22.5	31.4	0.4	0.6
Canned Fruits and Juices.....	1.7	1.9	0.2	0.2
Dried Fruits.....	15.7	20.1	0.5	0.7
Canned Vegetables.....	0.8	0.8	0.1	0.1
Dried Beans.....	5.0	13.0	0.3	0.8
Dried Peas.....	6.0	8.5	0.1	0.2
Corn and Corn Products.....	0.2	0.2	1.4	1.1
Wheat and Wheat Products.....	0.4	1.1	1.2	2.7

Table 9

000,000, an amount somewhat greater than the estimated value of exports this year. During the last war, however, cereals constituted a much larger proportion of food exports than during the present war.

Production of foods in this country has increased substantially in the last twenty-five years. Consequently, the drain on our supply is less, in comparison with 1917 and 1918, than the figures on value of exports would indicate. In 1917 we exported 16.6 percent of our total food supply. The ratio in-

AMOUNT OF FOOD EXPORTED UNDER LEND-LEASE PER CAPITA OF U. S. POPULATION JANUARY - JUNE 1943



LEND-LEASE FOOD EXPORTS IN PER CENT OF SUPPLY JANUARY - JUNE 1943

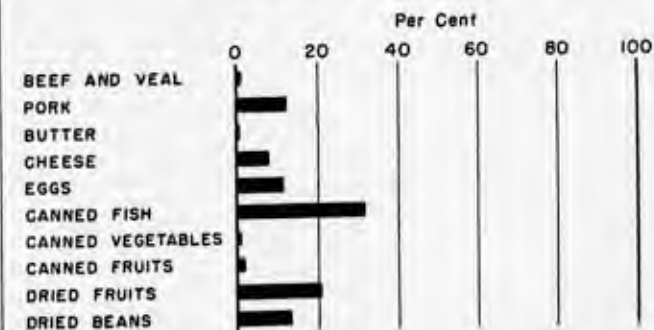


Chart 5

creased to 20.0 percent in 1918 and 24.4 percent in 1919. In contrast, our exports of food were equivalent to 5.5 percent of our total supply in 1941, 8.0 percent in 1942, and it is

estimated that they will be equivalent to about 11 percent of our 1943 supply.

All of the export figures for 1941, 1942, and 1943 include direct purchase exports as well as lend-lease in order to show the total drain on our food supply, and also to make the figures comparable with those for the period of the first World War. None of the figures include food shipments to our armed forces abroad.

THE OUTLOOK FOR THE FUTURE

Allocation of our food supply among competing claimants is made by the War Food Administration. The War Food

RECOMMENDED ALLOCATION OF FOODS FOR U. S. CIVILIANS IN 1943-1944

In Percent of Average Consumption in 1942 and 1935-1939

Commodity	Recommend- ed 1943-44 allocation as percent of 1942 consumption	Recommend- ed 1943-44 allocation as percent of 1935-39 consumption
All Meats.....	83.6	90.2
Beef.....	75.1	83.6
Veal.....	90.4	87.6
Lamb and Mutton.....	57.5	62.2
Pork.....	94.5	100.3
Eggs.....	102.2	110.6
Dairy Products:		
Butter.....	80.5	77.0
Cheese.....	60.6	70.6
Condensed Milk.....	79.4	101.4
Evaporated Milk.....	56.7	66.8
Dried Whole Milk.....	117.6	117.6
Dried Skim Milk.....	57.4	71.1
Canned Fruits and Juices.....	63.3	62.2
Canned Vegetables.....	79.7	104.2
Dried Beans.....	105.2	97.4
Dried Peas.....	138.4	104.9

Table 10

Administration has tentatively allocated food produced from July 1, 1943, to June 30, 1944, in the following manner:

	Percent
To the civilian population.....	75
To the armed forces.....	13
To the Lend-Lease Administration for ship- ment to our allies.....	10
To U. S. territories and special needs.....	2

While these allocations mean that civilians will receive less in the current year than they had in 1942-43, they will on the average get as much food as was available annually in the years 1935-39. Table 10 shows the amount of food recommended for allocation for civilian use in the year 1943-44 as a percentage of our average annual consumption from 1935 through 1939 and as a percentage of 1942 consumption.

The demands upon our food supplies are likely to increase. Our allies will continue to need lend-lease food until the end of hostilities. The needs of other parts of the world will be considerable after the war. The population of many areas liberated from Axis control will be in an undernourished, if not starved, condition upon liberation. It will be some time after hostilities cease before European and Asiatic agricultural areas get back into normal production.

