

DIARY

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THE UNDER SECRETARY OF THE NAVY
WASHINGTON

24 December 1942

Dear Henry:

Congratulations on the loan totals. It was a well planned and carried through campaign.

Incidentally, Merry Christmas to Mrs. Morgenthau and yourself.

Sincerely yours,

A handwritten signature in cursive script that reads "James".

James Forrestal

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



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 24, 1942

MEMORANDUM TO THE SECRETARY

RE: Guards, Procurement Division

As the result of a survey made by the Secret Service Division relative to protection of the Procurement Division Warehouse, which service is now being performed by Public Buildings Administration guards, it is recommended that this duty be transferred to the Secret Service Uniformed Force, subject to the transfer of funds from the Public Buildings Administration for the purpose.

Discussions were held informally with representatives of the Public Buildings Administration, and under date of December 11, 1942 a letter was addressed to Mr. Reynolds, Commissioner of Public Buildings, Federal Works Agency, on the subject. This letter is under consideration at this time and it is understood that it will be acted upon favorably within the next few days.


Clifton E. Mack

Director of Procurement



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COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTAL No. 444

Information received up to 7 A.M., 24th December, 1942.

1. NAVAL

One of H.M. Submarines is overdue from patrol and considered lost.

2. MILITARY

LIBYA. 22nd. Our patrol line still in area SULTAN. Operations consisted of road repairs, mine clearing and development of water supply. N.Z. Division in NOFILIA Area TUNISIA. Patrol activity has continued and contact with the enemy has been made 9 miles southwest of MATEUR. Further South French forces operating against the high ground southeast of PONT DU FAHS captured 30 Italians.

3. AIR OPERATIONS

WESTERN FRONT. 22nd/23rd. At least 23 attacks were made on locomotives or trains in northern FRANCE and BELGIUM. 23rd. DEN HELDER and ST. MALO docks were successfully bombed by 6 Venturas and 18 Bostons respectively. 23rd/24th. 19 aircraft were sent out - Intruders 14, Northwest Germany 5.

MEDITERRANEAN. 23rd. Malta aircraft obtained a direct hit on an escorted ship east of SOUSSE and destroyed one JU 88. Spitfires bombed LAMPEDUSA Airfield.

CRETE. 22nd/23rd. 10 Wellingtons bombed TYMBAKI airfield and started fires in the dispersal areas.

LIBYA. 21st/22nd. About 12 enemy aircraft bombed BANGHAZI. 4 were destroyed and another probably destroyed.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 450

Following is supplementary resume of operational events covering the period 17th to 24th December, 1942.

1. NAVAL

Heavy gales persisted in the North Atlantic. 2 R.C.N. Destroyers suffered some damage from weather. A Russian destroyer foundered while returning from UNITED KINGDOM to RUSSIA. Convoys to and from MALTA passed through the Eastern MEDITERRANEAN without interference. Reference OPTEL No. 442, these two 8" cruisers were located on 18th at MADDALENA, NORTHERN SARDINIA.

SUBMARINE WARFARE. Attacks continue in Northern Atlantic, but co-operation between air and surface escorts continues to yield good results. One homeward bound and two outward bound convoys arrived without loss. Two ships sunk and two damaged in one outward convoy. Evidence that manning requirements have reduced length of U-boat training and U-boat crews are now both young and inexperienced. Efficiency has accordingly declined, though men now serving liable to be fanatically Nazi. No sign of decline in morale.

ATTACKS ON SHIPPING. During the week 19th to 25th inclusive, 14 ships were reported to have been attacked by submarines. Two British ships (one a tanker in convoy) were torpedoed in North-Western Approaches, one British ship in South-Western Approaches, a French trawler off CASABLANCA, a Swedish ship in the West Atlantic, a British ship in the West Indies area (in November), two British (one in November), a Swedish and two United States ships (one in November) in the South Atlantic and a Dutch and a Greek ship in the INDIAN OCEAN. A large British transport was torpedoed north of ORAN and sank while in tow. In addition, a British and a Dutch ship were hit by aircraft and submerged at BENGAZI, a British ship was damaged by aircraft in the MEDITERRANEAN but reached port, and a British ship and a barge were mined in home waters.

TRADE. Imports in convoy to UNITED KINGDOM week ending 19th - 321,000 tons, including 129,000 oil.

2. MILITARY

LIBYA. Enemy withdrawal continued during the week but now believed halted with rearguard in WADI EL CHEBIR area and main body in WADI ZEM ZEM position. Our forces advanced from NOFILIA to SIRTE about 90 miles in spite of enemy mines, obstacles and demolitions and our own supply problems. German tanks estimated 60, Italian 30.

FRENCH NORTH AFRICA. Persistent rain. Operations limited to patrolling, building up our forces in forward areas and strengthening lines of communication. Effective co-operation by French on Southern flank. Enemy reinforcement continues despite heavy bombing of his bases and attacks on his sea and air routes. Estimated strength now 24,500 Germans and 13,500 Italians, with some 100 serviceable German tanks and 50 Italian, serviceability doubtful.

FAR EAST. BURMA. Japanese withdrawal from BUTHIDAUNG and MAUNGDAW possibly due to success of our propaganda which caused enemy to over-estimate our strength. Present indications suggest Japanese will fall back on AKYAB where strength on island and immediately to the north is estimated at 4,000. Our advance unlikely to be fast owing to numerous water obstacles.

3. AIR OPERATIONS

WESTERN FRONT. The enemy continued making minor daylight raids on coastal districts. 9 Fighter bombers out of 41 plotted overland were destroyed. One large scale day operation by United States bombers which penetrated as far as RONILLY-SUR-SEINE in face of strong enemy fighter opposition. Short-range harassing attacks on railway communications and rolling stock were continued both by day and night. One heavy and successful night raid on DUISBURG in cloudless weather. A smaller inconclusive attack on MUNICH.

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LIBYA. Activity somewhat hampered by weather during latter part of week. Enemy reaction by day slight, many offensive patrols returned without having seen any enemy aircraft.

FRENCH NORTH AFRICA. Many of our airfields unserviceable through bad weather, nevertheless air co-ordination between TUNISIA, MALTA and MIDDLE EAST is working well, and attacks on Axis ports and communications were constantly maintained on a satisfactory scale.

RUSSIA. On central front, Russian ground attack aircraft with fighter protection active over battle front and lively Russian activity by all types of aircraft at VELIKI LUKI. NEVEL constantly raided at night. On southern front, believed Russians effectively supporting their ground forces in DON Sector as far as weather permits. At STALINGRAD, Russians still concentrating against German transport aircraft, forward airfields and communications.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

TURIN. Now confirmed industrial damage in recent raids very heavy. Principal industries affected - automobile, armoured vehicles, aero-engine, aircraft components, railway workshops, machine tools, iron founding and smelting, electrical, glass textiles, etc. Several public utilities and civic building damaged, also barracks and royal arsenal.

EINDHOVEN. Philips radio. Photographs 14th and 16th reveal - buildings destroyed or damaged - glassworks, machine shops, radio assembly, paper mills, laboratory, electro-technical factory, lamp and valve factory, also damage to the head offices.

5. HOME SECURITY

Several incidents in tip-and-run daylight raids but no industrial damage of importance. Estimated civilian casualties week ending 6 a.m. 23rd - killed 48, seriously wounded 119.

NUMBER 63

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

December 17-24, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

THE WAR THIS WEEK

The Soviet armies this week struck southward from the Boguchar area in an offensive which apparently aims at Rostov itself. Success for this drive would virtually nullify this year's German gains in the south and would menace the enemy with entrapment on a large scale. The attack faces difficulties, however, of a more serious character than those connected with the original offensive for the relief of Stalin-grad. Meanwhile, current Russian attacks in the Caucasus may be the forerunner of large scale operations in an area where normal January weather lends itself to winter operations.

The retreat of Axis forces in Libya is now carrying Rommel rapidly toward the port of Tripoli. It remains to be seen whether he will attempt seriously to hold Tripoli or will push on to join forces with the Axis in Tunisia. In Tripolitania, the Axis faces mounting hazards to supply lines, with Allied control of the Mediterranean being steadily extended. The enemy has continued to reinforce its bridgehead in Tunisia and has consolidated a strong position which may well permit a prolonged resistance.

While the confusion over Darlan persists in North Africa and elsewhere, Laval is developing a single party in France.

In the Far East General Wavell has launched a limited offensive along the western coast of Burma, and an exceptionally large concentration of shipping at Rabaul may presage renewed Japanese activity in the Solomons.

Second Break-Through on the Don

The Soviet offensive against the Italian-held sector along the Don, around Boguchar, can be far more decisive in its effects than the earlier pincers attack for the relief of Stalingrad. Last month's offensive apparently aimed simply to encircle the German forces between the Don and the Volga and to force the invaders to establish a new line west of the Don bend. In the current attack (which has already cut the Voronezh-Rostov Railroad at Kontemirovka, and has reached this strategic line on a broad front from Millerovo to Svoboda), the eventual goal is apparently Rostov itself, the base and communications center of the 300-mile salient reaching toward the Caucasus. Military observers have long argued that such an offensive, launched southward from the Soviet defensive area around Voronezh, would be the bold and logical way to cancel the German gains of 1942. In an area where the terrain offers few natural obstacles to a mobile advance, the Russians have recaptured dozens of towns and villages almost as fast as they fell to the Nazis last July.

Yet by striking at the heart of the German position in the south, the Red Army is attempting an operation far more difficult than the relief of Stalingrad. Between the Don and the Volga, the Germans held only two single-track railroad lines, which the Russians were able to cut with rapidly-moving advance columns. South of Millerovo, however, the Nazis have available the dense railway net of the Donets Basin, and a large number of industrial towns that offer shelter and communication far more adequate than those of the steppes farther east. As the Axis forces fall back on their supply centers and shorten their lines, their resistance will probably stiffen in inverse ratio to their distance from Rostov.

The German counterattack against the southern arm of the Stalingrad pincers already represents a major effort to strike

back at the weakest point of the Soviet triple offensive. From a supply base at Kotelnikovo, this drive has advanced along the Stalingrad-Tikhoretsk railroad as far as the Aksai River, about 55 miles from Stalingrad. At the same time the new Soviet offensive has apparently diverted Nazi reinforcements previously destined for the northern loop of the Don bend, where enemy counterattacks have notably slackened. In sum, the new drive against Millerovo has considerably lessened the chances of escape for the German divisions within the Stalingrad pincers.

A Russian Caucasus Offensive?

In the Caucasus, the current Russian efforts to recapture the Malgobek oil fields west of Grozny may represent the beginning of large-scale operations. Some military observers anticipate that by early next month Soviet progress along the Don may be decisive enough to warrant the opening of another major offensive from the south. In this sector, January weather, although ordinarily the coldest of the year, should not prove unfavorable to Soviet winter operations. Mean temperatures of several degrees below freezing, occasionally falling below zero, keep the ground hard and suitable for troop movements, while blizzards sweeping down from the northern steppes insure a few inches of snow cover the greater part of the time. Occasional thaws might, however, temporarily hinder operations.

On the central front, after a brief let-up last week, the Red Army has resumed its advance around Velikie Luki, while the enemy has counterattacked to defend the airport there. The Russians have likewise registered slight gains around Rzhev. On the Arctic front, a German attack in the Kandalaksha sector, where the invaders are only 30 miles from the Murmansk Railway, has suggested that the enemy may try to cut our lend-lease route. But in view of recent German

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troop withdrawals, a major effort in this sector at present appears unlikely.

Departure of the American Minister from Helsinki

On the occasion of the American Minister's recent departure from Finland for consultation in Washington, both President Ryti and Foreign Minister Witting drew attention to Finland's economic dependence on Germany, while insisting that their country had no political ties with the Nazis. Finland's position as a small state, they explained, made it impossible for her to follow an independent line, and it was for the security of small nations that their country was most concerned.

While the Foreign Minister was vague about the future, President Ryti cautiously suggested that when the proper moment came he might take the initiative in ending the northern war, as he had done in 1940—the first time that a responsible Finnish statesman has made such a suggestion. The President further stressed Finland's democratic traditions dating from the Middle Ages, and hinted that his pro-Axis Foreign Minister might not remain long in power.

In brief, Finland's rulers apparently appreciate the political significance of our Minister's journey. The press, on the other hand, has optimistically announced that his departure is of no importance and that he plans to return soon. Among the Finnish public, some interpret the event as an indication of American displeasure, while wishful thinkers predict that our Minister's explanations of Finland's position will help improve relations between Helsinki and Washington.

The harsh reality of the Finnish position has again become apparent in a press announcement that Finland and Germany have decided to prolong their trade agreement until the end of 1943. As in previous years, the two countries will regulate their trade during the first quarter of 1943 on a temporary

SECRET

basis, while negotiations for a final agreement will take place in Helsinki next February.

Axis Retreat in Libya

Rommel has continued his rapid withdrawal to the west, delaying the British by demolitions and extensive use of mines and booby-traps. At latest report the British had occupied Syrte and were moving on Bouerat-el-Soun without having encountered any serious opposition (see map). Most of the elements of the German 15th Armored Division trapped by the New Zealanders around Wadi Matratin were able to cut their way out to the southwest and rejoin the retreating forces, though with losses in guns, tanks, and trucks. Allied air forces have had almost unchallenged control of the air.

There is considerable speculation about the enemy's strategy in North Africa. British observers apparently feel that Rommel's primary concern is to move his army with minimum losses into Tunisia. This would eliminate the problem of a double supply line, and give the Axis a combined force of probably more than 70,000 men fighting under a single air umbrella, in a region close to air and supply bases in Sicily and Italy.

Other observers question whether the Axis can afford the immediate surrender of Tripoli and its airfields, which would enable the Allies to close the pincers on Tunisia. With this as a forward base, the British could avoid the tedious overland movement of supplies from Benghazi and Tobruk, and bring them by sea from Egypt. Admiral Cunningham has foreshadowed this development in his statement that the Allies now have full freedom of movement at both ends of the Mediterranean, and that Malta is being supplied without loss. Although there appears to be no position before Tripoli that Rommel can assume which cannot eventually be outflanked, a stand in defense of the Tripolitan area

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might be made along a line running from the great salt depression northwest of Bouerat-el-Soun to Gheddahia and southwest along Wadi Zemzem. A final stand might be expected before Homs, west of which the Tripolitan road network and the coastal strip fans out to make defense more difficult.

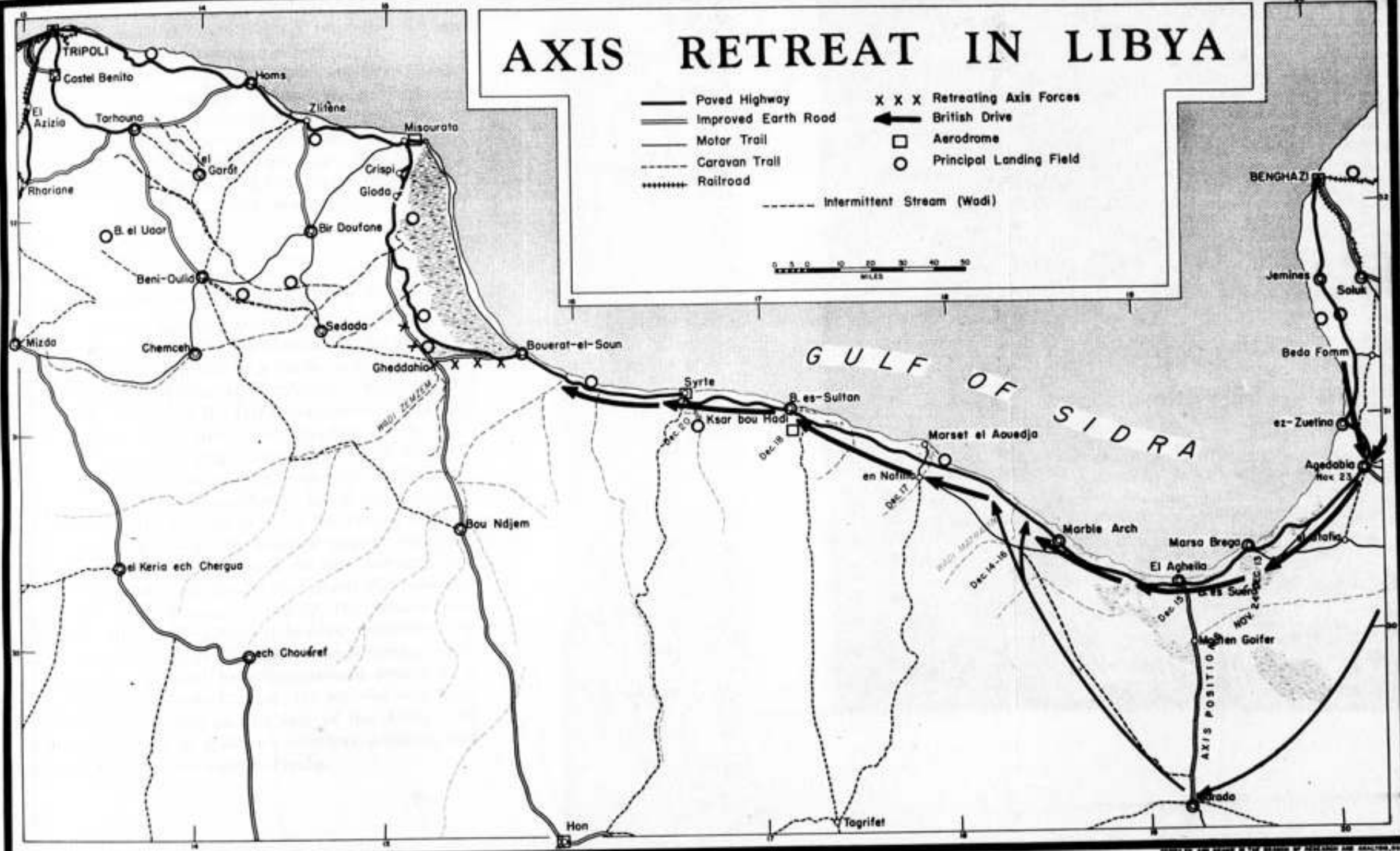
In the final analysis the Axis may not be able to make a free decision. The pressure of Allied air and submarine attacks on the route from Italy past Malta to Tripoli may have made it impracticable for the Axis to supply Rommel in Tripolitania. Although air transport has been heavy, no ships are believed to have reached Tripoli last week and aviation gasoline was known to be going by truck from Gabès.

Axis Consolidation in Tunisia

Ground fighting in Tunisia has this week been limited to patrols and minor actions, as both sides have regrouped and strengthened their forces in the forward area. The enemy has been constructing defenses west of Tebourba; and extensive movement in the central sector around Pont du Fahs indicates that the enemy has now linked his outposts in a defensive front running roughly north and south along a line just west of the following points: Mateur, Tebourba, Pont du Fahs, and Kairouan. Pichon, 25 miles west of Kairouan, has changed hands three times this week, and is now held by an Allied (French) force. A concentration of enemy armored and motorized forces southeast of Medjez el Bab suggests that another enemy attack on this communications center is imminent.

The Axis has continued to reinforce its bridgehead. Air transport is reported to have been heavy, and shipping has reached Tunis and Bizerte despite the fact that, as Admiral Cunningham announced, the enemy is losing about a ship a day on this run. Reconnaissance also reveals that Allied

AXIS RETREAT IN LIBYA



air attacks have inflicted heavy damage on ships and port facilities in Tunis and La Goulette Harbors.

Reports of train and troop movements into Italy persist, but specific information is meager. Meanwhile it is clear that the Axis has exploited its advantage of air power and supply to consolidate a strong defensive position in Tunisia during the first two phases of the campaign—the phase of rapid advance by light Allied forces until the reverse at Tebourba, and the current period of Allied preparations for larger operations.

Clarification of the American Position in French Africa

Admiral Darlan's temporary status in French North and West Africa has received further clarification in the news that lend-lease aid for this area will be a purely military transaction under the control of General Eisenhower. Furthermore, an arrangement permitting the OWI to broadcast news programs from Rabat will doubtless help to eliminate the confusion created by pro-Vichy broadcasts over *Radio Maroc*.

At the same time, Darlan himself, in an apparent effort to combat any diminution of his authority, has declared to news correspondents that he intends to bring the French ships at Dakar and Alexandria into the struggle against the Axis. Whether the Admiral will be able to do this, however, is a matter of some doubt, since the decision about the vessels at Alexandria rests with Admiral Godefroy, the French commander there—apparently a most indecisive character. Up to now Godefroy and most of his officers have favored a policy of neutrality (the Admiral has characterized Pétain as a captive unable to issue orders), while the enlisted men have desired to reenter the war on the side of the Allies. All elements seem to agree in their pro-American attitude, and in their hostility to Britain and De Gaulle.

Evidently with British encouragement, the Fighting French have now invaded French Somaliland. The majority of the people have apparently favored cooperation with the Allies, while the higher officers and General Dupont (recently installed as governor by a coup d'état) have been reluctant to abandon their neutrality and technical allegiance to Vichy. Desertions to the De Gaullists have substantially reduced the number of troops at Djibouti.

Retrospect on Morocco

According to eye-witness accounts now reaching this country, the political situation in Morocco following our landings was confused and disturbing. Rioting between Jews and Arabs began almost immediately, while members of the Vichy S. O. L., after a short lull, resumed their hooligan operations against Fighting French and American sympathizers. French Army officers who had planned to take part in General Béthouard's pro-Ally coup, which had failed at the last moment through the quick action of Noguès, were so disappointed when they heard of their leader's arrest that some of them apparently planned to enroll a native militia for the release of Béthouard. Naval officers were sullen and uncooperative.

Except among a small pro-Vichy element and officers of the Navy, general disappointment greeted the announcement of the American negotiations with Admiral Darlan. Nor was the retention of Noguès any more popular. Many army officers accused the latter of misconduct as a soldier in withdrawing inland after directing his troops to resist the Americans. As a matter of fact, Noguès' administration adopted an uncooperative attitude, especially in the operation of public utilities. Secret orders (our accounts state) provided for the arrest of United Nations' sympathizers and directed that enemy agents be left at large.

Subsequently, with the cancellation of these orders, the dissolution of the S. O. L., and the liberation of Béthouard, the situation improved somewhat. The Navy, however, remained sullen, and the civil population kept comparatively calm only in the hope that President Roosevelt's announcement heralded the removal of Noguès and his clique. While the latter directed his followers to look on the Americans simply as invaders, French anti-aircraft batteries received instructions to shoot down no Axis aircraft. The current mobilization resulted in the relegation of pro-Ally sympathizers to interior outposts, and the installation of Vichy adherents in key positions. In other words, our accounts conclude, Noguès and his followers were so afraid that the Axis would attempt a counter-invasion that they avoided everything that might implicate them as collaborators with the United States.

Foreign Repercussions

A similar summary of reactions in London to the American arrangement with Darlan finds sentiment among various Allied officials unanimous in disapproval. British and Russians both oppose the arrangement, and both vigorously support the Fighting French in their conflict with the Admiral. The Russians especially, our summary continues, see in the American policy toward Vichy, Darlan, Franco, and Otto of Hapsburg, a consistent effort to reach an understanding with reactionary clerical groups in Western Europe. The Fighting French are drawing closer together, the National Committee in London having recalled two of its representatives who were to have gone to North Africa to negotiate with General Giraud.

Certain members of the Governments-in-Exile express the feeling that the moral principles of the United Nations cannot find expression in "immoral actions". Furthermore, they

declare that our country's first venture into European politics since our declaration of war sets a dangerous precedent, creating an impression harmful to American prestige and difficult to correct. Finally, our summary concludes, certain Allied statesmen fear that our agreement with Darlan does not correspond to any long-range expediency: whatever American lives it saved may be more than counter-balanced by the bloodshed of the French civil war that may be the logical result of our actions.

Toward Single-Party Rule in France

With the moral support of the Nazis and in cooperation with Déat, Laval is now developing a single party for France (which may bear the title *Gauche Moderne*), according to advices from neutral sources. A force of "shirts" of some sort is likely to be its inevitable adjunct. For manning this new organization, the two Fascist Legions, the "Tricolor" and the "African," will probably offer cadres; members of the now disbanded French Army will doubtless feel disinclined to join a frankly pro-Axis organization.

The announcement that Vichy will enforce the Nuremberg laws against the Jews, on the basis of race rather than religion, indicates that Laval is already at work buying Hitler's favor. Our informants further predict that by spring the Government will move to Paris, while Pétain will have his residence at Versailles. To ensure the maximum "cooperation" of Laval the Nazis are apparently planning to maintain Doriot as a chronic pretender threatening the present incumbent at Vichy.

The Iberian Bloc

While Hitler, Ciano, and Laval met to plot the future of Axis strategy in the Mediterranean, the Spanish Foreign

Minister journeyed to Lisbon to underline Iberian solidarity. Public pronouncements were cautious and vague to the extreme, but Jordana once again indicated that the principal concern of Portugal and Spain was to keep out of the present conflict.

The Spanish Government at the same time apparently toned down the grand reception planned by Party enthusiasts for General Muñoz Grandes, returning from his command of the Blue Division in its "crusade" on the Eastern Front. Personal rivalry rather than political considerations probably caused Franco to countermand the original order to play up Grandes' arrival; but Franco also undoubtedly wished to avoid any embarrassing "incident."

Mussolini's Party Changes

In an apparent move to tighten his control of the Party, Mussolini this week named a new national directorate of the Fascist Party. He appointed as vice secretaries, it is reported, Carlo Ravasio, Carlo Scorza, Alessandro Tarabini and Mario Farnesi—men who have been associated with Fascism from its early days. Observers note that in both Italy and Germany bombings and reversals have not resulted in any effort to appease dissident elements, but rather have brought an increase in the power of Party "dependables."

Limited Offensive in Burma

General Wavell's Indian troops this week began operations directed against Akyab, Japanese-held air and sea base on the western coast of Burma, about halfway between Calcutta and Rangoon. Akyab, on the Indian side of the land barrier formed by the Arakan Mountains, was occupied by the Japanese toward the close of their Burmese campaign in May. Its value to either side lies in its position as an

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advance base for a combined sea and air attack—for the Allies, against Rangoon, and for the Japanese, against Calcutta. As an air base alone, its airfield offers some advantages to the side which holds it, although it has apparently been less used by the Japanese than other and drier bases in central Burma. Akyab has an unusually high average annual rainfall—196 inches—but with the end of the monsoon season, this disadvantage has largely disappeared.

In their advance along the jungle coast, the British troops so far have been impeded only by natural obstacles. A small contingent of Japanese holding the border towns of Buthidaung and Maungdaw withdrew the day before the British entered, and as yet there has been no contact with the enemy. The Japanese are thought to have no more than a single regiment in Akyab (where they are now hurriedly constructing beach defenses on Akyab Island); and the withdrawal of border units might be intended to reinforce this garrison until other Japanese troops could be brought up. This will be no easier for the Japanese than for the British, unless the sea is used, since the Japanese also must traverse difficult coastal terrain. A track and a dry weather road cross the Arakan Mountains from central Burma in this area, but both reach the seacoast considerably south of Akyab.

The move into Burma was hailed enthusiastically by publicists at Chungking, who saw in it the beginnings of "the great opportunity," but Allied spokesmen at New Delhi were quick to emphasize the limited nature of the operation.

Chinese anxiety to draw attention to this front—and to China's own efforts—continue to give rise in Chungking to accounts of "large-scale" operations directed against Yunnan Province. As yet the only factual basis for such reports is the mopping up operation being conducted by a Japanese regiment against Chinese elements which crossed the Salween

SECRET

River in the Tengyueh sector (the Salween is the Japanese defensive line in western Yunnan).

Air Raid Over Calcutta

Allied observers have long feared that a Japanese air attack on the crowded industrial area around Calcutta would bring panic to the civilian population. When the Japanese finally struck early last week, damage was slight and casualties were few. During the first raid, on Sunday night, Calcutta's industrial population apparently gave little indication of fear, and work in the dock area returned to normal the next day. Monday night's attack, although apparently no more devastating in its results than the first one, caused a considerable exodus of port workers, and a certain falling off in port activities. Yet few industrial workers left the city, and the net effect of the raid was scarcely one of panic.

Controversy Over Indian Unity

Vigorous criticism has greeted a somewhat veiled statement by the Viceroy of India advocating the preservation of India's unity "in so far as it may be built up consistently with full justice for the rights and the legitimate claims of the minorities" and questioning whether the country can effectively "speak with two voices." Jinnah termed it a "statement of extreme wickedness," which would serve to encourage the Hindu majority and postpone the achievement of *Pakistan*. Dr. Ambedkar, representative of the Depressed Classes on the Viceroy's Executive Council, echoed the Moslem leader's views, while Rajagopalachariar characterized his own feeling as one of "sad amusement," and reiterated his conviction that an "Ulster phase" would be a necessary preliminary in the development of a free India.

The Viceroy's statement may reflect a certain change in British policy from the Cripps proposals of last spring. These proposals, which remain the authoritative declaration of the Government's intentions, anticipated the possible organization of a number of Indian dominions. Furthermore, the controversy over the current statement has drawn attention once again to the serious cleavage of views between Jinnah and some of the moderates, who advocate varying degrees of autonomy for Moslem areas, and the Congress and Mahasabha, predominantly Hindu parties, which favor guarantees for the minorities but no partition of India. Such a controversy can not fail to complicate the task of Sapru's group of conciliators, who, after disbanding in a "mildly optimistic mood," are now reporting back to their respective parties. Subsequently, Sapru himself is to decide whether they are sufficiently in agreement to confer with Jinnah himself (*The War This Week*, November 26-December 3, p. 15).

Chungking Faces Its Domestic Problems

In the plenary sessions of its annual meeting at Chungking, the Central Executive Committee of the Kuomintang Party has adopted a series of resolutions which stress the necessity of strengthening domestic political solidarity, intensifying the military effort, improving administration, and tightening price controls.

The resolution dealing with political solidarity is so phrased as to be capable of varied interpretation. According to the official Chinese explanation, the Central Executive Committee is holding out an olive branch to the Communists and other minority groups, but other observers believe that the resolution constitutes a last warning to the Communists to behave or take the consequences. Observers are also skeptical as to the possibilities of great increase in the Chinese military effort, since they believe the Chinese army is, in general, too

poorly fed and equipped to depart for long from the present pattern of predominantly defensive military operations.

The resolutions which stress the need for improved administration and stricter price controls, however, undoubtedly reflect the increasing pressure of economic difficulties upon the Chinese Government and Kuomintang Party. Demands for curtailment of expenses, control of prices, reform of taxation, increase in bond sales, and reorganization of the finances of local governments, have been frequently heard and the Government has been forced to take cognizance of them. The shortage of competent administrative personnel, the lack of established machinery for enforcing price controls, and the difficulties involved in radical administrative reform, make it improbable that any great improvements will result. But it is obvious that the Kuomintang feels pressed to make some moves against inflation, if only to maintain its present dominant political position.

New Wedges in the Buna Beachhead

In New Guinea, Allied forces have made some new gains, but while the Japanese position is regarded as desperate, the enemy is still showing no signs of collapse. On the contrary, despite the reported loss of their commander, their failure to receive reinforcements, and our superior fire power both in the air and on the ground, the Japanese are defending their intricate jungle positions with a zeal which can only be compared in this war to that of the Russians at Stalingrad. In the Buna sector, a general attack of air, artillery, infantry, and light tank units has won us control of Cape Endaiadere and the "new landing strip", but the Japanese are holding the east side of the "old strip", and progress elsewhere in the sector has been slow. Around Sanananda, there apparently has been little activity (see map, *The War This Week*, December 10-17). Our forces evidently are proceeding

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cautiously in order to keep casualties down and to take full advantage of air power.

Along the New Guinea coast farther to the northwest, where Japanese landings were made last week, our aircraft have been active in strafing operations, but apparently fewer enemy troops reached shore than was at first reported in news despatches—perhaps no more than 200. At Madang, still farther up the coast (beyond the Japanese bases at Lae and Salamaua), an enemy convoy was caught by our aircraft December 18 and one light cruiser was left in a sinking condition; the Japanese nonetheless succeeded in landing troops. Immediately above Buna, near the mouth of the Amboga River, Australian patrols are engaging a few Japanese forces put ashore December 1-2 from destroyers which originally had been headed for Buna. Small Japanese landings along the jungle coast probably will continue, in line with the evident enemy intention of making any hold we may obtain on the strategic positions—air fields and harbors—as costly and hazardous as possible.

In the Solomons, the situation is unchanged, but at Rabaul in New Britain an unprecedented concentration of merchant vessels—together with a heavy cruiser, 20 destroyers, and other light vessels—suggests the possibility of renewed operations here, as well as of further efforts to strengthen Japanese positions in New Guinea.

Repression in Bolivia

Unrest among Indian workers in the tin mines, culminating in a strike, has evoked sharp measures of repression by the Bolivian Government. Food and fuel supplies for striking miners have been cut off, and three of the most prominent labor leaders, active in the *Partido Izquierdista Revolucionario*, have been arrested and sent to the Beni region, in the tropical eastern lowlands of Bolivia.

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These latest moves in the Bolivian Government's campaign to suppress the P. I. R. and end labor "agitation" at the mines may prove effective for the time being. But they are not likely to increase tin production. The Indian laborers on the bleak Bolivian Plateau have genuine grievances, according to many observers, including Ernesto Galarza, Chief of the Division of Labor of the Pan-American Union. Low wages, shortage of food and fuel, a rise in cost-of-living prices of more than 1,700 percent since 1931, and the knowledge that profits from newly-increased tin prices are flowing into the pockets of the mine-owners—these are among their reasons for downing tools.

Conservative and reliable banking sources in the United States, moreover, scout the Bolivian Government's charges of Communist and Nazi influence among the strikers. It has been pointed out that, as far as the Communists are concerned, any agents they might have there would be interested primarily in ending the strikes and resuming production, in order to speed lend-lease aid from the United Nations to Russia. Other independent groups, such as the Ethno-Geographic Board of the Smithsonian, have called attention to various steps the owners might take both to win the Indians' confidence and to increase their productivity. So far, however, the owners and the Government have apparently been content with trying to starve the strikers into submission.

Predicament in Argentina

The decision of Argentina's Supreme Court to prosecute for espionage the German Naval and Air Attaché, Captain Dietrich Niebuhr, confronts the Castillo Administration with an embarrassing dilemma: a sensational spy trial, or a German refusal to waive Niebuhr's diplomatic immunity. Either event will give aid and comfort to Argentina's anti-

Nazi and anti-neutrality forces. Moreover, the thorough entanglement of foreign and domestic issues in Argentina means that a defeat on the espionage affair would endanger Castillo's reactionary policies not only on the diplomatic, but on the home front as well.

Aftermath of Bracken's Election as Canadian Conservative Leader

The election of Premier Bracken of Manitoba as leader of the Progressive Conservative Party has, on the whole, been well received throughout the Dominion. Liberal and Conservative papers alike have acclaimed the new leader's honesty of purpose and political skill. Only the C. C. F. (Cooperative Commonwealth Federation) and its leader, M. J. Coldwell, have expressed serious doubts about the ability of Bracken to force his own progressive principles on the reactionary groups among the Conservatives.

Meanwhile a recent Gallup poll shows a strong swing to the C. C. F. Throughout the Dominion the poll estimates that the Liberals would obtain 36 percent of the electorate today against 55 percent at the 1940 election, the Conservatives 24 percent today against 31 percent two years ago, while the C. C. F., which polled only 8 percent in 1940, would today obtain 23 percent of the electorate. The Gallup experts estimate that while the greatest C. C. F. strength—40 percent of the electorate—would be in British Columbia, the party could probably poll 36 percent in the prairie provinces, 27 percent in Ontario, 14 percent in the Maritime Provinces, and 7 percent in Quebec.

APPENDIX I

ENGLISH ATTITUDES TOWARDS THE UNITED STATES¹

The English press throughout the past six months has been uniformly friendly in its attitude towards America, loud in its praise of American military and naval successes, hardly less enthusiastic about American war production, and eager to promote a larger measure of Anglo-American cooperation both during and after the war. Issues which might well have arisen over the American invasion of British spheres of interest in Africa, in South America, and in the Near East, though no doubt troublesome to those in high places, have found hardly any expression either in the public press or in the debates in Parliament.

Though the Darlan affair in North Africa has not helped matters, there is, on the whole, much less evidence in England of tension in the relations of the two countries than there was in the six months immediately succeeding Pearl Harbor. This has no doubt been due in part to the successes of the United States in the Pacific. It is probably due in part also to increasing awareness that the closest cooperation with the United States offers the best promise not only of winning the war but also of winning the peace. The heroic efforts of the Russians still continue to command the admiration of the English rank and file, but except among a handful of Communists there is little evidence in England of close kinship with the Russians. The English rejoice in Russian military prowess against the common enemy, but they recognize that Russia is fighting her own fight for her own purposes, and they are not at all certain that these purposes are consonant with their own. Towards America, however, English feeling is increasingly that of common action toward the common end. This feeling has clearly been intensified by joint planning, by joint action on the high seas and in North Africa, and by the utterances of American statesmen, particularly Mr. Wallace, Mr. Hull, Mr. Welles, and Mr. Perkins, on post-war aims.

Kinship and Candor

Indeed, it is probable that the English are much more conscious of kinship with Americans than Americans are of kinship with the English. There is nothing in the English press comparable with the anti-British sentiment that permeates an important part of the American press. Probably Americans are much less conscious of their need for British help than the English are of their need for American help. In any case, the English in their public utterances, not only in the press but increasingly in the House of Commons, appear to be almost pathetically anxious to avoid giving offense to America. For that reason it is perhaps not altogether safe to accept the English press as frankly expressive of English feeling towards America.

In this respect the English weeklies are much more outspoken, and on occasion

¹ Based on a memorandum prepared in the Research and Analysis Branch of the Office of Strategic Services.

much more critical, of America than are the English dailies. It would be hard to find on either side of the Atlantic a more unbiased but at the same time a less inhibited analysis of American attitudes, policies, and performances than in the London *Economist*. Equally frank are Julian Huxley's articles on American affairs in the London *New Statesman and Nation*. But the circulation of such periodicals is very limited, and they can hardly be taken either to reflect or in any large measure to direct English opinion.

In general, the English daily press limits its attention to those matters about America which have a direct bearing upon Anglo-American relations. It gives a great deal of attention to American military and naval operations, American war production, American war aims, and American post-war planning. It is, almost without exception, enthusiastic about President Roosevelt. This enthusiasm early transferred itself to Mrs. Roosevelt on her recent visit to England.

The Elections

So far as the internal affairs of the United States are concerned English comment has in the main been confined to the American elections.¹ Early in the summer, most of the English dailies predicted an increased majority for the Democratic Party; after the primaries they were not so sure, and after the election they were mainly concerned with pointing out that the Republican victory, so far as it was not due to merely local causes, was to be interpreted chiefly as a call for more vigorous effort in the prosecution of the war. The London *Economist*, however, struck quite another note in an article which bears a title—*Luce in Tenebris*—reminiscent of Luce's notorious attack upon Britain in a recent number of *Life*. "Americans," it declared, "have voted for dead party loyalties and living mediocrities . . . for the equivalents of the men who told Abraham Lincoln that he was quite wrong. . . . In this election, as in the primaries, it has not done any harm to have had a most vulnerable pre-Pearl Harbor record . . . To represent this vote as chiefly an expression of the will of the American people to wage more vigorous war is to display a power of faith that is dangerous, if very English. President Roosevelt is weakened, not strengthened, by the repudiation of his friends and the election of his enemies. . . . To do the victors in this election justice, they are not disposed to impose their pattern on the world. They want victory . . . but they do not wish to use victory for any coherent purpose. . . . The people of the United States seem this year to have voted to wage war with the arms of the flesh but not the arms of the spirit. . . . It is by no means certain that the victory does not mean a return to Hardingism."

Provocation

For the most part, expressions of disagreement between England and America in the English press have been provoked by American criticism of England. In general, the English have ignored the perennial virulence of Colonel McCormick, Captain Patterson, Mr. Hearst, and Anglophobes of that kidney, but they were provoked by the attack of Mr. Luce in *Life*, the essence of which was that America was not fighting to hold the British Empire together and did not mean to be exploited by England for that purpose. On the whole, the English papers took

¹ The American struggle against inflation provoked some interest, and Sir Walter Citrine's visit to America invited some consideration of American trade unions.

the matter calmly and were content either to point out that Mr. Luce did not speak for America, or else to quote Dorothy Thompson's broadcast refuting him. None of them were anything like so outspoken as Vernon Bartlett was in his communication to *Life* on the subject (*Life*, October 26).

The Luce letter was soon forgotten, but its critical attitude toward British imperial policy continued to find expression in America and was brought once again forcibly to the attention of the English by Mr. Wilkie's broadcast on October 26. It is true that Wilkie's attack upon the British policy in India was a reflection rather of anti-British sentiments which he encountered in the Far East at large than of any special knowledge of India. Nevertheless, it was received in good part by the English press, and in papers like the *Manchester Guardian*, the *New Statesman*, and the *Economist* was even applauded.

This was due in part to the fact that many influential English papers, including even the *London Times*, have been critical of the government's Indian policy. It was due no doubt in part also to Mr. Wilkie's commanding position in American politics. In any case, the issue passed without ill-will and may even have served to good purpose by awakening the English to a realization of the fact that their whole imperial policy called for careful scrutiny. Margery Perham's special article on America and the Empire in the *London Times* for November 20 and 21, and the brilliant editorial on the same subject in the same paper on November 21, clearly admit that American criticism, though ill-informed, is not without foundation and call for another approach to the colonial problem than Churchill's "We mean to hold our own."

Friction From the AEF

The problem of Anglo-American cooperation has, of course, been brought most forcibly home to the British by the presence of large numbers of American troops in North Ireland and in England. Upon the attitude of the English towards these visitors we have abundant evidence from many sources, though the English newspapers have relatively little to say about it. In general, the Americans have been well received, and the English have made heroic efforts to make them feel at home. There have been some complaints of American arrogance, a few of American drunkenness, and quite a little resentment among the English at what they consider the unequal treatment of American negro troops by their white compatriots.

The chief causes of friction, however, appear to arise out of the relatively high pay of American troops which give them greater spending power and greater attractiveness to lower-class English girls. It has been suggested more than once in England that the inequalities of pay might be met if part of the soldier's pay were withheld and credited to him for use in America. Hostile criticism of American troops has apparently been much more pronounced in North Ireland than in England. They have even been charged there with spreading infantile paralysis and with drugging young Irish girls. This may be taken as an evidence of Nazi propaganda, which is rife in Ireland and is doing its best to sow dissension between Allies.²

² It is reported from Australia that the chief causes of friction with American troops there are: (1) that they have more money; (2) that they have more tobacco; (3) that they have smarter uniforms and therefore are more attractive to the feminine eye.