APPENDICES

Appendix I LEND-LEASE ACT

Further to promote the defense of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States."

Section 2.

As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article.

Section 3.

(a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

- (1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,300,000,000. The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency, or officer as shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress or both, any defense article for any such government, or to procure any or all such services by private contract.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(5) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of convoying vessels by naval vessels of the United States.

(e) Nothing in this Act shall be construed to authorize or to permit the authorization of the entry of any American vessel into a combat area in violation of section 3 of the Neutrality Act of 1939.

Section 4.

All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

Section 5.

(a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

Section 6.

(a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946.

Section 7.

The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owner and holders of such patents.

Section 8.

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

Section 9.

The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

Section 10.

Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

Section 11.

If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

APPROVED, MARCH 11, 1941.

☆ ☆ ☆

On March 11, 1943, after affirmative votes of 407-6 in the House of Representatives and 82-0 in the Senate, the President signed the act extending the Lend-Lease Act for 1 year.

Appendix II

FOURTH LEND-LEASE APPROPRIATION ACT

Making supplemental appropriations to carry out the provisions of an Act to promote the defense of the United States, approved March 11, 1941, as amended, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there are hereby appropriated, out of any money in the Treasury not otherwise appropriated, to enable the President, through such departments or agencies of the Government as he may designate, further to carry out the provisions of an Act to promote the defense of the United States, approved March 11, 1941, as amended, and for each and every purpose incident to or necessary therefor, the following sums for the following respective purposes:

(a) For the procurement, by manufacture or otherwise, of defense articles, information, and services, for the government of any country whose defense the President deems vital to the defense of the United States, and the disposition thereof, including all necessary expenses in connection therewith, as follows:

Vessels, ships, boats, and other watercraft, including the hire or other temporary use thereof, and equipage, supplies, materials, spare parts, and accessories, \$1,552,659,000.

Agricultural, industrial, and other commodities and articles, \$4,452,623,000.

(b) For testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense articles for the government of any country whose defense the President deems vital to the defense of the United States, including services and expenses in connection therewith, \$259,348,000.

(c) For administrative expenses, \$8,999,000: *Provided*, That transfers may be made from this appropriation to the consolidated appropriation for "Necessary services and expenses" to the extent necessary to reimburse such appropriation for transfers made pursuant to the Urgent Deficiency Appropriation Act, 1943.

(d) In all, \$6,273,629,000, to be available until June 30, 1944.

(e) Each of the foregoing appropriations shall be additional to, and consolidated with, the appropriations for the same purposes, contained in the same respective categories of appropriation in the Defense Aid Supplemental Appropriation Act, 1941, the Defense Aid Supplemental Appropriation Act, 1942, and the Second Defense Aid Supplemental Appropriation Act, 1942, and the appropriations contained in the foregoing Acts, are

hereby continued and shall be available until June 30, 1944: *Provided*, That with the exception of the appropriation for "Administrative expenses", not to exceed 20 per centum of any of such consolidated appropriations may be transferred by the President to any other of such consolidated appropriations, but no such appropriation shall be increased more than 30 per centum thereby: *Provided further*, That notwithstanding the foregoing proviso (1) balances, unobligated as of April 30, 1943, and balances subsequently released from obligation, of appropriations contained in the foregoing Acts for "Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof", may be transferred by the President to and consolidated with the appropriation provided above for "Agricultural, industrial, and other commodities and articles", and (2) balances, unobligated as of April 30, 1943, and balances subsequently released from obligation, of appropriations contained in the foregoing Acts for "Necessary services and expenses" may be transferred by the President to and consolidated with any of the appropriations provided above, except the appropriation for "Administrative expenses".

Section 2.

Any defense article, information, or service produced from funds appropriated by this Act or prior Acts appropriating funds to the President for the purpose of carrying out the provisions of said Act of March 11, 1941, as amended, shall be retained by or transferred to and for the use of such department or agency of the United States as the President may determine, in lieu of being disposed of to a foreign government, whenever in the judgment of the President the defense of the United States will be best served thereby: *Provided further*, That none of the funds appropriated in this Act shall be used for the payment of any subsidy on agricultural products produced in the continental United States.

Section 3.

This Act may be cited as the "Defense Aid Supplemental Appropriation Act, 1943".

Approved June 14, 1943.