L'Affaire Darlan

The latest manifestation of friction between England and America is in connection with the Darlan affair in North Africa. To some extent this has been the natural outcome of the differing attitudes of the British and the Americans toward the Vichy Government. The British have never been strongly in sympathy with the American disposition to keep on speaking terms with Vichy. Instead, they have given full support to De Gaulle and the Free French and have insisted that Vichy and all its partisans, Pétain, Darlan, and Laval in particular, were enemies and should be treated as such. So, when General Eisenhower came to terms with Darlan, there arose almost at once a loud outcry in the English press and in the English House of Commons. Newspapers like the *Daily Herald* (labor) and the *News Chronicle* (liberal), which generally take a very friendly attitude toward the United States, have been particularly outspoken.

The *Herald* calls upon the Prime Minister to make a public statement as to where Britain stands and what American intentions are. The *News Chronicle* remarks, "We believe that were the proper restraints of wartime not now operative, there would be a popular outcry in this country against the deal with Darlan comparable to the uprising of public opinion against the Hoare-Laval deal." The *London Times* is more moderate but still hostile. The *Economist* (November 21) goes so far as to say, "It is doubtful whether the intervention of Darlan altered the actual course of events by more than a few hours at the most," and concludes, "there is a strange and frightening contrast between the remarkable military cooperation which has altered the whole face of the war in a fortnight and the complete absence of any political counterpart."

In the House of Commons members were even more outspoken. The following comments are typical. "In the view of a large number of people in this country, Darlan must go." "Is General de Gaulle . . . to be sacrificed to Darlan the rat? . . . The statement of President Roosevelt does not help us. To put things right Darlan must be removed at once." "Are we to understand that the position has now been reached in which a General in the field is allowed to decide the government's allies in the war?" On the 26th of November permission was asked to discuss a motion which began, "That this house is of the opinion that our relations with Admiral Darlan and his kind are inconsistent with the ideals for which we entered and are fighting this war."

The Strains of Dependence

Mr. Eden, as leader of the Commons, has done his best to quiet this agitation and has publicly announced British official endorsement of General Eisenhower's policy in North Africa. But it is quite apparent that sentiment in England is running strong against the Darlan arrangement, and that there is a definite undercurrent of resentment at the United States in consequence. One member of the House of Commons observed that the British "government do not dare to do anything because they have to move to the tune which is played by the piper in New York." And the same sentiment appears in the weekly surveys of British opinion made by the Ministry of Information. Note for example the following: "Many think Americans are chiefly responsible for present arrangements with Darlan. Some assert that if our keenness to please the Russians were half of

that to please the Americans, the war might end sooner. Trust in Roosevelt is declining."

It is interesting to observe that the liberal and labor papers and the labor members of the House of Commons have been most vociferous in this attack upon Darlan. And it is not without significance that in the expression of public opinion the point is once more raised that more attention should be paid to Russia and less to the United States. It would be dangerous to conclude, however, that the rank and file of the English lean towards Russia, the upper classes toward America. What we had better say is that the English are becoming increasingly conscious of their dependence on the United States and a little resentful of the fact. It may be that this resentment is quickened among ordinary English folk by occasional revelations of arrogance on the part of the American troops stationed among them. They tend to romanticize about the Russians, but they realize that they have to live with us.

APPENDIX II

TURKEY'S FOOD POSITION¹

Shortages of certain foods in Turkey, while by no means acute from the standpoint of health, have apparently convinced the United Nations of the need for continued exports of wheat to that country. Apart from humanitarian impulses, the Allies seem to be motivated by consideration of the following advantages: receipt of grain from the United Nations should improve Turkish civilian morale and generate friendly feelings toward the providers; it should strengthen the Turkish Government's faith in our lend-lease commitments; and, finally, it should help to build up supplies in a strategic sector of the Middle East.

Accordingly, the United States and Great Britain have shipped between 100,000 and 200,000 tons of wheat to Turkey during the past year. Turkey hopes to continue imports on as large a scale in 1943, if necessary.

The limiting factor on the amount of grain which can be sent to Turkey is, of course, shipping. The Turks have tried to arrange for French ships to transport it, but recent developments have probably eliminated that possibility. The United States has agreed to give wheat priority over all other shipments to Turkey and has consented to provide any amount of wheat which the Turks may want, within reason; but we have made it clear that we cannot undertake to provide transportation for it.

The Shortage

Compared with the peoples of nearby European and Middle Eastern countries, of course, the Turks can hardly be described as having a food shortage at all. Their supplies of legumes, olive oil, sheep's milk cheese, dried fruit, and nuts appear to be sufficient to meet the average citizen's dietary expectations. But in meat and—more importantly—in bread, Turkey is experiencing in certain

¹ Based on a memorandum of the Research and Analysis Branch of the Office of Strategic Services.

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areas a deficit grave enough to necessitate rations which, for at least some sections of the public, are definitely subnormal.

Meat

The current shortage of meat can be traced in large measure to the severe winter of 1941-42, which is estimated to have killed about 2,000,000 head of livestock and to have reduced drastically the acreage of fodder crops. In addition, large requisitions by the Army and the reluctance of peasants to sell at prevailing prices have further curtailed stocks available to the public.

Bread

Turkey's bread shortage is the more remarkable in view of the fact that the country is presumed to have had repeated "carry-overs" of grain. Because of the record crops of 1938, 1939, and 1940, wheat stocks either in government or in private hands must have amounted to nearly 1,000,000 tons at the time of the 1941 harvest—even if one makes liberal allowances for grain wasted, used as seed, or fed to livestock. Under ordinary circumstances, such a stockpile would have been more than enough to offset the poor wheat harvests of 1941 and 1942.

That it has not sufficed must be attributed to increased requirements and to weaknesses in the country's distribution system.

Rise in Requirements

With the building up of the Army and the diversion of many persons to more active pursuits, the nation's need for food energy has been increased. Since bread is Turkey's chief source of that energy, the demand has risen correspondingly.

Rations instituted early in 1942 amounted to 750 grams daily for soldiers, peasants, and manual laborers, 375 grams for other adults, and 187 grams for children—or an average of 550 grams for the population as a whole. This was roughly the same as pre-war average consumption, but since requirements had risen, the rations were lower than the amounts which would have been consumed if controls had not existed. The incidence of these controls has been borne by the less active adults and children. Furthermore, successive cuts in rations have fallen on these two groups, while the allowances for heavy workers, soldiers, and peasants have been maintained.

Hoarding, Public and Private

Unless the Government has concealed stocks of grain somewhere—which would be difficult on any large scale—it seems unlikely that official reserves have been large enough to affect the country's total market supply to any significant degree. Public storage capacity is inadequate to take care of more than a small percentage of the yearly crop.

Grain hoarding by the peasants, however, has been a cardinal factor in the present situation. Wheat production is carried on by some 4,000,000 farmers scattered throughout Turkey, and the problem of collecting their stores—if they are reluctant to sell—is extremely difficult. Their grain is stored in underground pits covered with straw, in small villages all over Turkey. Since the prices now

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offered by the Government are not very attractive to the farmers, the latter are doubtless holding back a large share of their supplies, with the aim of selling at least a part on the black market. Repeated requisitions by the Government have failed to bring forth anything like the desired quantities.

Transportation

The problem of grain distribution is aggravated by the geographical separation of wheat-producing from wheat-consuming areas. Non-wheat producers, numbering over half of Turkey's population, are located chiefly along the seaboard at a considerable distance from the Central Anatolian Plateau, which is Turkey's richest wheat-producing area. Since Turkey's chronic lack of rolling stock has been further accentuated by the strain of military movements, and since the submarine menace has probably diverted to the railroads much of the coastal shipping which ordinarily traversed the Black Sea, a bottleneck in transport has—not unexpectedly—occurred.

It may be noted that this difficulty in collecting and transporting grain to the cities has its advantageous aspects for the Government: besides warding off demands for grain from the Axis, retention of grain by the peasants provides a safeguard in case of invasion. Since the heaviest output of wheat takes place in the interior and is hidden there in numerous small caches, an enemy force could not easily appropriate it.

APPENDIX III

"MAPS FOR A NEW WORLD"¹

Enemies of the Nazis have frequently, during the course of this war, made them a present of psychological weapons. But in no case perhaps have these blunders produced such unfortunate effects in so many different countries as the now notorious article, "Maps For A New World," by Professor George T. Renner of Teacher's College, Columbia University (published in the June 6, 1942, issue of *Colliers*). Theodore Kaufman's book, *Germany Must Perish*, which advocates the sterilization of all Germans, has been translated by the Nazis into German, equipped with a trick-photography frontispiece showing President Roosevelt dictating its contents, and widely disseminated among the *Wehrmacht*. Sir Robert Vansittart's indictment of the German people has proved extremely useful to Goebbels' men in convincing the Germans that they have no other course but to fight on and stave off utter destruction. Neither of these instances, however, has provoked repercussions quite as widespread and as serious as Professor Renner's.

What Renner Proposed

Purporting to present a "brave new world redesigned for lasting peace," Mr. Renner's three colorful maps not only dispose arbitrarily of all ancient,

¹ Based on a memorandum prepared by the Research and Analysis Branch of the Office of Strategic Services.

rankling, territorial controversies, but in effect, wipe out the independent existence of every small nation in Europe. (See map). Switzerland is partitioned among France, Germany, and Italy; Portugal is swallowed up by Spain; Belgium and Holland are divided among France, Germany, and England, which is given a portion of both, as well as all of Ireland; Estonia goes to "The United States of Fennoscandia," Latvia to the U. S. S. R., and Lithuania to "Czecho-Polska." France gets a portion of Spain; an enormous new Germany includes not only Alsace-Lorraine, Schleswig-Holstein, and those portions of Holland, Belgium, and Switzerland, already mentioned, but also all of western Poland, the Sudetenland, Austria, Hungary, and part of Rumania. Italy, on the other hand, gets Corsica, Nice, and Savoy, as well as the whole Dalmatian coast. Russia loses to "Fennoscandia" the Kola Peninsula and Karelia, but receives from Turkey the whole European coast of the Black Sea and the Straits, while Turkey gets Syria, Iraq, and portions of Iran. The newly-created Balkan Union has thus no outlet to the Adriatic or the Black Sea.

In Africa, Spain gets the coast of French Morocco, Italy a huge Libya extending south to the Congo, and Germany a great block of Belgian, Portuguese, French and British colonies. In Asia, the Russian Maritime Province is ceded to Japan, which keeps Korea, Formosa, and a large number of Pacific islands; great areas of China are ceded to Russia; India annexes Burma, and is divided into separate Moslem and Hindu states; Siam and Indochina are fused.

Use of the Article

If this staggering solution of the world's ills, which rubs salt into nearly every extant grievance between nations, had been generally regarded merely as an instance of one man's irresponsibility, it would, perhaps, have done little harm. The Axis, however, has seized upon Professor Renner's maps, declared that they represent official American policy for the post-war world, and made special use of them in those countries where they would best serve its interests.

North Africa

North Africa is the only region close to operations in which the article has as yet been used. In mid-September, the Nazi Armistice Commission in French Morocco drew the attention of French authorities to the maps. Naturally, the future allotted by Renner both to France and to French Morocco caused a very considerable stir. General Noguès himself appeared to believe firmly that American professors are paid by the Government, and that their utterances are therefore official. All that our representative could say to the contrary failed to convince Noguès that Renner is only a private citizen. Early in October, it was authoritatively reported from Casablanca that Vichy military and naval intelligence officers were circulating the article to line officers. Only three days before the beginning of our invasion, *España*, the pro-Axis Spanish paper in Tangier, took up the cry. Renner's map, it said, deserves attention because his "rank as a university professor and his close relationship with political circles in Washington indicate that his ideas are very influential in the United States."

Turkey

Foremost among neutral countries where the article has been used by the Axis is Turkey, whose good will is of obvious importance to the United Nations. For centuries the Turks have fought Russian pretensions to the Dardanelles, and still actively suspect Russia of ambitions to control them. Thus Renner's bland announcement that we must avoid the mistakes of Versailles and at the next peace give the Straits to Russia, was well calculated to alarm the Turks.

The Germans, taking clever advantage of this, timed their two propaganda campaigns to coincide with the two most important American moves to win Turkey—Willkie's visit to Turkey, and the visit of a group of Turkish newspapermen to the United States.

On August 25, during the negotiations for Mr. Willkie's reception, the normally pro-Axis paper *Cumhuriyet* ran an article by its military commentator, General Erkilet, who expressed his fear that the Renner program "gives an inkling of what may happen in case of an American world victory," and linked Willkie's forthcoming visit with Renner's proposals. This innuendo apparently had its effect in high quarters. On August 27, the Foreign Minister, Numan Bey, told our Ambassador that Prime Minister Saracoglu and President Inonu had for some time been planning to be out of town at the time when, it now appeared, Willkie was expected. Numan also raised the problem presented by Willkie's plane—an army bomber and its crew, neither of which was technically permitted to enter Turkey. The content and tone of the Foreign Minister's statements were, in the opinion of our Ambassador, "partially the result of" General Erkilet's article.

A month later, enthusiastic despatches from the Turkish newspapermen visiting the United States began to appear in the Turkish press: at this point the Germans resuscitated Renner. The Axis-subsidized press put on a solid week of propaganda. Referring to Renner as "this world famous professor of professors, . . . this highly respected scientist," *Tasviri Efkar* declared: "This map is based upon the so-called humane principles of the Atlantic Charter . . . Istanbul and the Straits have been in Turkey's possession for nearly five centuries—that is, fifty years before the discovery of America. We on our part now ask the esteemed professor on what grounds and authority he is so generously giving Turkish rights and Turkish territory to others. Before receiving an answer to this question, however, we hereby declare our national hatred of this expression of utter nonsense in America."

This defiant utterance was followed up in the next day's *Son Posta* with a typical Nazi propaganda statement: that Renner "was among the experts consulted by the United States Government in the preparation of the Atlantic Charter." An American denial that the article was official was pushed scornfully aside: "We know only too well the important place which Columbia University of New York occupies in the field of American culture." *Tasviri Efkar* continued the attack: "We would like to know what would be the reaction of Americans and their press if one of our professors were to state that the Panama Canal should be returned to Colombia, its rightful owner. . . . The ridiculous views of this professor do not in themselves constitute the only indication leading us to surmise that the principles of the Atlantic Charter are, like those of President Wilson, only a trap laid to deceive humanity."

SECRET

Ikdam adds a Goebbels touch. "This blockhead of a professor is no stranger to the author, who met him in Istanbul some twenty-five years ago as a tourist dancing in the street to the tune of a Turkish soup dealer chopping tripe, and childish enough to believe his Jewish guide, who told him that this was a Turkish polka played on a special instrument. This may help to throw some light on the authority of this eminent professor."

Picking out the themes of these inspired articles, Rome radio, in a broadcast in Turkish, quoted the Turkish press as saying that anything can happen in America, but that this incident derives its significance from the fact that Professor Renner "is the very same man who was called as a geography expert aboard the *Potomac* (sic!) when the Atlantic Charter was drawn up."

Turkish newspapers friendly to us protested that Renner did not represent official opinion; but their demurrers were mild and ineffectual. It is difficult to estimate the net effect upon Turkey of this Axis campaign; but it can scarcely have failed to undermine confidence among some groups in the integrity of our post-war intentions.

Portugal.

Portugal provided an arena for Axis operations on the propaganda plane: the country was both neutral and a victim of Professor Renner's reorganization of Europe. A propaganda leaflet in Portuguese, colorfully printed in red, white, and blue, carried the German message. In three circles on its front cover Portugal proper, Angola, and Mozambique were each represented as crossed off the map with a heavy X of red paint, splashed from a brush dipped into a can covered with the stars and stripes. The heading: "It is enough that the imperialism of Roosevelt wipes Portugal and her empire from the map." Page 2 reproduced Renner's maps themselves and pages 3 and 4 gave the message in full: "Compatriots! the Democracies, convinced that they cannot win the war, now turn to threats. They who pretend to be the heralds of liberty for small nations have dropped the mask. The United States has a diabolical plan for the new world, a world made by Mr. Renner in which there is no room for us Portuguese. In America, where there is no liberty of the press, a professor is an official mouthpiece of the American Government, all the more because he is professor of geography in Columbia University."

The leaflet went on to contrast Renner's assertion that Portugal is a "more or less artificial state, maintained exclusively by the British fleet" with Premier Salazar's statement that "The unity of the Portuguese Empire is not an artificial creation." Disclaiming any desire on the part of the Axis for the Portuguese colonies given them by Renner, the leaflet continued in a burst of patriotism: "If on the one hand we are convinced of the faith of the Reich and of the ability of our soldiers, who will fight to the last man to prevent this diabolical plan being put into practice, we derive on the other hand consolation from certain of Mr. Renner's own words 'It is possible that the Axis will win the war. In this case our plans cannot be carried out.' Let us all pray for this turn of events, and let us be grateful to the United States for having confided its intentions for a new and better world. Now we shall remember this slogan which the United States gives us: An Allied victory will mean the destruction of Portugal."

EUROPE

from "Maps for a New World"

by

GEORGE T. RENNER

Published in Collier's, June 6, 1942

UNITED STATES OF FENNOSCANDIA

SOVIET UNION

BRITISH-DUTCH
COMMONWEALTH

REPUBLIC
OF
FRANCE

IBERIAN
REPUBLIC

ITALY

BALKAN
UNION

TURKEY

SYRIA

PALESTINE

EGYPT

GERMAN
HUNGARIAN STATES

CZECHO-POLSKA

AFRICA

from "Maps for a New World"

by

GEORGE T. RENNER

Published in Collier's, June 6, 1942

ALGERIA

EGYPT

LIBYA

FRENCH WEST AFRICA

BRITISH
WEST AFRICA

ANGLO-
EGYPTIAN
SUDAN

ETHIOPIA

BRITISH
SOMALI-
LAND

GERMAN CONGO

BRITISH
EAST
AFRICA

UNION
OF
SOUTH AFRICA

MADAGASCAR

Brother of Frankfurter Named in Alcohol Inquiry

Probe of RFC-Financed Distillery Also Involves Son of Senator Herring

By CHESLEY MANLY

Members of two Senate investigating committees are making inquiries concerning an industrial alcohol scandal involving Laverne B. Herring, son of Lame Duck Senator Clyde L. Herring (D.), of Iowa, and Otto Frankfurter, little known brother of Justice Felix Frankfurter, of the United States Supreme Court.

Otto Frankfurter, it was learned, has given up an \$8,000 a year job in the Treasury Procurement Division as buyer of alcohol and chemicals for the Lend-Lease Administration and other Government agencies and has accepted the much more remunerative position of export director of the Heyden Chemical Company, 50 Union Square, New York city. Instead of buying for the Government, Frankfurter now sells to the Government. In keeping with his new next two or three months. When affluence, he has taken a suite at the luxurious Waldorf-Astoria Hotel for living quarters.

Old Plant Bought

Young Herring is living on a somewhat more modest scale at Washington's fashionable Westchester Apartments. He is the Washington representative of the Gulf Distilling Corporation at \$10,000 a year.

As one of the Government's leading alcohol buyers, Frankfurter participated in negotiations last February and March which resulted in the establishment of an industrial alcohol plant at Gretna, La., a suburb of New Orleans, by the Gulf Distilling Corporation, a Philadelphia organization. The Philadelphia promoters had purchased an old alcohol still at a reputed price of \$75,000.

The company's first move in Washington was to employ young Herring, whose father is a member of the Truman Senate Committee, which was created to investigate the war production program. Senator Herrig also is a member of the Senate's Banking and Currency Committee, which has charge of all legislation pertaining to the Reconstruction Finance Corporation.

Moffett Refuses Approval

The company's next move in Washington was to apply for a

loan of \$550,000 from the RFC. Jesse H. Jones, Secretary of Commerce and head of the RFC, called Fraser Moffett, then head of the alcohol section of the War Production Board, and asked him to recommend the loan, since it is a function of the RFC to finance the construction or expansion of war plants as directed by the WPB and other war agencies.

According to a witness who was sitting in Moffett's office and watched him take notes on the conversation Moffett flatly refused to approve the loan. He told Jones the project was unsound financially and was not essential to the war production.

RFC Makes Loan

Nevertheless, Jones approved the loan in March and it was disbursed in installments during the next two or three months. When asked yesterday about the loan, William C. Costello, special assistant to Jones, said it was made "on the recommendation of the War Production Board." He refused to say who made the recommendation for the WPB.

"Do you wish to say specifically that Fraser Moffett, head of the alcohol section of the WPB, recommended the loan?" Costello was asked.

"No, it wasn't Moffett," he replied.

Applicants for the loan on behalf of the company were Harry A. Robinson, president; Fred Fox, vice president, and Herman E. Robinson, secretary, all of Philadelphia.

Young Herring readily acknowledged that he was employed by the company as its Washington representative last February and stated that it sells alcohol for the manufacture of smokeless powder in various plants, some owned by the Government and some privately owned. He said he had met Frankfurter but never heard that he had anything to do with sponsoring the alcohol project.

Frankfurter in Denial

When reached by telephone in New York, Frankfurter at first refused to affirm or deny that he assisted in the promotion of the project. About an hour later he

that he had anything to do with it.

Highly placed Government officials assert, however, that Frankfurter was consulted by the Philadelphia promoters and that he had dined with them in public restaurants.

Frankfurter was a special assistant to Clifton E. Mack, director of the Treasury's Procurement Division, and was in charge of all purchases of alcohol and chemicals. Frankfurter's assistant was Herman Klotz, husband of Henrietta Klotz, private secretary and special assistant to Secretary of the Treasury Henry Morgenthau. When Frankfurter moved into his new job about two weeks ago, Klotz moved up to the position of special assistant to the director.

Thus Frankfurter now is in a position to sell industrial chemicals to a Government purchaser who formerly took orders from him.

Million in Profits

The Heyden Chemical Corporation made a net profit of \$1,003,047 in 1941 and \$773,144 during the first six months of 1942. It reported total assets of \$7,760,343, as of December 31, 1941.

Justice Frankfurter, Otto's brother, probably has sponsored the appointment of more men in Government jobs than all the members of the United States Senate combined. The War and Justice departments are dominated by Frankfurter proteges, while the policies of the State, Treasury and other departments, as well as the Office of Economic Stabilization, the Office of Price Administration and other war agencies are largely determined by Frankfurter men in key positions.

Because of Justice Frankfurter's prodigious success as a dispenser of New Deal patronage, a United States Senator was astonished about two years ago when brother Otto asked him for a recommendation for a Government job. The Senator asked Otto why he didn't go to his brother.

With Uriah Heep humility, Otto protested: "Senator, I'm sorry you have that impression. The Justice never recommends anybody for anything."

Analysis of Exposure to Payroll Savings Plans

December 19, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
--	---	--	--------------------------------

Part A - Summary by Number of Organizations Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	470	473	99
(2) Firms with 500 to 4,999 employees.....	5,674	5,807	98
(3) Firms with 100 to 499 employees.....	25,299	29,104	87
(4) Subtotal - large firms.....	31,443	35,384	89
(5) Firms with less than 100 employees.....	133,920	*	*
(6) Total business organizations.....	165,363	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	165,363	*	*

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	8,645,091	*	*
(2) Firms with 500 to 4,999 employees.....	7,441,106	*	*
(3) Firms with 100 to 499 employees.....	5,726,433	*	*
(4) Subtotal - large firms.....	21,812,630	*	*
(5) Firms with less than 100 employees.....	3,248,253	*	*
(6) Total business organizations.....	25,060,883	32,900,000 1/	76
II. Governmental organizations			
(1) Federal Government.....	2,376,067	2,800,000 1/	85
(2) State and local governments.....	1,415,162	2,900,000	49
(3) Total governmental organizations.....	3,791,229	5,700,000	67
III. Grand total.....	28,852,112	38,600,000 1/	75

Treasury Department

December 25, 1942

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

* Data not available.

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Dec. 12	Dec. 19		Apr. 18	Dec. 12	Dec. 19
Alabama.....	41	67	67*	68	60	99	99
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	17	94	100	100
Northern California.....	122	130	131	132	92	98	99
Southern California.....	121	152	153	156	79	97	98
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	154	155	166	69	93	93
Delaware.....	15	23	23*	23	65	100	100
District of Columbia.....	32	50	52	52	62	96	100
Florida.....	28	44	44	48	58	92	92
Georgia.....	86	126	126*	126	68	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	495	496	500	78	99	99
Indiana.....	88	148	148	165	53	90	90
Iowa.....	22	40	40	47	47	85	85
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	49	50	52	73	94	96
Louisiana.....	29	52	54	54	54	96	100
Maine.....	48	55	55	55	87	100	100
Maryland.....	84	111	111	111	76	100	100
Massachusetts.....	237	321	324	332	71	97	98
Michigan.....	265	287	287	287	92	100	100
Minnesota.....	79	81	81	81	98	100	100
Mississippi.....	26	36	36	36	72	100	100
Missouri.....	103	138	138	140	74	99	99
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	28	28	28	82	100	100
Nevada.....	4	5	5*	5	80	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	197	197	198	72	99	99
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	908	908	931	82	98	98
North Carolina.....	103	137	137	140	74	98	98
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	484	484	502	82	96	96
Oklahoma.....	31	52	56	56	55	93	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	625	625	638	86	98	98
Rhode Island.....	61	78	78	85	72	92	92
South Carolina.....	84	99	99	99	85	100	100
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	86	86*	92	54	96	96
Texas.....	63	121	124	125	50	97	99
Utah.....	8	10	10	10	80	100	100
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	102	102	102	91	100	100
Washington.....	49	74	74	74	66	100	100
West Virginia.....	36	77	77*	77	47	100	100
Wisconsin.....	127	154	154	154	82	100	100
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	4,864	6,125	6,144	6,280	77	98	98

Treasury Department

December 25, 1942

* Data are for December 12, inasmuch as no December 19 report was received.

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Dec. 12	Dec. 19		Apr. 18	Dec. 12	Dec. 19
Alabama.....	149	256	256*	347	43	74	74
Arizona.....	43	71	71	71	61	100	100
Arkansas.....	44	54	54*	100	44	54	54
Northern California.....	512	722	726	794	64	91	91
Southern California.....	756	1,086	1,091	1,260	60	86	87
Colorado.....	113	137	137	142	80	96	96
Connecticut.....	277	579	581	702	39	82	83
Delaware.....	21	59	59*	63	33	94	94
District of Columbia.....	52	170	173	214	24	79	81
Florida.....	147	214	216	216	68	99	100
Georgia.....	133	392	392*	419	32	94	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	2,086	2,087	2,253	58	93	93
Indiana.....	415	699	704	869	48	80	81
Iowa.....	160	176	177	264	61	67	67
Kansas.....	276	288	288	299	92	96	96
Kentucky.....	136	226	226	284	48	80	80
Louisiana.....	179	291	300	330	54	88	91
Maine.....	60	160	160	168	36	95	95
Maryland.....	177	347	348	405	44	86	86
Massachusetts.....	639	1,173	1,178	1,523	42	77	77
Michigan.....	689	1,013	1,016	1,312	53	77	77
Minnesota.....	376	440	440	444	85	99	99
Mississippi.....	59	98	99	113	52	87	88
Missouri.....	472	719	720	967	49	74	74
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	137	137	142	73	96	96
Nevada.....	14	21	21*	27	52	78	78
New Hampshire.....	89	146	147	170	52	86	86
New Jersey.....	463	989	993	1,189	39	83	84
New Mexico.....	33	41	41	42	79	98	98
New York.....	2,060	3,938	3,947	4,257	48	93	93
North Carolina.....	282	486	487	552	51	88	88
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,752	1,757	2,043	55	86	86
Oklahoma.....	166	301	303	325	51	93	93
Oregon.....	211	297	297	309	68	96	96
Pennsylvania.....	1,682	2,300	2,307	2,307	73	99	100
Rhode Island.....	154	294	296	350	44	84	85
South Carolina.....	71	158	158	172	41	92	92
South Dakota.....	21	26	26	26	81	100	100
Tennessee.....	199	418	418*	504	39	83	83
Texas.....	326	726	733	1,007	32	72	73
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	69	69	74	80	93	93
Virginia.....	281	364	364	382	74	95	95
Washington.....	234	366	367	450	52	81	82
West Virginia.....	134	220	220*	314	43	70	70
Wisconsin.....	278	492	492	680	41	72	72
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,360	25,217	25,299	29,104	53	87	87

Treasury Department

December 25, 1942.

* Data are for December 12, inasmuch as no December 19 report was received.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 445

Information received up to 7 A.M., 25th December, 1942.

1. MILITARY

LIBYA. 23rd. Our advanced patrols reached a line running from about 15 miles south to 30 miles south-southwest of SIRTE. There was little enemy activity. Enemy forces in SIRTE appear from air reconnaissance to have been reduced.

RUSSIA. The Russian offensive continues in a two-pronged thrust southwards and is now threatening MILLEROVO from East and West.

2. AIR OPERATIONS

INDIA AND BURMA. 22nd. United States Liberators bombed RANGOON Docks. 23rd. Hurricanes damaged huts, hangars and gun sites at MAGWE. 16 escorted Japanese bombers attacked FENNY Airfield 55 miles north of CHITTAGONG and hit the runway. 23rd/24th. Two enemy aircraft bombed CHITTAGONG.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Column A shows Federal Reserve operations in millions of dollars as follows:

Marketable issues:

Market purchases 1/.....	+
Market sales 1/.....	-
Direct purchases from Treasury	+d
Maturities.....	-e

Special one-day certificates 2/:

Net increase.....	+6
Net decrease.....	-4

Column B shows price changes in 32nds for all securities except certificates. For certificates, Column B shows yield changes in decimals.

STRICTLY CONFIDENTIAL

[illegible]

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

r Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

** Not yet traded.

2/ Transactions are entered as of the day following that to which they apply, since data are not available until the following morning.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

Page 2

Column A shows Federal Reserve operations in millions of dollars as follows:

Market purchases 1/		*
Market sales 1/		-
Maturities		-B

Column B shows price changes in 32nds.

STRICTLY CONFIDENTIAL

[illegible]

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

F Original figures revised.

* Less than \$50,000.

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.

TREASURY DEPARTMENT

14

INTER OFFICE COMMUNICATION

DATE December 26, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Currency Situation During 1943

In accordance with your request, Mr. Norman Thompson submitted three questions to us with respect to the currency situation. These questions are the following:

1. What is the present situation on currency?
2. What is the estimated need during the year ahead?
3. Are we going to be able to make it?

Identical questions were submitted with respect to coins. The problems involved in meeting coin requirements differ from those involved in meeting currency requirements, however, and the coinage situation is, therefore, taken up in a separate report which is being submitted along with this memorandum.

The analysis of the data relevant to the currency situation has developed several charts and tables which bring out the answers to the questions submitted. These are attached to this memorandum and are discussed in the paragraphs that follow. For purposes of convenience, a slight departure has been made from the period mentioned in the second question -- the year ahead -- and all estimates in the tables and charts cover the 13-month period from December 1, 1942 to December 31, 1943.

The present situation on currency (the first question) is covered by Chart I which traces the growth since 1937 of the number of pieces of currency in circulation, by denominations. Chart I shows that the circulation of currency up to the \$20 denomination has, with the exception of \$2 bills, been increasing markedly in recent years. This increase has, moreover, been particularly sharp since the middle of 1940 when the Government began to really accelerate the volume of military expenditures.

Secretary Morgenthau - 2

The need for currency in the period ahead (the second question) will consist of (a) the need for currency required to take care of the estimated expansion in the nation's money in circulation, and (b) the need for currency required for reissues necessary to replace the money that wears out -- dollar bills are now replaced at the end of 9 months on the average, and currency of other denominations on the average of once a year. Data on the total need for currency -- 2-1/2 billion pieces, if reissues are continued at the present rate -- are shown by denominations in Table A, attached. They are shown in summary by the red bars in Chart II.

These figures on the total need for currency allow for an increase in circulation of approximately \$3.4 billions by December 31, 1943, distributed in pieces by denominations in the manner shown by the dashed lines in Chart I. Currency in circulation on that date will amount to \$17.9 billions, it is estimated, as compared with \$14.5 billions on December 31, 1942, \$10.4 billions on December 31, 1941, and \$8.0 billions on December 31, 1940. In estimating the currency expansion, a series of correlations have been made between the volume of wages and salaries paid out and the number of pieces of each denomination of currency in circulation. These correlations, which appear in Chart III, indicate that the expansion of currency in 1943 will be characterized by a trend toward the use of the higher denominations. These are, of course, more convenient for hoarding.

The prospects of meeting currency requirements during the period from December 1, 1942 to December 31, 1943 (the third question) are brought out in Chart II by a comparison of the red bars, which set forth the total currency needed, with the green and orange bars, which set forth on several bases of assumption the capacity of the Bureau of Engraving and Printing to print currency. The Bureau, this comparison would seem to indicate, is likely to be able to meet its requirements in the period that lies ahead, although it might have to make some adjustments in its working schedule or allow currency to circulate for a somewhat longer period of time than heretofore.

Secretary Morgenthau - 3

As a matter of fact, it might be stated that no immediate adjustment in the Bureau's program appears to be called for because the currency needed figures shown on Chart II are likely to be maximum figures -- unless, of course, the country experiences a sharp rise in the price level which is accompanied by a corresponding rise in wages and salaries by December 1943. They give no weight, it should be noted, to several influences which should contribute toward reducing currency outstanding in 1943. Among these are (1) the fact that a larger than heretofore proportion of the wages and salaries earned will go into taxes and savings bonds directly without passing through the hands of the wage earners; (2) the fact that an expanded volume of savings held in currency will cause people to place their money with the Government or the banks to avoid loss or theft; and (3) the fact that part of the population will be outside of the country in the armed forces.

Although the Bureau appears in a position to meet all requirements now in prospect, it should be noted that -- according to Mr. A. W. Hall, Director of the Bureau -- it is essential that a staff of plate printers be maintained equivalent to the present number employed. The loss of many of these vital employees during the past year and the Bureau's inability to replace them with new employees (even with the personal help of the leaders in the labor unions) has placed the Bureau in the position of having more machinery than it has manpower to operate the machinery. A decline in the number of plate printers working at the Bureau much below the present number would cause production to fall below the levels shown on the chart.

On the other hand, according to Mr. Hall, plate printers could be used more effectively to meet production needs if the offset process of printing were substituted for the plate printing process in producing savings bonds. The offset process would produce a perfectly satisfactory savings bond, but, according to Mr. Hall, the mere mention of such a prospective change in the printing process would provoke an extended, bitter labor controversy between the engraving and printing unions, Congress, and the Treasury.

Attachments

NUMBER OF PIECES OF CURRENCY OF EACH DENOMINATION IN CIRCULATION

Actual June 1937 to Nov. 1942; Estimated Dec. 1943

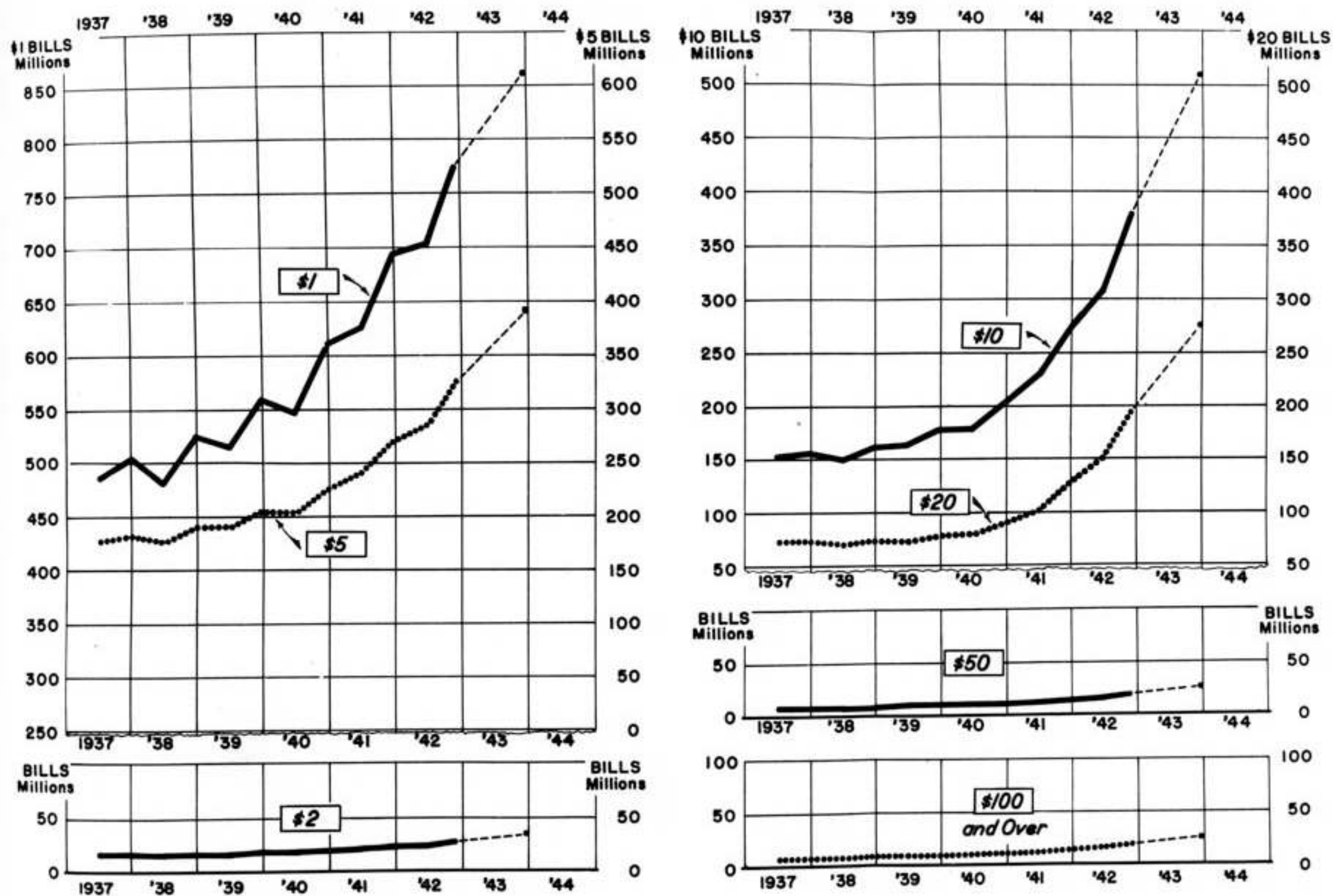


Chart II

ESTIMATED NEED FOR CURRENCY AND PRODUCTION ESTIMATES UNDER VARIOUS ASSUMPTIONS

Number of Pieces of Currency, Dec. 1, 1942 to Dec. 31, 1943

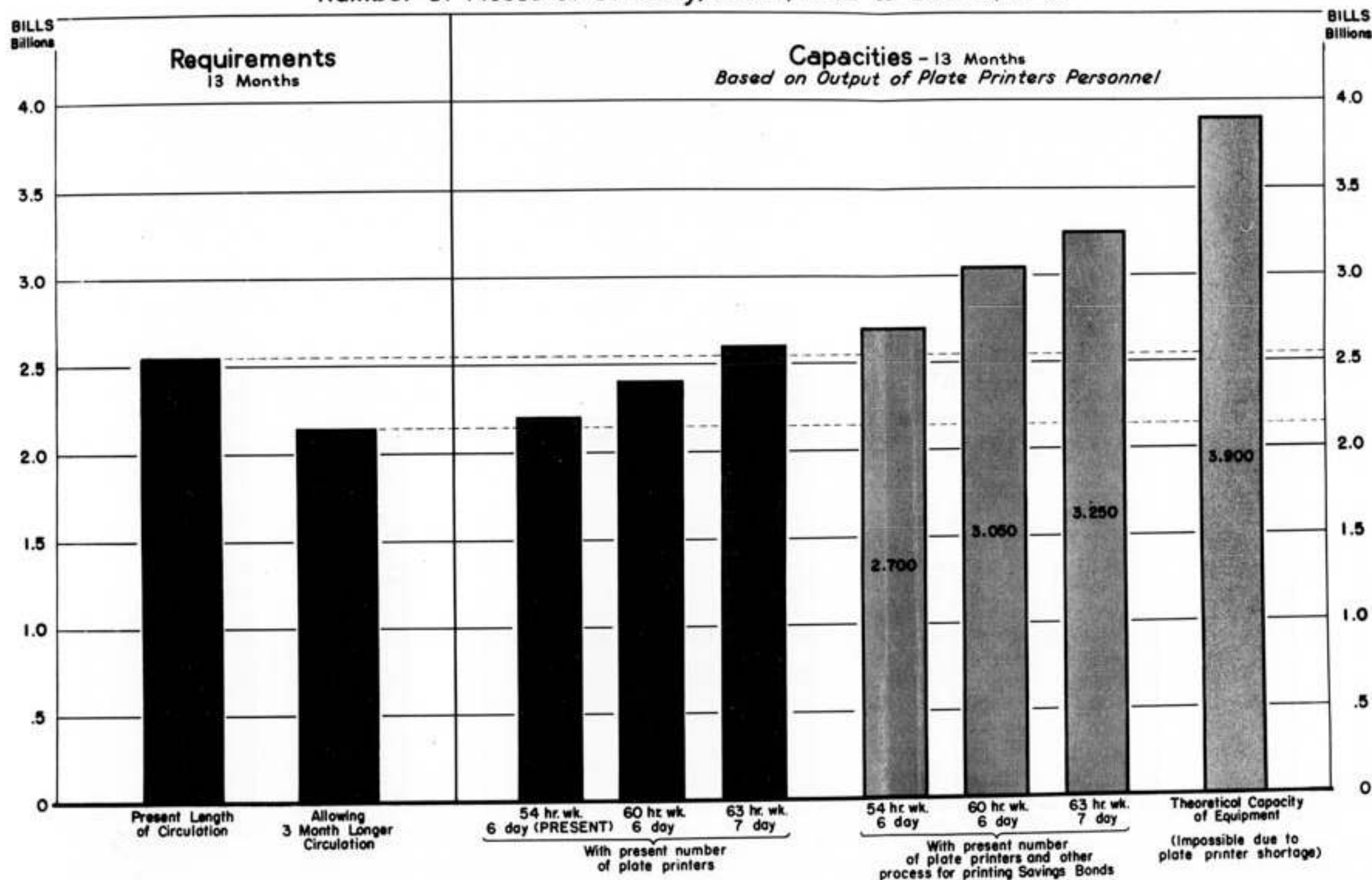


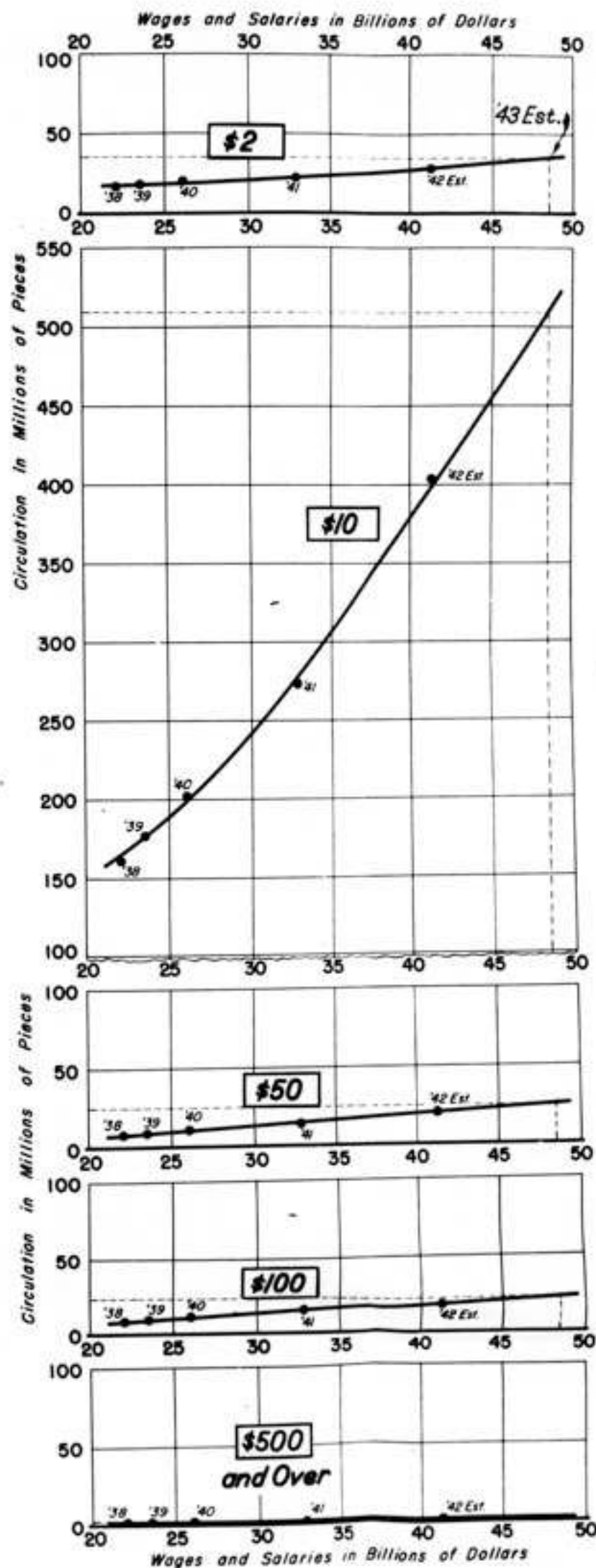
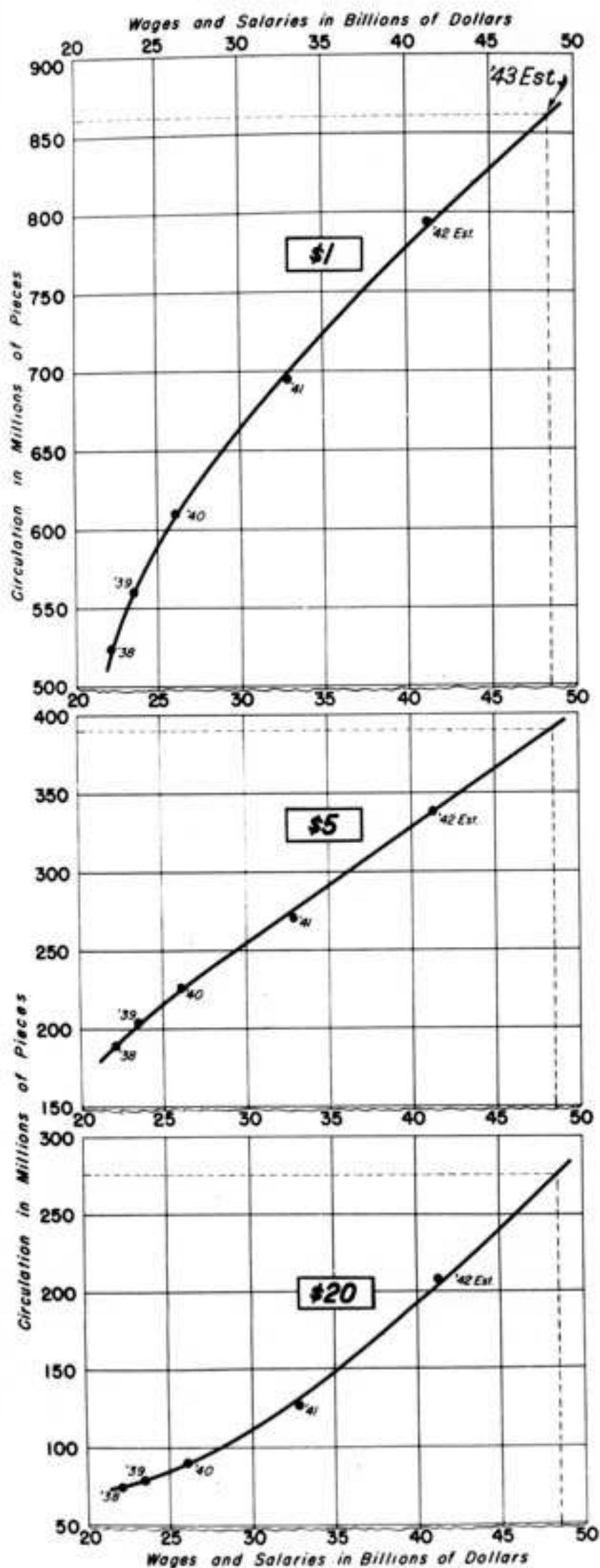
Table A