Appendix III

AMOUNTS OF LEND-LEASE AID AUTHORIZED

The amount of lend-lease aid that may be provided under the various acts is summarized as follows:

Lend-Lease Appropriations to the President

First Lend-Lease Appropriation.....	\$7,000,000,000
Second Lend-Lease Appropriation.....	5,985,000,000
Third Lend-Lease Appropriation (Fifth Supp. 1942).....	5,425,000,000
Fourth Lend-Lease Appropriation.....	6,273,629,000
Total.....	24,683,629,000

Transfers Authorized From Other Appropriations

War Department—Third Supplemental, 1942.....	\$2,000,000,000
War Department—Fourth Supplemental, 1942.....	4,000,000,000
War Department—Fifth Supplemental, 1942.....	11,250,000,000
War Department—Sixth Supplemental, 1942.....	2,220,000,000
War Department—Military Appropriation Act, 1943.....	12,700,000,000
Navy Department—Second Supplemental, 1943.....	3,000,000,000
Departments other than War—Third Supplemental, 1942..	800,000,000
Total.....	35,970,000,000

Note.—In addition to the foregoing, Congress has with certain limitations authorized the leasing of ships of the Navy and merchant ships constructed with funds appropriated to the Maritime Commission without any numerical limitation as to the dollar value or the number of such ships which may be so leased. (See for example, Public Law 1, 78th Congress, approved February 19, 1943, and Public Law 11, 78th Congress, approved March 18, 1943.)

Appendix IV

STATUS OF NATIONS

Lend-Lease Countries and United Nations

Country	Declared Eligible for Lend-Lease Aid	Lend-Lease Agreement Signed	Reciprocal Lend-Lease Agreement Signed	United Nations Declaration Signed
Argentina.....	May 6, 1941			
Australia.....	Nov. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
Belgium.....	June 13, 1941	June 16, 1942	Jan. 30, 1943	Jan. 1, 1942
Bolivia.....	May 6, 1941	Dec. 6, 1941		Apr. 27, 1943
Brazil.....	May 6, 1941	Mar. 3, 1942		Feb. 6, 1943
Canada.....	Nov. 11, 1941			Jan. 1, 1942
Chile.....	May 6, 1941	Mar. 2, 1943		
China.....	May 6, 1941	June 2, 1942		Jan. 1, 1942
Colombia.....	May 6, 1941	Mar. 17, 1942		
Costa Rica.....	May 6, 1941	Jan. 16, 1942		Jan. 1, 1942
Cuba.....	May 6, 1941	Nov. 7, 1941		Jan. 1, 1942
Czechoslovakia.....	Jan. 5, 1942	July 11, 1942		Jan. 1, 1942
Dominican Rep.....	May 6, 1941	Aug. 2, 1941		Jan. 1, 1942
Ecuador.....	May 6, 1941	Apr. 6, 1942		
Egypt.....	Nov. 11, 1941			
El Salvador.....	May 6, 1941	Feb. 2, 1942		Jan. 1, 1942
Ethiopia.....	Dec. 7, 1942	Aug. 9, 1943		Oct. 9, 1942
Fighting France.....	Nov. 11, 1941		Sept. 3, 1942	
French North & West Africa..	Nov. 13, 1942			
Greece.....	Mar. 11, 1941	July 10, 1942		Jan. 1, 1942
Guatemala.....	May 6, 1941	Nov. 16, 1942		Jan. 1, 1942
Haiti.....	May 6, 1941	Sept. 16, 1941		Jan. 1, 1942
Honduras.....	May 6, 1941	Feb. 28, 1942		Jan. 1, 1942
Iceland.....	July 1, 1941	Nov. 21, 1941		Jan. 1, 1942
India.....	Nov. 11, 1941			
Iran.....	Mar. 10, 1942			Jan. 16, 1943
Iraq.....	May 1, 1942			
Liberia.....	Mar. 10, 1942	June 8, 1943		Jan. 1, 1942
Luxembourg.....	May 6, 1941	Mar. 18, 1943		June 5, 1942
Mexico.....	May 6, 1941			

(OVER)

Lend-Lease Countries and United Nations—Continued

Country	Declared Eligible for Lend-Lease Aid	Lend-Lease Agreement Signed	Reciprocal Lend-Lease Agreement Signed	United Nations Declaration Signed
Netherlands . . .	Aug. 21, 1941	July 8, 1942	June 14, 1943	Jan. 1, 1942
New Zealand . . .	Nov. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
Nicaragua	May 6, 1941	Oct. 16, 1941	.....	Jan. 1, 1942
Norway	June 4, 1941	July 11, 1942	.....	Jan. 1, 1942
Panama	May 6, 1941	.....	.....	Jan. 1, 1942
Paraguay	May 6, 1941	Sept. 20, 1941	.....	.....
Peru	May 6, 1941	Mar. 11, 1942	.....	.....
Philippines . . .	.....	.....	.....	June 10, 1942
Poland	Aug. 28, 1941	July 1, 1942	.....	Jan. 1, 1942
Saudi Arabia . . .	Feb. 18, 1943	.....	.....	.....
South Africa . . .	Nov. 11, 1941	.....	.....	Jan. 1, 1942
Turkey	Nov. 7, 1941	.....	.....	.....
United Kingdom	Mar. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
United States . . .	.....	.....	.....	Jan. 1, 1942
U. S. S. R.	Nov. 7, 1941	June 11, 1942	.....	Jan. 1, 1942
Uruguay	May 6, 1941	Jan. 13, 1942	.....	.....
Venezuela	May 6, 1941	Mar. 18, 1942	.....	.....
Yugoslavia	Nov. 11, 1941	July 24, 1942	.....	Jan. 1, 1942

TREASURY DEPARTMENT

249

INTER OFFICE COMMUNICATION

DATE
JUL 31 1943

TO Secretary Morgenthau

FROM Randolph Paul

We have just received cables from Ball in Martinique indicating:

(1) That he is making a sample check on 15 boxes of the Martinique gold.

(2) That he has examined the complete records of the Credit Martiniquais and discovered no suspected names or possible cloaking operations.

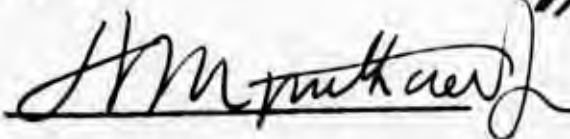
(3) That he has been in the B.N.C.I. and while he has not been permitted to go over all the records, it appears that the bank is very small and does not have more than 70,000,000 French francs in deposits. This is only slightly more than \$1,000,000 in total deposits (at 50-1 rate). He also has been told that the B.N.C.I. has no securities or accounts over 10,000 French francs for persons outside Martinique.

(4) That sufficient Banque de la Martinique records have been examined "to feel sure that it holds no large sums."

On the basis of the foregoing it would appear that Ball has made some progress but that, of course, we have not obtained everything we wanted.

It is recommended that we advise Ball that as soon as he has completed the immediate assignment he is working on, he should come back to Washington temporarily for the purpose of making a report. At that time we can decide what further action should be taken.

APPROVED:



H. M. Paul



MP

P
Y

FROM: American Consulate General, Fort de France
TO: Secretary of State, Washington
DATE: July 28, 1943
NO. 228

C O N F I D E N T I A L

You are informed that work on 15 boxes, picked at random has been begun. We will be finished Friday morning, at the rate of 7 per day. Sufficient Banque de la Martinique records have been examined to feel sure that it holds no large sums.

The foregoing is from Ball for the attention of Randolph Paul, Treasury Department.

MALIGE

COPYPARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Fort de France, Martinique

DATE: July 24, 1943, 11 a.m.

No.1 215

This is an urgent message from Mr. Ball for Randolph Paul of the Treasury Department.

Malige and I saw Hoppenot on July 23. He again refused after a long discussion to let us take inventory of gold. However, he will permit me to open a number of boxes at random as tests. If this is agreeable to you, suggest I do so and then return to Washington to discuss the situation. Physical problem of inventory is not as easy as anticipated. Any further pressure must come from Washington. In about four weeks Martial of the Bank of France is expected here and it is possible that we could get him to press his bank for inventory, and the bank might in turn press the committee at Algiers to allow our men to watch the proceedings. From the viewpoint of security the storage place of gold appeared to be all right when I saw it yesterday.

MALIGE

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Fort de France
TO: Secretary of State, Washington
DATE: July 23, 1943
NUMBER: 214

CONFIDENTIAL

Ball sends the following for Randolph Paul, Treasury Department.

You are informed that Garcin, Director Credit Martiniquais, was visited by Malige and me on July 22. Garcin was very cooperative and we were shown what I think were the complete records of all the bank's accounts with the dates on which the accounts were opened and closed. It was stated ^{by} Garcin that almost all the accounts were local and since he knows the value of the assets of the depositors in the bank he would have known it if any of the local people had been acting as cloaks. The accounts numbered 5,000 and no suspected names appeared. Names were picked out by me here and there to ask about and each time the individual record of the account was shown to me.