Currency Production Program Required to Meet the Estimated Demand
For Currency During 13-Month Period Dec. 1, 1942 to Dec. 31, 1943

(In millions of pieces)

	\$1	\$2	\$5	\$10	\$20	\$50	\$100	Over \$100	Total
Number of pieces outstanding Nov. 30, 1942.....	775	26	326	380	194	19	18	1	1,739
Number of pieces estimated to be outstanding Dec. 31, 1943.....	<u>860</u>	<u>35</u>	<u>390</u>	<u>510</u>	<u>275</u>	<u>25</u>	<u>23</u>	<u>1</u>	<u>2,119</u>
Increase in outstanding.....	85	9	64	130	81	6	5	-	380
Number of pieces to be issued to offset pieces withdrawn from circulation.....	<u>1,119</u>	<u>28</u>	<u>353</u>	<u>412</u>	<u>210</u>	<u>21</u>	<u>19</u>	<u>1</u>	<u>2,163</u>
Total production required (on present basis).....	1,204	37	417	542	291	27	24	1	2,543
Less: Reduction in production possible by lengthening time that currency remains outstand- ing by 3 months.....	<u>279</u>	<u>2</u>	<u>44</u>	<u>50</u>	<u>26</u>	<u>2</u>	<u>2</u>	<u>-</u>	<u>405</u>
Total production required if time currency remains outstand- ing is lengthened by 3 months....	925	35	373	492	265	25	22	1	2,138

CURRENCY IN CIRCULATION RELATED TO SALARIES AND WAGES*



* Wages and Salaries last 6 months of each year; circulation as of Dec. 31.

Appendix to Chart III Which Relates
Currency in Circulation to
Salaries and Wages

This chart shows the relationship between the number of pieces of each kind of currency outstanding at the end of each year, from 1938 through 1942, and the total wage and salary payments in the last 6 months of the corresponding years. A line has been drawn as nearly as possible through these observations for each denomination to represent the trend of the relationship, and to provide a means of projecting this relationship through 1943. This was used to estimate the volume of each denomination of currency required at the end of 1943, based on the expected wages and salaries in the last half of that year.

It will be noted that the apparent demand for the lower denominations of currency, while continuing to increase, has been rising this year less rapidly than in earlier years in relation to wages and salaries. The demand for such types of currency as \$10 and \$20 bills, on the other hand, has been rising at an accelerated rate in relation to salaries and wages, probably because of their convenience for hoarding.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 26, 1942

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Coinage Situation During 1943.

In accordance with your request, Mr. Norman Thompson submitted three questions to us with respect to the coinage situation. These questions are the following:

1. What is the present situation on coin?
2. What is the estimated need during the year ahead?
3. Are we going to be able to make it?

The analysis of the data relevant to the coinage situation has developed several charts and tables which bring out the answers to the questions submitted. These are attached to this memorandum and are discussed in the paragraphs that follow. As was noted in the memorandum on currency, a slight departure has been made from the period mentioned in the second question -- the year ahead -- and all estimates in the tables and charts cover the 13-month period from December 1, 1942 to December 31, 1943.

The present situation on coin (the first question) is covered by Chart I which traces the growth in the number of coins in circulation since 1937. Chart I shows that the circulation of all coins has been increasing markedly in recent years. This increase has, moreover, been particularly sharp since the middle of 1940 when the Government began to really accelerate the volume of military expenditures.

The need for coins in the period ahead (the second question) would ordinarily consist of (a) the need for coins required to take care of the estimated expansion in the nation's coin circulation, and (b) the need for coins -- a very small one -- necessary to replace the pieces that wear out and are returned to the mints for melting down. However, the picture of the need is not

Secretary Morgenthau - 2

entirely clear at this moment because the effect on new coinage of two need-increasing developments, the policies for which have not been fully developed, is unknown. Either of these -- (1) the withdrawal from circulation of a substantial number of pennies or nickels now outstanding to be melted down for their metal content which is desired for war purposes, or (2) the possible enactment of a Federal sales tax -- is likely to require the minting of a large number of new coins.

The penny and nickel withdrawal proposals are in current prospect. The War Production Board has been discussing a program to be undertaken as soon as possible which would involve the withdrawal of either 1 billion pennies or 500 million nickels. The penny program would provide the nation's war industries with 3,500 tons of metal; the nickel program would provide 2,750 tons of metal. These amounts are relatively small but in view of the shortages that are in prospect the Board considers them important. New coins made of less critical materials than the old penny and nickel would be required, of course, to replace the coins so withdrawn.

The penny withdrawal proposal was submitted to the House Committee on Banking and Currency a few weeks ago, you will recall, with the suggestion that it be included in the coinage measure (S-2889) then being considered. The proposal was not included in the act that passed both Houses of Congress because it was submitted to the House Committee too close to the end of the session and too late to obtain consideration by the Senate Committee on Banking and Currency. The War Production Board is actively interested in obtaining the metal, however, and may be able to obtain legislation on one or the other of the withdrawal proposals from the new Congress.

A Federal sales tax does not present an immediate problem to the Mint but such a tax may be a possibility before the year is out. In the past, the operation of sales taxes in the various States has increased the need for minor coins for change making purposes. These taxes usually caused the prices to the consumer of most goods and services subject to the tax to be registered in odd amounts. A Federal sales tax would have the same effect and might be likely to cause a nation-wide need for small

Secretary Morgenthau - 3

coins. It was to help meet this need, if and when it develops, that the Mint asked for authority to coin 3-cent pieces, an authority which has been included in the aforementioned coinage measure.

Although the prospects of the coin withdrawal proposals and a sales tax are unclear, we have resolved their prospective needs for new coins on what is felt to be a reasonable basis so that a rough estimate of the level of the total need for coins under various circumstances can be made for analysis purposes. These estimates appear in the "requirements" bars in Chart II and in Table A. Their preparation assumes alternatively (1) that there will be the normal expansion in need for coins; (2) that in addition, 1-1/2 billion new coins will be needed by December 31, 1943, to allow the consummation of both of the penny and nickel withdrawal programs, and (3) that in addition, 500 million new coins should be coined by the end of 1943 to provide for the coin requirements of a Federal sales tax if one should become effective late in the year. (This last mentioned figure is an arbitrary one and has been split evenly between pennies and nickels. The pennies might turn out to be 3-cent pieces and the nickels might be half-dimes. The coinage problem would not be much different in either of these events.)

The figures on the need for coins to meet the ordinary coin expansion during the year allow for an increase in circulation of approximately \$90 millions by December 31, 1943, distributed in pieces by denominations in the manner shown by the dashed lines in Chart I. Coin in circulation on that date will amount to \$990 millions, it is estimated, as compared with \$900 millions on December 31, 1942, and \$760 millions on December 31, 1941, and \$650 millions on December 31, 1940.

In estimating the coin expansion, a series of correlations have been made between the volume of wages and salaries paid out and the number of pieces of each denomination of coin in circulation. These correlations which appear in Chart III indicate that the expansion of coin in 1943 will be characterized by a flattening of demand for the lower denominations, and by a trend toward the use of the higher denominations of coin.

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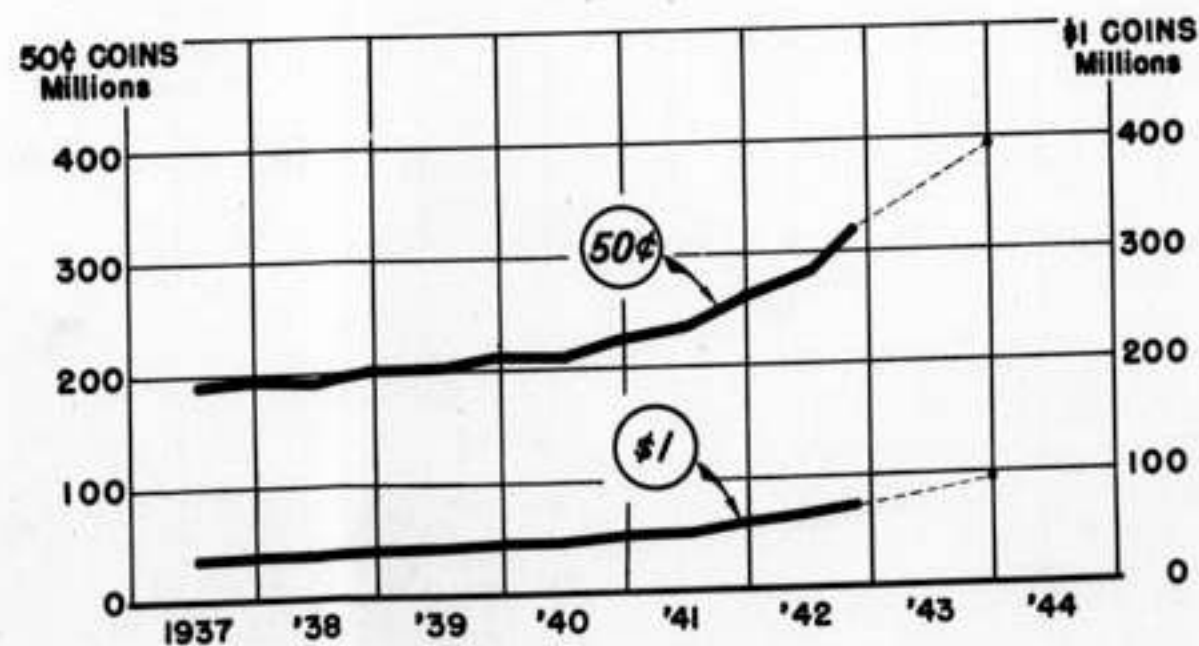
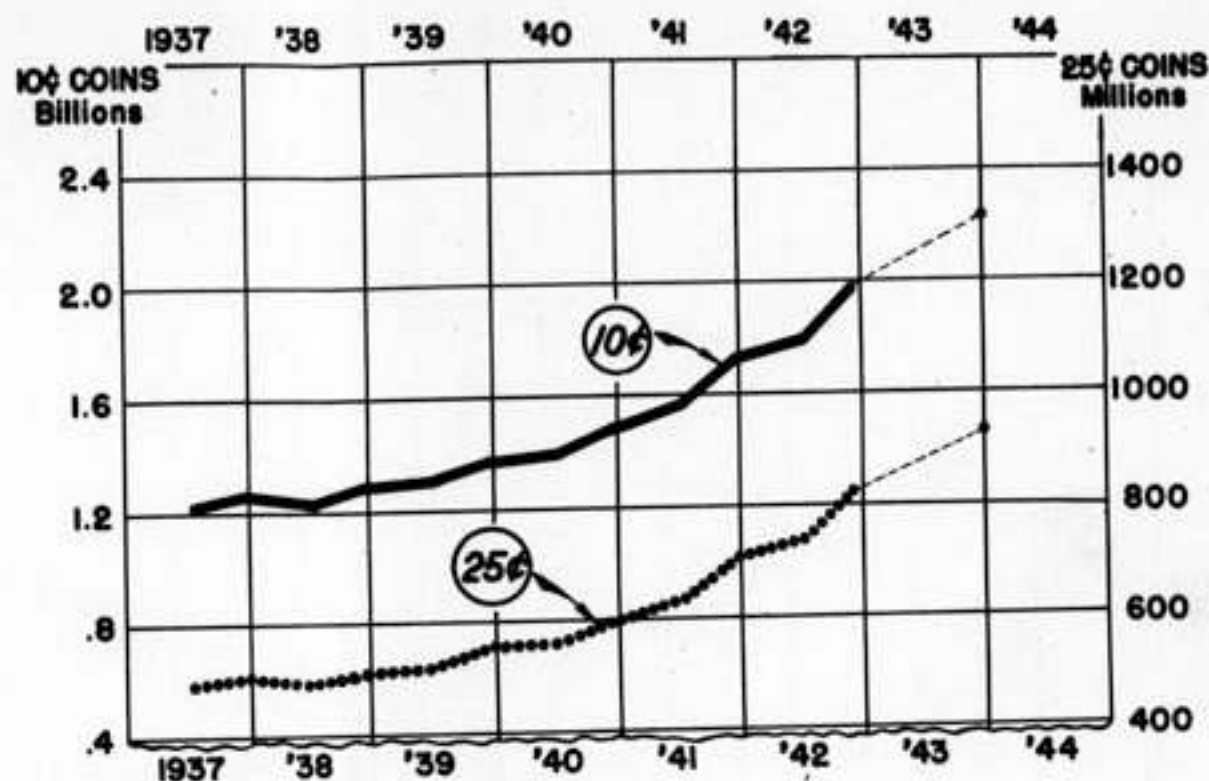
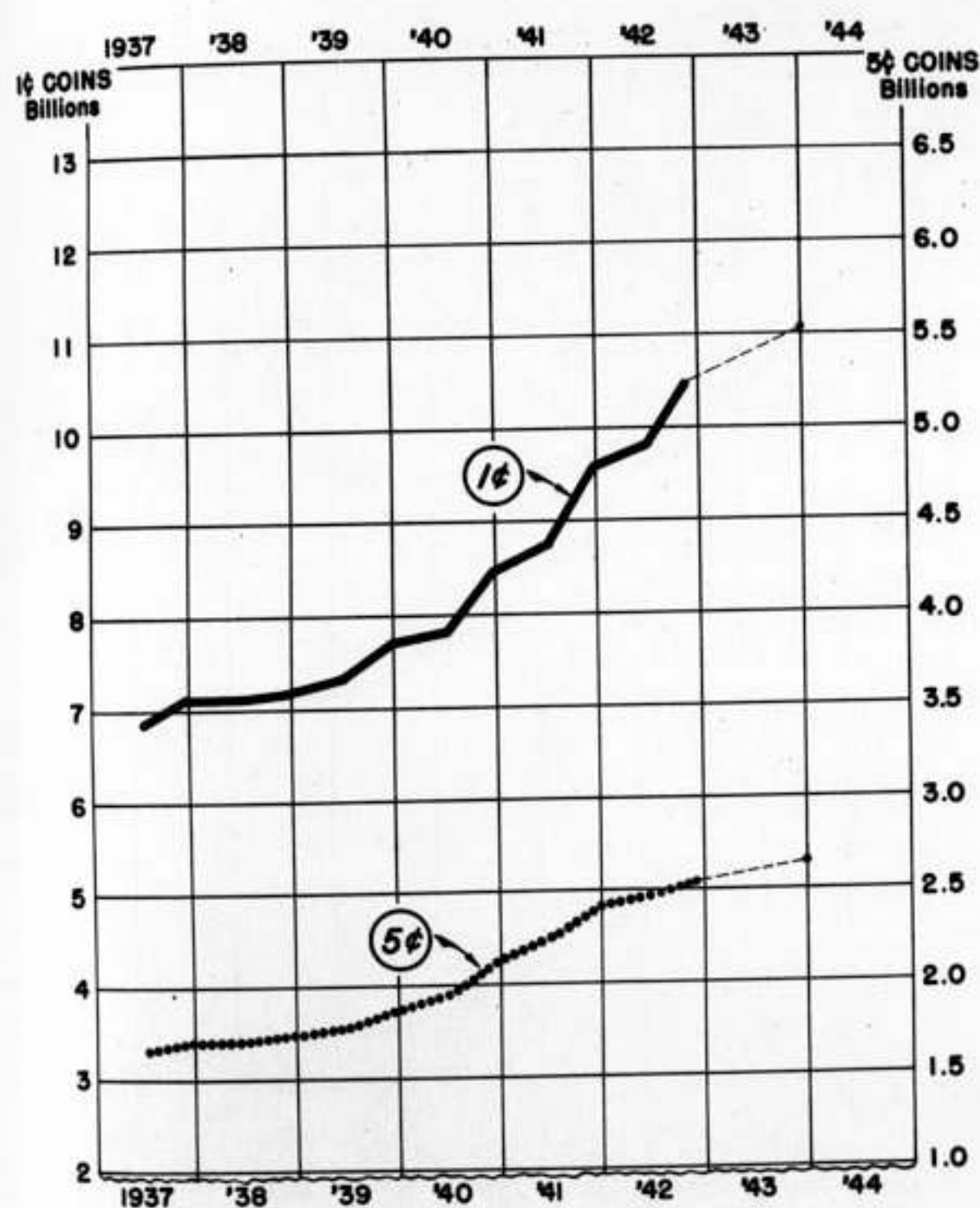
The demand for the lower valued coins, it is noted from the chart, rose less rapidly in 1942 than in earlier years in relation to wages and salaries. It would appear that the demand for such coins for making change and other purposes has been nearly satisfied, and that their bulkiness makes them unsuitable for hoarding. The demand for 50-cent coins, (and for such types of currency at \$10 and \$20 bills,) on the other hand, has been rising at an accelerated rate in relation to salaries and wages. They are used for hoarding and to reduce the bulkiness of an accumulation of small coins.

The prospects of meeting coin requirements during the period from December 1, 1942 to December 31, 1942 (the third question) are brought out in Chart II by a comparison of the "requirement" bars -- calculated as indicated above -- with the "capacity" bars which set forth on two bases of assumption the capacity of the Bureau of the Mint to produce coins. The Mint, this comparison would seem to indicate, is likely to be able to meet the normal expansion in coins that will occur in the period that lies ahead. It can meet a withdrawal of coins or a Federal sales tax according to Mr. Leland Howard, Assistant Director of the Mint, only by obtaining a large increase in appropriation -- a rise from the present \$3.8 millions to \$7.2 millions -- to permit a substantial increase in personnel. In addition, the Mint will have to be authorized to pay wages at levels necessary to meet outside competition for employees and will have to obtain a sufficient supply of metals to allow continuous minting operations. It would obviously be impossible, in this connection, to make up in a few months at the end of next year the coinage lost because of insufficient supply of materials or a lack of funds to operate at full capacity during the early part of the year.

Attachments

NUMBER OF COINS OF EACH DENOMINATION IN CIRCULATION

Actual June 1937 to Nov. 1942; Estimated Dec. 1943



ESTIMATED NEED FOR COINS AND PRODUCTION ESTIMATES UNDER VARIOUS ASSUMPTIONS

Number of Pieces of Currency, 13 Months Dec. 1, 1942 to Dec. 31, 1943

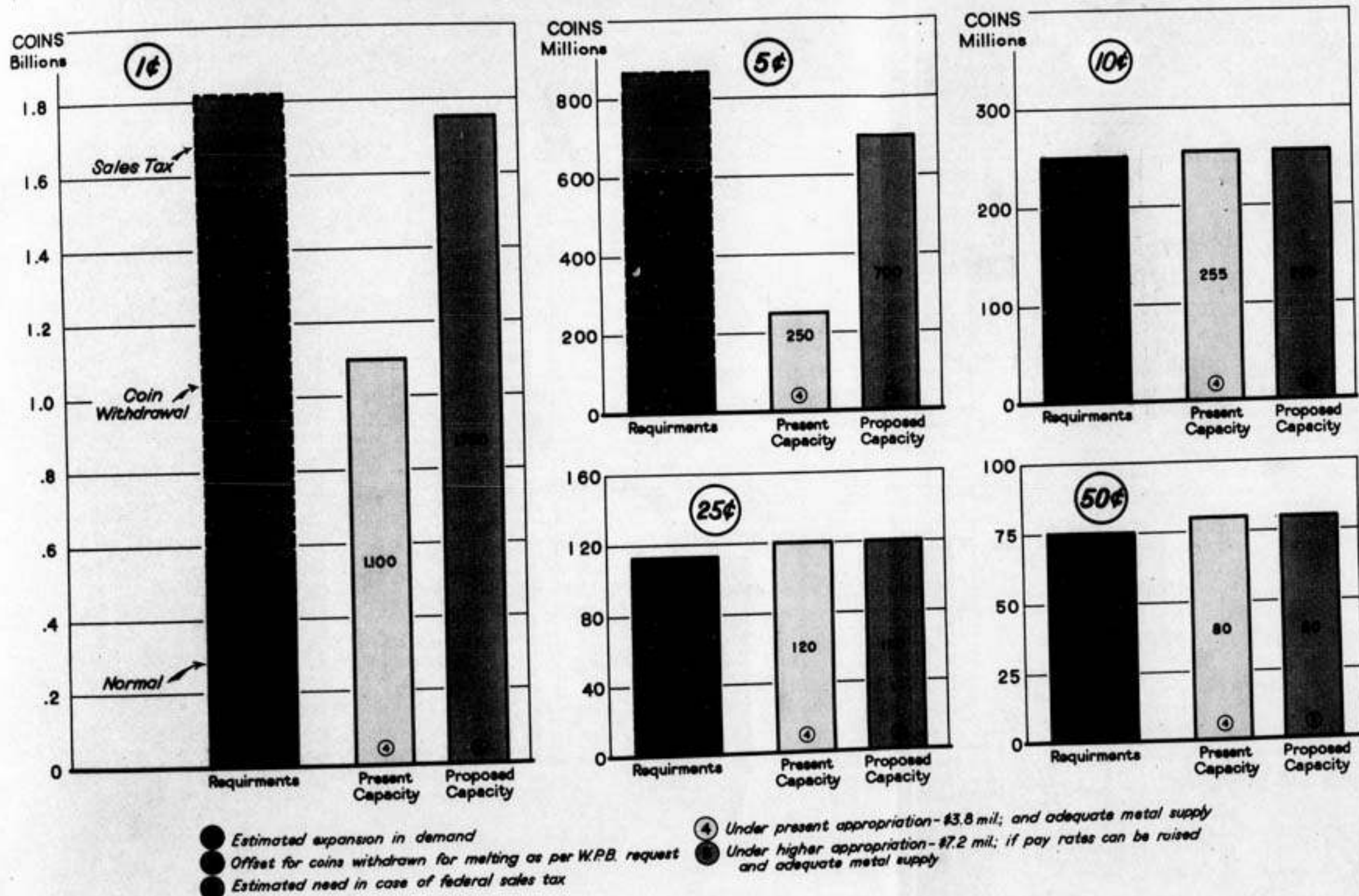


Table A

Coin Production Program Required to Meet the Estimated Demand
for Coin During the 13-Month Period Dec. 1, 1942 to Dec. 31, 1943

(In millions of pieces)

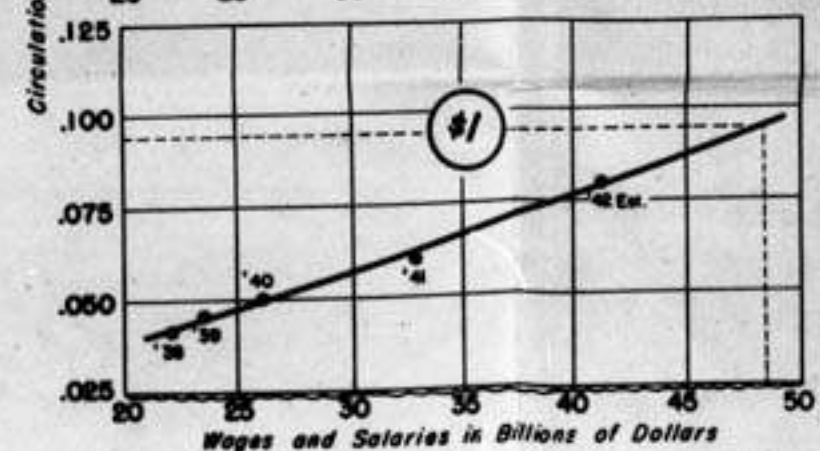
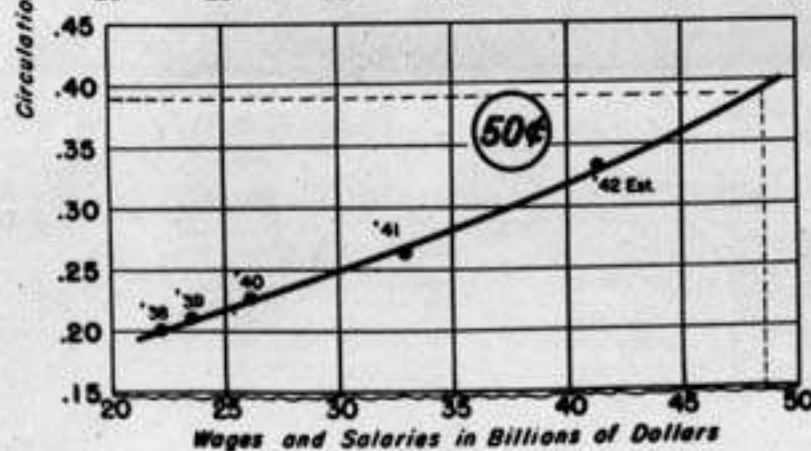
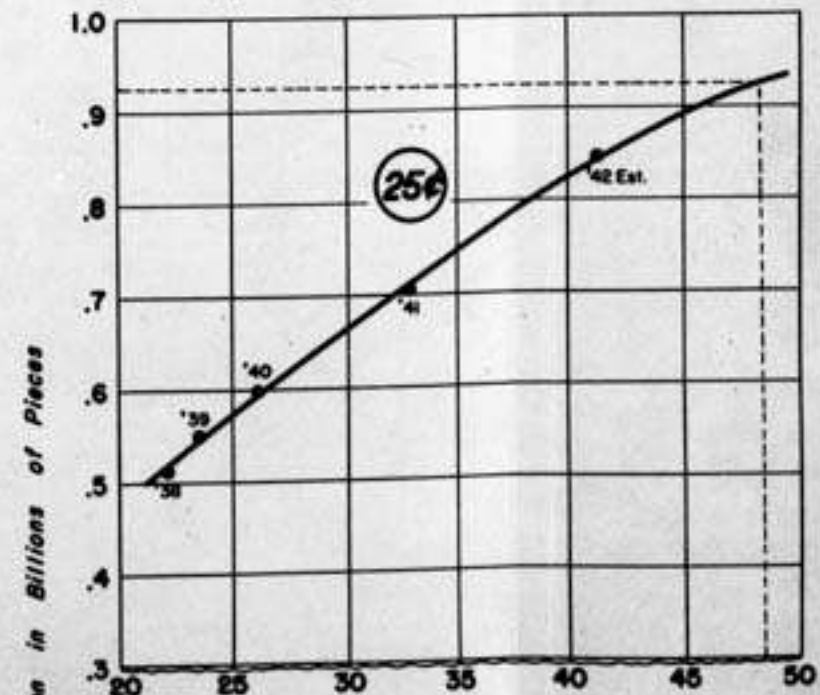
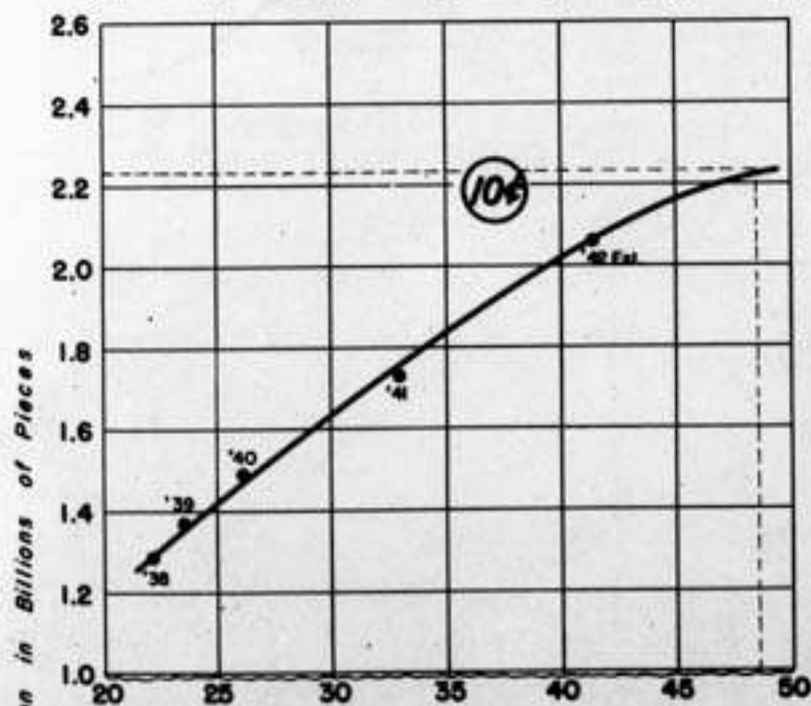
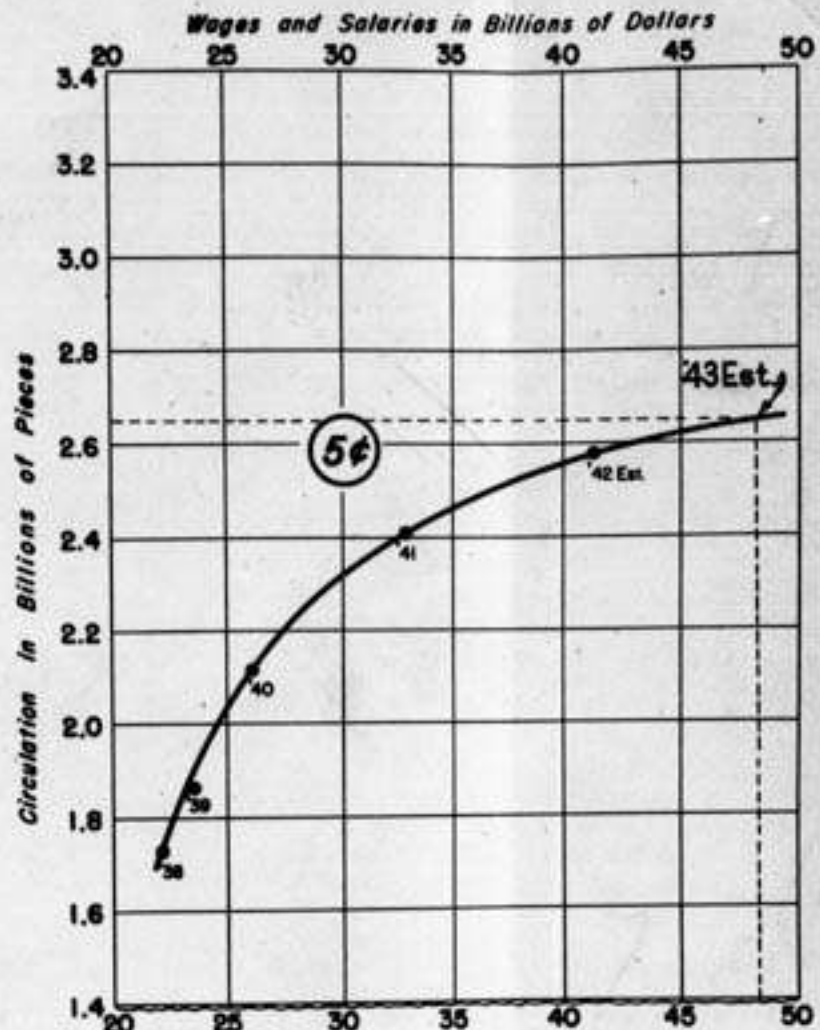
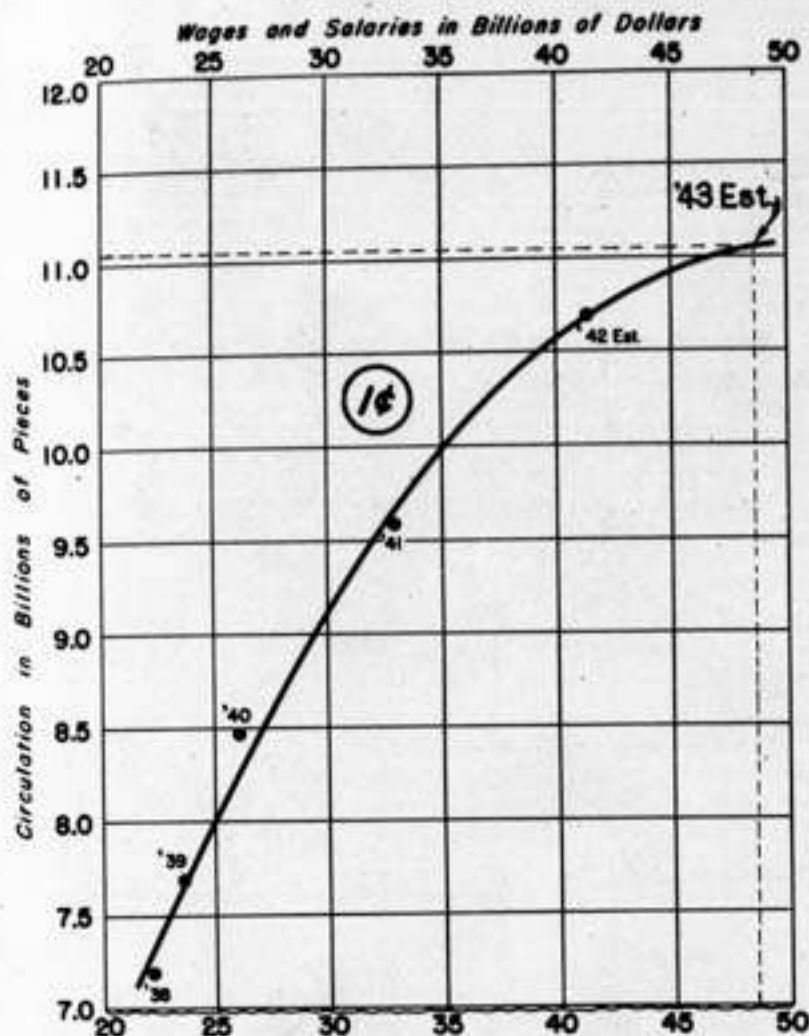
	1¢	5¢	10¢	25¢	50¢	Total
Number of pieces outstanding Nov. 30, 1942.....	10,500	2,536	1,988	821	322	16,167
Number of pieces estimated to be outstanding Dec. 31, 1943.....	<u>11,060</u>	<u>2,645</u>	<u>2,230</u>	<u>928</u>	<u>394</u>	<u>17,257</u>
Increase in outstanding.....	560	109	242	107	72	1,090
Number of pieces to be issued to offset unfit coins withdrawn from circulation.....	<u>8</u>	<u>5</u>	<u>8</u>	<u>6</u>	<u>3</u>	<u>30</u>
Total production required for normal demand.....	568	114	250	113	75	1,120
Additional production required to offset coins withdrawn for metal content.....	1,000	500	-	-	-	1,500
Additional production required to meet possible sales tax needs ^{1/}	<u>250</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>
Total production required to be provided for.....	<u>1,818</u>	<u>864</u>	<u>250</u>	<u>113</u>	<u>75</u>	<u>3,120</u>

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

December 19, 1942.

Note: Silver dollars are not shown on this table because the requirements during 13-month period can be met out of existing stock.
^{1/} Coins minted might be 3-cent pieces and half dimes instead of pennies and nickels.

COINS IN CIRCULATION RELATED TO SALARIES AND WAGES*



* Wages and Salaries last 6 months of each year circulation as of Dec. 31.

Appendix to Chart III Which Relates
Coin in Circulation to
Salaries and Wages

This chart shows the relationship between the number of pieces of each kind of coin outstanding at the end of each year, from 1938 through 1942, and the total wage and salary payments in the last 6 months of the corresponding years. A line has been drawn as nearly as possible through these observations for each class of money, to represent the trend of the relationship, and to provide a means of projecting this relationship through 1943. This was used to estimate the volume of each kind of coin required at the end of 1943, based on the expected wages and salaries in the last half of that year.

It will be noted that the apparent demand for the lower valued coins (cents and nickels), while continuing to increase, has been rising this year less rapidly than in earlier years in relation to wages and salaries. It would appear that the demand for such coins for making change and other purposes has been nearly satisfied, while their bulkiness makes them unsuitable for hoarding. The demand for 50-cent coins, (and for such types of currency as \$10 and \$20 bills,) on the other hand, has been rising at an accelerated rate in relation to salaries and wages, probably because of their convenience for hoarding.

NOT TO BE RE-TRANSMITTED

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 446

Information received up to 7 A.M. 26th December, 1942.

1. NAVAL

A convoy of 16 ships arrived in Russian waters intact yesterday, 11 of them have reached Marmansk the other 5 are enroute for Archangel. A preliminary report states that H.M. Submarines have sunk a 2500 ton ship off Naples and an auxiliary schooner, a 400 ton tanker and a minesweeper from which 12 prisoners were taken off eastern Tunisia.

2. MILITARY

TUNISIA. Persistent rain continues to hamper operations. On the night 22nd/23rd the enemy were cleared from positions north and north east of Medjes El Bab, our casualties are estimated at 100.

RUSSIA. On the central front the intensity of the Russian offensive west of Moscow appears to have diminished. On the middle Don the southern thrust has made further progress. A deep thrust seems to have developed westwards from the River Chir running parallel and north of the Stalingrad-Lik Aya Railway. In the Caucasus the Russians have eliminated the German salient in the Terek area by recapturing Alagir, several localities southeast of Nalchik have also been re-occupied.

3. AIR OPERATIONS

ITALY. 23rd/24th. U.S. Liberators bombed installations at Naples.

TRIPOLITANIA. 24th. 7 aircraft on the landing ground Atihun were severely damaged by Kittyhawks.