The rumor concerning Laval's funds started, according to him, because of the suspected interest in the bank on the part of Laval. Garcin raised the problem of the banks here being able to discount with American banks bills covering shipments to North Africa of sugar so that funds would be available for purchases in the United States before the arrival in North Africa of the merchandise. Garcin would like to know if the banks here would be allowed to do this if the sugar was paid for in dollars.

MALIGE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Fort de France
TO: Secretary of State, Washington
DATE: July 22, 1943
NUMBER: 210

CONFIDENTIAL

Ball sends the following for Randolph Paul, Treasury Department.

You are informed that Malige and I saw the Director of BNCI, Charles, on July 21. It was stated by Charles that there were no securities or accounts over 10,000 French francs for persons outside of Martinique. Professional secrecy was also used by him as a reason for not giving names. French law forbids omnibus or numbered accounts. The bank's financial statement for June 30, not published, and the total deposit record for the past year were examined by us. Thirty million French francs was the original capital provided by BNCI. The deposits ranged from a high of 79,000,000 French francs to 69,000,000 French francs as of the 30th of June. There were about 1500 individual accounts. This bank is the smallest of three and as other banks do not want it here its activities are watched closely. For two years rumors have been numerous here in a small circle concerning Laval's funds being deposited in this bank. The number of accounts and the size of the bank seems to negate this to some degree, but we shall continue the attempt to obtain more definite proof pro or con. It appears that Charles is more willing to cooperate probably due to the position held here by him.

MALIGE

CC - Messrs. Pehle, Luxford, DuBois, E.M. Bernstein, Taylor, Tomlinson, Schmidt, Fox.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 31, 1943

TO Secretary Morgenthau
 FROM Mr. White *HDW*

1. Stabilization Fund's Gold Transactions

During the three months ending June 30, 1943, the Stabilization Fund sold approximately \$199.0 million in gold to foreign countries principally to be earmarked for their accounts with the Federal Reserve Bank of New York. Sales by countries were as follows:

<u>Country</u>	<u>Sales in millions of dollars</u>
Argentina	68.828
Bank of International Settlements	.693
Bolivia	2.195
Brazil	36.908
Chile	3.570
Colombia	9.800
Cuba	10.000
Ecuador	.140
Iran	.500
Mexico	17.000
Portugal	9.975
Switzerland	8.978
Turkey	9.975
Uruguay	11.472
Vatican City	.997
Venezuela	<u>8.000</u>
Total	199.031

Division of Monetary
Research

- 2 -

In order to maintain its gold balance, the Stabilization Fund purchased \$195.3 million in gold from the Treasury General Fund.

As a result of the above transactions, there was a net decrease of \$3.7 million in the Stabilization Fund's gold holdings to about \$10.5 million as of June 30.

2. Treasury Gold Stock

During the June quarter, the Treasury's gold stock decreased by \$188.2 million to \$22,387.5 million as of June 30. Known and estimated acquisitions were as follows:

	<u>Millions of dollars</u>
Newly-mined domestic	4.0
Imports sold directly to mints and assay offices	2.1
Miscellaneous (coin and scrap)	<u>1.0</u>
Total	7.1

The Treasury sold \$195.3 million to the Stabilization Fund, making a net decrease of \$188.2 million.

3. Total Gold Holdings of the United States

	<u>March 31, 1943</u>	<u>June 30, 1943</u>
Treasury Gold Stock	22,575,729,894	22,387,522,107
Stabilization Fund Gold	<u>14,182,611</u>	<u>10,500,529</u>
Total	22,589,912,505	22,398,022,636

- 3 -

Division of Monetary
Research

The decrease in the gold holdings of the Treasury and the Stabilization Fund during the June quarter was \$191.9 million.

TO: Adler, Chungking, China.
FROM: Secretary of the Treasury.

~~SECRET - SECRET~~

Reference is made to your cable of T7 144 of July 29
and Treasury cable 967 of July 26, 1943.

1. You should submit your resignation as from the day
you receive this message.
2. The British in Washington have been informed of the above.

ISF:ah 7/31/43

C
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P
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258

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: July 31, 1943, 5 p.m.

NO. : 997

URGENT - SECRET

Reference is made to your cable of TF 144 of July 29 and Treasury cable 967 of July 26, 1943.

1. You should submit your resignation as from the day you receive this message.

2. The British in Washington have been informed of the above.

HULL
(FL)

Copy:bj:8-3-43

JUL 31 1943

TO: Adler, Chungking, China.
FROM: Secretary of the Treasury.