INDIA. 24th/25th. About 9 enemy aircraft attacked Calcutta, Hurricanes damaged 1 of them.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 447

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

1. NAVAL

Russian Naval Light Forces sank a U-boat in the BLACK SEA on the 19th. A United States 7,000 ton ship sank a U-boat southwest of COLOMBO on the 24th. Reference OPTEL No. 437, on 14th one of H.M. Submarines torpedoed a 5,000 ton ship off BIZERTA, which blew up, and on the 17th a 6,000 ton ship with two torpedoes and also hit a Grecale class Destroyer. Both these vessels considered sunk.

2. MILITARY

LIBYA. Units of 7th Armoured Division occupied SIRT2 at midday on 25th. The roads and the landing grounds were mined and there were also booby traps in the town.

TUNISIA. Throughout 24th the struggle for the DJEBEL EL AHMERA feature north of MEDJES EL BAB continued. By dusk we were in possession of all but the crest. On the southern flank our armoured patrols were again hampered by mud and poor visibility and did not repetition not establish contact with the enemy.

RUSSIA. In the DON Area the Russian offensive continues to make progress along the VORONEZH-ROSTOV Railway towards MILLEROVO and west of this railway. They have taken a number of important places including TARASOVKA on the railway 20 miles south of MILLEROVO. In the MIDDLE DON a number of enemy groups appear to be isolated. To the southwest of STALINGRAD the German counter offensive has been checked and several localities, including CHILEKOV, have been reoccupied by the Russians. In the CAUCASUS, the Russians continued their pressure northwest of ALAGIR.

3. AIR OPERATIONS

TUNISIA. 25th/26th. Wellingtons from MALTA bombed the docks at TUNIS, LA GOULETTE and SOUSSE.

SICILY. 25th/26th. Aircraft from MALTA attacked the airfields at COMISO and CASTEL VETRANO, and on the 26th bombed and machine gunned the landing ground on LAMPEDUSA ISLAND where hits were made among dispersed aircraft.

December 28, 1942
9:30 a.m.

GROUP

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

H.M.JR: Herbert?

MR. GASTON: I have nothing.

MR. SULLIVAN: I have here prepared copies of everything in connection with the new income tax folder, including copies of the letters. I thought you might want it for your record. (Papers handed to the Secretary)

H.M.JR: John, if you had a chance to put someone on the radio for five or ten minutes to explain to individuals how the Victory Tax works, could you do it? How many minutes would it take somebody to do it?

MR. SULLIVAN: We have been offered fifteen minutes a week for ten weeks. The time is being offered to us on all of the eastern stations.

H.M.JR: Eastern?

MR. SULLIVAN: Yes, sir.

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H.M.JR: Fifteen minutes a week?

MR. SULLIVAN: Yes, sir.

H.M.JR: How is that coming to you?

MR. SULLIVAN: It is the Atlantic hookup. We had it last year in Washington.

H.M.JR: I mean, on a national hookup.

MR. SULLIVAN: You couldn't do it in five minutes, but you could in ten.

H.M.JR: Suppose you begin to prepare it and I will discuss with you whether you should do it or whether the Commissioner--

MR. SULLIVAN: Yes, sir.

H.M.JR: I have in mind the end of the week. Will you?

MR. SULLIVAN: Yes, sir.

H.M.JR: What I have in mind is this: I will know more about it tomorrow. The program that we have been putting on for War Bonds from six to seven Saturday night - I am not going to get emotional about it, but it is so unbelievably lousy that I never was so ashamed in my life of anything. I called up Peter Odegard. I was first going to call you (Graves), but that anybody connected with the Treasury should let anything like that go on the air is just an outrage, and I am going to cancel the whole thing. It isn't the money; it is what goes on the air. Peter agrees with me. We are having the people down - we are going to postpone the whole thing, but it is just inexcusable that anything like that should be allowed to go on the air with a Treasury name. It is the second time. The week before - it is inexcusable, and all I can do is to stop it - I mean, the week before I heard it, and this Saturday I heard it, and it just ruined my

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week end. So I sent for Bill Murray and Rainey, and so forth, and so on. Then I listened to the other program. How many people heard the seven to eight program Saturday night?

MR. GAMBLE: You are talking about the "Over Here" program?

H.M.JR: No, I am talking about the program on the Blue Network.

MR. GAMBLE: That is it; I heard it.

H.M.JR: Would you buy a bond after listening to that?

MR. GAMBLE: No, I don't think the Treasury should be identified with that kind of a program.

H.M.JR: I think it is terrible. In the first place, I think it is terrible that we spend five thousand dollars for a program like that; and secondly, it is terrible that it is the kind of program it is. I would spend a hundred thousand dollars not to have had it on the air. There is something wrong, Harold. All I can do is to stop it. I can't write a program, but somebody somewhere out of the three hundred people in War Savings Staff ought to be able to do a program. It is pretty bad.

The other one which followed at ten-fifteen - I shouldn't have to be doing any of this; it upsets me. I can't think about important matters. The ten-fifteen program was a good program, but it had no more to do with War Bonds than Campbell Soup has. Who heard the ten-fifteen program?

MR. BLOUGH: Is that the one Jack Benny--

H.M.JR: No. It just shows how little interest - nobody heard it here but one. It starts out with, "This is WOR, sponsoring a program for the Treasury." It went right into a story about a New York detective who becomes a military police. It went on for twenty-five minutes

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telling the story about the life of a man who was an MP. It was very well done, but it has as much to do - I was waiting to hear at the end of it, "And now buy milk of magnesia," instead of which it gave fifteen seconds, not more - maybe ten - on war bonds, at the end of that program. Then it had an extract from Dewey. - they went all the way to California - by Herbert Marshall. Why you have to switch a program clear to California and have Herbert Marshall read an extract of fifty words about Dewey is beyond me.

MR. GASTON: Tom Dewey?

MR. GAMBLE: No, John Dewey.

H.M.JR: But you people are responsible. You can't just wash your hands of it. I shouldn't have to do it at all. I don't like to get you in Monday morning to scold you, but I have got to, because after all it is the good name of the Treasury which I am responsible for. I would like you to get into it, Harold.

MR. GRAVES: You want it stopped, as I understand it.

H.M.JR: I want these people to be here tomorrow. I want these people to be here tomorrow. I want to stop it in their presence; I am not going to stop it behind their back. Odegard, Rainey, Callahan, and Murray and all the rest of them - I will tell it to them to their face, and tell them why. I told Murray when I was up in New York that I didn't want any more of this horror stuff. I got a letter from my son Bob on the destroyer, and he said, "Why do they have to keep preaching to us all the time? Why do they have to give us all these morale lectures over the radio." He said, "Programs are constantly coming over from the United States with all of these lectures, and everybody on the ship is sick and tired of it. Why can't we have some decent music. We have to turn it on to get the English or German stuff to listen to any decent music." I told that to Murray when I was up there a month ago, but he doesn't listen to me. Neither does Callahan, so the only thing I can do is to just cut it off.

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(Mr. Paul entered the conference.)

H.M.JR: I have some suggestions for them, but I will have to get somebody else to carry it out, because Murray won't listen to me, Rainey won't listen to me, and Callahan won't listen to me, and I haven't got enough energy to get mad. I mean, they just won't listen. Odegard won't listen to me. So, as I say, I am sorry to start it, but, after all, no one else in the Treasury is interested enough to listen. I listen, and I get sick to my stomach over it.

So you have it, for this coming Saturday - I mean, I will have a spot for you Saturday night, either for you or the Commissioner.

MR. SULLIVAN: Yes, sir.

H.M.JR: Then work out some stuff for two or three weeks on the Victory Tax, sort of follow-up stuff.

MR. SULLIVAN: Yes, sir.

H.M.JR: I will find a place for you.

MR. SULLIVAN: I have signed a T.D., which makes quite a change in the red tape connected with the filing of ownership certificates required in connection with interest on bonds of domestic corporations - about four and a half million certificates there. There are about four million certificates on Government securities, and that, of course, will increase. We are doing away with both of those. On the tax-free covenant bonds we are putting the reports on a quarterly basis rather than a monthly basis. We are doing the same thing on the ownership certificates filed by resident aliens. I wondered whether you wanted to say anything about it at your press conference.

H.M.JR: I would like to very much.

MR. SULLIVAN: All right. I think the clearest outline of it is in a memorandum from Tim Mooney to Commissioner Helvering.

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H.M.JR: Do you suppose, Schwarz, somebody in your shop can do this in the way of a press release?

MR. SCHWARZ: Surely.

MR. SULLIVAN: It is going to be a great boon not only to the individuals who own the securities, but especially to the banks. It has used up a great deal of time for them. We expect we may lose a little money because of this, but the time we will save can be devoted to other things that will give us a net gain, I think.

H.M.JR: Before I see it, show it to Mr. Gaston, will you please?

MR. SCHWARZ: Yes.

MR. SULLIVAN: The Outdoor Advertising people made up a booklet showing the extent and type of advertising they did for us under George Buffington last year on taxes, tax-free advertising, or rather free advertising on taxes of forty-four thousand dollars. They sent it over. I didn't know whether you wanted to see it or not. We thanked them at the time it came over.

H.M.JR: I have seen that. I think I have, haven't I? I don't want to write any more letters to the Outdoor Advertising--

MR. SULLIVAN: I had them thanked orally. That is all, sir.

I would like to see you for just a second afterwards.

H.M.JR: George?

MR. BUFFINGTON: No, I don't have anything.

H.M.JR: Paul?

MR. PAUL: I told you everything last night.

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H.M.JR: After this meeting I want a breathing spell; then I thought that you, Bell, Blough and I could get together.

MR. PAUL: All right.

H.M.JR: Anybody else on that?

MR. BELL: What is that, on the statement?

H.M.JR: He has been with the Bureau of the Budget Saturday afternoon.

MR. BELL: Who was in on that meeting the other day?

MR. PAUL: Just me. They called me up at home, Dan. They spent the afternoon up there. They insisted and came on up.

MR. BELL: Did they go over the statement?

MR. PAUL: No, just on the message, the tax part of it. They had received the figures which threw off their whole calculation.

MR. BELL: I mean, did they go over our statement?

H.M.JR: He didn't show it to them.

MR. PAUL: I didn't show it to them. We had showed them an earlier draft of it, about five or six days before - I guess it was the beginning of last week, wasn't it?

MR. BLOUGH: Yes, it was after they had come over.

MR. PAUL: They never saw the draft that went to the President.

MR. BELL: Haas has been in on that.

H.M.JR: All right.

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MR. BELL: Herbert, have you seen the statement we prepared?

MR. GASTON: Yes, I saw it.

H.M.JR: O.K. Then a few minutes afterwards, Randolph?

MR. PAUL: All right.

MR. GAMBLE: I have nothing.

MR. KUHN: Mr. Banyas has some very good plans for making over that chart room, as you wanted. I wondered if you wanted to see him or see his plans before he went ahead with the work. There is some carpentry and painting involved, but it is going to be a good job.

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

MR. KUHN: Could I make an appointment for him?

H.M.JR: Yes.

MR. KUHN: Do you know who has the negative of that film of Dover?

H.M.JR: It is supposed to be out on the desk there.

MR. KUHN: The negative from which the film was made?

H.M.JR: The whole thing was handled - the developing and the whole thing was handled by Stephens. I mean, it was developed by the Army. He handled the whole thing.

MR. KUHN: The people who saw it said that the shots of Smuts and Churchill were about as good as any that can be found in the film libraries, and they are very anxious to have them.

H.M.JR: You mean the moving picture people?

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MR. KUHN: Yes.

H.M.JR: Have we got the permission of the English?

MR. KUHN: They will be delighted. They want them themselves, as a matter of fact. They want a copy.

H.M.JR: Will you at least have prepared - who is going to do the titling?

MR. KUHN: They are not going to show it as a film; they are going to keep that film and show parts of it.

H.M.JR: I would like two copies prepared right away, and I want to send one over my signature to Churchill and one to Smuts.

MR. KUHN: Right.

H.M.JR: Will you?

MR. KUHN: Yes.

MR. BLOUGH: I have nothing.

MR. CAIRNS: I have nothing.

MR. HAAS: I have a draft of a memorandum on surplus supplies. I would like to have a few minutes - there is an error in the thing.

H.M.JR: All right.

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MR. HAAS: That is all.

H.M.JR: White?

MR. WHITE: I have nothing.

H.M.JR: When are you going to be ready for this other meeting?

MR. WHITE: We had a meeting Thursday, and we are going to have another meeting tomorrow. After that meeting you will probably want to see the report in the form in which it will be and have an opportunity to make some changes.

H.M.JR: Where do we meet on Wednesday?

MR. WHITE: We met here.

H.M.JR: Where will we meet?

MR. WHITE: On Wednesday, as far as I understand, it was to be at Vice President Wallace's office.

H.M.JR: I would like to spend some time with you before we go up there.

MR. WHITE: Wednesday morning or Tuesday afternoon?

H.M.JR: Tuesday afternoon. Do you want me to put you down now?

MR. WHITE: All right, sir. If you can, make it as late as possible.

H.M.JR: Three o'clock would be my deadline.

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(Mrs. Klotz entered the conference.)

MR. WHITE: All right.

We also had another meeting with State and others on the Stabilization Fund, in response to Mr. Hull's request that we have another meeting. Apparently it was Pasvolsky who had created some doubts in Hull's mind, but he is now completely satisfied. He has taken it up with Hull, and I presume sometime in the near future they will get in touch with us. Some modifications were made. It is in better shape.

We seem to be unable to get transportation for that man who was supposed to go to London. They say they may not find a place for him for a year.

H.M.JR: Who do you suspect, Harry? (Laughter)

MR. WHITE: I don't know who to suspect, but I don't know who--

H.M.JR: Who controls that? It is very simple. Stephens can - it goes through the Ferry Command - I mean the Army Transport.

MR. THOMPSON: We have been working on that, but we haven't been able to get any satisfaction.

MR. WHITE: He isn't the most important man, but I know a lot less important who are going over in the next six months, so I don't understand why they are taking that attitude. I will take it up with Stephens.

H.M.JR: The thing is completely controlled by the Army. Weren't you in London with me? (Laughter)

MR. WHITE: Yes.

H.M.JR: Remember how they controlled those things over there?

MR. WHITE: Yes. All right.

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MR. SCHWARZ: There is a growing discussion in the papers of this plan for paying now for goods to be delivered later. You may be asked about it this afternoon. I thought I would mention it to see if you wanted to discuss it.

H.M.JR: How does that differ from the War Bonds?

MR. HAAS: It is not as good.

MR. WHITE: We must have received at least a half a dozen letters from various important places in the last six months, making that suggestion - or possibly the last year, and we have in the past prepared letters showing why it is not a good plan. It has cropped up again, I presume, because Kaiser is boosting it.

MR. SCHWARZ: And Nugent.

MR. PAUL: Ralph Nugent of OPA has been the big pusher of it. He talked with me. I had lunch with them two weeks ago. The press was after me all the end of last week.

MR. WHITE: I think we ought to make certain that the memorandum is available and comprehensive, because apparently it is gathering momentum. We have been approached about that a number of times from important places.

MR. PAUL: Not only that, but almost a year ago a man named Friedman in New York brought it up.

MR. KUHN: The Meredith Publication has been coming down here trying to get us to adopt it - months ago.

MR. HAAS: The Secretary has written a letter to Sloan of General Motors, and also the president of Westinghouse.

H.M.JR: Just for fun, see who can discover the oldest letter.

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MR. WHITE: I think it is the Friedman letter.

H.M.JR: Elisha?

MR. WHITE: No, a young fellow.

H.M.JR: I was amused at this letter to the Times-Herald this morning. (Reading) "The scheme for 'installment buying in reverse' being discussed in policy-making Government quarters did not originate with an OPA expert or Henry J. Kaiser, shipbuilder, as is claimed, but with John W. Hanes, former Undersecretary of the Treasury." (Laughter) And at the end - "Hanes' idea is only one of the many for which he has seldom received credit publicly." (Laughter)

MR. GASTON: We will let him have this one.

MR. PAUL: What is that you are reading?

H.M.JR: Times-Herald.

MR. BELL: Mr. Secretary, I think it is important that all those things be centered in one place. We are writing too many different letters, and each one expressing a little different idea on it. I think they all should go to Haas.

MR. WHITE: Every letter that left my office has been cleared by everybody, including yourself, Dan.

MR. BELL: I think they all ought to be centralized - all in one spot.

H.M.JR: You mean all letters should be centralized?

MR. BELL: I mean particularly on the financing and plans like that. They ought to go through Haas' place, or be there for answering.

H.M.JR: Who routes them?

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MR. BELL: I don't know.

MR. THOMPSON: Those addressed to you are sent to Mrs. Forbush. I will check on it.

H.M.JR: Why don't you use this just as a test, will you, Norman, because the Mail Room comes under you. Find out how many letters on this plan have come in and how many different places they were routed to.

MR. THOMPSON: Yes, sir.

MR. SCHWARZ: You might want to say something, at the rate they are asking questions about it.

H.M.JR: Who will give me a memorandum on it?

MR. BELL: I think Haas' office could give you a memorandum on what we have done in the past year in replying to those questions from our angle.

H.M.JR: White has been handling some, too.

MR. WHITE: I don't think there is any difference in opinion.

MR. KUHN: Mr. Secretary, the day after Kaiser made his speech the head of the Willys-Overland Motor Company gave a press interview in which he just tore that plan to shreds. I think a clipping of that might be helpful.

H.M.JR: Who talked?

MR. KUHN: The head of the Willys-Overland Automobile Company replied to Kaiser, and did it very scathingly. He said the plan was cock-eyed and the War Bond feature of it was illegal, and the whole thing was as crazy as anything he had ever seen.

H.M.JR: Paul, have you been in on it, too?

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MR. PAUL: The people have been coming to me for a year on it. I have got a memorandum opposing it. I had lunch with Nugent and Gilbert not long ago. I referred them to Bell. I told them that the thing to do was to have a conference with the Bond people in the office, and I had not arranged that yet.

H.M.JR: You had better look into this thing, Norman - I mean, how many different people are answering the thing - the thing that Bell raises - because correspondence does come under you, doesn't it?

MR. THOMPSON: Yes, sir.

H.M.JR: I would go over the whole thing, and this is as good an example as any.

MR. PAUL: A lot of people have come to me, personally, about it - not so much writing letters.

MR. BELL: My point is it is a financing matter and it ought to be centralized in the financing organization.

MR. PAUL: That is what I tried to do. I told them they would have to see you people.

MR. BELL: I have seen very few of those people. I knew Nugent was talking about it. We have written a number of letters on it, opposing it, pointing out that what you are doing is giving the people who hold the bonds priority on post-war production. There are a lot of angles to it.

H.M.JR: To get this thing - who works on it for you?

MR. PAUL: Mr. Blough's office.

H.M.JR: All right; White has worked on it, and Haas and Blough. Would the three of you get together -

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that is what these nine-thirty's are for - and see that I have something at three-thirty, Harry and George and Roy? Get together and get me something in here by three-thirty.

Then you (Mr. Thompson) look into this thing about this correspondence, will you?

MR. THOMPSON: Yes, sir.

H.M.JR: What else?

MR. GRAVES: Nothing.

H.M.JR: I have not seen any figures on the E Bonds, so if you know what they are, I would like to know - as of Saturday.

MR. GRAVES: I have them. I supposed you got yours direct from George.

H.M.JR: No, I have not had anything since Wednesday, and Bell does not follow them any more.

MR. HAAS: We give them to the Secretary once a week unless you specifically ask for them.

MR. GRAVES: Would you like me to--

H.M.JR: I will ask your secretary to bring them in.

MR. GRAVES: We have them through the 24th.

MR. BELL: All I have is through the 21st - four hundred and twenty-five million of E Bonds up to the 21st.

H.M.JR: I was hoping they were good so I could say something about it.

MR. GAMBLE: Over a hundred and ten percent of our quota.

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MR. GRAVES: No, it is much lower than that. I find in checking with Mr. Haas' people that for some reason or other the banks are very slow in reporting. He had seven of the Feds reported on Wednesday and seven again on Thursday. There is something there - the figures look bad, but there is that explanation for them.

H.M.JR: Have you got anything?

MR. GRAVES: Nothing.

MR. BELL: I have nothing.

MR. THOMPSON: This is Mr. Haas' report on coinage and currency which you asked for. (Report handed to the Secretary.)

H.M.JR: All right.

MR. THOMPSON: If I could stay a minute, I would like to speak to you about Mr. Mager.

H.M.JR: All right.

MR. BELL: I will be ready for you all by ten-fifteen.

December 28, 1942
10:30 a.m.

TAXES (Budget Message)

Present: Mr. Bell
Mr. Gaston
Mr. Paul
Mr. Blough
Mr. Haas

H.M.JR: Now, let's hear about what happened Saturday.

MR. PAUL: I guess we ought to go back to the fact - I don't know whether you realized it or not, although I think we told you - that one of the earlier drafts of this statement that was finally sent to the President, Roy and I discussed one day with Colm and Jones. They came over to cooperate on the Budget Message. That was a very early draft, and we discussed - I think we told you we discussed the question of whether there should be any specific recommendations, the Bureau of the Budget being very strong for specific recommendations.

MR. BLOUGH: Of course, they didn't know what the purpose of the draft was. As a matter of fact, I wrote it for the meeting which we had with them for that purpose, and then, having discussed it with them, we just went on and elaborated and revised it.

MR. PAUL: That was the basis of the draft which was finally sent to the President. Although it was quite thoroughly changed, I don't think it was so much changed in essence.

Saturday I was supposed to be home, but I was called up most of the day, and just after lunch the Budget called up.

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First they said they had this thing, and I said, "Send it up to me; I will go over it this week-end." They said, "All right."

Shortly they called back and said that Smith was very anxious to have me look at it that afternoon, if possible; and they asked if they could come up to my house and go over it. Of course I said, "Yes," and they did.

Jones and Colm came up and they had another man with them, whom I knew but I could not remember his name. They spent practically the whole afternoon on their draft.

MR. BLOUGH: It wasn't Lebowitz?

MR. PAUL: I don't know. He was a young fellow about thirty-five.

MR. BELL: Did they have a draft on taxes, too?

MR. PAUL: They had a draft on taxes and I will tell you about what it contained. They said their figures were all thrown off by the budget figures. This was prepared before they received those.

They contemplated a program of twenty-one billion. That was composed substantially as follows: about ten billion additional taxes, two or three billion social security, six billion compulsory savings, and the rest of it was increased corporate rates, loopholes, and so on. It was very specific throughout.

It went on to the following points: it discussed and strongly advocated collection at the source, and in that connection it came out very strongly for the Ruml plan - not a modified version, but a version which went the whole way, and said if necessary we had better forgive the taxes of the high brackets as well as the low.

H.M.JR: This all went to the President?

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MR. PAUL: It hasn't gone to the President yet. They came out for a sales tax of five billion, and they put it in the alternative. They said they could not believe that some scheme could not be worked out whereby exemptions could be afforded to the lower income groups and they left it open so that either Colm's plan or Ben Cohen's plan could be used.

They advocated that the twenty-five thousand be done, not by the present system, but by higher taxes extended to all incomes. They had in the tax-exempt bond loophole; they had in cross reference to social security; and they had one or two other things like higher liquor and tobacco taxes and higher postal rates.

It was a very specific program along that line. I think I have given you all the leading lights in it.

I told them that I thought they went too far in the Ruml plan and that I was against their consumption tax. We had quite a long argument about that. They have got some new rationalizations of that, and I told them I thought they were rationalizations.

We had some discussion of the corporate rates.

The only things to which I could take exceptions - as specific points - were the sales tax and the Ruml plan.

On the compulsory savings I told them that I thought they were not taking sufficient account of the loss in the E Bonds that we would have, and that if we had a program it ought to be more than six billion. They were revising that. Their idea was to get that to Smith over Sunday. He was going to work on it.

They were very insistent on having a conference Saturday afternoon, and said Smith had instructed them to show this to me. I don't know what that means. I said nothing about our revised document that went to the President, being a little embarrassed, having talked to them before, but I didn't feel that I could say anything about it.

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They are very distinctly of the opinion that the Budget Message should show leadership, not only as to amount, but by specific recommendation. I think there is much in their point. I don't like some of their specific recommendations.

H.M.JR: Well, the President is going to have to make up his mind. I asked to see him tomorrow morning. I have not heard from him since I sent that thing over.

MR. PAUL: They are completely thrown off by these new figures.

H.M.JR: But they have six billion of compulsory savings. All that would do is to knock out War Bonds - E Bonds.

MR. PAUL: I told them that. They said they wouldn't have any objection to it being higher.

MR. GASTON: There are a few things I don't like about their specific plan. One is that I don't think - I think it ties us up too much.

MR. BELL: So do I.

MR. GASTON: The other thing is that it is specific from the wrong source. It lays down a precedent for the Budget - laying down a tax program.

MR. BLOUGH: That is why it is in there.

MR. GASTON: That is why it is in there, yes.

H.M.JR: What don't you like about it?

MR. GASTON: I said what is wrong about it is, first, I think it is a mistake to go down before Congress - for the Congress to lay down too specific a program, because it ties his hands and our hands. The second thing is, it is too specific - the second objection is that the source of this specific program is the Bureau of the Budget. It is laying down a

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precedent for the Bureau of the Budget framing the tax program. Roy comments, "Yes, that is why it is in there."

MR. BLOUGH: Colm very frankly said the other day, that in his opinion the Budget Accounting Act required the President, in the Budget Message, to lay down a specific tax program.

H.M.JR: Nuts.

MR. PAUL: Did he say that, or was it that it was a specific figure?

MR. BLOUGH: No, a specific program.

MR. PAUL: Whatever we do, we are backed into the position now - and I am not sorry we are - that George suggested that the President implement the Treasury in coming up on the Hill. I am like the Secretary, here; I want to have the President behind any program we do take up, wherever he gets behind it, whether in the Budget Message or somewhere. So I am a little divided on this.

MR. BELL: It seems to me if you want leadership from the President, what you have to do is get some agreement with the chairmen of the two committees, which you contemplated, and then have the President get behind it in a special message.

H.M.JR: That is what we are trying to do. I don't understand Paul's position.

MR. PAUL: My position is that I don't want to go up on a tax program, which is what George suggested the President say - that we would come up with one - without having the President behind it. If the President would get behind it, as Dan suggests, in a special message, that would be the best possible thing; but short of that, if he is not going to do that, I would rather have him behind it in the Budget Message or somewhere, than to go up alone and fight it out without any support.

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H.M.JR: You are not going up alone - we are not - I am not.

MR. BELL: I think I would rather have no presidential support than have it go up in the Budget Message. In the first place, I don't think you can get agreement between now and the time of the Budget Message. In the second place, a detailed tax program should not be in the Budget Message. That is the wrong place. I don't think the Budget Accounting Act requires it. It requires a balanced statement, and it requires recommendations to the President as to how it should be balanced; it does not have to go into detail.

MR. PAUL: I argued against it. One argument, apart from others, which I made against the sales tax - which they call a consumption tax in this message - was that if the President says that, every headline in the country will say that the President supports the sales tax. It won't do any refining as to the kind he is supporting; it will grab that as presidential support of something we have been fighting all the time. That is what you will get. They said that it is coupled with the acceptance of all the other things in the message. I said, "I know, but they are going to take just what they want out of this."

MR. GASTON: The Rum1 plan and the sales tax - a complete defeat for the Treasury.

MR. PAUL: Those were the two I mentioned.

MR. BELL: What is the next step, Randolph?

MR. PAUL: I presume that - I want to mention one other thing. Their compulsory savings is a perfectly flat plan. It is a flat percentage. It hits the low income the same as the high. It is not a plan like ours, Roy, with the progressive feature in it. I argued that with them and they said, "What difference does it make? The rich save anyway, and we can get at their funds."

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I said, "I know, but from the standpoint of how much people have left to spend, they are going to be in the same position they have been in, and the low incomes are going to be hard-hit."

They are pretty unliberal and completely - I think you could get the NAM endorsement for that.

H.M.JR: Well, I don't see that there is anything to do except simply wait until I see the President. Saturday morning I asked Miss Tully to arrange for me to see the President. I am going to go over and say, "Do you want to follow this procedure or don't you?"

MR. PAUL: It isn't only a question of procedure. That is one question; the second question is the things in there.

H.M.JR: Randolph, the distinction I am making is - I am not going to get excited about this thing, I have been through too many of them. The President may say, "O.K. Henry, I don't want to send up a program; I think what you told me about George is good; I am going to follow that." What is the use of battling with Colm if the President is going to go out for it? If the President says, "No, I want to say something," then we have to battle - and you will know by tomorrow morning.

MR. BELL: Tentative figures indicate we are going to have a deficit next year of seventy-two or seventy-three billion.

H.M.JR: Seventy?

MR. BELL: Seventy-two or three billion dollars. It is up about ten from this year.

H.M.JR: Up about ten?

MR. BELL: Yes. All you have in additional revenue has been absorbed already in expenditures - more than been absorbed.

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H.M.JR: Bell, do you see any reason to prolong this thing?

MR. BELL: No, I think you have just got to wait until tomorrow morning and maybe we should have a conference with the Budget tomorrow afternoon, if your date is definite.

H.M.JR: I will know within the hour.

O.K.

December 28, 1942
11:45 a.m.

RE: PROCUREMENT (Ford Contract)

Present: Mr. Paul
Mr. Mack
Mr. O'Connell

H.M.JR: Cliff, these gentlemen were in here this morning, very much disturbed about this Ford contract. I thought they had better tell it to you themselves. Go ahead.

MR. O'CONNELL: The way this came to me, Cliff, was with a memo addressed to the Secretary, recommending that he approve an advance payment of a million two hundred and fifty thousand dollars and that he approve the form of contract which, apparently, had been prepared somewhere in the Procurement Division. The whole situation seemed to me - and I took it up with Mr. Paul - to be pretty bad.

In the first place, the advance payment of a million two hundred and fifty thousand dollars was made before this was - without an agreement between Ford and the Treasury, and without the clearance or approval of the Secretary, which is required under the regulations even if there is a contract where we waive the advance payment bond and other things, which we did in this case.

Then the other thing that disturbed me terribly about it was that the purported contract between the Ford Motor Car Company and the Treasury is just absolutely ridiculous on its face. There are several required provisions of law that are not included: A renegotiation provision is not included in the contract; the Walsh-Healey Act provisions are not included; and several other provisions are left out. The way in which the price was arrived at is not clear, either from the contract or from the exchange of letters on which the contract was based. There is a provision in it to the

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effect that - this is absolutely ridiculous - if the Government wishes to eliminate any of the equipment called for under the contract it will be eliminated at the option of the Ford Motor Car Company. Those are typical of the things which were in the draft of the document that came to me.

I find in talking to our people and Procurement that it was only after all these things had been done that the Legal Section first had any direct contact with the negotiations or with the deal itself. It seems to me that whether it is typical or not, but particularly if it is typical, it is a very, very bad way to have things handled. The contract was drafted by some people in the Procurement Division, not in the Legal Division, and the negotiations that went on between your people and Ford leave a great deal to be desired, in my judgment.

It seems to me that in every situation like the Ford case or in all these important deals, especially when we are following a new track, that our lawyers ought to be in on the negotiations and ought to draft the contracts, and not be expected to button up a lot of mistakes after they have been made, which I think was the case in this instance.

MR. MACK: Yes. Well now, if what you say is the case, this is the first I have known that it was not cleared through Legal, of course, before the contract was in shape for preparation.

MR. O'CONNELL: The first intimation our people had on it was on December 5, when one of our men, Mr. King, called with reference to the fact that they had paid a million two hundred and fifty thousand dollars in advance payment to Ford.

Now, there is nothing in the record that indicates to me that it was necessary to make the advance payment to Ford prior to the time that we had a contract. As a matter of fact, the only thing in the record is an indication from Ford to the effect that he thought he ought to have about twenty-five percent down. I think

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that provision probably was reasonable, to pay him twenty-five percent, but I think it could have awaited the signing of the contract, because without going to the Secretary it is just downright wrong to make an advance payment to Ford or General Motors.

MR. PAUL: The instructions are very explicit.

MR. O'CONNELL: There is no contract yet between Treasury and Ford, and the million two hundred and fifty thousand dollars was paid over six weeks ago.

MR. MACK: I am trying to think of the history of this case. As I recall it, there was quite a job to get rubber equipment. There was rubber equipment that had been purchased for manufacture. Then there were some delays at WPB, and the next event that I have in mind is that Jeffers came in the picture and Batt turned the whole thing over to Jeffers.

MR. O'CONNELL: That is right.

MR. MACK: Along about that time, as I understand it, the President told Jeffers, or wrote him a note - this I have heard, I don't know - that something must be done right away. And right at that time it so happened, by coincidence, perhaps, that it was indicated that they would be willing to sell this Ford plant provided they could move on it fast.

MR. PAUL: But our lawyers are right over here constantly.

MR. MACK: Now, it was my understanding that the Legal Division practically lived with this thing; and if they knew nothing about it, it is amazing to me, because I have talked to Hill about this. I have talked to the others and naturally assumed that the same procedure that is followed in all cases would be followed here.

MR. O'CONNELL: I don't think that the right procedure is followed in most cases.

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MR. PAUL: Aren't there some people over in your shop who don't believe in having lawyers in on things?

MR. MACK: I don't know that that is the case. If you are referring to this fellow, Dick - was he in on this picture?

MR. O'CONNELL: I can't tell, but I believe he was.

H.M.JR: Let's do this - let's be fair. Cliff Mack has not had a chance. Let him go back.

MR. PAUL: I know that. We made that point to the Secretary.

H.M.JR: I mean, you are catching him unawares. Let him go back and study this thing; and then when he has a chance to study it, I would like you to get together with these two gentlemen. In other words, post yourself. This is their side of the story. Now, you have to get your side. There are always two sides. When you have it, then come over and see me, but Paul and O'Connell are disturbed that a thing like this, seemingly, could go through and then come up to me for my approval two weeks after the money is paid.

MR. MACK: I can well understand that.

MR. PAUL: And also by the fact that these contracts are negotiated without any help from the Legal Staff. They are very difficult legal contracts.

H.M.JR: Let Mack go back.

Now the point that Paul and O'Connell make - Paul has not got time, but O'Connell has all the time - will give all the time necessary from now on on anything that approaches the size of this thing--

MR. MACK: Fine.

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H.M.JR: He is available until further notice to assist you on anything you need on a thing like this.

MR. MACK: As a matter of fact, the Legal Division--

H.M.JR: The trouble is - I take part of the blame. There should be somebody here in my office, an assistant secretary, somebody who could be available and advise you. There hasn't been such a person since Mr. Swope left. I have been trying to find such a person, but I have been unable to because I don't want to get somebody who can't make a contribution. We used to have Harold Graves. You have nobody to go to as a father-confessor when you are in trouble. Pending my finding somebody who can be of assistance, out of this office, I want O'Connell to make himself available as much as he can, you see. This can all happen - let's say that they are right, for argument's sake, let's say they are right and it got by you. Well, it can happen once, but we don't want it to happen again.

You go back and post yourself. As I say, from now on, until we can find somebody with the rank of assistant secretary who can be here to help you, O'Connell will do all he can and that will be his first order of business. That is agreeable to you, Paul, isn't it?

MR. PAUL: Yes. I will be available for some of this.

MR. MACK: This is amazing to me, because we have our attorneys - as a matter of fact, before - well, a year or so ago we had, I think, something like six attorneys; now we have twenty-eight or thirty in all sorts of deals.

MR. O'CONNELL: That is not quite right. We actually have ten now, and we used to have about five.

MR. MACK: There are more than that.

MR. O'CONNELL: Not in the Legal Section.

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MR. MACK: I am working with them; I see them.
However--

MR. PAUL: I wish we did have that many.

MR. MACK: They are in negotiation, they lived with the rubber deal, they lived with the oil deal. It is surprising to me that this was not known to them.

H.M.JR: Look, Cliff, you are not prepared. Go back and post yourself. Then when you are ready and have posted yourself - because they feel that this is not a contract, and they are going to have to do something about it - the question is, what are we going to do. I hope there are no more like them, but I think that both of you gentlemen had better take a look back over this thing and see if there are any more like these. Then if you don't mind, after the three of you have gotten together again, I would like very much to meet the three of you, with the recommendations, and then I want to hear Mack's side of the story.

December 28, 1942
12:09 p.m.

HMJr: In thinking about somebody, I think I once looked into this man - the - what's the name of this great, big organization in Chicago - merchandising.

Randolph Paul: Sears Roebuck?

HMJr: No.

P: Montgomery Ward?

HMJr: No, it's - the same man controls P.M.

P: Oh, Marshall Field, do you mean?

HMJr: Yeah, well now Marshall Field, you know, their organization, their stores and their factories and everything were on the down....

P: Yeah.

HMJr:grade, and somebody stepped in there and reorganized them - did a marvelous job.

P: Yeah.

HMJr: And....

P: I didn't know that.

HMJr: Hello?

P: I didn't know that.

HMJr: Yes, well, I once looked in and I take it that Marshall Field would still more or less control that, wouldn't he?

P: Yeah.

HMJr: And I thought possibly through Mr. Weis you might find out.

P: I'll call Weis right away.

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HMJr: Now then somebody - I was just trying - I'm not sure that the man who didn't do the job died, but I'm not sure.

P: Well, I can find out about it.

HMJr: But there's somebody stepped into that big organization, took it and put it back on its feet, and made a money-maker out of it.

P: Well, I'll - I'll call Weis right away.

HMJr: Now it's that kind of a person, if he's a liberal and so forth.

P: Yeah.

HMJr: Isn't it - that's the kind of person we'd want.

P: That's right.

HMJr: Because that's a big, bad....

P: As a matter of fact, he might do work in the Treasury on a more extended front than this.

HMJr: Oh, he would. He'd have to.

P: Yeah.

HMJr: He'd have to. Okay.

P: All right.

HMJr: Thank you.

December 28, 1942
12:18 p.m.

George
Hass:

Yes.

HMJr:

Two things - find out who is the president of Marshall Field in Chicago and let Miss Chauncey know.

H:

Yes, sir.

HMJr:

And number two - this memorandum that I asked you on the question of the price of food....

H:

Yes, sir.

HMJr:

....before it comes to me, I'd like you to go over it with Miss Elliott.

H:

Fine.

HMJr:

Because after all she was in the con.. - food - in the consumers section of O.P.A. and I'm sure she'd have something to know about.

H:

Fine, I'll do that.

HMJr:

Thank you.

H:

You're welcome.

December 28, 1942
2:05 p.m.

WAR BONDS

Present: Mr. Gaston
Mr. Graves
Mr. Gamble
Mr. Crampton
Mr. Callahan
Mrs. Klotz

H.M.JR: Vince, I have talked with Mr. Odegard, and I can't wait until he gets here tomorrow, because tomorrow I am going to be immersed in taxes. I have talked with these gentlemen, and they agree with me. It is my decision to postpone any more of those seven to eight Saturday night programs.

MR. CALLAHAN: All right, sir.

H.M.JR: Everybody who has heard it here, including Mr. Gamble, Mr. Graves, and anybody else who has heard it, agrees with me that it is just too Gawd-awful, and so I want it postponed until we have something that everybody is satisfied with, and we may never take it up.

Now, on the Mutual program for this coming Saturday night I want somewhere between five to ten minutes to put on either Mr. Sullivan or Mr. Helvering to explain the Victory Tax. You might ask for ten; it may be less.

MR. CALLAHAN: We will take ten, and we can fill in.

H.M.JR: Incidentally, I was to get from you, Harold, the breakdown on that cost of the WOR program.

MR. GRAVES: I have it on my desk. You say WOR?

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H.M.JR: The five hundred dollars - what that goes for.

MR. GRAVES: I have that, but I understood you wanted the breakdown on the "Over Here."

H.M.JR: Could you get them to Mrs. Klotz, please.

The Treasury Star Parade - you are doing two more, is that right, and then you are going to stop?

MR. CALLAHAN: No, we weren't planning to stop.

H.M.JR: Bacher is doing two more.

MR. CALLAHAN: He did two more, the last two on Tuesday. But we have made up enough programs to carry us through until about the first of February. That means we will start recording again some time the first part of January.

H.M.JR: Who is going to--

MR. CALLAHAN: I don't know yet.

H.M.JR: Postpone starting those until I decide who is going to direct them.

MR. CALLAHAN: That is a series, Mr. Secretary.

H.M.JR: That is all right. Everything I am saying is serious.

MR. CALLAHAN: No, a series. It continues three times a week; we have promised that to the stations.

H.M.JR: I am having Bacher checked up outside. I want to find out more about him, because certainly he directed those, didn't he?

MR. CALLAHAN: That is right.

H.M.JR: He is the man on the spot - isn't he responsible for those programs?

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MR. CALLAHAN: Mr. Murray is responsible for them, Mr. Secretary.

H.M.JR: What does Mr. Murray contribute besides the people who are out of his agency?

MR. CALLAHAN: He has been the director from the start. He conceived the ideas and hired the people.

H.M.JR: I am not going to get into an argument. I told Mr. Murray what I wanted, and what I didn't want. He hasn't given me a single thing. I can't get upset all the time. I told him that I didn't want any more of these things. I told him what I did want and what I didn't want. It must be fully a month or six weeks ago. He said he would be down in a couple of weeks with stuff himself, but I haven't gotten a thing out of him. Anybody that puts on a program the last two weeks the way Murray did - well, I just can't have a man like that. I mean, I can't be connected - I can't have a man like that connected with the Treasury. I am not going to have a battle like I did with that girl, Lucy Monroe.

MR. GRAVES: That didn't come in Vince's department.

MR. CALLAHAN: No, sir.

H.M.JR: Well, anyway, we will try to make up our minds this week. I am certainly not going to rely on Mr. Murray.

MR. CALLAHAN: We have an engagement for Mr. Murray to come down here on Wednesday. Shall we keep that engagement?

H.M.JR: Odegard thought I ought to tell him. I am perfectly willing to tell him. Odegard wanted me to tell him. O.K., I will tell him, but I am telling you now that on the Treasury Star Parade, which Bacher produced - I am trying to find out more about Bacher, and I am trying to find out more about Murray.

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Now, you say you don't - when will be the deadline - so there won't be a gap?

MR. CALLAHAN: I would say three weeks. We have got plenty of time on it.

H.M.JR: All right. They are good.

MR. CALLAHAN: I just didn't want to have a cessation.

H.M.JR: They are good, but it may be necessary to break with Murray. He seems to be a man who wants to run things his own way. He has given me such outrageously poor stuff that I don't know as I want to be associated with him any more.

Now, I haven't heard your Treasury Song Parade. You say they are downstairs?

MR. GAMBLE: Yes.

H.M.JR: Will you check up, please, to see that both the recent Treasury Song Parade and the Treasury Star Parade are downstairs so I could drop down the first time I have a chance.

Golden Eagle - I don't know anything about that.

MR. CALLAHAN: That is something we have been considering, Mr. Secretary, looking for a children's program ever since the drive started, and we have not found anything. We have not decided on that. We haven't decided to make a recommendation one way or the other. We have turned it over to Dr. Anderson to get his viewpoint to see whether he thinks it would be of any value. If he thinks so, that recommendation will be made.

H.M.JR: Well, it will have to come up to me. Why did we spend twelve hundred dollars on the Golden Eagle?

MR. CALLAHAN: We spent it to find out whether we could build a program which would be suitable to the

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Treasury Department and to the school people and to everybody. We have not been able to find an existing program on the air. We had in mind that if we could reach the people we would build a series of transcription programs similar to the Treasury Star Parade. The only way we could find out was to get the people who were the best people in the business to build something and show it to us.

H.M.JR: That kind of thing, Harold, would come up to me - would go through Herbert Friday, and come up to me on a Tuesday.

Mrs. Klotz, beginning with next Tuesday, and every Tuesday after that that I am here, I have put down for an hour a meeting at which there will be Mr. Gaston, Mr. Crampton, Mr. Odegard, and Mr. Schwarz.

MRS. KLOTZ: What time?

H.M.JR: Ten o'clock, Tuesday. That is about all, isn't it, Herbert?

MR. GASTON: Yes.

H.M.JR: What else, Harold?

MR. GRAVES: I have nothing more.

MR. GAMBLE: I would like to just say one thing. It probably isn't necessary, but of all of the Government agencies we certainly by all odds have had the finest radio programs on the air. I think a number of people have contributed to them. In my own mind I think Mr. Bacher has contributed greatly to them, but I also think there is a likelihood that Mr. Murray has made some considerable contribution; and it would be a fine thing if in the unraveling of this we could keep both of those people in the picture. I hate to see anyone sacrificed, because I think they have done just a splendid job.

H.M.JR: They had a complete free hand. Nobody has tried to tell them anything - I was told we couldn't

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with the result that what they have done in the last two weeks on that thing is just unbelievable, and I can't be connected with anything like that.

MR. GAMBLE: I think you have had to go through that.

H.M.JR: I am not going to resign from the Treasury in order to disconnect myself from a program. So the only way to get rid of the program is to get rid of it.

MR. GAMBLE: I agree with that. I am not against getting rid of the program, but there is a lot of talent involved in this whole picture.

H.M.JR: I think they have had plenty of time to demonstrate what they can do.

MR. GAMBLE: I think you will find them willing to do anything you want them to do.

H.M.JR: But look at all the time this has taken. Look how excited I got this Saturday night and the Saturday night before, and it is always in the name of the Treasury. With all of these people who are unfriendly to the Treasury, we have got to be extremely careful. We started out with the Texaco Hour, and the first thirteen weeks were wonderful; we blazed the way. The few I heard of the Treasury Star Parade were grand, but then when you get on to this level - I mean, somebody has got to step in and stop it, that is all.

MR. GAMBLE: I agree with that, but I think it all can be done by you through some one person that you make sure understands what you want. They just don't understand what you want.

MR. GASTON: I don't know what we are doing. I need to look at the different programs before I can form any judgment, except that I did have that very definite idea that this was a general entertainment program which with just the Treasury's name attached to it was not of any particular value.

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H.M.JR: On the plus side, all these very fine plugs we get from the commercial companies - you don't need much more unless you have some special purpose.

MR. GRAVES: I think that is right.

H.M.JR: I mean, I listened Saturday to the Lucky Strike, Pet Milk - everything was grand, perfectly grand. Did you hear the WOR program?

MR. CALLAHAN: No, sir.

H.M.JR: Did you hear the seven to eight program?

MR. CALLAHAN: No, sir.

H.M.JR: That is the thing that amazes me. Nobody in the Treasury listens to these.

MR. CALLAHAN: What we do is, we have programs contributed every night. I can't listen every night. We make a recording of these programs available; the ones we miss, we do hear. That is the way we keep up with them. I have a machine at home for that purpose so I will be familiar with what is going on.

H.M.JR: Well, anyway, the meeting is adjourned.



TREASURY DEPARTMENT

WASHINGTON

December 28, 1942.

MEMORANDUM FOR MRS. KLOTZ:

In accordance with the Secretary's request after luncheon today, I am enclosing herewith statements itemizing the costs of the weekly "Over Here" radio programs from November 28 to December 19, inclusive.

I attach also a statement showing without itemization the cost of the "Bond Wagon" programs from October 3 to December 12, inclusive, together with an itemization of the expenses for these programs on October 10, 17, and 24. I have asked for a similar itemization for all these programs, and will send them in to you when received.



Harold W. Graves.



NOVEMBER 28, 1942

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Cont. Here

ORCHESTRA	
a. New York-28 men and leader	\$1308.00
b. Hollywood	903.18
MUSIC (Composition, arranging & copying)	1009.79
SOLOISTS & GUEST STARS	
a. New York	
1. Coleman	500.00
2. Others	67.00
b. Hollywood	110.00
ACTORS AND ANNOUNCERS	
a. New York	220.00
b. Hollywood	-----
SINGERS (Chorus-14 voices)	
a. New York	203.60
b. Hollywood	119.00
PRODUCTION & WRITING (8 People)	
a. New York	600.00
b. Hollywood	300.00
ACILITIES & LINE CHARGES	487.60
Hollywood switches included in this figure.	
Winston-Salem included in Dec. 12 figure.	
TRUCKING SOUND EFFECTS & ORGAN TO STUDIO	100.00
OVERTIME VANDERBILT THEATRE STAFF	180.00
SOUND EFFECTS.	75.00
TOTAL.....	\$6,183.07

DECEMBER 5, 1942.

ORCHESTRA	
a. New York-28 men and leader	\$1090.50
b. Hollywood	538.35
MUSIC (Composition, arranging & copying)	931.94
SOLOISTS & GUEST STARS	
a. New York	
1. Coleman	500.00
2. Others	84.50
b. Hollywood	110.00
ACTORS AND ANNOUNCERS	
a. New York	330.00
b. Hollywood	137.50
SINGERS (Chorus-14 voices)	
a. New York	204.00
b. Hollywood	
PRODUCTION & WRITING (8 People)	
a. New York	550.00
b. Hollywood	250.00
FACILITIES & LINE CHARGES	487.60
Hollywood switches included in this figure.	
Winston-Salem included in Dec. 12 figure.	
TRUCKING SOUND EFFECTS & ORGAN TO STUDIO	100.00
OVERTIME VANDERBILT THEATRE STAFF	160.00
SOUND EFFECTS.	75.00
TOTAL.....	<u>\$5,549.39</u>

DECEMBER 12, 1942

ORCHESTRA	
a. New York-28 men and leader	\$1173.00
b. Hollywood	----
MUSIC (Composition, arranging & copying)	986.79
SOLOISTS & GUEST STARS	
a. New York	
1. Coleman	500.00
2. Others	114.50
b. Hollywood	55.00
ACTORS AND ANNOUNCERS	
a. New York	82.50
b. Hollywood	55.00
SINGERS (Chorus-14 voices)	
a. New York	273.00
b. Hollywood	----
PRODUCTION & WRITING (8 People)	
a. New York	100.00
b. Hollywood	750.00
FACILITIES & LINE CHARGES	
Hollywood switches included in this figure	750.00
Winston-Salem included in Dec. 12 figure	
TRUCKING SOUND EFFECTS & ORGAN TO STUDIO	100.00
OVERTIME VANDERBILT THEATRE STAFF	167.28
SOUND EFFECTS	75.00
TOTAL.....	\$5,182.07

DECEMBER 19, 1942

ORCHESTRA	
a. New York-28 men and leader	\$1353.00
b. Hollywood	Blue Network not yet billed.
MUSIC (Composition, arranging & copying)	998.37
SOLOISTS & GUEST STARS	
a. New York	
1. Coleman	----
2. Others	82.50
b. Hollywood	165.00
ACTORS AND ANNOUNCERS	
a. New York	385.00
b. Hollywood	55.00
SINGERS (Chorus-14 voices)	
a. New York	284.00
b. Hollywood	-----
PRODUCTION & WRITING (8 People)	
a. New York	550.00
b. Hollywood	350.00
FACILITIES & LINE CHARGES	
Hollywood switches included in this figure	450.00
Winston-Salem included in Dec. 12 figure	
TRUCKING SOUND EFFECTS & ORGAN TO STUDIO	

OVERTIME VANDERBILT THEATRE STAFF	

SOUND EFFECTS	75.00
TOTAL.....\$4,747.87	

COST OF "BOND WAGON" PROGRAM.

Oct.	3	\$344.24
	10	403.00
	17	344.00
	24	398.00
	31	31.20
Nov.	7	42.00
	14	325.51
	21	780.15 ¹
	28	1,022.60
Dec.	5	701.00
	12	431.85

¹"Women At War" Week.

SATURDAY NIGHT BONDWAGON PROGRAMProgram of October 10, 1942

Actors and actresses (11)	\$ 253.00
Soloist (1)	23.00
Singers (4)	77.00
Script writer (1)	25.00
Radio guild for production and supervision	25.00
	<u>\$ 403.00 *</u>

Program of October 17, 1942

Pianist (1)	18.00
Actors and actresses (8)	200.00
Soloist (1)	25.00
Singers (4)	76.00
Radio guild for production and supervision	25.00
	<u>\$ 344.00 *</u>

Program of October 24, 1942

Actors and actresses (9)	255.00
Singers (4)	76.00
Radio guild for production and supervision	25.00
Orchestra leader (1)	42.00
	<u>\$ 398.00 *</u>

*These figures do not include Social Security, etc.

December 28, 1942
3:35 p.m.

INSTALLMENT SELLING FOR POST-WAR DELIVERY

Present: Mr. Haas
Mr. White
Mr. Blough

(Memorandum entitled "Mr. Nugent's Plan for Installment Selling for Post-war Delivery," handed to the Secretary by Mr. Haas, copy attached.)

MR. HAAS: I was just telling Roy that the Post editorial was better than our memorandum.

H.M.JR: Is there one?

MR. HAAS: We quoted it at the end.

H.M.JR: Who in God's name is Nugent?

MR. BLOUGH: I don't really know who Nugent is.

MR. HAAS: He wrote a book on consumer credit, and he was the man that they had over at OPA working on that subject over there. He was connected with some foundation, and he was loaned to them.

H.M.JR: Commission of six percent?

MR. HAAS: That is his plan.

MR. BLOUGH: Some ran much higher than that.

H.M.JR: I didn't know they had commissions.

MR. HAAS: That is one of the advantages.

(Mr. White entered the conference.)

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H.M.JR: I think this part is good. It isn't "How much can I save?" but they will be thinking, "What shall I save for?" That is good. Who put that in?

MR. BLOUGH: Gass put that in. I would have taken it out.

H.M.JR: Who?

MR. BLOUGH: Oscar Gass.

MR. HAAS: He is Harry's representative.

MR. BLOUGH: I don't know as he put it in. He said he wanted to keep it in.

H.M.JR: I don't think that the press boys are going to get in on this, do you?

MR. HAAS: I wouldn't make too much of it, Mr. Secretary, it will just advertise it.

MR. WHITE: The reason why there will probably be a big push for this is it is a bonanza for all sales agencies and corporations who have anything to sell. This would be the most wonderful thing. They immediately send out all their salesmen and begin collecting orders so they will have two or three years' orders in advance.

MR. BLOUGH: And the advertising people.

MR. WHITE: In other words, there are a lot of vested interests who will make much of it. That is the only reason it has gone as far as it has.

MR. HAAS: The poor soldiers won't have anything. They would wait two years.

H.M.JR: That is the best argument of all.

MR. BLOUGH: It is implied in here.

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MR. WHITE: It was one of the arguments used in the discussion. "These priorities would be established upon the basis of consumers' present judgments of their post-war needs; ... priorities will depend on ability to save during the war and not on need in the post-war period."

H.M.JR: You have given me the thing. I will say it is very nice for the fellow who is earning twelve or fifteen dollars a day. He can pile up all the priorities. What about the poor soldier that is going to come home?

MR. WHITE: Or the young man who is just getting married.

MR. HAAS: And what advantage over the present system? Savings Bonds give a man more latitude; he can change his mind. That is the argument the Post puts up. The only improvement is that it gives something concrete.

H.M.JR: I can't say - if I get into the thing - that it puts a lot of salesmen to work.

MR. WHITE: Say it is a waste of manpower.

H.M.JR: I will say I don't see it has any advantage over the present War Savings Bonds, and has considerable disadvantage.

MR. BLOUGH: And then this soldier point is well put.

H.M.JR: Sure.

MR. WHITE: Say that the important thing is that it does not mean additional savings. It means that if you sell a man a refrigerator, he will buy a bond less.

MR. BLOUGH: And he will have a good reason

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for doing so because he is told that he is contributing just as much to the war effort by buying that refrigerator - it goes to the Treasury just the same.

H.M.JR: I won't bring it up.

MR. WHITE: No.

Mr. Nugent's Plan for Instalment Selling for Post-war Delivery

Mr. Nugent's plan is one of many proposals for the sale of durable consumption goods on a prepayment basis for post-war delivery. Purchasers would be required to specify the general class of goods desired -- as e.g., electric refrigerators, but not the particular make. No guarantee would be made as to the price or quality of the goods. The funds collected under the plan, less commissions and expenses (varying between 4.1 percent and 6.5 percent, depending upon the size of the contract), would be deposited with the Treasury. Purchasers would receive priority rights to the goods ordered and would secure a discount on such goods amounting to 10 percent of the amount paid in. They would receive no interest on their money. This discount would come from dealers' commissions in the post-war period.

Mr. Nugent claims the following advantages for his plan:

- (1) Individuals would be induced to save additional amounts of their current income.
- (2) The Federal Government would obtain additional loan funds.
- (3) Industry would be enabled to maintain its dealer organizations on a fully or partially self-supporting basis.
- (4) A substantial post-war market would be assured to industry, and a post-war rationing system for the goods covered would be automatically provided.

In our opinion, these claims have little merit.

(1) The amount of savings, in addition to what is now going into savings bonds, would probably be small at best. It is likely that purchases under the plan would be principally in substitution for purchases of savings bonds.

(2) The savings would be deposited in the Treasury only after the deduction of commissions ranging up to over 6 percent. These are far higher commissions than would be tolerated in any direct sale of Treasury securities. (The effective interest rate paid upon funds actually deposited in the Treasury would depend upon the duration of the war.)

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(3) In the face of the existing manpower shortage, it seems to us to be a disadvantage rather than an advantage of the plan that it furnishes continuing employment to salesmen of automobiles and refrigerators. The maintenance of competing sales forces for these commodities would complicate the problem of the saver by adding to the question of "How much can I save?" the question of "What shall I save for?".

(4) The plan would have no substantial effect upon the total post-war market for the goods covered. Neither would it increase the supply of such goods available. It would merely establish certain priorities for their distribution. These priorities would be established upon the basis of consumers' present judgments of their post-war needs; such judgments may be substantially different from their actual post-war needs. The man who has purchased a priority on a refrigerator may find that he prefers an automobile, and vice versa. Furthermore, the priorities will depend on ability to save during the war and not on need in the post-war period.

The main considerations with respect to Mr. Nugent's proposal were well summed up in an editorial which appeared in The Washington Post last Saturday on a similar plan proposed by Mr. Kaiser. The Post said:

"There is . . . no point in it, so far as we can see. Since bonds, especially redeemable savings bonds, can easily be turned into cash whenever desired, no purpose is served, from the point of view of the individual, by tying up funds in special savings balances earmarked for the purchase at an indefinite future date of articles yet to be produced."

The Secretary

Here are dealer
holdings as of
Dec 24th.

swB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Mr. D. W. Bell

December 28, 1942

FROM Davis L. Baker, Jr.

DEALERS' PORTFOLIOS
(In millions)

	<u>Dec. 22</u>	<u>Changes</u>	<u>Dec. 23</u>	<u>Changes</u>	<u>Dec. 24</u>
<u>TREASURY BONDS:</u>					
Under 1 yr.....	2.3	--	2.3	-1.0	1.3
1-5 yrs.....	1.2	+3.0	4.2	-0.8	3.4
5-12 yrs.....	135.5	+12.9	148.4	-6.7	141.7 ✓
Over 12 yrs.....	46.2	+13.6	59.8	-0.3	59.5 ✓
	<u>185.2</u>	<u>+29.5</u>	<u>214.7</u>	<u>-8.8</u>	<u>205.9</u>
<u>TREASURY NOTES:</u>					
Under 1 yr.....	-0.9	-1.3	-2.2	-0.8	-3.0
1-5 yrs.....	27.0	-7.0	20.0	-2.2	17.8
	<u>26.1</u>	<u>-8.3</u>	<u>17.8</u>	<u>-3.0</u>	<u>14.8</u>
<u>HOLC BONDS:.....</u>	0.3	+0.3	0.6	+0.1	0.7
<u>FFMC BONDS:.....</u>	0.9	--	0.9	--	0.9
<u>OTHER GUARANTEED:..</u>	<u>3.8</u>	<u>+0.4</u>	<u>4.2</u>	<u>+0.1</u>	<u>4.3</u>
Sub-total	216.3	+21.9	238.2	-11.6	226.6
Ctfs. of Indebt:..	155.3	+6.8	162.1	-30.8	131.3 ✓
Treasury Bills:...	1.4	+1.2	2.6	-0.1	2.5
	<u>373.0</u>	<u>+29.9</u>	<u>402.9</u>	<u>-42.5</u>	<u>360.4</u>

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	December daily sales	Cumulative sales by business days				December as percent of November
		December	November	October		
December 1942						
1	\$ 197	\$ 197	\$ 303	-		65.0%
2	329	527	1,115	-		47.3
3	2,688	3,214	7,846	\$ 2,218		41.0
4	13,947	17,161	14,720	20,322		116.6
5	12,303	29,464	31,425	24,325		93.8
7	17,522	46,986	34,030	31,922		138.1
8	2,872	49,858	43,940	46,695		113.5
9	9,576	59,434	49,326	55,998		120.5
10	5,651	65,085	58,842	59,711		110.6
11	14,274	79,359	64,157	74,275		123.7
12	7,135	86,495	71,352	76,430		121.2
14	15,430	101,924	73,989	83,857		137.8
15	7,719	109,644	83,246	91,884		131.7
16	5,146	114,789	88,888	98,457		129.1
17	11,654	126,443	97,154	101,252		130.1
18	6,466	132,909	104,487	110,052		127.2
19	7,992	140,901	113,191	115,757		124.5
21	13,451	154,352	116,880	124,610		132.1
22	12,077	166,429	131,041	133,767		127.0
23	8,253	174,682	136,798	142,141		127.7
24	7,854	182,536	145,126	146,525		125.8
26	20,516	203,052	151,824	159,973		133.7

December 28, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	December	Cumulative sales by business days				December as percent of November
	daily sales	December	November	October		
December 1942						
1	\$ 4,116	\$ 4,116	\$ 5,164	-	79.7%	
2	4,489	8,605	9,272	-	92.8	
3	10,042	18,647	20,460	\$ 5,045	91.1	
4	39,690	58,337	31,309	42,285	186.3	
5	16,648	74,984	53,076	52,984	141.3	
7	46,424	121,408	62,326	73,919	194.8	
8	11,887	133,295	96,366	98,490	138.3	
9	17,857	151,152	111,002	117,077	136.2	
10	13,607	164,759	146,494	131,593	112.5	
11	38,664	203,423	161,929	169,859	125.6	
12	17,480	220,903	181,120	179,232	122.0	
14	52,056	272,959	188,497	194,811	144.8	
15	15,530	288,488	230,083	222,243	125.4	
16	22,764	311,252	241,624	239,891	128.8	
17	24,848	336,100	262,274	254,201	128.1	
18	25,260	361,359	287,409	290,282	125.7	
19	17,907	379,266	314,568	312,386	120.6	
21	45,716	424,982	327,418	327,928	129.8	
22	18,083	443,065	371,750	355,719	119.2	
23	16,686	459,751	390,176	382,332	117.8	
24	18,942	478,693	410,473	396,458	116.6	
26	54,198	532,891	429,168	434,661	124.2	

December 28, 1942.

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

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

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

December 28, 1942

Dear Francis:

If you are a radio fan you may have noticed that the "Information Please" program is now going on tour on behalf of War Bonds, and that we are getting millions of dollars from the studio audiences every week.

The program will be broadcast from Philadelphia on January 8th, and the producers would like very much to have you, as the leading Philadelphian in the Government, take part in the program as a guest star on that evening.

I don't need to tell you how much pleasure it would give us here in the Treasury to have you accept this invitation. Those who have taken part in these programs say that it is lots of fun. In addition, your acceptance would be of real help to us in the War Bond campaign, and I do hope that you can arrange to be in Philadelphia on that evening.

Won't you please let me know as soon as possible?

Sincerely,

(Signed) Henry

The Honorable,
The Attorney General,
Washington, D. C.

FK/cgk

CC to Gamble, Kelleher
Copies to Thompson

Copy in Diary

Del. by Bundy 12:20
12/29/42

December 28, 1942

Dear Elliott:

Elinor and I want to tell you how happy we were to read in this morning's paper General Doolittle's citation in which he presented you with the Distinguished Flying Cross, which you so richly deserved.

All of your friends on this side of the Atlantic, in which we include ourselves, are very happy at the magnificent record that you are making.

With sincere regards,

Yours sincerely,

(Signed) Henry

Lieut. Col. Elliott Roosevelt,
3rd Photo Group,
A.P.O. 638,
Care, Postmaster,
New York, N. Y.

Copies in Diary

air mail

December 28, 1942

Dear Franklin and Eleanor:

I was delighted to read in this morning's papers that General Doolittle had awarded the Distinguished Flying Cross to Elliott. May I extend my very heartiest congratulations to you on his having made such a magnificent record.

Affectionately yours,

(Signed) Henry

The President and Mrs. Roosevelt,
The White House.

Del. by SSAgent 5:21 12/28/42
Copies in Diary

December 28, 1943

Dear Mr. Hanes:

First, let me thank you for what you said of my recent visit to your part of the country. I enjoyed the experience very much and I, too, hope that I may visit North Carolina again soon. It was a pleasure to autograph the picture for you. I am sending it back to you with my compliments, and my best wishes for the New Year.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Robert M. Hanes,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

ORF:mf

P.S. I would very much appreciate your sending me a copy with your autograph.
(In Secretary's hand)

Picture of Secretary and
Mr. Hanes: "With sincere
appreciation for a grand
evening. H. Morgenthau, Jr."

December 28, 1942

Dear Mr. Hanes:

First, let me thank you for what you said of my recent visit to your part of the country. I enjoyed the experience very much and I, too, hope that I may visit North Carolina again soon. It was a pleasure to autograph the picture for you. I am sending it back to you with my compliments, and my best wishes for the New Year.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Robert M. Hanes,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

CHW:mf

P.S. I would very much appreciate your sending me a copy with your autograph.
(In Secretary's hand)

Picture of Secretary and
Mr. Hanes: "With sincere
appreciation for a grand
evening. H. Morgenthau, Jr."

ROBERT M. HANES
WINSTON-SALEM, N. C.

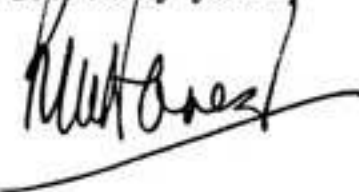
December 22
1942

Dear Mr. Morgenthau:

I am sending you under separate cover a picture which was taken at the banquet honoring you last Saturday night, which I wish to keep as a memento of the occasion and would like very much to have your autograph on it if you would be good enough to do this for me.

We all deeply enjoyed having you here and are hopeful that some good fortune is going to bring you back soon.

Cordially yours,

A handwritten signature in dark ink, appearing to read "R. M. Hanes", with a long horizontal flourish extending to the right.

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



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 28, 1942

MEMORANDUM BY MR. SCHWARZ:

Perhaps you have seen the attached clipping from the Times-Herald of December 25, 1942. The facts are as follows:

Mr. Otto Frankfurter was appointed July 22, 1941, as Assistant Purchasing Officer, CAF-7, at \$2600 a year and promoted to \$3200 September 24, 1942. He resigned effective November 3, 1942. He purchased chemicals but did not purchase alcohol. Industrial alcohol is purchased by Mr. Gibson who was Mr. Frankfurter's superior, and since October 5, 1942, all purchases of industrial alcohol have been made from the Defense Supplies Corporation (DSC). Mr. Frankfurter has never held the position of Special Assistant to me and his employment was not in any way connected with that of Mr. Herman Klotz, neither did Mr. Klotz succeed to the position of Purchasing Officer left vacant by Mr. Frankfurter's resignation.

The Gulf Distilling Corporation has never received any business from the Procurement Division.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



TREASURY DEPARTMENT

96

INTER OFFICE COMMUNICATION

DATE

December 28, 1942

TO

Secretary Morgenthau

FROM

Randolph E. Paul

You may be interested in the list of those present at the private occasion before which I spoke at the Federal Reserve Bank of Chicago December 17.

RSP

Board of Directors' Meeting - Thursday, December
17, 1942

Directors:

Avery, Clarence W.
Babb, Max W.
Cummings, Walter J.
Hoffman, Paul G.
Leland, Simeon E. - Chairman
Noyes, Nicholas H. (absent)
Williams, Frank D.

GUEST SPEAKER: RANDOLPH PAUL, GENERAL COUNSEL
TREASURY DEPARTMENT

Guests Invited:

Becker, Benjamin B.
Blitzsten, Dr. L. M.
Clarke, Philip R.
Estrem, Thomas S.
Fenton, Howard W.
McCloud, Bentley G.
Peebles, Don M.
Rathje, Frank C.
Schaffner, Robert C.
Stern, David B.
Swiren, Max
Vanderpoel, Robert A.
Ellis, Mel
Bunce, Ralph

Officers of Federal Reserve Bank of Chicago:

Young, Clifford S.
Preston, Howard P.
Dillard, James H.
Dunn, C. B.
Mulroney, A. J.
Langum, John K.
Dawes, Neil B.
Netterstrom, Otto J.
Wilson, H. Fred
Garver, W. B.

Patton, Francis F.

McClure, Nathan D.

President
First Vice President
Vice President
Vice President & General Counsel
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Manager, Research Department
Agricultural Economist

Executive Manager
Victory Fund Committee
Asst. Executive Manager
Victory Fund Committee

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 28, 1942.

TO Secretary Morgenthau
FROM Harold Graves *HG*

Mr. McReynolds has supplied the following information about Beardsley Ruml's connection with the Government:

He serves as adviser to the National Resources Planning Board and to the Office of the Coordinator of Inter-American Affairs, in both instances without compensation.

He has also served from time to time as adviser, on an informal basis, to the Board of Economic Warfare, likewise without compensation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 28, 1942

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending December 26, 1942.

Summary

Wholesale prices: The general price level continues to move higher. The BLS all-commodity index in the week ended December 19 rose 0.2 point to 100.7, thus reaching the highest level in 16 years. Basic commodity prices advanced further last week, with the BLS and Moody's indexes of daily spot prices rising to new war-time highs.

Living costs: Retail food costs have increased 15.9 percent since last year and 4.0 percent since August, with eggs, oranges, and butter rising 13 to 14 percent in the latter period. (Data as of November 17.) Great Britain has reduced food prices over the past year, largely through subsidies.

Retail trade: Department store sales in the week ended December 19 rose to the highest level on record and exceeded the corresponding week in 1941 by 10 percent. At the beginning of December, prices of typical department store items averaged 5 percent higher than a year earlier.

Steel production: Steel ingot capacity is expected to rise to approximately 97 million tons by mid-1943, as compared with a little over 89 million tons in mid-1942. These figures contrast sharply with estimated Axis nations' production of from 50 to 55 million tons.

Construction: Total construction awards in November declined 16 percent from the previous month, with awards for manufacturing buildings showing a much greater decline due to a falling off in the need for new plant facilities. In consequence, fabricated structural steel bookings in November fell to the lowest level in many years. The F. W. Dodge Corporation forecasts a decline of 49 percent in total construction next year.

Lumber: Requirements for lumber during 1943 are estimated by the WPB to fall more than 9 million board feet below this year's levels. Reserve stocks of lumber in 1942 were reduced 31 percent due to failure of lumber production to come up to needs.

- - - -

- 2 -

Wholesale commodity prices at new high

Led by farm products and foods, wholesale prices of commodities last week continued the rise which has become more noticeable since the third week in November. The rise has occurred since the urgency of the food situation became apparent, and seems to have been given further stimulus by the resignation of the Price Administrator. Moody's index of spot prices last week advanced to a new high for the entire war period while the Dow-Jones commodity futures index rose to a new high since last May. (See Chart 1.)

In the week before last, the BLS index of wholesale prices of nearly 900 commodities rose to a new 16-year high of 100.7 (1926 = 100.) The index now stands 34.3 percent above the pre-war level of August 1939.

Prices of basic farm products again rose sharply last week, and the BLS index of 9 uncontrolled commodities reached a new peak for the fifth consecutive week. The index of uncontrolled commodities has advanced 99.1 percent since August 1939. The combined index of 28 basic commodities again reached a new high. (See Chart 2, upper section.)

The price rise in the past 5 weeks has centered in prices of farm commodities not subject to control. (Refer to Chart 2, lower section.) Corn prices have advanced more than 13 percent in the 5-week period shown on the chart, and wheat and flaxseed more than 9 percent. Prices for hogs have risen 8.5 percent despite the sharp seasonal rise in receipts. Last week they averaged highest since early October, as receipts fell below expectations for the second successive week.

Cotton prices have gone up 2.6 percent in the past 5 weeks. Wheat prices last week continued to advance, partly on the belief by traders that the ceiling on flour would have to be raised to enable millers to resume purchases. Press reports indicate that Stabilization Director Byrnes is willing to permit an increase in the price of flour by 58 cents a barrel, or nearly 13 cents a bushel, if Congress would change the law to permit the CCC to sell up to 150 million bushels of wheat below the parity price.

A decline in prices for steers of 2.5 percent over the past 5 weeks has been ascribed by the Department of Agriculture to the new and more rigid price ceilings on beef. As prices for live cattle have pressed closer against beef ceilings, packer demand has turned to moderately priced cattle. The price decline has occurred despite a falling off in cattle slaughter in the past four weeks below that in the comparable period last year. In response to this development, however, prices for steers made substantial recovery last week.

- 3 -

Other price increases were indicated last week, chiefly in the form of upward adjustments of price ceilings. A rise in retail prices of fuel oil of .3¢ a gallon in the rationed States was announced, effective December 29. Press reports from Washington state that anthracite mine operators have been assured of a "moderate" increase in their selling prices to offset wages they are to pay for work in excess of the contract week of 35 hours. A temporary increase in the wholesale price ceilings for live poultry in New York has been allowed.

Government acts to improve food distribution

Last week the Government took several steps to improve civilian food distribution. Nation-wide rationing of almost all commercially processed vegetables and fruits and soups was ordered, to begin in February under the "point" system. The Food Distributor stated in the announcement that 33 pounds per capita of those foods will be available in 1943 as compared with an average of about 46 pounds a year from 1937 to 1941.

A new wholesale pricing system for four dairy products, effective December 30, was announced to replace individual ceilings. The specific prices set for butter, cheddar cheese, evaporated and bulk powdered skim milk, according to the OPA, "represent a broad step toward assurance of an equitable distribution of available supplies to consumers in all sections of the country". The prices fixed are identical with the Department of Agriculture's minimum support prices except for cheese prices, which are 3 3/4 cents per pound less. This difference will be met by a subsidy. With the new support levels the Department estimates that prices received by farmers for butterfat in 1943 will average 15 to 20 percent higher than in 1942, and for whole milk sold at wholesale, 5 to 10 percent higher.

Other measures were taken also to relieve civilian shortages of dairy products. The Food Distribution Administration issued orders for release of 2 million cases of evaporated milk to manufacturers. This followed the release of an undisclosed amount of butter stocks a day earlier. This agency also announced a program to support the milk price in the Chicago area by means of a subsidy, "thus guaranteeing production in sufficient quantities to meet the demand". This action is the third of its type and is similar to programs in operation in the New York and Duluth-Superior areas. The Department of Agriculture has explained that the subsidies are intended to make up the difference between higher farm prices and the ceiling prices at wholesale and retail.

- 4 -

Foods accounting for retail price rise

Retail food costs have increased 15.9 percent in the past year and 4.0 percent since August, according to BLS data as of November 17. The changes in retail prices of selected food items since November 1941 and since last August are shown in Table 1, attached. It will be noted that foods which have increased most within the year have been chickens, potatoes, butter, ham, and pork chops. Products which have had the greatest price rise in the last three months are eggs, oranges, butter, and potatoes. Part of these increases, of course, are of a seasonal nature. All of the four foods are now under price ceilings except oranges.

British living costs decline under subsidies

Changes in living costs and in retail food costs in the 12-month period to October 1942, in the United Kingdom, Canada, and the United States, are shown below:

(In percent)

	<u>United Kingdom</u>	<u>Canada</u>	<u>United States</u>
Cost of living	+0.5	+2.0	+8.8
Food costs	-1.8	+5.4	+16.1

It will be noted that in the United Kingdom, food costs have declined in the past year, while living costs as a whole have risen slightly. This is in direct contrast to the trend of food prices in Canada and the United States. It should be kept in mind, however, that living costs had shown a much greater increase in Great Britain than in either of the other two countries previous to 1942.

At the beginning of 1942 the British system of subsidizing production of consumers' goods, together with lend-lease shipments, was instrumental in bringing down food costs. Various British foods have been subsidized in order to stabilize food prices, which constitute 60 percent of the cost-of-living index. Subsidized foods account for about 75 percent of the food-price index, with subsidies being paid at the rate of approximately £102 million a year, excluding the pre-war cost of cattle and sugar beet subsidies which have been continued. (Data from U. S. Department of Labor.) The total war-time subsidies is divided as follows:

Flour, bread, oatmeal and feedstuffs	£50 million
Meat.....	£23 million
Milk, tea, eggs and potatoes.....	£29 million

- 5 -

In addition, a subsidy of £20 million annually is paid by the Ministry of Food toward the cost of transport of foods.

The heavy weighting of food costs in the British cost-of-living index reflects in part the disappearance from the markets of other goods and services available for consumer purchase. In the United States, the Bureau of Labor Statistics already has begun to note similar changes, and now weights food costs in our own index at 35.9 percent of the total, as compared with 33.9 percent in the base period of 1935-39. The weight of the clothing index also has been increased.

The cost-of-living indexes of the three countries are not wholly comparable. As one example, taxes on cigarettes and tobacco are not included in computing the official Canadian cost-of-living index, but in this country excise taxes and real estate taxes are reflected in the BLS index.

Commodity Credit Corporation releases
1942 Annual Report

Expanded operations to facilitate war-time production and utilization of farm products are reported in the fiscal 1942 annual report of the Commodity Credit Corporation. Besides operating to buy, sell, and lend upon agricultural commodities, broad war-time powers were delegated to the Corporation by the War Production Board and the Board of Economic Warfare. As the public agency for the importation of most agricultural products, the Corporation purchased a number of products for importation, mostly from Latin American countries distressed economically by the loss of export markets.

Loans to farmers totalled \$610 million as compared with \$452 million in 1941, owing largely to higher loan rates authorized by Congress. For purchase through the Agricultural Marketing Administration of commodities for lend-lease and other emergency purposes, \$900 million were made available.

Department store sales rise to record high

Despite earlier than usual Christmas shopping, transportation difficulties, and durable goods shortages, the dollar volume of department store sales in the week ended December 19 broke all previous records. The gain over the corresponding week in 1941, which was the previous record high, amounted to 10 percent. (See Chart 4.) This figure compares with a comparable gain of 17 percent in the previous week and one of 9 percent in the four weeks ended December 19. However, on the basis of Fairchild's price index of typical department store items, much of the rise over year-earlier levels was accounted for by price increases, which on December 1 were calculated to average 5 percent higher than on the corresponding date in 1941.

- 6 -

According to preliminary data, Dun and Bradstreet reported that retail trade last week maintained a 4 to 9 percent gain over year-earlier levels, despite the retarding effects of gasoline rationing and goods shortages. This agency confirmed other indications that this year's Christmas buying was the highest on record on a dollar basis, but leaned to the belief that the physical volume of goods sold was actually less than a year ago due to the intervening price rise.

Large increase in steel production forecast

Recent improvement in the tenor of reports on the steel supply situation received further impetus last week with the forecast by the WPB that total steel ingot capacity by mid-1943 is expected to reach approximately 97 million tons. This contrasts sharply with the mid-1942 production capacity of a little over 89 million tons. Moreover, it is pointed out in press reports that the steel ingot production of Germany, Italy and Japan combined is estimated at only 50 to 55 million tons.

The bulk of the increase in steel production still to come will be furnished by an estimated increase in open hearth capacity of over 5,300,000 tons in the first half of 1943. Electric furnace capacity, which was increased by more than a third during the past year, is expected to be expanded by about 1,500,000 tons by next June. Along with the sharp rise in electric furnace capacity, alloy steel output increased more than 50 percent in 1942 and further gains are scheduled for 1943.

Structural steel orders decline sharply

One of the outstanding accomplishments of the steel industry during the past year was the large expansion in plate production, amounting to an increase of 48 percent from January to December. Greater emphasis on plate production is partly responsible for a decline in the output of such steel items as bars, rods and wire, sheets and strip, as well as structural shapes. While shipments of structural steel have declined in recent months, new orders have dropped even more rapidly. Thus bookings of fabricated structural steel in November reached the lowest level in many years and were down about 85 percent from the peak reached last April, reflecting a falling off in construction of new plant facilities.

- 7 -

Manufacturing building contracts show further decline

A sharp contraction in construction contract awards for manufacturing buildings has occurred in recent months, indicating that we have passed the peak of new construction for the war program. After reaching a record peak of \$378 millions in September, contract awards for manufacturing buildings as reported by the F. W. Dodge Corporation dropped to \$240 millions in October and to only \$107 millions in November. (See Chart 5.) Total construction contract awards also declined in November, but the decline from the previous month was only 16 percent due to some increase in awards for utilities construction. (Refer to Chart 5.)

In contrast to this year's record breaking construction activity, the F. W. Dodge Corporation recently forecast a decline of 49 percent in total construction contract awards in 1943. It is pointed out, however, that construction contracts on this basis would still equal or better the volume attained in the relatively active year of 1940. Moreover, it is asserted that estimates of 1943 construction were made on a conservative basis and that upward revision for some items, such as war housing, may ultimately prove necessary.

Lumber requirements expected to drop in 1943

Reflecting the expected decline in construction next year, lumber requirements for 1943 are being estimated by the WPB at only 31.1 billion board feet, as compared with 40.2 billion board feet in 1942. Lumber production in 1942 fell 5 percent below that of the previous year, and failed to meet requirements by about 6 billion board feet. As a consequence, demand had to be met by serious inroads on reserve stocks, which were reduced 31 percent.