In connection with the U. S. Treasury certificates of indebtedness purchased by the Stabilization Board which mature on August 1, 1943, please inform Dr. Kung that the Treasury would be pleased to obtain his assurance that no private individual or institution shares in the income of the Board since unless such assurance is forthcoming it will be necessary to pay taxes on the income earned from these certificates of indebtedness.

ISF:ah 7/31/43

TELEGRAM SENT

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

July 31, 1943

6 p.m.

AMERICAN EMBASSY

CHUNGKING

998

FOR ADLER FROM THE SECRETARY OF THE TREASURY.

In connection with the U. S. Treasury certificates of indebtedness purchased by the Stabilization Board which mature on August 1, 1943, please inform Dr. Kung that the Treasury would be pleased to obtain his assurance that no private individual or institution shares in the income of the Board since unless such assurance is forthcoming it will be necessary to pay taxes on the income earned from these certificates of indebtedness.

HULL
(FL)

FD:FL:JD. FE

PARAPHRASE OF TELEGRAM SENT

TO: AMERICAN EMBASSY, CHUNGKING.

NO.: 1005

DATE: JULY 31, 1943, Midnight.

FROM TREASURY FOR ADLER.

In reply to formal request from Dr. Kung that \$200 million be transferred from the credit of the Government of China on the books of the Treasury to be used for the purchase of gold, the following message has been transmitted to Dr. Kung through Ambassador Wei Tao-ming:

"The Treasury agrees to the request of the Government of China transmitted to me by Ambassador Wei Tao-ming that \$200 million be made available from the credit on the books of the Treasury in the name of the Government of the Republic of China for the purchase of gold.

"In order to avoid unnecessary raising of funds by the United States Treasury, it is suggested that transfers from the credit of the Chinese Government for the purchase of gold be made at such time and in such amounts as are allowed by existing facilities for the transportation to China of the equivalent amount of gold. Since it is intended that this gold will be sent to China for sale to the public, this procedure should not interfere with the program outlined in your message of July 23, 1943.

"On receipt of requests from the Government of China that a specific amount should be transferred from the credit of the Government of China on the books of the Treasury and be used for the purchase of gold, the necessary action will be taken to consummate these requests. The details of the arrangements will be discussed with Dr. P.W.Kuo and Mr.Hsi Te-mou."

HULL
(FL)

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRET

OFFICE
SECRETARY OF TREASURY

1943 AUG 2 AM 9 14

OPTTEL 251

Following for J.S. TREASURY DEPARTMENT

Information received up to 7 a.m. 31 July.

1. NAVAL

One of H.M. Submarines damaged a 2,000 ton North bound ship off the Albanian Coast and on 29 probably sank a North bound U-boat off the heel of Italy. A group of 3 U-boats was attacked by aircraft and an escort group in the Bay of Biscay yesterday. Supply U-boat 461 was sunk by a Sunderland and survivors picked up, supply U-boat 411 was sunk by gun fire after being damaged by aircraft and survivors were picked up. A very promising attack with depth charges was made on a 750 ton U-boat. U.S. aircraft also sank a U-boat off Recife yesterday.

2. MILITARY

Russia. North of Orel the Russians yesterday continued to make headway. German counter attacks South and Southeast of town were repulsed.

3. AIR OPERATIONS

Western Front. 29/30. Hamburg. 2277 tons dropped including 8 8,000 lb, 310 4,000 lb. H.E. and 1201 tons of incendiaries. Weather cloudless good visibility apart from some haze and smoke from previous fires. Attack well concentrated fresh fires started which merged into a conflagration covering large area, many heavy explosions reported. 4 enemy aircraft were shot down. 30th. In the morning 115 Fortresses dropped 242 tons at the Fieseler Aircraft component and assembly factories at Cassel. Fighters provided withdrawal support from the German Frontier. Weather conditions were excellent and bombing was good in spite of intense A/A and strong fighter opposition. Concurrently 38 escorted light and medium bombers attacked 4 airfields in the low countries with good effect. During the afternoon escorted Venturas and escorted Typhoon bombers successfully attacked Yainville power station and Poix Airfield.

25 Allied Aircraft missing including 11 Fortresses. 5 Enemy Aircraft reconnoitred over Kent and Hampshire and 2 flew over Plymouth both being destroyed by Spitfires.

30/31st. Aircraft despatched. Remscheid 273 (15 missing) Seaming 8, Intruders 35, Anti ship, ing 8, Remscheid contains the Deutsche Edel Stahlwerke Steel Alloy Factory and a concentrated attack on the town was carried out in clear weather.

Northern Italy. 29/30. 9 Lancasters of Bomber Command dropped Leaflets over 4 cities and landed in North Africa as detailed.

Southern Italy. 28/29. Wellingtons dropped 24 tons on Naples Airfield and 38 tons on another South East of Naples. 2 Wellingtons missing. 29, 56 Fortresses attacked Viterbo Airfield and Marauders dropped 31 tons on Aquino Airfield. 1 Marauder missing.

Sicily 28th, 83 Light Bombers attacked Regalbuto and Centuripo.

Mediterranean. 29th. Beaufighters attacked a convoy, a 7,000 ton ship was left sinking and a destroyer and Motor Torpedo boat set on fire. One Beaufighter was shot down.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 254

Following is supplementary resume of operational events covering the period 24th to 31st July, 1943.

1. NAVAL

HOME WATERS. H.M. coastal forces have engaged enemy ships on 6 occasions. One E-boat was destroyed and a considerable number of small naval units and merchantmen were damaged. Two of H.M. Canadian Destroyers took part in operations against Spanish trawlers fishing in prohibited area in BAY OF BISCAY.

MEDITERRANEAN. Allied naval forces have continued to support and supply land forces in SICILY. H.M. Coastal Forces have bombarded TAORMINA and RIPOSTE. U.S. Destroyers and light craft are operating from PALERMO. H.M. and Allied submarines have sunk two 2,000 ton merchantmen and two schooners, torpedoed a 7,000 ton merchantman, taken prisoners from an E-boat escaping from TRAPANI and damaged a 2,000 ton merchantman.

SUBMARINE WARFARE. About 80 U-boats at sea in ATLANTIC and INDIAN Oceans. Chief activity off WEST AFRICA, BRAZIL, EASTERN U.S.A., CARIBBEAN and Eastern AFRICA. MEDITERRANEAN quiet. Week ending 25th, 7 ocean convoys arrived destinations without loss.

SUMMARY OF ANTI-SUBMARINE ATTACKS IN JULY REPORTED UP TO NOON 28TH.
Number of attacks by shore-based aircraft 100; by carrier-borne aircraft 6, by warships 43. Sunk and probably sunk - by aircraft 20, by warships 10. Possibly sunk - by aircraft 3, by warships 5. Probably damaged - by aircraft 9, by warships 3. Possibly damaged - by aircraft 6.

SHIPPING CASUALTIES. From 24th to 30th inclusive six ships were reported torpedoed. One Dutch tanker sunk off CURACAO, one U.S. tanker torpedoed in West Atlantic but reached PUERTO RICO, 2 British ships in South Atlantic, one British ship sunk in GULF OF ADEN and one British ship (belated report) in the INDIAN OCEAN. In addition, 4 British ships in convoy were hit by aircraft off LISBON (2 sunk, 1 proceeding with convoy and 1 in tow), 1 British ship sunk by aircraft in SYRACUSE Harbour and one British ship bombed in northern waters but reached KOLA INLET. One British ship is reported overdue at BEIRA.

ENEMY SHIPPING. Period 16th - 30th June 11 enemy ships totalling 21,719 tons were sunk or captured including 6 ships totalling 18,597 tons in MEDITERRANEAN.

TRADE. Imports in convoy into UNITED KINGDOM week ending 24th - 1,561,000 tons including 650,000 oil.

2. MILITARY

ITALY. At least three German Divisions believed in ITALY, two south of NAPLES. No information yet of German military reaction to Italian political situation other than in press telegrams.

SICILY. Enemy while maintaining firm hold on their left flank at CATANIA are letting line swing slowly back to TROINA area and to North Coast.

GERMAN DISPOSITIONS believed as follows - bulk 29th Panzer Grenadier Division on North Coast, 15th Panzer Division right centre, Goering Division left centre, strong brigade group (which includes some 6 battalions Parachutists operating in ground role) on left.

GENERAL. Whole of Southern and Western SICILY now in Allied hands. Obvious at early stage Germans intended forming main defensive position on line running from CATANIA northwestwards through TROINA to Coast. Axis reinforcements and supplies continue steadily through ports and over beaches. Casualties 8th Army to 27th (less airborne Division) killed, wounded and missing - 6,189 including Canadians.

8th Army. No appreciable change on front though indications Germans feeling effects of our air superiority. Fierce fighting occurred interspersed with period of considerable patrol activity. German counter-attacks repulsed with heavy losses to enemy. United Kingdom forces engaged in consolidating gains, regrouping and making local advances CATANIA Plain. Our forward positions are on line of DITTALNO River and at some points patrols crossed SIMETO River. Further northward fierce and confused fighting in extremely difficult country. Enemy tanks used in counter-attacks and places changed hands several times before being finally secured.