Table 1

Movements in retail prices of selected 1/ food items
 Percent change November, 1942 over November, 1941

	Weight in food price index	Percent change
Roasting chickens	3.2	34.7
Potatoes	3.2	32.0
Butter	5.1	26.1
Ham, whole	2.2	20.3
Pork chops	3.7	19.4
Oranges	3.7	17.5
Eggs	5.9	13.8
Round steak	4.1	13.2
Sugar	4.1	12.5
Veal outlet	2.0	12.4
Rib roast	4.8	11.6
Coffee	2.5	5.6
Milk, fresh, delivered	11.5	2.7
Bread, white	6.5	1.2

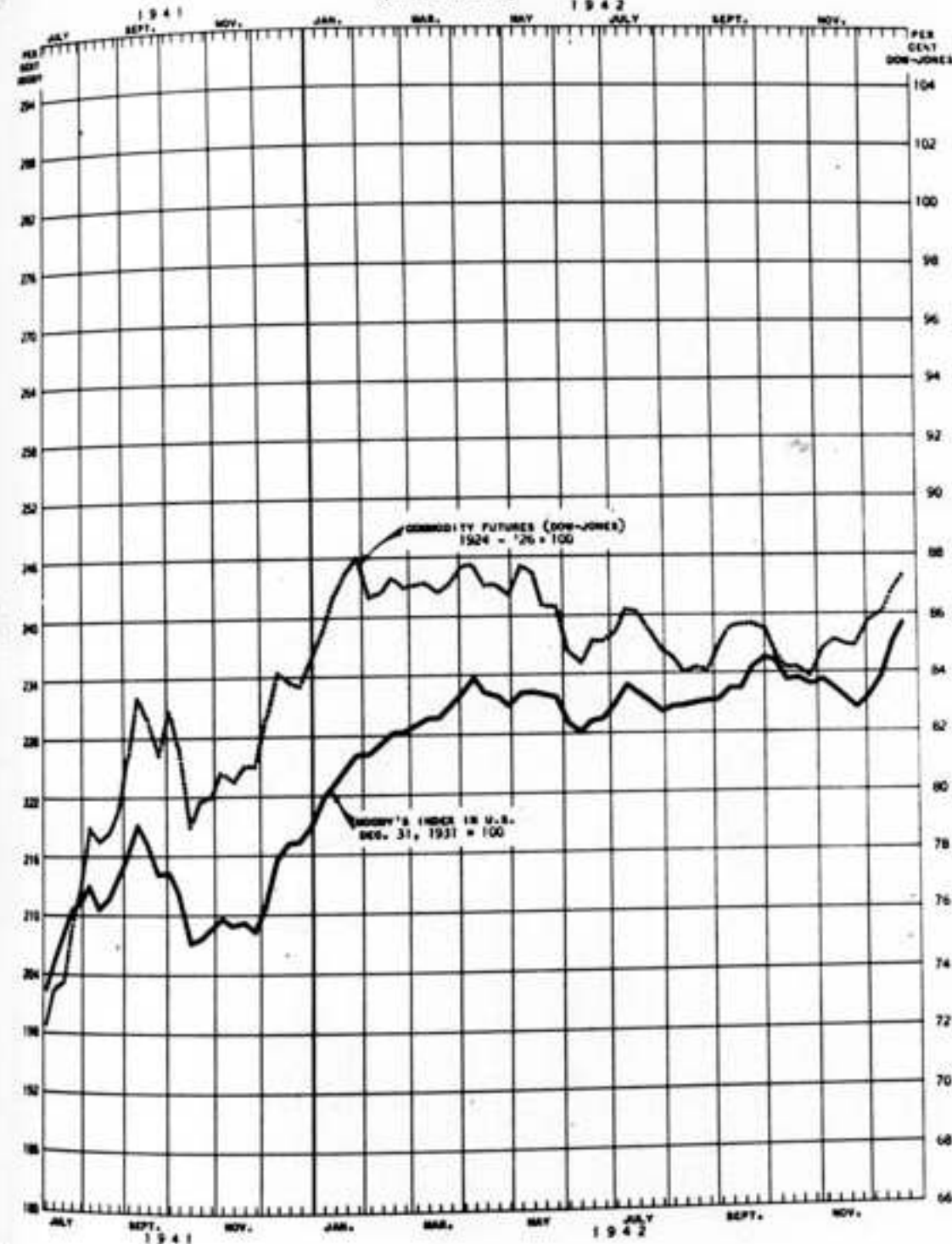
Percent change November, 1942 over August, 1942

	Weight in food price index	Percent change
Eggs	5.9	14.1
Oranges	3.7	13.9
Butter	5.1	12.8
Potatoes	3.2	4.2
Roasting chickens	3.2	1.7
Sugar	4.1	1.5
Ham, whole	2.2	1.3
Round steak	4.1	1.1
Rib roast	4.8	0.9
Veal outlet	2.0	0.9
Milk, fresh, delivered	11.5	0.7
Pork chops	3.7	0.2
Bread, white	6.5	.0
Coffee	2.5	-2.8

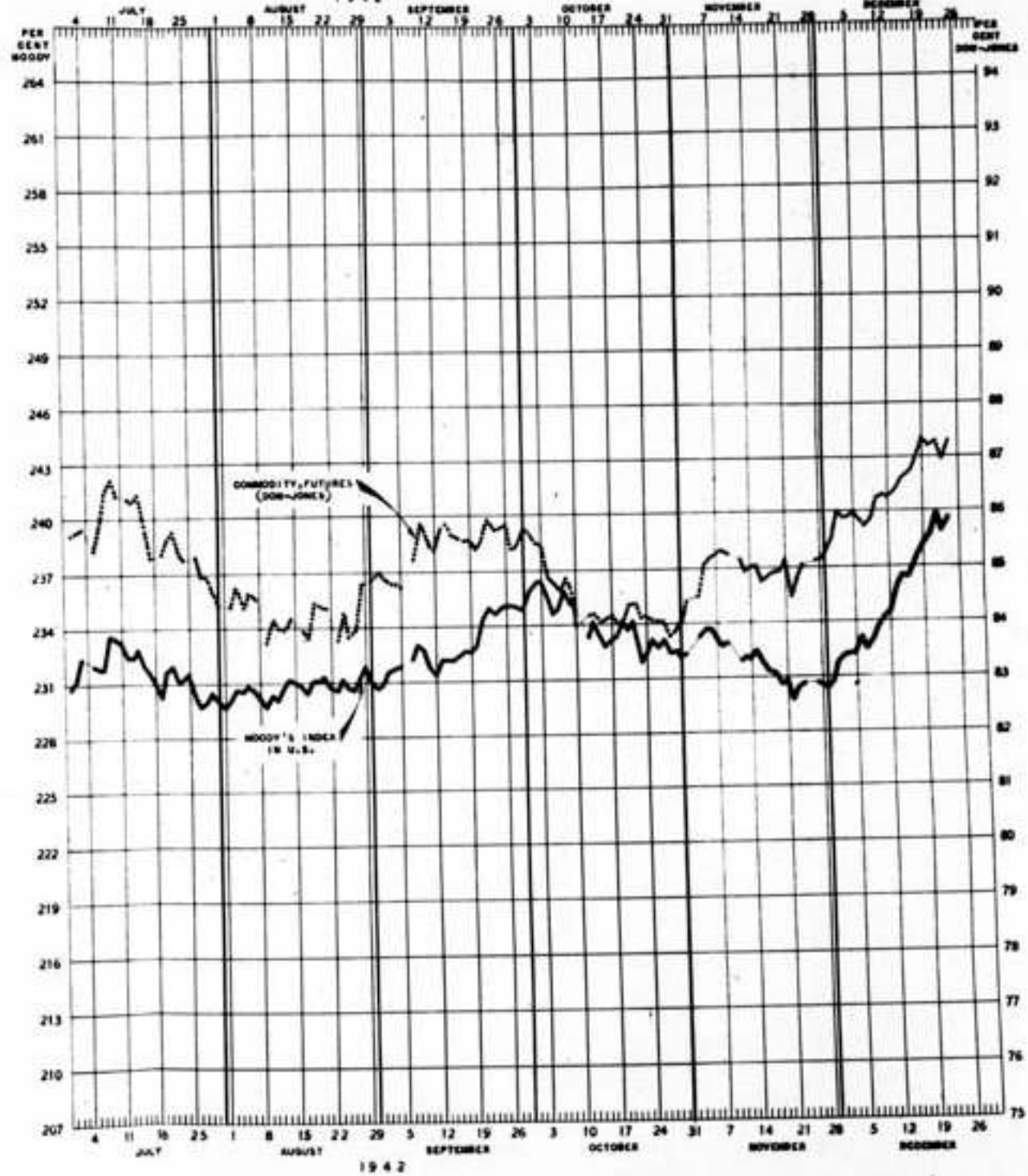
1/ Includes all items with weights of 2 percent or more in
 BLS Retail Food Index.

COMMODITY PRICE INDEXES IN U.S.

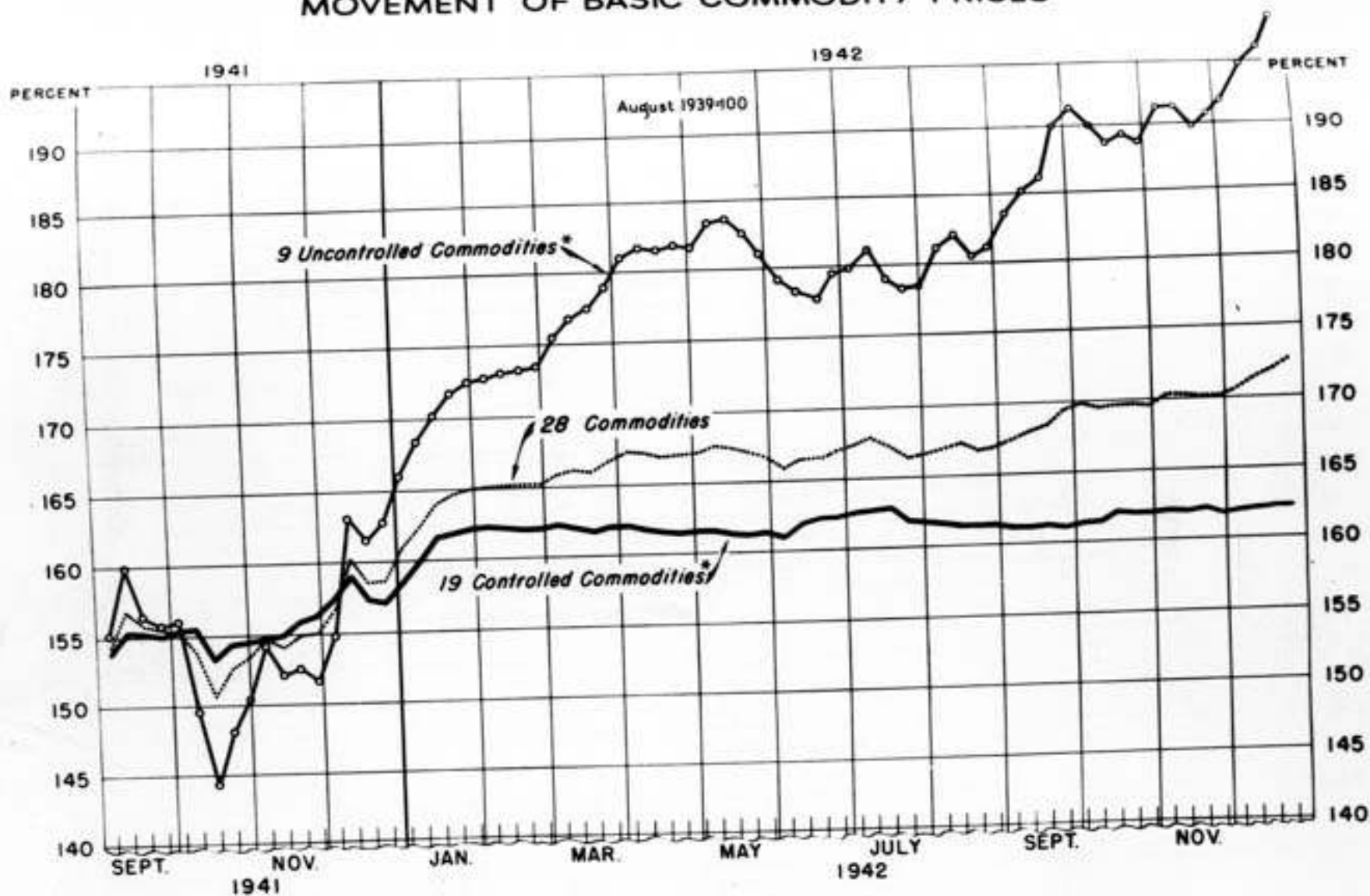
Weekly
(AVERAGE OF DAILY)



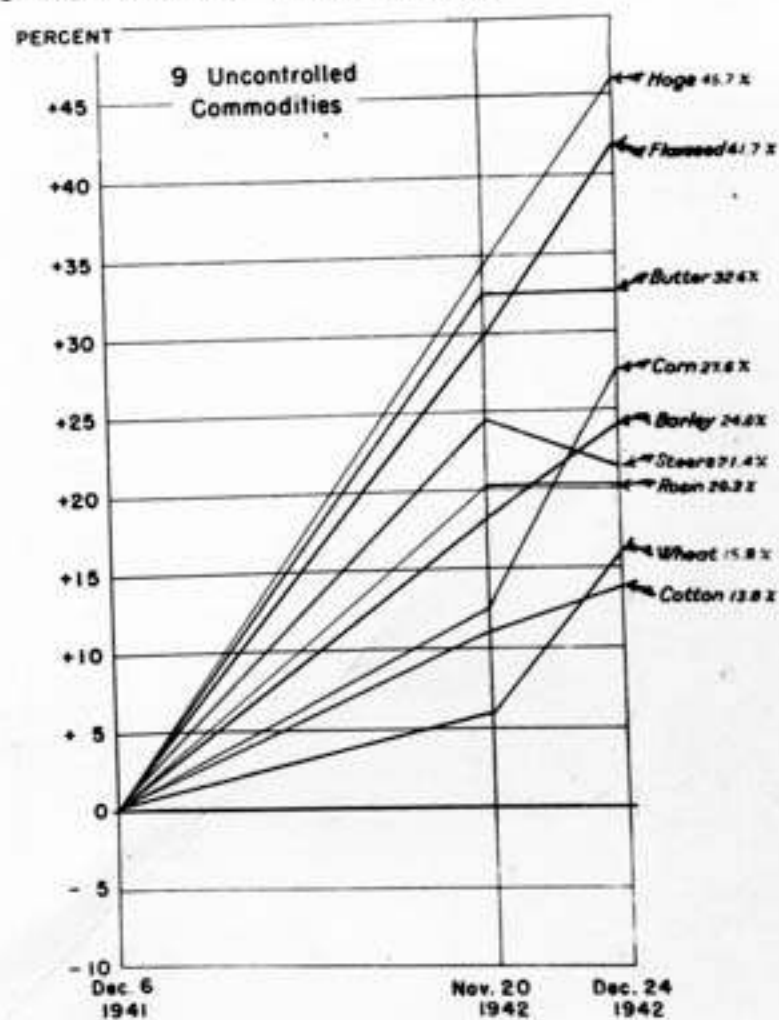
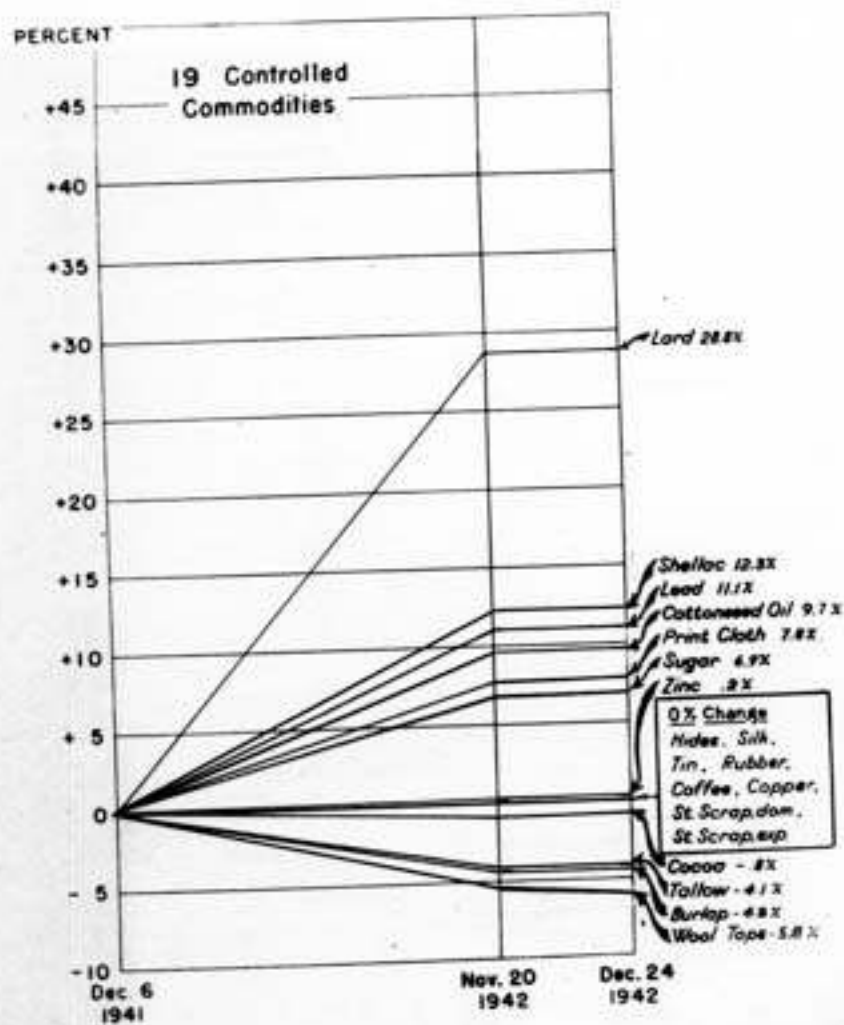
Daily
1942



MOVEMENT OF BASIC COMMODITY PRICES

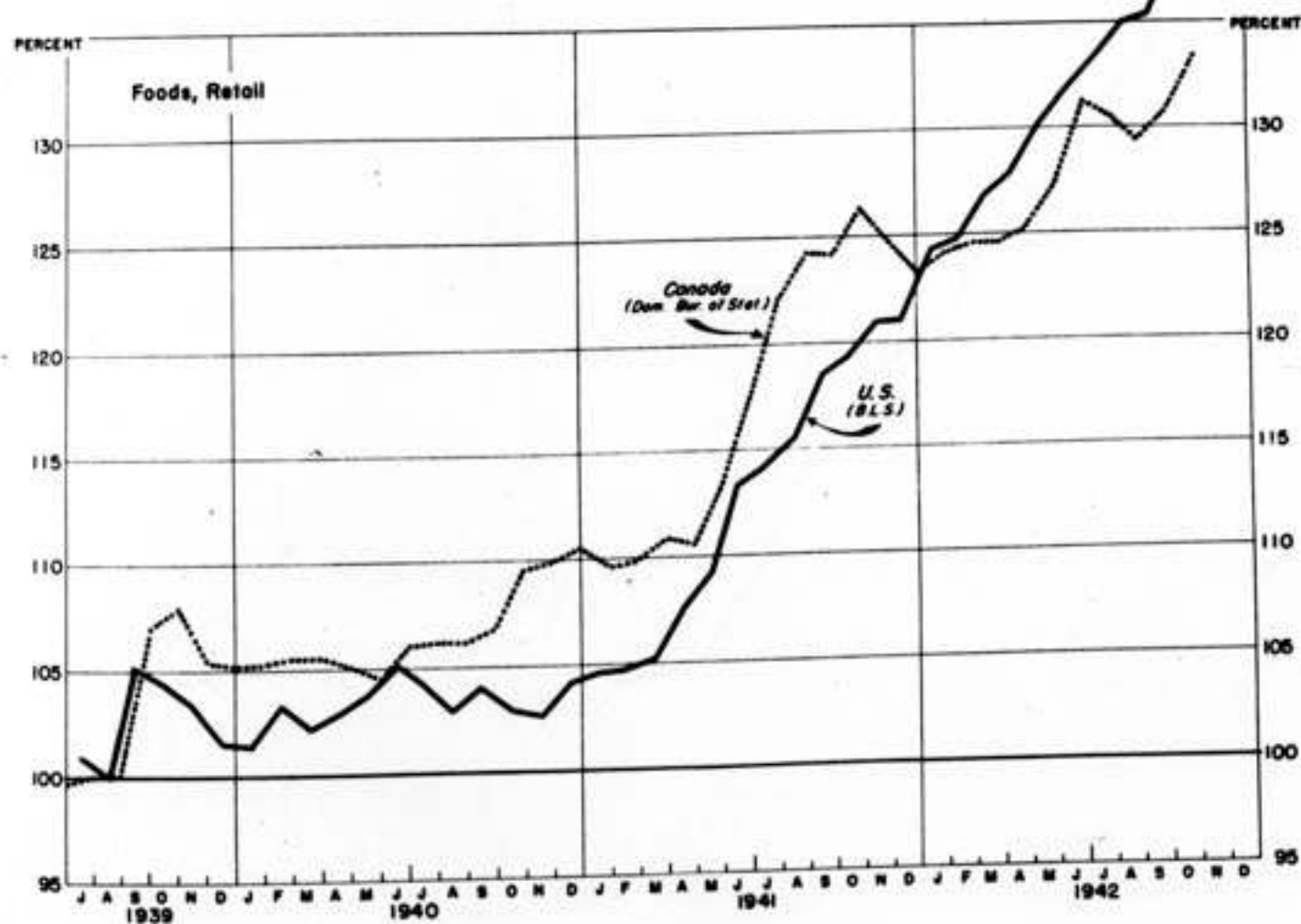
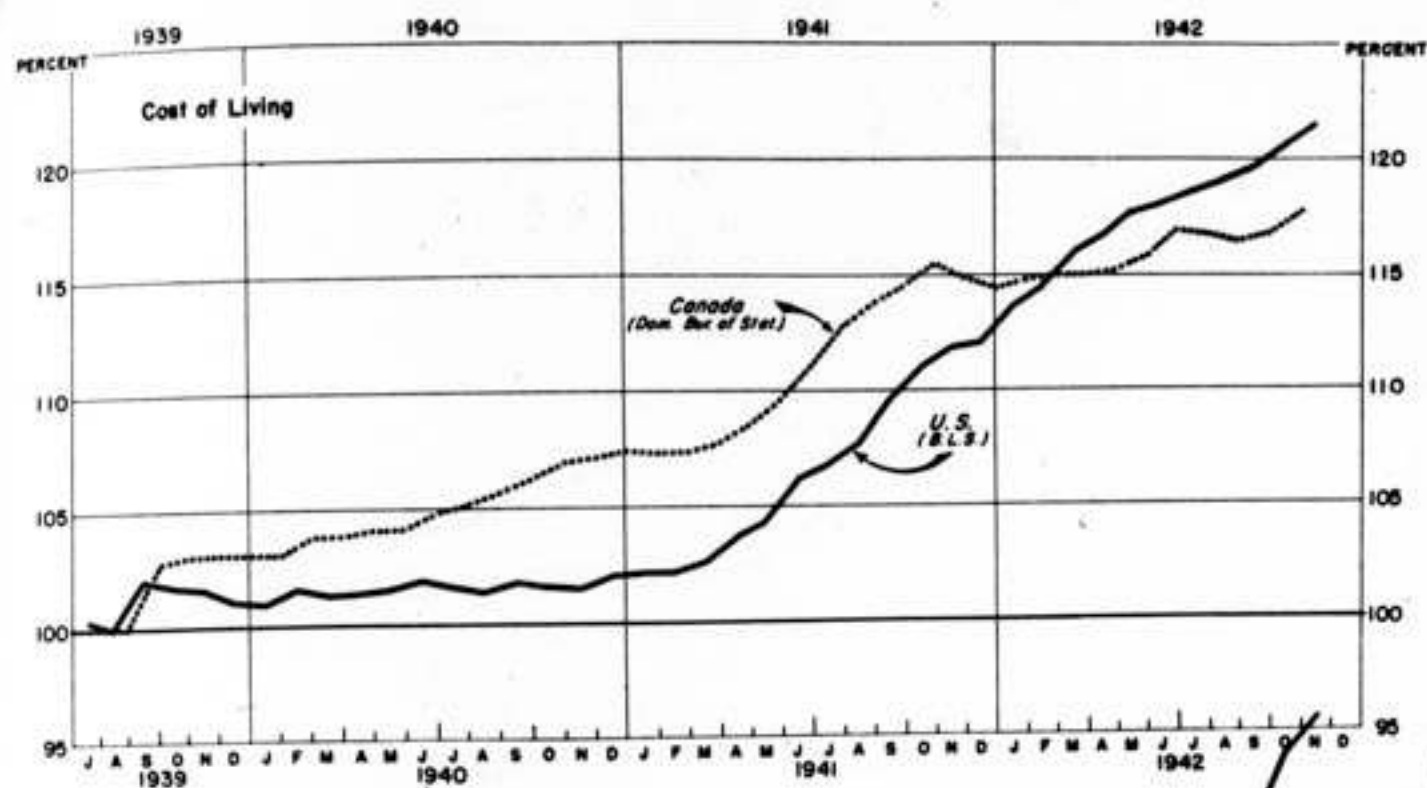


PERCENTAGE CHANGE DEC. 6, 1941 TO NOV. 20 AND DEC. 24, 1942



* 20 Controlled and 8 Uncontrolled previous to June 26

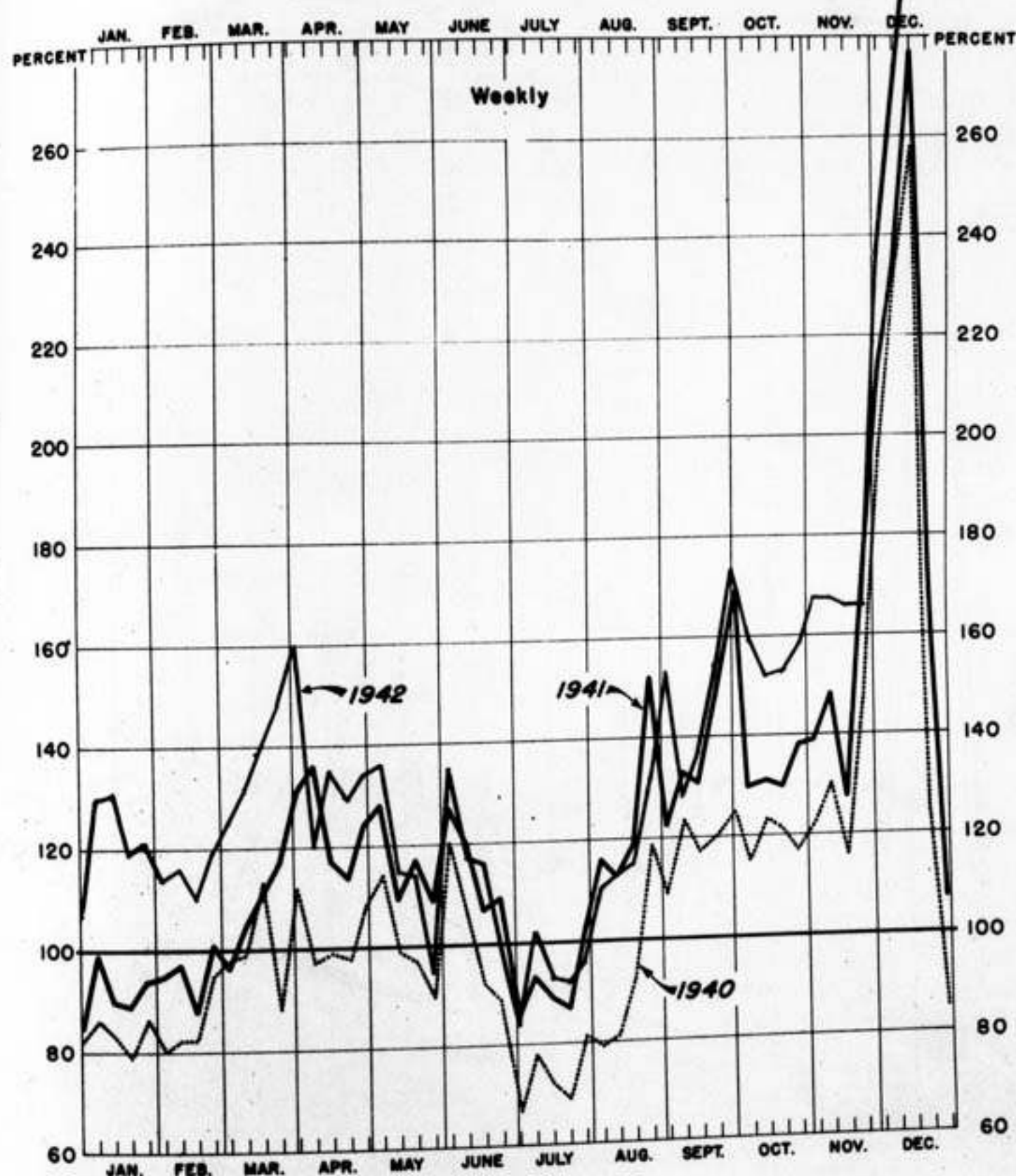
COST OF LIVING, U.S. AND CANADA August 1939 = 100



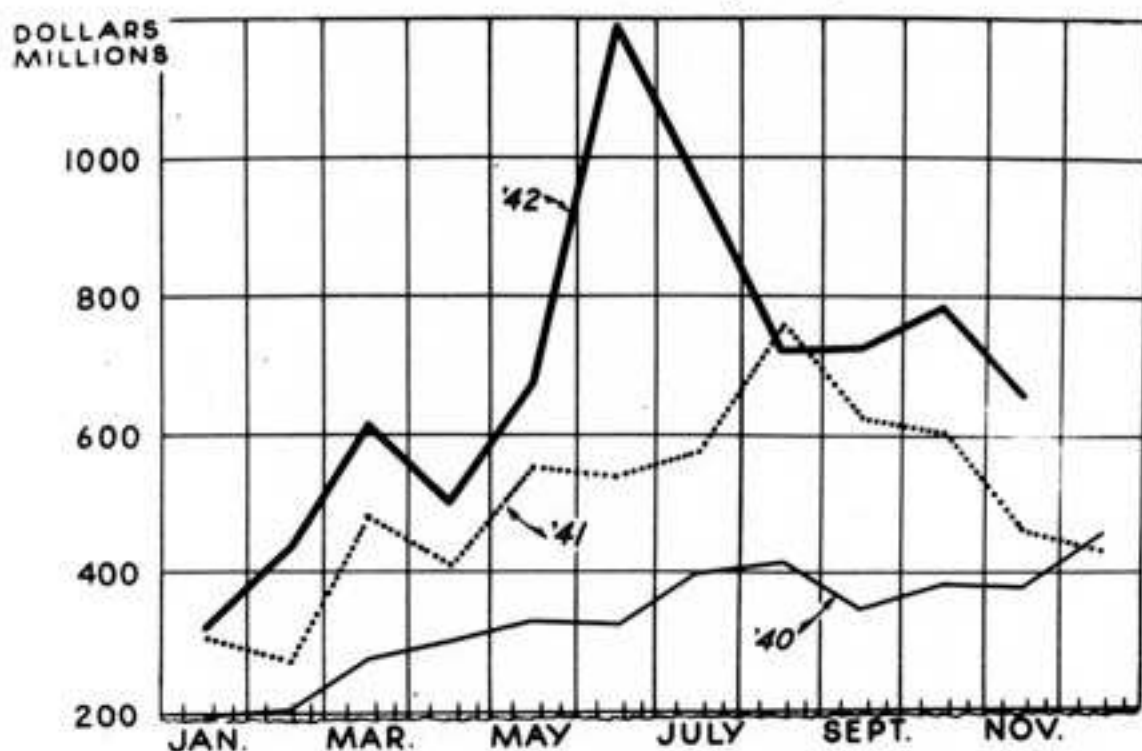
110

DEPARTMENT STORE SALES

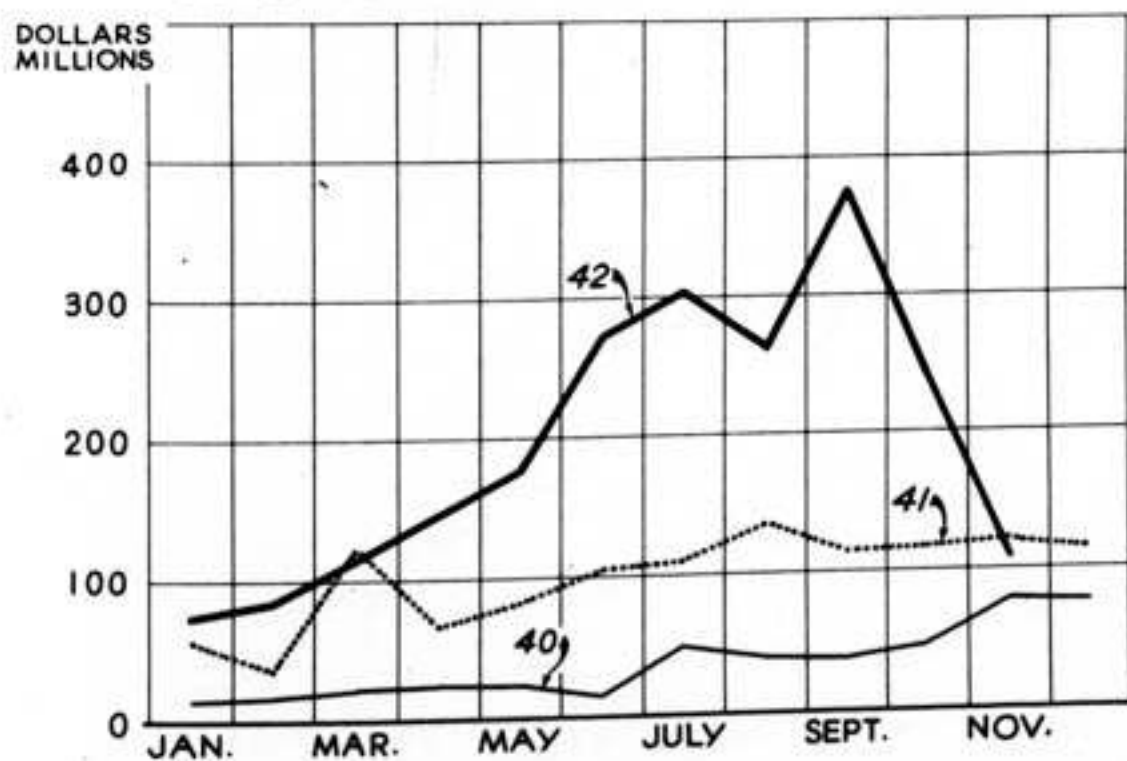
1935 - '39 = 100, Unadjusted



TOTAL CONSTRUCTION CONTRACT AWARDS (37 States, F. W. Dodge Corp.)



MANUFACTURING BUILDINGS CONSTRUCTION CONTRACTS AWARDED



December 28, 1942

Dear Mr. Ambassador:

I have received the copy of the address delivered by the Prime Minister of Poland at the luncheon of the Overseas Press Club on December 16.

Thank you very much for your courtesy in sending this to me. I have been most interested in reading it. This also gives me an opportunity to send you the season's greetings and best wishes for the New Year.

Sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
Ambassador of Poland,
Polish Embassy,
2640 16th Street, N.W.,
Washington, D. C.

GEF:mf

File in Diary

POLISH INFORMATION CENTER
151 East 67th St. New York.

113

With Compliments of
The Polish Ambassador

To Editors
STRICTLY CONFIDENTIAL
for release only on
Wednesday Dec. 16th.
on delivery (cir. 1.30 pm.)

Please check against
actual delivery.

ADDRESS DELIVERED BY GENERAL WLADYSLAW SIKORSKI, PRIME MINISTER
OF POLAND, AT THE LUNCHEON OF THE OVERSEAS PRESS CLUB,
ON WEDNESDAY, DECEMBER 16, 1942, IN NEW YORK CITY

Mr. President, Ladies and Gentlemen,

I am most grateful for the opportunity given me by the Overseas Press Club of addressing so distinguished an audience in the press world, on problems so closely affecting all the United Nations.

I realize that I am speaking to people who have a deep knowledge of world problems and in particular of the problems of Europe. I will therefore speak to you simply and sincerely as a soldier with a realistic outlook on international questions.

On every hand I am asked questions of a strategic and political nature regarding present war issues. I attribute this primarily to the fact that I represent the Polish nation who, in 1939, was the first to oppose armed resistance to the German onslaught, who refused to surrender, and will continue to fight until final victory. Owing to her geo-political position and her consequent importance to peace, Poland holds a key position.

My Government maintains uninterrupted contact with the Mother Country which no obstacles or persecutions have been able to prevent. I presume that these questions are put to me in my capacity of Commander-in-Chief of the Polish Armed Forces, as the author of several books on modern warfare for which the American army is today so perfectly trained and equipped, and, last but not least, as the initiator of the federal conception in Eastern Central Europe.

Following the trend of these questions, I should like to give some of my views to this distinguished forum, - not avoiding questions which might seem embarrassing. There are no indiscreet questions, but only indiscreet answers.

The fortunes of war may still fluctuate. War requires the greatest unity of action not only militarily speaking, but unity of allied purpose. But its final issue is becoming ever clearer. We must therefore be prepared for peace, lest peace finds us unprepared as we were for war.

In the course of the conversations which I had in Washington where I was honored to be the guest of President Roosevelt, I noted with the greatest satisfaction that this necessity for unity of purpose and unity of action are fully realized and acted upon.

I shall first attempt to give my estimate of the present war situation.

Within the limits in which I may speak on this subject in public, I can say that in 1942 Germany failed to achieve the aims she had set herself. She did not succeed either in destroying the Russian army or in bringing about the overthrow of the Soviets. She did not take Leningrad, or Moscow, or Stalingrad, or the Caucasus. Winter finds

the German forces once again on the vast Russian open spaces. Their situation is analogous to that of the last winter, and even their winter equipment is by no means better than that which elicited Hitler's bitter complaints. It is not improbable that the situation of the German army will become even worse than it was last winter. The third "purge" of experienced German military leaders and their substitution at most responsible posts by the henchmen of Himmler - the Executioner, - clearly point to the difficulties of Hitler who thus tries at all cost to maintain his exclusive hold on the army. Such measures will not increase the cohesion of the German forces, but they are a proof that Hitler is doing his utmost to maintain his influence and his hold on the military conduct of the war.

The valiant Russian armies are taking advantage of their natural ally - Winter, and may be able to force the German armies to retreat on some sectors of the front.

One should always avoid over-optimistic estimates of a situation especially at times of success. We have to deal with an enemy admirably prepared and still disposing of the indispensable reserves of manpower and war material. The natural resources controlled by Germany, the slave labor temporarily at her disposal in occupied countries, enable her to keep up a further effective fight and to maintain a high level of her war production.

The war production of Great Britain and the Dominions, and especially that of the United States, already greatly exceeds that of the Axis Powers.

This production is steadily rising as I have been able personally to observe, while German and Japanese war production has long ago reached its peak. In the realm of war production our victory is cer-

Germany has likewise failed to interrupt communications between the Continents. Neither German submarines in the Atlantic, nor Rommel at Suez, nor yet Japan in the Pacific have succeeded in achieving this aim.

Only now, in the light of American losses at Pearl Harbor, can we appreciate the magnificent achievement of the American Navy in maintaining communications with Australia.

In the course of this year Germany has also lost her former momentum. The large scale thrusts which she used to launch simultaneously in several directions, are a thing of the past. Her Luftwaffe is weakening and is showing signs of fatigue. Next year this will become even more pronounced.

In summing up my views on the present war situation, I consider that we are entitled to foresee that Germany will tend to pass to the defensive. In time Germany will be completely on the defensive and will hold in Europe as in a fortress if the Allied African offensive succeeds in forcing the enemy out of that continent. That this will not long be deferred is shown by the considerable success achieved by the British Eighth Army at El Agheila which has so brilliantly opened the second phase of its offensive against General Rommel's forces. The Germans entrenched in Europe will play for time, tending to persuade the Allies that further bloodshed is hopeless and that war should be ended by a negotiated peace. The Germans will try to frighten the great Western Democracies by the threat of Bolshevism, addressing them in behalf of civilization which these arch-barbarians pretend they are defending.

In the name of the high principles for which we are fighting, you, the leaders of public opinion of this powerful nation will have to oppose these outbursts of Goebbels propaganda. A compromise peace

with Germany would equal the greatest defeat. The enormous sacrifices of the fighting nations would have been in vain. Such a peace would be at best another precarious and most dangerous armistice.

The African campaign brings me to another subject on which I am frequently being questioned, namely that of the problems arising out of the present operation in North Africa and especially regarding the attitude of the Allies towards the French. In my opinion, the real problem can be summed up in the following question: Are political or strategic considerations more important and decisive at the present stage of the African campaign?

I do not hesitate in answering that, under the circumstances and for the time being, politics cannot be allowed adversely to influence the course of strategy, especially when dealing with an operation so important and so difficult as the Allied offensive in Africa. The decision of the Allied High Command in Africa was exclusively dictated by military requirements and is entirely justified by them. I would regard as most dangerous for the further development of the operations conducted by General Eisenhower anything that would interfere with, or restrict the freedom of his operational moves. All the more so on account of Germany's decision to hold Tunis and Bizerte at all cost, and the advantage held by the Axis Powers as regards communications.

I have been asked how I should have acted in General Eisenhower's place. I reply that I would have acted in exactly the same way.

But what about "Fighting France"?

We have no right to forget that at the time when the ~~land~~^{sword} of France fell from the hands of her surrendering army, it was picked up and raised by General Charles de Gaulle. His action was true to the highest ideals and traditions of France, - of that France without

which durable European peace is unthinkable. Therefore, General de Gaulle will forever remain the symbol of Fighting and Immortal France.

What under the circumstances is the future of "Fighting France"?

Here again political considerations should give way to the exigencies of war and ultimate victory. I firmly believe that all Frenchmen will realize the demand of the moment and will join in a policy uniting all their efforts for the time being outside their country, in the same way as we Poles have done, so as to fight in full harmony and unity with the single aim of saving their country.

The necessity of unity is true for us all. We must face facts. We must fully realize the nature of the enemy.

We are fighting an enemy who aims at the destruction of all of us. He aims at enslaving us. Poland has become the main testing ground for this modernized version of barbarism.

Just before leaving England I received the latest report on the situation in Poland. I had meant to read it to you, but on second thought I decided not to. Why? Frankly, because I know from experience that even friends devoted to my country are apt to doubt the veracity of the terrible facts reported from the Hell of the Vistula and Warta. You, free people of the Western Hemisphere, are not capable of grasping and believing the depth to which the Germans have sunk. I will give you some of the facts from this report dated end of November.

The Germans have made 6 1/2 million victims, which means that every fifth man, woman or child in Poland has been either murdered, or driven from his home, taken to concentration camps, tortured, or taken away to forced labor in Germany.

To help you visualize what this really means, I ask you to imagine that the entire population of Metropolitan New York has been

murdered, deported and driven from their homes. What mass enslavement for forced labor means may best be realized in imagining that the entire populations of Chicago and Washington have been thus enslaved. Therefore, if you transpose these figures in terms of America, you would obtain the following picture:

22 million Americans thrown out of their homes.

8,000 University and College professors murdered.

One million American men and women undergoing torture
in concentration camps.

One and a half million American children dying yearly.

Such would be America under the German heel. Such is the situation in Poland today.

To realize the extent of the monstrous massacre of Jews, you must imagine the whole of Manhattan closed in by ghetto walls behind which all the Jews of the Western Hemisphere have been imprisoned and gradually and methodically exterminated in groups of several thousands daily by means of machine-gun shootings, or in lethal gas chambers or by electrocution.

Regardless of this appalling state of things, underground Poland fights on. Newspapers are secretly printed and circulated four times daily and print the latest British and American radio bulletins. We do not boast of sabotage because the glory that such propaganda would bring us is not worth the victims it would inevitably entail in our country.

Let us consider the reaction of our population. I will read you the text of a protest secretly proclaimed in Poznan, Warsaw, Wilno, and Lwow:

"The total number of Jews killed has reached one million, this number being increased daily. All perish: the rich and the poor, the aged and women, men, youth and infants. Their only crime was that they were born ^{into} ~~the~~ Jewish people who are condemned to extermination by Hitler.

Therefore we, Catholics and Poles, desire to speak. We do not want to be Pilates. We cannot actively counteract the German crimes, cannot help anything, nor save anybody, but we protest from the bottom of our hearts, filled with compassion, indignation and horror."

On the day of victory the walls of the ghetto in Poland will fall. They will be destroyed by the Polish people. At the moment, however, means must be found to save this population, especially the Polish Jews, who are the victims of this most bestial barbarism.

In reply to questions regarding the future European settlement, I should like to say that it is the natural instinct of nations which makes them tend towards the establishment of international unity among those freedom-loving peoples who, living peacefully side by side, are exposed to the threat of attack from their powerful neighbors. This tendency towards federation is especially strong among the countries of Eastern Central Europe. The realization of this idea, of which I am a fervent advocate, will safeguard not only the security of those nations situated between Germany and Russia who will thus form a kind of international family, but it would likewise be the natural rampart of security of Soviet Russia, always so uneasy about her Western security. Such a peaceful family of nations would not only be a factor of security, but also one of permanent European equilibrium and economic

development through the creation in a vast area of possibilities of production and commercial exchange on a large scale. As the Representative of Poland, I feel I have the right to talk of federation, in view of the fact that five centuries ago, Poland had already established a successful concept of federation of neighboring States.

In this present war, Poland is not only fighting for her own freedom. True to her traditions, she is fighting for the realization of her oldest maxim: "The union of the free with the free on the basis of mutual equality".

Regardless of overwhelming odds, Poland was the first to challenge brutal aggression. She will be the last to leave the battlefield.

C O P Y

INCOMING CABLEGRAM

DECEMBER 29, 1942

Chungking, December 28, 1942.

Federal Reserve Bank of New York

New York

No. 33

Your cable No. 43 We confirm

The Central Bank of China

C O P Y

OUTGOING CABLEGRAM

DECEMBER 23, 1942

No. 43

The Central Bank of China

Chungking

With reference to your cable No. 31 requesting a further extension of the arrangement between us for purpose of supplying Republic of China with dollar exchange the Secretary of the Treasury has authorized us as fiscal agent of the United States to modify further paragraph 6 of our letter of July 14, 1937 as modified by deleting "December 31, 1942" wherever such words and figures appear in such paragraph as modified and inserting in lieu thereof "June 30, 1943". Please confirm your agreement to such modification of the arrangement.