7th Army. United States forces have swept all before them in advance through west of Island. They are now engaged in occupying that area and are also advancing eastwards.

BURMA. Increased patrol activity north of BOTHERDAUNG.

3. AIR OPERATIONS

WESTERN FRONT. Night, week of record heavy attacks. 3,679 sorties, 100 aircraft missing. 5 enemy fighters destroyed. 3 very heavy attacks on HAMBURG, results outstandingly successful. Damage so severe and widespread that it cannot yet be assessed, but known that damage to commercial and industrial targets is enormous, including Blohm Voos and Howaldtsyerke submarine building yards. A single very successful attack on ESSEN when further severe damage caused to Krupps. In these raids our losses under 3% of bombers sent out. One somewhat lighter attack on REMSCHEID, details not yet known.

Day. Throughout the week strong formations of U.S. Fortresses carried out heavy and widespread raids. Total of 1,242 aircraft despatched. 2 attacks on HAMBURG increasing damage already caused by R.A.F. 2 successful attacks on CASSEL causing damage to Fieseler Works and considerable damage to Spinnfasser Textile Factory. Successful attack on aero-engines works at Oschersleben near MAGDEBURG. Successful attack on HANOVER where large tyre factory was hit and severe damage to shipbuilding yards. Other diversionary attacks on WILHELMSHAVEN, BREMERHAVEN and WARFEMUNDE. R.A.F. attacked objectives in HOLLAND and provided large fighter escorts and diversionary sweeps. U.S. Fortresses also carried out two heavy attacks on targets in NORWAY. First on TRONDHEIM very successful, naval base damaged and submarine and cargo vessel sunk. Second on Aluminium Works at HERØYA most successful. In all these operations Allies lost 124 aircraft.

ENEMY. About 49 enemy aircraft crossed our coasts during the week. Seven were destroyed.

MEDITERRANEAN. Allied attacks concentrated on enemy communications and airfields in SICILY and SOUTHERN ITALY. One heavy attack on BOLOGNA Railway Centre. Spitfires twice intercepted escorted formations of enemy transport aircraft, most of which were destroyed. One 1,500 ton ship sunk, one of 7,500 tons lost sinking. 2 Destroyers and M.P.R. set on fire and number of small craft destroyed and damaged. In all these operations we lost 22 aircraft.

RUSSIA. Russian Air Force was actively engaged in supporting their advance in ORIL Sector where there seems no doubt that they are continuing to hold their own in the air. The German Air Force activity throughout RUSSIA seems to have been limited and it is possible that they may be having difficulty in recovering from heavy wastage incurred during intensive operations at the start of their KURSK offensive.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS OF ALLIED AIR ATTACKS.

COLOGNE. Accumulated devastation now estimated at 60% of area on west bank of RHINE and over 80% of Central City area. The main business and shopping centre has been ruined. Estimated over 63,000 house units destroyed or uninhabitable.

MULS. 32 days after latest raid only one out of 5 chimneys of synthetic rubber plant was smoking and none of the cooling towers were working.

RUHR. Branch factories of Vereinigte Stahlwerke at GELSENKIRCHEN, BOCHUM and MULHEIM have all been damaged, the Mulheim branch most severely.

HAMBURG. Although early photographs were spoilt by smoke and all parts of the city were not visible, it is clear that destruction is very great and industrial damage extremely heavy.

HANOVER. 3 buildings of Continental Tyre Factory partly destroyed and others damaged. This is German priority one factory.

ROME. Main railway station was unusable on 19th. Casualties heavy among Italian and German airmen at airfields. Barracks at SAN LORENZO used by Germans as a Headquarters was destroyed. Two districts without water owing to broken aqueduct. Much confusion among crowds at Trastevere Station 20th.

TURIN. Some fires still burning 3 days after attack 12th/13th owing to water shortage. About 45 industrial concerns suffered and heavy damage at SMIA VISCOI artificial silk works.

BOLOGNA. Severe damage to marshalling yards, railway junction and permanent way.

TRONDHEIM. Photographs 24th show fires burning and heavy damage to docks, quays and workshops. Floating dock partly submerged, direct hit on one shipyard and several small craft sunk or capsized.

HERØYA. Important damage to Magnesium, Aluminium and Nitrate works.

5. HOME SECURITY

No killed, one seriously wounded.