FEDERAL RESERVE BANK OF NEW YORK

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ended to Mr. White by Mr. Plumptre on 12/28

FORECAST OF CANADA'S UNITED STATES DOLLAR POSITION

NOVEMBER 1942

General Comments on the Forecast.

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

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

Table III. Capital Account Transactions with the United States.

Table IV. Effect of Hyde Park Transactions, Gross.

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

Table VI. Canada's Liquid Reserves.

Tabulation of the "Main Changes in the U.S. Dollar Estimate of
November, 1942, from that made in October, 1942."

Footnotes to the Tables.

General Comments

1. The present estimate forecasts a small favourable balance (\$16 million) with the United States in the last quarter of 1942 and favourable balances of \$26 million and \$17 million, respectively, for the first two quarters of 1943. This is an increase from \$7 million to \$16 million in the U.S. dollar balance forecast for the present quarter but no change in the forecast of \$26 million for the first quarter of 1943 made in October.
2. The following factors may reduce our receipts of U.S. dollars below the amounts here forecast:
 - (a) Smaller gold exports than the \$50 million here forecast for the first two quarters of 1943 (Table II, item 11). It is difficult to forecast the effects of the Government's program for restricting gold mining as well as other non-war industries in step with war requirements.
 - (b) Exports of merchandise may be more severely curtailed than has been forecast here, particularly in wood and wood products such as newsprint, pulp wood and wood pulp because of the shortage of electric power and of manpower.
 - (c) A smaller amount of foreign borrowing in the form of purchases of Canadian securities by United States investors than the \$33 million here forecast (Table III, item 4) for the first two quarters of 1943. (The movement of Canadian securities to the United States may become negligible.)
- Imports from the United States may be even larger than here forecast for the present quarter, if the level reached in the month of October is maintained for the rest of the quarter.
4. The only important source of additional U.S. dollars in the next two quarters is under Hyde Park arrangements by either one or both of -
 - (a) an increase in sales of war materials to the United States.

General Comments (cont'd).

4. (b) a reduction in the amount of "invoices rendered by War Supplies Ltd., but yet unpaid."

5. As estimated here for the calendar year 1942, total, Canada's U.S. dollar position is being supported to the total of \$336 million by gold exports (\$163 million) and capital imports from the United States (\$173 million). The support from Hyde Park exports, gross, in 1942 is estimated to amount to \$390 million, including \$50 million of imports of components and materials obtained by the United Kingdom under Lend-Lease for execution of British orders in Canada.

6. For the first three quarters of the calendar year 1942, the total net increase in Canada's stock of gold and United States dollars was \$72 million (Table I, item 17). If our prediction of a net increase for the fourth quarter of 1942 amounting to \$16 million (Table I, item 15) is verified, the total net increase in our stocks of gold and United States dollars for the calendar year 1942 will be \$88 million.

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

(in millions of U.S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
<u>Canada's Needs for U.S. Dollars</u>									
Excess of current payments over receipts (excluding Hyde Park transactions) (Table II).....	1.	286	499	87	155	113	144	136	163
The chief items in this excess are (Table II)									
Imports for war production and military equipment.....	2.	292	454	105	108	116	125	135	140
Other imports.....	3.	550	586	136	170	145	135	120	110
Total of all current payments	4.	1,191	1,443	319	389	361	374	341	353
Exports.....	5.	506	555	140	139	135	141	127	123
Total of all current receipts.	6.	905	944	232	234	248	230	205	190
Bond maturities and other debts on capital account (Table III).....	7.	33	24	5	7	6	6	5	17
Imports of components and materials obtained by the U.K. under Lend-Lease for execution of British orders in Canada....	8.	3	50	5	23	10	12	14	8
Total Needs for U.S.Dollars (1 + 7 + 8).....	9.	322	573	97	185	129	162	155	188
<u>Ways of Meeting These Needs.</u>									
Hyde Park Transactions, Gross, (Table IV).....	10.	61	390	60	106	106	118	144	163
which includes the estimated U.S.dollar content of Hyde Park exports amounting to....	11.	-	33	2	6	12	13	17	19
United States dollars obtained from Newfoundland and other non-sterling area countries outside the U.S.(net) (Table V).	12.	24	66	11	23	9	23	9	17
Sales of securities and other capital account credits (Table III).....	13.	94	173	52	52	32	37	28	25
Total (10 + 12 + 13).....	14.	179	629	123	181	147	178	181	205
Excess of Receipts over Needs(14-9).	15.	-	56	26	-	18	16	26	17
Excess of Needs over Receipts(9-14).	16.	143	-	-	4	-	-	-	-
Net Gain in stocks of gold and U.S.Dollars.....	17.			42	14	16			
Net Loss in stocks of gold and U.S.Dollars.....	18.	142		-	-	-			
Errors and omissions (15 or 16 compared with 17 or 18).....	19.	1		16	18	2			

Notes Item 8. This item is introduced in Section I of this Table because it is included in Section II, Item 10, and because in the absence of the Hyde Park agreement Canada would presumably need U.S.dollars to cover the imports in this item. On the reliability of this item, see the footnote to Table IV, Item 7.

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

(in millions of U.S. dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
<u>Payments by Canada to the U.S.</u>									
Imports:									
War production and military equipment (excl. Lend-Lease).....	1.	292	454	105	108	116	125	135	140
Other imports.....	2.	550	586	136	170	145	135	120	110
Total imports (1 + 2).....	3.	842	1,040	241	278	261	260	255	250
Outright payable in U.S. dollars.....	4.	86	130	21	35	39	35	27	30
Tourist and other travel in the United States.....	5.	15	14	4	4	3	3	4	3
Interest.....	6.	85	88	19	24	20	25	20	25
Dividends and profits.....	7.	118	111	20	32	23	36	20	30
Miscellaneous.....	8.	45	60	14	16	15	15	15	15
Total payments (3+4+5+6+7+8).....	9.	1,191	1,443	319	389	361	374	341	353
<u>Receipts by Canada from the United States.</u>									
Exports of merchandise by Canada (excl. Hyde Park).....	10.	506	555	140	139	135	141	127	123
Exports of newly-mined gold.....	11.	185	163	44	42	40	37	30	20
Outright receipts in U.S. dollars.....	12.	54	72	16	18	19	19	17	16
Tourist and other travel by the U.S. in Canada....	13.	73	47	7	11	22	7	6	8
Interest, dividends and profits from the U.S....	14.	47	47	12	10	14	11	9	9
Miscellaneous.....	15.	40	60	13	14	18	15	16	14
Total receipts (10+11+12+13+14+15).....	16.	905	944	232	234	248	230	205	190
Balance of payments over receipts.....	17.	286	499	87	155	113	144	136	163

Table III. Capital Account Transactions with the United States

(in millions of U.S. Dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
<u>Receipts by Canada:</u>									
Sales of U.S. and other foreign securities.....	1.	23	20	8	5	3	4	3	3
Sales of other U.S. assets....	2.	17	24	11	3	6	4	3	3
Total (1 + 2).....	3.	40	44	19	8	9	8	6	6
Sales of Canadian securities..	4.	31	111	27	40	19	25	18	15
Sales of other Canadian assets...	5.	23	18	6	4	4	4	4	4
Total (4 + 5).....	6.	54	129	33	44	23	29	22	19
Total Receipts (3 + 6).....	7.	94	173	52	52	32	37	28	25
<u>Payments by Canada:</u>									
Maturities of Canadian bonds held in the U.S.....	8.	26	20	4	6	5	5	4	16
Other debt payments.....	9.	7	4	1	1	1	1	1	1
Total Payments (8 + 9).....	10.	33	24	5	7	6	6	5	17
<u>Excess of Capital Inflow from the U.S. (7-10).....</u>									
	11.	61	149	47	45	26	31	23	8

Table IV. Effect of Hyde Park Transactions, Gross.

(in millions of U.S. Dollars)

	Item No.	Calendar Years		Quarters of 1942				1943	
		1941	1942	I	II	III	IV	I	II
Prepayments and capital advances.....	1.	50	79	44	34	1	-	1	-
Receipts on orders placed through War Supplies Ltd.....	2.	2	228	7	42	83	96	110	120
Rebates.....	3.	-	-	-	-	-	-	2	11
Refunds.....	4.	6	33	4	7	12	10	14	18
Total (1 + 2 + 3 + 4).....	5.	58	340	55	83	96	106	127	149
Petroleum products purchased by the U.S. on account of the U.K. for the Combined Air Training Plan.....	6.	-	-	-	-	-	-	3	6
Imports of components and materials obtained by the U.K. under Lend-Lease for execution of British Orders in Canada.....	7.	3	50	5	23	10	12	14	8
Total (5 + 6 + 7).....	8.	61	390	60	106	106	118	144	163
<u>Additional Information</u>									
Exports against prepayments and capital advances of Item 1 of this Table.....	9.	-	17	2	3	6	6	13	18
Total exports under Hyde Park (2 + 3 + 4 + 9).....	10.	8	278	13	52	101	112	139	167
Estimated U.S. dollar content of total exports under Hyde Park.....	11.	-	33	2	6	12	13	17	19

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

(in millions of U.S. Dollars)

Item No.	Calendar Years		Quarters of 1942				1943	
	1941	1942	I	II	III	IV	I	II
<u>Receipts by Canada:</u>								
From Canadian exports to non-sterling area countries outside the U.S..... 1.	-	45	15	13	9	8	8	7
Of dividends from Canadian companies operating in Latin- America..... 2.	-	35	3	13	4	15	3	13
Total (1 + 2)..... 3.	88	80	18	26	13	23	11	20
<u>Payments by Canada:</u>								
For imports from non-sterling area countries outside the U.S..... 4.	79	47	14	13	12	8	8	8
Net Receipts (3 - 4)..... 5.	9	33	4	13	1	15	3	12
Net Receipts of U.S.Dollars from Newfoundland..... 6.	15	33	7	10	8	8	6	5
Total Net Receipts (5 + 6)..... 7.	24	66	11	23	9	23	9	17

Table VI. Canada's Liquid Reserves

(in millions of U.S. Dollars)

	<u>Gold#</u>	<u>U.S.\$ Balances#</u>	<u>Total Official#</u>	<u>Private Balances##</u>	<u>Total</u>
<u>I. Amounts</u>					
(a) Actual-					
Sept. 15, 1939.....	205	56	261	130	391
Dec. 31, 1940.....	136	194	330	-	330
Dec. 31, 1941.....	136	52	188	-	188
Mar. 31, 1942.....	126	104	230	-	230
June 30, 1942.....	125	119	244	-	244
Sept. 30, 1942.....	122	138	260	-	260
(b) Estimated-					
Dec. 31, 1942.....			276		276
Mar. 31, 1943.....			302		302
June 30, 1943.....			319		319

I. Changes in amounts from previous period:

						<u>Memo Estimated Net capital import</u>
(a) Actual-						
Sept. 15, 1939.....	-	-	-	-	-	
Dec. 31, 1940.....	-69	£138	£69	-130	-61	61
Dec. 31, 1941.....	-	-142	-142	-	-142	47
Mar. 31, 1942.....	-10	£52	£42	-	£14	45
June 30, 1942.....	-1	£15	£14	-	£16	26
Sept. 30, 1942.....	-3	£19	£16	-		
(b) Estimated-						
Dec. 31, 1942.....			£16	-	£16	31
Mar. 31, 1943.....			£26	-	£26	23
June 30, 1943.....			£17	-	£17	8

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

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

Prior to the war, a very large proportion of Canada's exchange
reserves was held by private rather than official agencies. In the
spring of 1940, the Foreign Exchange Control Board, which had been
charged with responsibility for managing the country's exchange
reserves, took over all such balances in private hands other than
the minimum amount considered essential for day-to-day working
balances.

Main Changes in U.S. Dollar Estimate of November, 1942,
from that made in October, 1942.

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(in millions of U. S. dollars)

Changes in Table I

	Item No.	1942		1943	
		III	IV	I	II
Excess of current payments over receipts -	October 1. November Change	113 113 -14	158 144 -14	139 136 -3	- 163
Imports of components and materials obtained by the U.K. under Lend-Lease for execution of British orders in Canada.....	October 8. November Change	22 10 -12	19 12 -7	18 14 -4	- 8
Total Needs for U.S. dollars.....	October 9. November Change	141 129 -12	183 162 -21	162 155 -7	- 188
Hyde Park Transactions, gross.....	October 10. November Change	115 106 -9	132 118 -14	148 144 -4	- 163
U.S. dollars obtained from New- foundland and other non-sterling area countries outside the U.S. (net).....	October 12. November Change	9 9 -2	21 23 -2	10 9 -1	- 17
Sales of securities and other capital credits.....	October 13. November Change	32 32 -2	37 37 -2	30 28 -2	- 25
Total Receipts of U.S. dollars....	October 14. November Change	156 147 -9	190 178 -12	188 181 -7	- 205
Excess of Receipts over Needs.....	October 15. November Change	15 18 -3	7 16 -9	26 26 -2	-

Changes in Table II. Current Account

War Imports.....	October 1. November Change	112 116 -4	120 125 -5	120 135 -15	- 140
Other imports.....	October 2. November Change	149 145 -4	135 135 -4	120 120 -4	- 110
Total imports.....	October 3. November Change	261 261 -4	255 260 -5	240 255 -15	- 250
Freight payable in U.S. dollars...	October 4. November Change	39 39 -4	33 35 -2	25 27 -2	- 30
Dividend and profits payments.....	October 7. November Change	23 23 -2	36 36 -2	22 20 -2	- 30

Changes in Table II. Current Account (cont'd):

		Item No.	1942		1943	
			III	IV	I	II
Total Payments.....	October	9.	361	367	326	-
	November		361	374	341	353
	Change			✓7	✓15	
Exports of Merchandise by Canada..	October	10.	135	129	120	-
	November		135	141	127	123
	Change			✓12	✓7	
Exports of newly-mined gold.....	October	11.	40	30	20	-
	November		40	37	30	20
	Change			✓7	✓10	
Freight receipts.....	October	12.	19	17	16	-
	November		19	19	17	16
	Change			✓2	✓1	
Total receipts.....	October	16.	248	209	187	-
	November		248	230	205	190
	Change			✓21	✓18	
Excess of Payments over Receipts..	October	17.	113	158	139	-
	November		113	144	136	163
	Change			-14	-3	

Changes in Table III. Capital Account

Sales of U.S. and other foreign securities.....	October	1.	3	5	3	-
	November		3	4	3	3
	Change			-1		
Sales of other U.S. assets.....	October	2.	6	3	3	-
	November		6	4	3	3
	Change			✓1		
Sales of Canadian securities.....	October	4.	19	25	20	-
	November		19	25	18	15
	Change				-2	
Excess of Capital Inflow from the United States.....	October	11.	26	31	25	-
	November		26	31	23	8
	Change				-2	

Changes in Table IV. Hyde Park

Prepayments and capital advances..	October	1.	1	-	-	-
	November		1	-	1	-
	Change				✓1	
Receipts from sales through War Supplies Ltd.....	October	2.	84	96	102	-
	November		83	96	110	120
	Change		-1		✓8	
Tanks.....	October	3.	-	-	-	-
	November		-	-	2	11
	Change				✓2	
Totals.....	October	4.	8	9	13	-
	November		12	10	14	18
	Change		✓4	✓1	✓1	

anges in Table IV. Hyde Park (cont'd):

		Item No.	1942		1943	
			III	IV	I	II
Total of the above four items.....	October	5.	93	105	115	-
	November		96	106	127	149
	Change		<u>3</u>	<u>1</u>	<u>12</u>	
Petroleum receipts, C.A.T.P.....	October	6.	-	8	15	-
	November		-	-	3	6
	Change		-	-8	-12	
Imports of components and materials obtained by the U.K. under Lend- Lease for execution of British orders in Canada.....	October	7.	22	19	18	-
	November		10	12	14	8
	Change		<u>-12</u>	<u>-7</u>	<u>-4</u>	
Total.....	October	8.	115	132	148	-
	November		106	118	144	163
	Change		<u>-9</u>	<u>-14</u>	<u>-4</u>	

anges in Table V. U.S.Dollars
tained Outside the United States

Receipts of dividends from Canadian companies in Latin America.....	October	1.	4	13	3	-
	November		4	15	3	13
	Change			<u>2</u>		
Net receipts of U.S.Dollars from Newfoundland.....	October	6.	8	8	7	-
	November		8	8	6	5
	Change				<u>-1</u>	

Footnotes to Table II. Current Account.Items 1, 2 and 3. War Imports; non-war imports; total imports.

The forecast for "total imports" from the United States was arrived at by studying the past trend of each of the nine groups into which the Dominion Bureau of Statistics classifies our imports from the United States. Particular attention was paid to the total imports of the larger individual items in each group for the first nine months of 1942. On the basis of this information, there seemed good reason to forecast a less drastic fall in total imports than was forecast in October. The decline here forecast will still be too severe for the present quarter, if the level of imports reached in the month of October is maintained for November and December.

The subdivision of "total imports" into "war imports" and "non-war imports" is necessarily arbitrary in part. The division between them here made is based on estimates of the U.S. dollar costs of our war production and information currently available on the trends of non-war imports. The line between the two is difficult to draw and in any case it is the figure of total imports which is significant for the balance of payments.

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

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

Item 5. Tourist payments.

These are based upon Foreign Exchange Control Board data as to funds sold to tourists for travel in the United States.

Footnotes to the Tables (cont'd).

Item 6. Interest Payments.

Based upon Dominion Bureau of Statistics estimates of the holdings of the holdings of Canadian bonds in the United States. The quarterly distribution was made after studying the seasonal tendency in the sales by the Foreign Exchange Control Board of U.S. dollars for the servicing of Canadian bonds.

Item 7. Dividends and Profits Payments.

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

Item 8. Miscellaneous.

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

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

For the past the figure of exports to the United States is arrived at by adjusting the Customs figures to eliminate some items for which no U.S. dollars are received and to exclude as far as possible the exports made under the Hyde Park agreement which are included in Table IV.

As in the case of "total imports", the forecast of "total exports" was made by the examination of the recent trends of exports in each of the commodity groups, and the individual items within each group. The main reason for the forecasted decline in total exports is the probable reduction in exports of wood pulp and newsprint. On the basis of more complete information for the third quarter of 1942 and preliminary figures for the month of October, the estimate for the fourth quarter of 1942 has been raised from the \$129 million forecast in October to \$141 million; the October forecast for the first quarter of 1943 has been raised from \$120 million to \$127 million and the estimate for the second quarter of 1943 has been set at \$123 million.

Footnotes to the Tables (cont'd)Item 11. Exports of newly-mined gold.

The exports for the past are from data compiled by the Bank of Canada. It is still difficult to forecast accurately the effect which restrictions on gold-mining may have on the volume of gold exports. The estimates here made may well turn out to be too high.

Item 12. Freight receipts.

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

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

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

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

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

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

Item 15. Miscellaneous.

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

Footnotes to the Tables (cont'd).Footnotes to Table III. Capital Account.Items 1, 2, 4 and 5.

For the past data compiled by the Foreign Exchange Control Board. The forecasts are rough estimates of future sales.

Item 2.

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

Item 9.

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

Footnotes to Table IV. Effect of Hyde Park Transactions, Gross.

The form of this table has been altered somewhat to clarify it and provide some additional information.

Item 1. Prepayments and Capital Advances.

As recorded by the Department of Munitions and Supply.

Item 2. Receipts on Orders placed through War Supplies Ltd.

The most recent estimate by the Department of Munitions and Supply, which is dated November 15, 1942, forecasts receipts of U.S. dollars through War Supplies Ltd. at \$100.1 million for the present quarter and at \$118.6 and \$160.6 for the first two quarters of 1943 respectively, a slight reduction from their previous estimate. Their estimate for the second quarter of 1943 includes \$37.3 million "probable orders" through War Supplies Ltd. which it is expected will be given by the United States for purchase of ships the construction of which has been contracted for by Canada.

Despite the possibility that Canada may receive U.S. dollars in the second quarter of 1943 for ships which have not yet been ordered by the United States and the fact that recent changes in the procedure for payments to War Supplies Ltd. may reduce the amount of "Invoices rendered by War Supplies but unpaid", there is no assurance, at the moment, that this will be the case. For this reason the estimates of the Department of Munitions and

Footnotes to Table IV cont'd.

Supply have been cut arbitrarily to the amounts shown in Item 2. Receipts hitherto have been consistently below estimates.

Item 3. "Tanks".

The Department of Munitions and Supply reports this as a "sale of medium tanks to the U.S. Government by American Locomotive Works which has been subcontracted to Montreal Locomotive Works, their Canadian subsidiary."

Item 4. "Sales to Metals Reserve Corporation".

"Sales to Metals Reserve Corporation" of aluminum, lead, mercury, mica, cobalt and other metals as reported by the Department of Munitions and Supply.

Item 6. Petroleum Products purchased by the U.S. on account of the U.K. for the Combined Air Training Plan.

To date no U.S. dollars have been received by Canada under these arrangements. The receipts forecast for 1943 are the merest guesses; nothing much is known as yet as to when payments may begin.

Item 7. Imports of components and materials obtained by the United Kingdom under Lend-Lease for execution of British orders in Canada.

Since, in the absence of the Hyde Park agreement, Canada would presumably need U.S. dollars to cover the imports in this item, the estimated amounts of such receipts have been included in this table. They are therefore included also in the "gross receipts from Hyde Park transactions" which appears in Table I as Item 10. Since goods moving into Canada under this arrangement are not included in the merchandise imports into Canada for which we must pay (Table II, Item 3) they are entered in Table I as a separate item, Item 8. As this item thus appears on both the credit and debit side of our balance of international payments with the United States, it has no effect on the net debits or credits shown in Table I.

Records of this inward movement of goods into Canada are still very unsatisfactory and therefore the amounts here entered are very rough estimates indeed.

Footnotes to the Tables (cont'd)Footnotes to Table IV cont'd.

Items 9, 10 and 11 are added to the table as matters of information; they do not enter into the balance of payments calculation.

Item 9 is as reported by the Department of Munitions and Supply. Item 11 is 12% of Item 10. This is a rough estimate of the probable purchases in the United States which must be made by Canada in order to produce the total exported (Item 10) under the Hyde Park arrangements. This proportion is indicated as roughly accurate by the investigations of the Department of Munitions and Supply.

Footnotes to Table V. United States Dollars Obtained Outside the United States.Items 1 and 4.

Customs figures adjusted to eliminate items producing no U.S. dollars or for which no payment in U.S. dollars is required. Wheat exports to neutral countries in Europe from U.S. ports are included in Item 1.

Item 2.

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

Item 6.

Net amount of exchange sold to the Foreign Exchange Control Board.

DEC 28 1942

My dear Mr. Secretary:

This is in reply to your letter, reference number NE 868.51/1662, of December 14, 1942, concerning the financial position of the Greek Government.

According to the report submitted to the Treasury Department by the Greek Minister of Finance, Mr. K. Varvaressos, it appears that the Greek Government and the Bank of Greece together have sufficient resources for some time to come. With present assets equivalent to \$185 million, annual revenues of \$7 million and annual expenditures of \$19 million, there seems to be some question as to the need of the Greek Government for aid from us at this time.

As the Greek Government is requesting assistance mainly to pay the salaries of the Armed Forces, we would like to know which currencies will be required for this. It is our understanding that the Armed Forces are located largely, if not entirely, in the Sterling Area. About four-fifths of the assets of the Bank of Greece consist of sterling holdings, primarily proceeds of sterling credits granted before the fall of Greece by Britain to the Greek Government for war expenditures within Greece. Under the circumstances, it seems to us that the Greek Government might be asked to consider further the possibility of obtaining what it needs from its own central bank. Even if the Greek Government does not use the Bank's sterling holdings, however, the Bank's other resources plus the Government's revenues from the merchant marine are sufficient to meet expenses for some time to come at current rates of expenditure.

It may be, however, that there are reasons such as political considerations, or claims on Greek assets or Greek legal restrictions which would make it difficult for the Greek Government to utilize these exchange resources for this purpose. We shall, of course, be glad to reconsider the question in the light of any additional information on these points that may be forthcoming.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury. Photo file Diary
File to White
direct

The Honorable,

The Secretary of State.

HDW:ALN:ds1
12-28-42

By Messenger *Reid*
4:13



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
NE 868.51/1662

December 14, 1942

My dear Mr. Secretary:

King George of Greece and the Greek Premier, during their visit to this country last June, stated that the financial situation of the Greek Government was rapidly deteriorating and appealed to this Government for financial assistance. It is my understanding that the President has decided that some arrangement must be made by which the Greek Government can be kept going, and this Department has been exploring possible means of assistance. In this connection, we requested some time ago detailed figures regarding the resources, income and expenditures of the Greek Government, which we have now received through the Greek Embassy in the form of a report prepared by the Greek Minister of Finance, Mr. K. Varvaressos.

I understand from the Greek Ambassador that Mr. Varvaressos talked with you about this matter on the occasion of your recent visit to London and gave you a copy of his report.

I shall be grateful if you will let us have the comment and suggestions of the Treasury Department on this question.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



December 28, 1942

Dear Ed:

Thank you for your letter of December 23 which enclosed my personal copy of the report on the status of the Soviet Aid Program. I am very glad to have this interesting material.

Sincerely,

[Signed] Henry

Mr. E. R. Stettinius, Jr.,
Office of Lend-Lease Administration,
515 22nd Street, N.W.,
Washington, D. C.

GRF:mf

* Returned to Stettinius at his request, 8/24/43

File in Diary

SECRET

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

147

E. R. Stettinius, Jr.
Administrator

December 23, 1942

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

Dear Mr. Secretary,

Attached hereto is your personal and
private copy of the report on the status of
the Soviet Aid Program, as of November 30,
1942.

Sincerely yours,



E. R. Stettinius, Jr.

Attachment

Report on status of Soviet Aid Program
as of 11/30/42: Returned to Stettinius at
his request, 8/24/43

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 28, 1942.

TO Secretary Morgenthau

FROM Lieutenant Kamarck,
Staff and Faculty, Field Artillery School.

Subject: Further Observations on the Army of the United States.

1. The Officer Candidate School and Battery Officers Course at the Field Artillery School represent a successful example of the practice of race equality in the army of the United States. In both the Officer Candidate School (which graduates over 500 Second Lieutenants a week) and the Battery Officers Course, negro students are treated exactly the same as white students. No segregation is practiced even though the school is located in a "Jim Crow" state. Negro and white students live together in the same huts, eat together at the same tables, and march together to classes. Quite often a section composed mostly of whites will be commanded for the day by a negro classmate whose turn it is to be section-marcher.

Although there has been some resentment at this policy by white southerners and even occasionally by white northerners, on the whole this democratic policy of ethnic equality appears to be working well.

2. German propaganda has overworked and discredited the idea of "secret weapons." Nevertheless, the U. S. Army really has developed a number of surprises for the Axis. While most of the details are still very "hush-hush," our anti-tank armor-piercing grenade and our rocket-gun should prove most effective in combat. The armor-piercing grenade and the rocket-gun may be expected to spell the end of the tank force used as a wholly independent arm on the battle field. (Our rocket-gun and the Russian rocket-bomb probably represent in embryo the warfare of the future.)

3. The main deficiency our army suffers from, so far as it can be judged, is the almost total absence of effective propaganda in its ranks. The various hardships, pin-pricks, and seeming aimlessness of so much of army life often lead to a passive indifference which is not removed by an efficient representation of the purposes of the war. What is even worse the soldier is led to rely for information and guidance on newspapers like the most widely read paper at Fort Sill, "The

- 2 -

Daily Oklahoman." "The Daily Oklahoman" told the story of gasoline rationing by playing up "expert" estimates of enormous American rubber reserves and by asserting editorially that it was all a scheme of the Washington bureaucrats to create more government jobs!

The War Department is beginning to rectify this situation by the production of such films as "The Prelude to War," which has been received very well. But there is still much to be done here.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

December 28, 1942

HIGH-LIGHTS OF THE WAR NEWS
(11:00 A. M.)

Russia

With temperatures way below freezing, the Russians reported gains (at a somewhat slower pace) on 6 separate fronts: 1. the Middle Don, where they trapped into a small triangle thousands of Germans east of the Rostov-Vorenezh-Moscow railroad; (Millerovo was still held by the Germans but their position was considered virtually untenable); 2. Southwest of Stalingrad, where they trapped 22 divisions (originally 300,000 men) in the Don-Volga pocket and moved to within 20 miles of the Stalingrad-Caucasus railroad center of Kotelnikov; 3. Northwest of Stalingrad; 4. Stalingrad City; 5. the Caucasus (here southwest of Nalchik the Germans have tried for months to break through into the great oil fields); 6. the Central Front, around Rzhev and Velikie Luki.

North Africa

1. Giraud - The appointment of General Giraud as French Commissioner in North Africa appears to have pleased all parties concerned: the British, the Americans, and the Fighting French. In fact, the 2 big French leaders, De Gaulle and Giraud, have pledged mutual cooperation and, with their representatives already negotiating, an early meeting is scheduled between the two.
2. With Allies still holding the important height (6 miles northeast of Medjez-El-Bab, 28 from Tunis) captured Christmas Day in one of the heaviest artillery barrages of the campaign, and with ground armies still bogged down in the mud, British and U.S. airmen bombed Bizerte and Sfax, sinking at least 3 ships, setting decks afire, and raking enemy columns along a 180-mile stretch. French troops, guarding the southern Allied flank were reported to have made an important advance south of Pont-Du-Fahs (some 30 miles south of Tunis).

3. Libya-Tripolitania - With the bulk of the Afrika Corps reportedly moving into Tripoli, the British, 180 miles away, advanced 40 miles west of Sirte and engaged troops in the Wadi Bei El Chebir area. No important air activity was reported over Libya.
4. Eisenhower said the U.S. is already equipping the French North African Army and will continue to equip them as rapidly as possible.
5. Lieut. Col. Elliott Roosevelt received from General Doolittle the Distinguished Service Cross for his work as commander of an aerial photographic unit.

The Pacific Area

1. New Guinea - American planes downed 31 enemy aircraft and sank 39,000 tons of shipping over the week-end. Lockheed P-38's, so effective in North Africa, were used here for the first time. Allies drove a deep wedge into Jap positions in the Buna area, in some of the heaviest and bloodiest fighting of the campaign.
2. New Britain Island - Twenty-four hours after Navy bombers from the Solomons raided the harbor, American airmen again raided Rabaul, damaging shipping.

Japan

1. Premier Togo told the Japanese Diet yesterday that the first phase of the war of surprise attacks and lightning successes has given way to the second phase of decisive battles, and stressed the hardships Jap soldiers are undergoing.
2. Japs raided Calcutta for the fifth time, doing slight damage.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 448

Information received up to 7 A.M., ~~25th~~ December, 1942.

1. NAVAL

A 6,250 ton Spanish tanker has been torpedoed by U-boat off VIGO and is reported sinking.

2. MILITARY

LIBYA. 26th. Our patrols occupied WADI TAMET and reached a point 20 miles east of BUNGEM.

TUNISIA. More rain has hampered operations. On 23rd/24th a land slide 28 miles east of BOUGIE has made the road impassable for several days.

BURMA. During the past week our forces have advanced 7 to 10 miles in the ARAKAN coastal area without opposition. The Japanese are reported to be concentrating for the defence of AKYAB where beach defences are being constructed.

3. AIR OPERATIONS

FRENCH NORTH AFRICA. 25th/26th. ALGIERS. 22 JU 88's mined the bay and bombed the town.

26th. U.S. Fortresses dropped 38 tons of bombs each on BIZERTE and SFAX Harbours. Some vessels were damaged or sunk. Two bombers and two U.S. fighters are missing. 2 F.W. 190's were destroyed. Our fighters attacked gun positions near MEDJEZ EL BAB and also disabled two locomotives and a sea going barge. 16 F.W. 190's destroyed three aircraft on the ground at BONE.

26th/27th. Wellingtons dropped 23 tons of bombs on TUNIS docks.

December 29, 1942
9:10 a.m.

Admiral
Leahy: Admiral Leahy speaking.

HMJr: This is Morgenthau.

L: Good morning, Mr. Secretary.

HMJr: How are you?

L: Very well, thank you.

HMJr: Admiral, I have your letter of the 23rd in which you ask us to appoint somebody on this Committee on Strategic Services.

L: Yeah.

HMJr: And I don't know enough about it to know what kind of a man you want. I mean what's this committee going to do if you....

L: Well, I tell you, Spy, I don't know either.

HMJr: (Laughs)

L: You see, that - that's - that's a Joint Staff meeting. I signed the letter for the Joint Staff.

HMJr: Yeah.

L: I can't answer off-hand, Mr. Morgenthau, but I'll send you a memorandum covering it today as soon as I get a chance to look at the letter.

HMJr: Would you?

L: Will that be all right?

HMJr: Surely. I - I just don't know whether they want a - a lawyer or a candlestick maker or a butcher.

L: (Laughs) All right, sir, I - I'm not sure either, but I'll try to tell you in a memorandum within the next hour or so.

- 2 -

HMJr: I thank you.

L: Goodbye, fine. Goodbye, sir.

December 29, 1942
10:41 a.m.

HMJr: Hello.

Admiral
Leahy: Mr. Secretary, this is Admiral Leahy speaking.

HMJr: Yes, Admiral.

L: Referring to that telephone conversation of a few moments ago, I've looked up that letter....

HMJr: Yes.

L:and that is just appointing a group of representatives from the civil agencies of the Government to help - to help out and keep us all working together on that Strategic Service. Now specifically, what would be best from the Treasury Department would be one of your officials who is familiar with foreign currency and exchange....

HMJr: Oh.

L:especially with the political and psychological effect of monetary changes.

HMJr: I see. Well, then it - it's on that front?

L: Yes, sir, that's the idea.

HMJr: I didn't know whether this Strategic Services - whether that was the thing that Donovan heads up.

L: Well, Donovan's got some representatives on it too, you see?

HMJr: Yes.

L: But it's a group of people that are trying to get together....

HMJr: Yeah.

L:so that we won't work at cross-purposes or anything.

- 2 -

HMJr: I see.

L: And I think that your department is one of the most important of all of them in that particular line.

HMJr: Well, now I - I get what you want, but I - I didn't know what you wanted.

L: Yes, sir.

HMJr: Okay.

L: Thank you, sir.

HMJr: Thank you.

L: Goodbye.

December 29, 1942

My dear Admiral:

In reply to your letter of December 23rd, I designate Mr. Harry D. White as Treasury representative to serve with the planning group which has been set up in the Office of Strategic Services by the Joint Chiefs of Staff.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Admiral William D. Leahy, U.S.N.,
Chief of Staff to the
Commander in Chief of the Army and Navy,
Washington, D. C.

Marked "Strictly Confidential"

Sent by Bundy 4:42 12/29/42

Orig. file direct to White
(in envelope marked
"Strictly Confidential")

Photo file in Diary

THE JOINT CHIEFS OF STAFF
WASHINGTON

December 23, 1942.

SECRET

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

Dear Mr. Secretary:

The Joint Chiefs of Staff have recently approved a directive outlining the functions of the Office of Strategic Services. This includes a planning group which is set up to integrate psychological warfare plans with the military program. The planning group is to have an advisory committee made up of representatives from the civilian war agencies concerned, and you are cordially invited to designate a representative of the Treasury Department to serve as a member of this committee.

Sincerely yours,

For the Joint Chiefs of Staff:

William D. Leahy

WILLIAM D. LEAHY,
Admiral, U. S. Navy,
Chief of Staff to the
Commander in Chief of the Army and Navy.



SECRET

December 29, 1942
10:20 a.m.

TAXES (Budget Message)

Present: Mr. Bell
Mr. Gaston
Mr. Paul
Mr. Haas
Mr. Blough
Mr. White

H.M.JR: I went over to see the President of the United States this morning. He was in a very good humor, relaxed. I asked him about this memorandum. I don't know whether everybody here has read it or not. If you haven't, I will lend it to you when you leave the room. The gist of it, anyway, was - as I said in my letter, the Congress is setting up the nine pins for the President to knock down, instead of the President setting them up this time. He read it and said, "I like it; that is what I want to do."

So I said, "Well, Mr. President, the Budget does not like it. They have not seen it, but they won't like it; they want something very concrete, something very definite. There is a fellow by the name of Colm over there, who wants you to cross every 't' and dot every 'i,' and the President never heard of him. He said, "Who is he?" I said, "Personally I don't see why the Bureau of the Budget should have a tax expert anyway," and he said, "Neither do I."

Then I said, "You know, Mr. President, about a year ago I came and talked to you about the Budget wanting to write the tax bill, and get control of that. That is the way they feel. You very kindly told them to lay off, which they did, but they feel very definitely that this is what they want. Under the Constitution you have to do it." The President just grinned all over. I said,

- 2 -

"You know, Mr. President, you have always said, 'Customs and Constitution'?" He said, "Sure, what has the Constitution got to do with it?"

I said, "The Budget feels very strongly about this thing." He said, "Well, I like it." I said, "Do I have to show them what George and Doughton said?" He said, "No, I would not show it to them." I said, "Who else should I show this memorandum to that I have written you?" He said, "Nobody, just the Budget." I said, "Nobody else?" and he said, "Nobody else." I said, "O.K."

The President said, "Get busy, because it has to be finished by Saturday night." I said, "We have made a tentative appointment for this afternoon with the Budget."

So he read it very carefully, and then he read the whole thing over again. Then he said, "What I am going to do is, I am going to tell them I want social security all the way." I said, "Fine." But I said - I kept repeating that that was not going to satisfy the Budget. He said, "Let the Budget do what I want," meaning himself. "Show this thing to them; but you don't have to show them this attached memo." And there you are.

Now, Bell, Paul, and Blough can go to work, and sweat.

MR. PAUL: Of course what we can go to work on is still--

H.M.JR: Didn't you make a tentative appointment - somebody did. Oh, remember, I said this morning that there was something - that is what it was. You said that as soon as you heard you would call up Harold Smith. Is Smith trying to see you, or Paul?

MR. BELL: The only time I talked to Harold Smith was at the last Byrnes' meeting. He said, "I hope we can get together very soon on the Budget Message. I hope the Secretary will designate somebody to confer with us, to come over and go over the whole Message."

(The Secretary held a telephone conversation with Mr. Donald Nelson.)

- 3 -

MR. GASTON: Did the President keep a copy of your memorandum?

H.M.JR: He has the original.

MR. GASTON: That is fine. He has something to match against what the Budget offers him.

MR. PAUL: If he can find it. (Laughter)

H.M.JR: Grace Tully knows where it is. What are you going to do, Bell? Have you seen this, Harry?

MR. WHITE: I don't think so.

MR. PAUL: You were at the meeting in Dan Bell's office.

MR. GASTON: I didn't see it in the final form.

H.M.JR: You have seen it, George?

MR. HAAS: I have seen the draft just before that, I think.

H.M.JR: Look at this. I would like--

MR. BLOUGH: I don't think they have seen the George-Doughton copies, but I do think they have seen the others.

H.M.JR: May I please have it back by three o'clock? If any of you have not seen it - and don't let anybody else in the office read it.

MR. WHITE: Byrnes' name was not mentioned in the whole thing?

H.M.JR: Don't let anybody in your respective offices see this thing, please.

No, I sat there, and I felt like saying, "Should I show it to Jimmy Byrnes?" I said, "Now why follow those

- 4 -

tactics?" So I said, "Who should see this, Mr. President?" He said, "The Budget." I said, "Anybody else?" He said, "Nobody else," so why bring up Jimmy Byrnes. Do you think I was smart?

MR. WHITE: Of course if you had said "Jimmy Byrnes." he might have said, "Sure." Then the fat would have been in the fire. (Laughter)

H.M.JR: That is the way I felt. I know my President pretty well - and as Director of the Budget, Dan knew him. If Jimmy Byrnes was uppermost in his mind in connection with this, he would have said, "Show it to Jimmy Byrnes," because when he wants somebody to see it - because when I brought up this thing, this home-front business, which he likes and is working on, he said, "Now, I have got to talk to Prentiss Brown about this. He is working on it." So Prentiss Brown was in his mind, but on the Budget and taxes, no.

December 29, 1942
10:28 a.m.

Donald
Nelson:

....phoned, so I just....

HMJr:

Can you hear me?

N:

Yes, sir.

HMJr:

Don, the press questioned me about this sort of buying in advance, this Nugent business?

N:

Yes.

HMJr:

And I hit it pretty hard yesterday. I don't know where you stand, but....

N:

I - I'm with you on that 100%. I don't believe in it. I don't believe....

HMJr:

Yes.

N:

....it's sensible. I don't believe it's good business even.

HMJr:

Well, would you mind saying so publicly?

N:

I'd be glad to.

HMJr:

It would be helpful to us over here.

N:

The next press conference I have I'll do it.

HMJr:

Thank you.

N:

Because I - I just believe the thing is not fundamentally sound in any sense of the word, and I don't believe it's good business even.

HMJr:

Well, that's the way we feel over here.

N:

Well, I'm sure you're right.

HMJr:

Well, if you'd hit it the next press conference I'd appreciate it.

N:

I'll be glad to do it.

HMJr:

Right.

N:

Okay, sir. Goodbye.



December 29, 1942
2:25 p.m.

HMJr: Bell?

Daniel
Bell: Yeah.

HMJr: I didn't recognize your voice. When I talked to the President, that suggestion at the end that Walter George put on where he said he - the President should say he'd had - looked to me - or they should look to me for more particulars on the Treasury program - tax program?

B: Yes.

HMJr: That - he didn't like that.

B: Well, I didn't either.

HMJr: So....

B: But....

HMJr: He said, "I don't like George's suggestion," so when you show it to the Budget cut that part off.

B: Well, it's already gone, but we can take it off very easily.

HMJr: Okay.

B: Because - and we talked about it this morning. I told Paul that I didn't like it, but we could let it go over and then it'd probably come out in the conferences.

HMJr: All right.

B: But maybe we better call them up and tell them to scratch that out.

HMJr: Well, can't you have it come back?

B: Well, they've already got it. They've had it....

- 2 -

HMJr: Well, leave it go.

B:since about eleven-thirty.

HMJr: Well, I wouldn't....

B: But....

HMJr: I wouldn't draw any attention to it.

B: Maybe we'd better just in the first conference say that - that can come out.

HMJr: That's right.

B: All right, fine.

HMJr: Thank you.

B: All right.

December 29, 1942
2:58 p.m.

HMJr: Hello.

Operator: Harold Thomas.

HMJr: Hello.

Harold Thomas: Yes.

HMJr: Is - can you hear me, Mr. Thomas?

T: Yes, thank you, Mr. Secretary.

HMJr: How are you?

T: Pretty good, thank you.

HMJr: Mr. Thomas, I wondered whether you could do this for me. I know on the Advertising Council there are a number of people that have to do with radio shows....

T: Yes.

HMJr:and I wish that you could find out from them, if we wanted to sort of get new people in charge of our radio program, you know?

T: Get what?

HMJr: If I wanted to get new people in charge of our Treasury program, that is, the production end, you see, what could they do to help me?

T: Well, now that depends. You mean somebody to come down there and work at it?

HMJr: No, up in New York.

T: Do it up here?

HMJr: Yeah, just the production, like the Treasury Hour.

T: Why, I think we could be of some help to you.

- 2 -

HMJr: I wish....

T: May I ask, what's the matter with Bill Murray?

HMJr: What's the matter with Bill Murray?

T: Yeah.

HMJr: The trouble with Bill Murray is that the last two Saturdays the shows have been so God-awful that I just can't stand 'em. I've stopped them.

T: Yeah.

HMJr: I've discontinued it entirely.

T: Well, I tell you what I think we could do there, I think maybe we could have a talk with Bill about the situation, and see if we couldn't steer it a little bit for you, and if that wasn't satisfactory then we might get somebody that could - could really go to work on it.

HMJr: Well, why must he have a monopoly on the Treasury Hour?

T: I don't know that he should have a monopoly on that or anything else, but....

HMJr: Yeah.

T:he's a pretty good man.

HMJr: Well, I don't think he ever did a Treasury - a show - a radio show before he did ours.

T: No, but he knows a lot about the radio business. But I see your point. We're....

HMJr: Well....

T:meeting tomorrow, and I'll bring this matter up for discussion then and see if I can have something for you on it.

HMJr: Yeah, I - I - I mean that the shows have steadily deteriorated.

- 3 -

T: Yeah.

HMJr: And I - I - I'm not saying that I won't continue with him.

T: Yes.

HMJr: He's coming down, and I'm going to tell him tomorrow just from the shoulder how I think.

T: Yeah.

HMJr: But I want to know is there anybody else in the field?

T: Oh, my, yes. There are lots of people in the field.

HMJr: I mean....

T: Good people.

HMJr:who could do this sort of thing.

T: Well, one thought that occurred to me is that we might get an agency to take this thing on for you.

HMJr: Well, something like that.

T: Yeah. That would be the best way to do it. There you've got a group that's accustomed to working together....

HMJr: Yeah.

T:and we could find some good operation that way, and I think it would help you.

HMJr: Well, I mean - I listened the last two Saturday nights and they ruined both of my Saturdays.

T: (Laughs) That's....

HMJr: And I can't listen to any more.

T: (Laughs) Well, that's too bad.

- 4 -

HMJr: So until I can get it reorganized, I just stopped it.

T: Oh, you're not going to have one this coming Saturday night?

HMJr: No, I stopped it.

T: All right, I'll move right in on it tomorrow.

HMJr: I - I can't stand another Saturday night.

T: Well, now if I can get some thoughts on it, do you want me to phone you tomorrow afternoon?

HMJr: If you would.

T: Yes, be glad to.

HMJr: If you would.

T: As a matter of fact, that's one of the things that I was thinking about in the whole reorganization of that department.

HMJr: Yeah.

T: And I think that we ought to put that in to the whole program, do you see what I mean?

HMJr: Yeah, yeah. Well, I'm thinking of a radio show that will represent the whole Treasury, not just War Bonds.

T: Yeah, yeah. All right, I'll take it up at Council meeting tomorrow, and I'll see if I have something for you in the afternoon.

HMJr: As I say, I'm not saying that we won't continue with Murray but I want to know if there isn't somebody else in the business.

T: Yeah. Oh, my, yes, there are lots of people. These agencies are the people that really do that kind of stuff.

- 5 -

HMJr: Because in a commercial business, if a program got steadily worse you wouldn't continue using the man.

T: No, we wouldn't. We'd get a new agency.

HMJr: That's right.

T: Just what we would do exactly.

HMJr: That's right.

T: But I think we want to try to retain Bill Murray's help and counsel on this thing, because he's a very good man and he can get talent. But I think we can work it out for you in a way that will be satisfactory.

HMJr: I mean I've had no row with him. I haven't talked to him even.

T: Yes.

HMJr: I haven't even talked to him, but I - I - I'm just disgusted with the product.

T: Yeah, yeah. All right, I'll get back to you tomorrow afternoon. I may not have the complete answer but at least I'll have some information for you.

HMJr: Thank you.

T: And then when I come down there Tuesday, I'll check in with you Tuesday morning....

HMJr: That's right.

T:and we can sit down and plan how we can go at this whole business.

HMJr: That's right.

T: All right, fine.

HMJr: Thank you.

December 29, 1942
3:31 p.m.

HMJr: Hello.

Operator: Mr. Mack.

HMJr: Wait a minute. Cliff?

Clifton
Mack: Yes.

HMJr: I just heard from a man who just came back from Africa that they're so desperately in need of clothing there, and I'd like to have a report the first thing tomorrow morning from you just how far we've gone along on this purchasing program.

M: Very good.

HMJr: You see?

M: Very good.

HMJr: And could you find out - I mean I'd like to know one, let's say as of - say Saturday night. Where did we stand as of Saturday night; what have we bought; and can you find out if any of it has moved?

M: Yes, sir, I'll be glad to do that.

HMJr: If any of it's on shipboard.

M: That's of last Saturday night?

HMJr: Well, this past Saturday. What....

M: Past Saturday night.

HMJr: Today's Monday, isn't it?

M: Yes - Tuesday.

HMJr: Tuesday.

M: Tuesday.

- 2 -

HMJr: Wouldn't - wouldn't as of Saturday night be the more reasonable request?

M: I think that's - I think that's fine, and - and we have stuff that cannot be shipped because we don't have the shipping, but I'll get you the report on it.

HMJr: Well, get me a report, and I'd like if possible to have it over here by nine o'clock tomorrow morning.

M: Very good.

HMJr: And see that - send it to Lieutenant Commander Stephens so I get it.

M: Very good, I'll do that.

HMJr: And then, as I say, give me just as much - you say now - if there's no shipping, I'd like to know that; what's going; what's waiting shipment - the way we used to do on that Russian business.

M: Very good. Very good, I'll do that.

HMJr: And then I also in a separate report, which I don't have to have tomorrow morning if it's going to rush you too much, I'd like to know which concerns have been given the orders and where they're located.

M: Very good.

HMJr: I mean, for instance, the ABC Company received an order for so many dozens of this, that, and that amounting to so many million dollars, lo.. - and their location.

M: Very good.

HMJr: You see?

M: All right, I'll do that.

HMJr: Where they're - where these orders are going - what cities.

- 3 -

M: Yes.

HMJr: That I don't have to have by tomorrow morning.

M: That's a separate report.

HMJr: Yeah.

M: All right, sir, we'll have it.

HMJr: And from now on, as of every Saturday night at close of business I'd like to know what you bought, what's on the way, and what's waiting shipment for Africa,

M: All right, sir, and that's to be at your office the following Monday?

HMJr: Well, if - I don't - if I have it as of - to be reasonable, say the following Tuesday morning.

M: All right, sir, we'll have it.

HMJr: Thank you.

M: Yes, sir.

TREASURY DEPARTMENT

175

INTER OFFICE COMMUNICATION

DATE

December 29, 1942

TO

Secretary Morgenthau

FROM

Ferdinand Kuhn, Jr.

You asked me yesterday to get you a list of the most popular one-hour and half-hour programs. Here is the material I have had from Mr. Callahan on the subject:

The most popular one-hour programs, with the Hooper ratings from December 1st to 7th, are:

Lux Radio Theater	26.7
Kraft Music Hall	23.7
Kay Kyser	22.4
Kate Smith Hour	17.3
Camel Caravan	10.1
Good Will Hour	7.2

The most popular half-hour programs, with the Hooper ratings from December 1st to 7th, are:

Bob Hope	37.3
Charlie McCarthy	36.4
Fibber McGee & Molly	34.8
Aldrich Family	31.3
Jack Benny	28.3
Frank Morgan-Fanny Brice	25.9
Screen Guild Players	24.3
Eddie Cantor	23.4
Mr. District Attorney	23.0
Rudy Vallee	20.4

In addition, Mr. Callahan has sent me a list of the most popular "war effort" programs, which I think will be of interest to you. This list is attached.

J. K.

TREASURY DEPARTMENT

175

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J. K.

<u>Program</u>	<u>Sponsor</u>	<u>Rating</u>
We, the People, at War	Gulf Oil	12.4
Thanks to the Yanks	R.J. Reynolds	9.8
Stage Door Canteen	Corn Products	8.8
Commandos	CBS, Sustaining	6.0
First Line of Defense	Wrigley Co.	5.6
Keep Working, Keep Smiling, America	Squibb	5.0
* Over Here	Blue Network, sustaining	4.7
People's Platform	CBS, Sustaining	4.3
American Legion Pearl Harbor Show	Mutual, sustaining	3.9
Meet Your Navy	Hall Bros.	3.8
Town Meeting	Blue Network, sustaining	3.3
Army & Navy Game	Blue Network, sustaining	2.9
Calling Pan America	CBS, sustaining	2.3
An American in England	CBS, sustaining	2.1
What's Your War Job	Blue Network, sustaining	1.9

* Treasury program

F.K.

C. E. HOOPER, INC.

New York



Los Angeles

Report issued:
DECEMBER 15, 1942

"NATIONAL" PROGRAM RATINGS REPORT

One Week Program Ratings

Based on Week Beginning TUESDAY, DECEMBER 1, 1942

WAR EFFORT EVENING PROGRAMS

SPONSOR	PROGRAM	NO. OF CITIES ^A	✓ NETWORK	✓ DAYS	✓ TIME [⊕]	SETS- IN-USE*	PROGRAM RATING*	% OF LISTENERS**
Sustaining	AMERICAN LEGION PEARL HARBOR SHOW	(21)	M B S	Sunday	8:00	46.6	3.9, 9	8.3
Sustaining	AN AMERICAN IN ENGLAND	(28)	C B S	Tuesday	10:00	45.2	2.1 14	4.7
Sustaining	ARMY & NAVY GAME	(16)	B N C	Thursday	7:00	25.4	2.9 12	11.6
Sustaining	CALLING PAN AMERICA	(14)	C B S	Saturday	6:15	17.2	2.3 13	13.6
Sustaining	COMMANDOS	(22)	C B S	Sunday	7:00	41.2	6.0 4	14.6
Wrigley Co.	FIRST LINE OF DEFENSE	(32)	C B S	Thursday	10:00	34.6	5.6 5	16.1
E. R. Squibb	KEEP WORKING, KEEP SINGING, AMERICA	(32)	C B S	M-W-F	6:30	20.4	5.0 6	24.3
Hall Bros.	MEET YOUR NAVY	(29)	B N C	Friday	10:00	35.2	3.8 10	10.7
Sustaining	OVER HERE	(28)	B N C	Saturday	8:30	34.0	4.7 7	13.9
Sustaining	PEOPLES PLATFORM	(20)	C B S	Saturday	7:00	21.5	4.3 8	20.0
Corn Prods.	STAGE DOOR CANTEEN	(25)	C B S	Thursday	9:30	38.3	8.8 3	23.0
R.J. Reynolds	THANKS TO THE YANKS	(32)	C B S	Saturday	7:30	30.0	9.8 2	32.5
Sustaining	TOWN MEETING	(25)	B N C	Thursday	8:30	44.2	3.3 11	7.4
Gulf Oil	WE, THE PEOPLE, AT WAR	(21)	C B S	Sunday	7:30	39.7	12.4 1	31.2
Sustaining	WHAT'S YOUR WAR JOB	(17)	B N C	Wednesday	7:00	25.3	1.9 15	7.6

⊕ Current New York Time

** Based on "Sets-in-Use".

* Based on total homes called in Hooper checking points receiving specific broadcast.

^A Number of Hooper checking points receiving specific broadcast.

Notes:

Newspaper records and/or respondents' mention of program name or talent are accepted, in the absence of station acceptance lists, as evidence that War Effort Sustaining programs were carried by local network outlets in Hooper checking cities.

C. E. HOOPER, INC.

New York



Los Angeles

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 29, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Here are the answers to your questions about Mr. Bacher, as gathered by Mr. Houghteling and Mr. Lemmon of the Advertising Council.

1. The American Federation of Radio Artists feels cordially toward Mr. Bacher in spite of the incident that brought him a "reprimand" from the union last month. The union says simply that Mr. Bacher lost his temper at a rehearsal and behaved unjustifiably toward a union member in his cast. The whole incident has been cleared up. The union feels that Mr. Bacher is a brilliant, if temperamental, director, and the union played no part whatever in his leaving the Camel program or the Treasury radio activities.
2. The agency that produces the Camel programs tried to get rid of Bacher about ten weeks ago on the ground that his programs were too dramatic and heavy for their purpose. Bill Murray stepped in and prevented a break at that time. Bacher then substituted comedy for the heavy dramatics in his programs, and the Camel audience was doubled. The Wednesday before Christmas, however, Mr. Bacher failed to show up at a rehearsal and was promptly dropped from the show, in accordance with a clause in his contract. This was the Wednesday he came down to Washington.

J.K.

December 29, 1942

TO: Mr. Harold Graves
FROM: The Secretary

In the future, the program "The Treasury Song Parade" should be produced under the direction of Professor Welch with Mrs. Morgenthau acting as Consultant to Professor Welch.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1942.

TO MRS. KLOTZ
FROM Harold Graves

Herewith itemization of expenses for "Bond Wagon"
programs referred to in my memo. of yesterday.

SATURDAY NIGHT BONDIWAGON PROGRAMSProgram of October 3, 1942

Actors and actresses (9)	\$ 207.00
Soloist (1)	23.00
Singers - quartet (4)	76.00
Script writer (1)	25.00
Radio Guild	25.00
	\$ 356.00

Program of October 10, 1942

Actors and actresses (11)	\$ 253.00
Soloist (1)	23.00
Singers (4)	77.00
Script writer (1)	25.00
Radio Guild	25.00
	\$ 403.00

Program of October 17, 1942

Pianist (1)	\$ 18.00
Actors and actresses (8)	200.00
Soloist (1)	25.00
Singers (4)	76.00
Radio Guild	25.00
	\$ 344.00

Program of October 24, 1942

Actors and actresses (9)	\$ 255.00
Singers (4)	76.00
Radio Guild	25.00
Orchestra Leader (1)	42.00
	\$ 398.00

Program of October 31, 1942

Actors and actresses (7)	\$ 161.00
Pianist (1)	30.00
Singers - quartet (4)	76.00
Script writer (1)	25.00
Radio Guild	25.00
	\$ 317.00

- 2 -

Program of November 7, 1942

Actors and actresses (4)	\$ 92.00
Singers - quartet (4)	76.00
Script writer (1)	25.00
Musical arranging and copying	191.30
Conductor	42.00
Radio Guild	25.00
	\$ 451.30

Program of November 14, 1942

Actors and actresses (6)	\$ 138.00
Singers - quartet (4)	76.00
Soloist (2)	50.00
Script writer (1)	25.00
Radio Guild (1)	25.00
	\$ 314.00

* Program of November 21, 1942

Actors and actresses (9)	\$ 210.00
Singers - quartet (4)	76.00
Soloist (1)	25.00
Radio Guild	25.00
Conductor	57.75
Musical arranging and copying	385.40
	\$ 779.15

** Program of November 28, 1942

Singers - quartet (4)	\$ 76.00
Soloist (2)	50.00
Russian chorus (12)	200.00
American chorus (11)	176.00
Russian director (1)	25.00
Russian arrangement	25.00
Arrangements	260.00
Director	200.00
	\$ 1,012.00

** Program of December 5, 1942

Composing and conducting	\$ 104.00
Arranging	312.00
Copying	130.00
Actors and actresses (2)	46.00
Singers (8)	130.00
Director	200.00
	\$ 922.00

*Special program for "Women At War" week.

**Increased amounts due to Radio Directors' Guild and War Writers' Board pulling out of program at last minute, necessitating substitution of musical program which was more expensive.

** Program of December 12, 1942

Actors and actresses (5)	\$ 115.00
Soloist (1)	25.00
Writers (2)	50.00
Singers - chorus (8)	133.50
Arranging and copying	66.35
Conducting	42.00
Director	200.00
	\$ 631.85

** Program of December 19, 1942

Actors and actresses (11)	\$ 263.00
Singers - chorus (9)	145.00
Director	200.00
	\$ 608.00

** Program of December 26, 1942

Actors and actresses (9)	\$ 207.00
Musical arrangements	244.30
Conductor	43.00
Director	200.00
	\$ 694.30

** Increased amounts due to Radio Directors' Guild and War Writers' Board pulling out of program ~~at last minute~~, necessitating substitution of musical program which was more expensive.

Note - All figures shown for talent are without Social Security, State taxes, etc.

MEMORANDUM

December 29, 1942.

TO: The Secretary

JLS

FROM: Mr. Sullivan

On December 14th the War Bonds Staff in Worcester, Massachusetts, started its new drive for war bonds with a one-hour broadcast over the local radio station WTAG. The high point of this broadcast was the participation by Worcester boys in foreign lands. Through the War Department it was arranged that one Worcester boy should broadcast for 2 minutes. He was to speak for a group of other Worcester boys who were to be with him at the broadcast.

Technical difficulties were apparent in a test of the short wave broadcast from Africa so this broadcast was eliminated and in its place the previously arranged substitute in England spoke. He too was a Worcester boy and spoke for a small group of Worcester boys who were present at the broadcast.

Through the Navy Department it was arranged that another Worcester boy should speak for a group of Worcester boys and should broadcast from Iceland, and he did so for 5 minutes.

The advance publicity gave the name of the major spokesman but did not divulge the names of his companions at the broadcast. The effect of this was that everyone who had a relative or friend from Worcester in Iceland, Africa or England was held in suspense until over the radio the spokesman announced the names of the group with him.

The spokesman in each case was a boy who was widely known in Worcester. For instance, the spokesman from England was a popular ex-employee of the large Heald Machine Tool Company.

The War Bonds Staff in Worcester has advised me that in their opinion the broadcasts from abroad by Worcester boys contributed more to the success of the drive than anything else that was done.

The pick-up from England on WTAG was arranged through Mr. Rathrop Mack of the National Broadcasting Company, Radio City, New York, and Mr. Donovan Rowe of the British Broadcasting Company, 630 Fifth Avenue, New York.

- 2 -

The pick-up from Iceland was arranged through the cooperation of Lieutenants Deutsch and Cummings of the Branch Radio Section, United States Navy, 580 Fifth Avenue, New York.

I am advised that Mr. Waldman and Miss Spriggs of the Treasury Radio Section were very helpful.

The British Broadcasting Company and National Broadcasting Company helped to arrange the script to bring in local and personal factors as well as the need for increased bond purchases by the American people.

I am advised that the Columbia Broadcasting System is able to arrange for similar pick-ups of broadcasts from foreign lands.

CONFIDENTIAL

186

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	December	Cumulative sales by business days				December as percent of November
	daily sales	December	November	October		
December 1942						
1	\$ 4,116	\$ 4,116	\$ 5,164	-	79.7%	
2	4,489	8,605	9,272	-	92.8	
3	10,042	18,647	20,460	\$ 5,045	91.1	
4	39,690	58,337	31,309	42,285	186.3	
5	16,648	74,984	53,076	52,984	141.3	
7	46,424	121,408	62,326	73,919	194.8	
8	11,887	133,295	96,366	98,490	138.3	
9	17,857	151,152	111,002	117,077	136.2	
10	13,607	164,759	146,494	131,593	112.5	
11	38,664	203,423	161,929	169,859	125.6	
12	17,480	220,903	181,120	179,232	122.0	
14	52,056	272,959	188,497	194,811	144.8	
15	15,530	288,488	230,083	222,243	125.4	
16	22,764	311,252	241,624	239,891	128.8	
17	24,848	336,100	262,274	254,201	128.1	
18	25,260	361,359	287,409	290,282	125.7	
19	17,907	379,266	314,568	312,386	120.6	
21	45,716	424,982	327,418	327,928	129.8	
22	18,083	443,065	371,750	355,719	119.2	
23	16,686	459,751	390,176	382,332	117.8	
24	18,942	478,693	410,473	396,458	116.6	
26	54,198	532,891	429,168	434,661	124.2	
28	48,034	580,925	456,184	445,071	127.3	

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

December 29, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	December daily sales	Cumulative sales by business days				December as percent of November
		December	November	October		
December 1942						
1	\$ 197	\$ 197	\$ 303	-		65.0%
2	329	527	1,115	-		47.3
3	2,688	3,214	7,846	\$ 2,218		41.0
4	13,947	17,161	14,720	20,322		116.6
5	12,303	29,464	31,425	24,325		93.8
7	17,522	46,986	34,030	31,922		138.1
8	2,872	49,858	43,940	46,695		113.5
9	9,576	59,434	49,326	55,998		120.5
10	5,651	65,085	58,842	59,711		110.6
11	14,274	79,359	64,157	74,275		123.7
12	7,135	86,495	71,352	76,430		121.2
14	15,430	101,924	73,989	83,857		137.8
15	7,719	109,644	83,246	91,884		131.7
16	5,146	114,789	88,888	98,457		129.1
17	11,654	126,443	97,154	101,252		130.1
18	6,466	132,909	104,487	110,052		127.2
19	7,992	140,901	113,191	115,757		124.5
21	13,451	154,352	116,880	124,610		132.1
22	12,077	166,429	131,041	133,767		127.0
23	8,253	174,682	136,798	142,141		127.7
24	7,854	182,536	145,126	146,525		125.8
26	20,516	203,052	151,824	159,973		133.7
28	19,576	222,629	161,542	165,364		137.8

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

December 29, 1942.

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

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

TREASURY BILLS

	<u>Dec. 30</u>	<u>Dec. 23</u>	<u>Dec. 16</u>	<u>Dec. 9</u>
Amount offered	\$ 600 M	\$ 600 M	\$ 600 M	\$ 500 M
Bids tendered	930 ✓	1,220 ✓	1,294	1,223
Low rate	.273%	.293%	.293%	.297%
High rate	.376	.364	.368	.368
Average rate	.365 ✓	.363 ✓	.364	.367
Amount in New York	\$ 313 M	\$ 320 M	\$ 298 M	\$ 268 M
Amount in Chicago	94	105	122	68
Amount in San Francisco ...	50	48	36	55
Amount in balance of country	143	127	144	109

sub

STANDARD FORM NO. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

JOHN P. MYERS
PRESIDENT
PLATTSBURG NATIONAL BANK
PLATTSBURG NEW YORK

THANK YOU FOR YOUR INVITATION TO SPEAK REGRET VERY MUCH MY
HAVING TO SAY NO REGARDS

HENRY MORGENTHAU JR

TREASURY DEPARTMENT¹⁸⁹
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

DECEMBER 29 1942

470

1942 DEC 28 PM 4 38

LW11 (FOUR) 139

PLATTSBURG NY 121P DEC 28 1942

HON HENRY M MORGENTHAU SECRETARY OF THE TREASURY

WASHN DC

AS YOU REQUESTED THIS WIRE IS A REMINDER THAT AT THIS TIME YOU WOULD BE ABLE TO CONFIRM YOUR ACCEPTANCE OF MY INVITATION TO SPEAK AT THE WARTIME CONFERENCE OF NEWYORK STATE BANKERS ASSOCIATION JANUARY EIGHTEENTH IN NEWYORKCITY BELIEVE IT MOST DESIRABLE FROM STANDPOINT OF THE BOARD PUBLIC INTEREST THAT YOU BE THE ONLY SPEAKER AT THE DINNER THAT EVENING AT THE WALDORF AND AS YOU SUGGESTED A BROADCAST OVER IMPORTANT NETWORK CAN BE ARRANGED FOR THAT MEETING IF MORE CONVENIENT TO YOU WILL REARRANGE OUR PROGRAM FOR YOU TO SPEAK AT MORNING MEETING THAT DAY AT THE FEDERAL RESERVE BANK BUT HOPE VERY MUCH THE DINNER ENGAGEMENT WILL BE AGREEABLE TO YOU DEFINITE CONFIRMATION OF YOUR ACCEPTANCE AS SOON AS POSSIBLE WILL BE APPRECIATED IN ORDER THAT WE MAY MAKE OUR ANNOUCEMENTS AND ARRANGEMENTS WITH THE BROADCASTING COMPANY

JOHN P MYERS.

435P

mk
November 12, 1942.

MEMORANDUM

TO: Mr. Fitzgerald
FROM: Mr. Gaston

John P. Meyers, President of the Plattsburg National Bank and of the New York State Bankers Association, had an appointment to see the Secretary today, but since the Secretary was at cabinet he was referred to me. He is remaining in town tomorrow and is at the Lee-Sheraton Hotel, Room 220. He would like, if it is at all possible, to see the Secretary for a very few minutes some time tomorrow. The Secretary said that he hoped to be able to find time to see him during the afternoon tomorrow.

(Mr. Meyers wants to invite the Secretary to attend and speak at a dinner of the New York State Bankers Association on Monday evening, January 18, at which there will be an attendance of about a thousand representing all banks in the State of New York. They will be meeting during the day at the Federal Reserve Bank of New York.)

Mrs Klotz:

WEG

Will telegraph me on

*Nov 28th for yes or no.
I incline to dit 1/11/42*

THE ATTORNEY GENERAL
WASHINGTON

December 29, 1942

Dear Henry:

I wish I could accept your invitation to speak at the Philadelphia broadcast of "Information Please" on January 8, but unfortunately I am engaged that night. It was nice of you to ask me.

Sincerely yours,

James B. Smith

Honorable Henry Morgenthau

The Secretary of the Treasury

Washington, D. C.

TOM CONNALLY, TEX., CHAIRMAN
 WALTER F. GEORGE, GA.
 ROBERT F. WAGNER, N. Y.
 CLYDE D. THOMAS, UTAH
 DERRICK VAN NUY, IND.
 J. E. MURRAY, MONT.
 JOE PEPPER, FLA.
 THEODORE FRANCIS GREEN, N. J.
 ALBION W. BARKLEY, KY.
 ROBERT R. REYNOLDS, N. C.
 JOSEPH P. GUFFEY, PA.
 GUY M. GILLETTE, IOWA
 BENNETT CHAMP CLARK, MO.
 CARTER GLASS, VA.
 JOHN LEE, OKLA.
 JAMES M. TURNELL, DEL.

ROLAND YOUNG, CLERK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

December 29, 1942.

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

My dear Mr. Morgenthau:

Thank you very much for having sent
 to me copy of Air Marshal Evill's letter relative
 to the film which was sent to Mrs. Huntley in Rhodesia.

I greatly appreciate your fine cooperation
 in this matter.

Sincerely,



TC/3s

December 29, 1942.

MEMORANDUM

TO: Mr. Sullivan
FROM: Mr. Gaston

I notice in running over the file of correspondence attached the following:

(1) The Baptists, both North and South, think the Victory Tax is an invasion of religious liberty. I don't think this worth any attention ^{or} a speech.

(2) The United Shoe Workers (CIO) St. Louis, apparently think that income tax exemptions have been lowered to \$624 per annum and the Victory Tax added as a further insult. The matter of differing exemptions for the two taxes should be straightened out.

(3) One D. M. Stringfield of Fayetteville, North Carolina, who writes to Senator Bailey, is laboring under the impression that only those who are on deductible payrolls have to pay the Victory Tax "while the man who makes infinitely more money out of people not known and not traced and identified, pays no Victory Tax at all." It should of course be explained that everybody pays the Victory Tax, by return if not by payroll deduction. Another letter which refers to the "landlords" apparently reflects the same misconception.

MRG.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1942

TO Secretary Morgenthau
FROM Mrs. Forbush

With reference to your request for complaints and other comments on the Victory Tax:

I am attaching copies of letters received in the Treasury and dealing with this subject. Our experience has been that though there were many letters complaining of heavy taxes, comparatively few specified this 5% deduction. Churches and labor unions out-numbered the individuals complaining of the tax and its implications.

However, there were a great many inquiries as to how the tax should be figured. Since these demanded a factual reply, they were sent to Internal Revenue. This office has checked with Commissioner Helvering's this morning and I have just been told that "several hundred" such letters have been located. They had been assigned to various examiners and investigators, and Internal Revenue is gathering them up and getting them over here just as rapidly as possible. They could not reach my office before noon, however, and I, therefore, will collect and abstract them and get a supplementary memo down to you just as quickly as possible when they do come.

I am sorry that it is not possible to give an exact count of the number of letters mentioning the Victory Tax. In the general letters of complaint about taxation, many briefly mentioned the 5% and evidently had it in mind. I would say that there were as many as five hundred such letters, but there is no way of getting the figures. As these are general, they are politely acknowledged and go into the files. If they ask specific questions, they go either to Tax Research or to Internal Revenue. In each case, when answered, these letters go into the general files.

During the rest of the week I shall, of course, keep a special watch for letters on this subject and will give you the figures on them as well as any which might be quotable each day.

Gabrielle E. Forbush

C
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Y

132 Locust Street
Harrisburg, Pennsylvania

196

December 28, 1942

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

Sir:

I am an employee of the Pennsylvania State Highway Planning Board, a joint State and Federal organization. We are those folks who are on hourly basis. We are not paid when we are sick, get no holidays with pay and get no vacations like people with political sponsors. We are never paid when our wages are due as those folks who are on salary, but sometimes must wait six to ten days after the close of our pay period, which is the 15th and the last day of each month.

This 5% Victory tax, the payment of which I do not object to at all if everyone is treated the same, I understand the law says on earnings from January 1, 1943. Now we have been informed that our tax will include 5% of our December 16 to 31st pay, because we receive the money in January. But those people on salary that get paid the 31st of December when our pay by law is really due, will not be taxed.

Our income tax reads from January 1 to December 31st of each year and I pay tax on what I earned in December, even though I do not receive the money until January. I am most willing to sacrifice in rationing and taxes and have voluntarily been putting 10% of my earning in Defense Bonds, which I do not count as a sacrifice, but as a mighty good investment, so please do not think I am objecting to the tax, but I am to the interpretation given by those in authority in our organization. I think they are giving the wrong meaning to the law in our case.

I never mind spending my last dollar unless I think I am being "beat", and then I object to paying one cent.

Most sincerely yours for Victory

(Signed) Mrs. Addie G. Bashore

C
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MR. CHARLES FREDERICK OSGOOD
168 Myrtle Street
Claremont, New Hampshire

Dec. 22nd 1942

Treasury Dept.
Washington D. C.

Gentlemen.

As I understand it, all should subscribe to War Bonds to the amount of 10% of their salary. There is also a 5% Victory Tax plus an income tax of \$18.00 a month. \$12.00 per mo. is deducted for insurance, social security and old age benefits.

I am purchasing my home and carry \$10,000 insurance. All of these would amount to approx. \$125.00 per month. I have six children & a wife, the oldest child being in the Marines. I certainly don't see how it is going to be done. Is it recommended that the home be disposed of?

Very truly yours,

Signed/ Charles F. Osgood.

Income is \$4000.00
per year

C
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YClyde O.
Dec. 21-1942

President Roosevelt

Dear Sir:-

I understand that the first of Jan. 1943 that a working man must contribute 5% of wages and buy bonds or stamps with 10% more of his wages and still you keep on putting the price of food and needs of a working man up, How do you figure he is going to live. You say you are after the money man but the working man always gets it in the end. If you say I must do as I mentioned you must take care of my family as I can not properly and give all as you say.

Yours truly

Signed/ C. H. Setzler

120½ S. Wair St
Clyde
Ohio

I want a reply.

I served in World War No 1 home and foreign

C
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Congress of the United States
House of Representatives
Washington, D. C.

Sir:

The attached communication is sent for your consideration. Please investigate the statements contained therein and forward me the necessary information for reply, returning the enclosed correspondence with your answer.

Yours truly,

Signed/ Edwin M. Schaefer

Received - 12/8/42

C
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YCALVARY BAPTIST CHURCH
1422 Washington Avenue

Guy P. Hall, Pastor

Alton, Ill

Hon. E. M. Schaeffer
United States Congressman

Be it understood that we, the Calvary Baptist church of Alton, Illinois, feel that all ministers or any one employed by churches or religious institutions should pay taxes, but

Whereas the recent bill known as the Liberty Tax, makes provision for churches as employing agencies to become the withholding agency for the collection of tax, and

Whereas it provides that churches and other religious institutions shall withhold five percent of salary paid to those whose income is above \$624 annually who are employed by churches and religious institutions, and

Whereas this part of the bill is a clear violation of the separation of Church and State and the Bill of Rights,

Be it resolved that we hereby offer our protest to that part of the bill relative to churches and religious institutions becoming withholding agencies for the collection of the tax, and

Be it resolved that we ask that such tax be collected in an orderly way other and apart from the collection by churches.

This resolution offered by Calvary Baptist Church, 1422-Washington Ave., Alton, Illinois, in regular business session, December 2, 1942.

Moderator_____
Clerk.

C
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201

WALNUT STREET BAPTIST CHURCH

Fifth and Walnut Streets
Owensboro, Ky.

Dec. 1, 1942

Mr. Albin W. Barkley
Washington, D. C.

Dear Mr. Barkley:

I am writing you concerning the new Victory Tax as it may apply to Baptist Churches. It ought to be plain to the law makers by now that Baptistsevery where believe in the complete separation of Church and State. We have suffered in the past because of our unqualified adherence to that doctrine, dear to us as life itself.

It seems that this Victory Tax law requires the employers to collect 5 percent of the salary of all employees for the government: If that applies to the churches, I want to tell you here and now that no Baptist Church will allow itself to be a collecting agent for the government.

Recently the Texas Baptist convention went on record as opposing such a thing and in our state paper last week there appeared an editorial "Shall Baptist Churches Go To Jail?"

Now I am willing as a citizen to pay that tax myself and I feel sure every other Baptist pastor would do likewise. We would do that as a citizen, but when our churches are asked to be collecting agents for the Government, you may rest assured that they will refuse to do so.

Baptist people have been as loyal to our government as any others, but please make our position plain to all who have this matter in charge.

Sincerely,

S/ W. S. COAKLEY

COPY FROM MAIL REPORT - NOVEMBER 27, 1942.

Senator Josiah W. Bailey, (North Carolina), sends letter he has received from D. M. Stringfield, Fayetteville, N.C., which reads as follows: I am not lawyer enough, nor have I found one in or out of the Federal Government that is, to understand what the tax bill means to do to the people. I wish you would pass this on to some Federal Government expert who can promptly, and without red tape, answer a question or two so that I can find out what I am to depend on before I get busy both in the Legislature and at home covering the time when a return must be made. * * * After paying the enormous income tax for 1942 out of 1943 income, is the five percent Victory Tax to be deducted covering the same period when my retaining fee, or salary, is paid by the County? Only a comparison with the situation of other lawyers is sufficient to show that this is class legislation and to show the injustice and even iniquity, to say nothing of inequality, of such legislation. * * * So far as I can see, only the man on a fixed fee or salary whose employer is a matter of record, can be reached with the Victory Tax, while the man who makes infinitely more money out of people not known and not traced and identified, pays no Victory Tax at all. I am seriously considering whether I would be better off to quit trying to make anything, rather than to try to comply with a law so vicious and savage; and an administration passing such a law is in office on borrowed time. I have sold property and out of my earnings together have bought \$4,000 worth of War Savings Bonds, but I will never have any more money to buy them with.

C
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203

TELEGRAM
WESTERN UNION

DA 536 115 NL 13 EXTRA XC = WINNSBORO TEX 13

1942 NOV 13 PM 7 52

SENATOR TOM CONNALLY

WASH DC

THE BAPTIST GENERAL CONVENTION OF TEXAS REPRESENTING
NEARLY EIGHT HUNDRED THOUSAND BAPTISTS PASSED RESOLUTION
UNANIMOUSLY OPPOSING THAT PART OF VICTORY TAX MAKING OUR
CHURCHES COLLECTING TAX AGENCIES FOR GOVERNMENT. THIS
IS FIRST TIME IN HISTORY OF AMERICA CHURCHES HAVE BEEN
INVADED IN SUCH MANNER AND IS CLEAR VIOLATION OF
SEPARATION CHURCH AND STATE AND BILL OF RIGHTS. MINISTERS
AND CHURCHES JUST NOW LEARNING OF THIS INVASION OF CHURCHES
BY BUREAUCRATS AND WILL CAUSE GREATEST STORM OF PROTEST
ALL OVER UNITED STATES THAT CONGRESS HAS EVER WITNESSED.
A SIMPLE AMENDMENT EXEMPTING CHURCHES AS WITHHOLDING
AGENCIES WILL CORRECT THIS AND SAVE INVASION OF CHURCHES =

R G BAUCOM VICE PRESIDENT BAPTIST GENERAL
CONVENTION OF TEXAS AND PASTOR FIRST BAPTIST
CHURCH WINNSBORO.

C
O
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Office of Local No. 56A

204

UNITED SHOE WORKERS OF AMERICA
OF THE C. I. O.

3631 Salena Street
St. Louis, Mo.

October 20, 1942

Mr. Henry Morgenthau
Treasury Department
Washington, D.C.

Dear Mr. Morgenthau:

The members of Locals 56A and 102A United Shoe Workers of America, representing some 2000 shoeworkers in the St. Louis area, voice our objection to the so-called "Victory Tax." A 5% tax on spending is just another way of cutting into the earnings of the wage earners.

With income taxes being collected on earnings down to \$624.00, a paltry \$12.00 per week, the addition of another tax to be collected from such an earning bracket does not create the much needed morale among the American workers so necessary to win this all-out War. The American workman is already buying War Stamps and Bonds, giving to Allied War Relief and giving his blood regularly through Red Cross Blood Banks, while he reads of Congress' failure to even limit salaries to \$25,000.00 per year or to tax the Industrialist too great for fear of creating an inadequate desire for business expansion. If Congress and the Treasury Department are fearfull for the proper morale of the Industrialist, what about the morale of our American low pay group who are furnishing the man power for Industry and our Armed Forces.

Through our Labor Unions we are continually calling upon our members to make more sacrifices, produce more and cooperate more in our Nations effort to smash Nazism and Facism, so that the world will be safe for Democracy, but this becomes increasingly difficult when wage increases are controlled and taxation is levied in unfair proportions on those most unable to pay. Our workers need no further incentive to pay and produce for freedom than the guarantee of winning the War and those most able to pay should feel and act likewise.

We ask you Mr. Morgenthau to stress very strongly to Congress the necessity of taxing those best able to pay by passing the Treasury Tax Program and cease considering sales taxes in any form until such time as the Tax burden has been properly placed.

Feeling sure you will bring our views before Congress, I am,

Very truly yours,

(Signed) Floyd Spindler, President
Local 56A, U.S.W.A. of C.I.O.

FS:VC

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Southbeach, Oregon

Oct. 17, 19 42.

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

Dear Sir;

In behalf of my aux.# 49 Lincoln county, Toledo, Oregon am writeing you in regards to the Presidents tax program, We definately urge you to do all you can to obtain tax legislation s that it may protect the intrest of all the people, the way it stands now we are to be deprived of the money of which to buy the bare necessities of life.

Will also be a great blow to the war effort. And this so called 5% Victory tax looks to us as another to hit the low income groups, will take our taxes double and triple them.

Again we as a group ask may we have your support.

Thank You,
Freeda Nelson Rec,Sec.
Southbeach, Oregon.

C
O
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Y

315 W. 76th St.
New York City
October 16, 1942

Information Dept.
U.S. Treasury
Washington, D. C.

Dear Sirs,

In the 5% Victory Tax Bill which has just been passed, is there any provision made for pacifists who do not wish to support war in any way? That is, anything comparable to the acceptance of regular Treasury bonds in lieu of war bonds (see Mr. Morgenthau's letter to Paul Comly French, National Service Board for Religious Objectors, Wash. D.C. - June 2).

There are a good many of us who do not wish to retire from industry altogether, but who cannot contribute even 5% toward destruction. If provision were made for the deduction to be given to the American Friends Service Committee for relief work, or to governmental health or conservation agencies, we would be glad to allow the deduction and to make voluntary contributions as well. Will you please give this matter your serious consideration?

Sincerely,

Signed/ Eleanor Garst

(Mrs. Merritt Eugene Garst, Jr.)

C
O
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Office of JOINT COUNCIL No. 4
and LOCAL No. _____

UNITED SHOE WORKERS OF AMERICA
of the C.I.O.
4512 Manchester Avenue
Phone, FRanklin 2760

St. Louis, Mo.
October 16th, 1942

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

My Dear Mr. Morgenthau:

At the meeting of Joint Council # 4, United Shoe Workers of America of C. I. O., representing the St. Louis C. I. O. shoe workers we had up for discussion the 5% tax on spendings or Victory Tax, as it is called, and our meeting went on record of being in accord with all out to win the war, but we are unanimously opposed to any tax that cuts into the necessities of life and we urge you to withdraw any such tax.

Thanking you and with best wishes, I am

Sincerely,

Signed/ Harry Pallmeier

Harry Pallmeier
Financial Secretary and Treasurer
Joint Council # 4
U. S. W. of A. of C. I. O.
4512 Manchester Ave.
St. Louis, Mo.

HP:jw

C
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208

THOMAS SMITH CO.

288 Grove Street
WORCESTER, MASS.
October 12, 1942

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

Dear Sir:

I notice that the Victory Tax seems to be sure of being passed by Congress. I do not know just how you are planning to collect this, but I wonder if it could be included with the Social Security to save accounting in so many of the small firms. Perhaps you have some such plan as this in mind, and it seems to me with the shortage of help, anything to simplify accounting and the payment of taxes would be a wonderful help.

* * * *

Yours truly,

Signed/ William M. Mill

WMM:P

COPY
UNITED AUTOMOBILE AIRCRAFT AGRICULTURAL IMPLEMENT WORKERS
of AMERICA (UAW-CIO)

Women's Auxiliary No. 233
of Ford Local No. 600

10414 Ferndale Avenue
Dearborn - Michigan

October 12, 1942

Mr. Leon Henderson
Office of Price Administration
Washington, D. C.

Dear Sir:

We, the members of Women's Auxiliary 233-U.A.W.-
C.I.O., heartily disapprove of the present tax bill
as passed by the Senate.

This bill must be completely revised and amended.

The so-called 5% Victory Tax must be eliminated,
as it takes away the income of the people in the lower
income bracket, who have barely enough to sustain
themselves.

There must not be any sales tax.

The presidents proposal for obtaining greater
taxes must be adopted by Congress.

Very truly yours,

(Signed) Marie Graham

Marie Graham,
Legislative Chairman

C
O
P
Y

10-11-42

Junction City
KansDear Mr. Morgenthaw
Wash-D.C

Dear Secretary.

I am sure glad that I am to give 5% of my earnings to this great deed.

But what I want to ask how are you & Mr Henderson going to check up on these Land Lords and know exactly there in come. If I do say some are great & heavy & as ask some they just laugh as if they are clean sailing & can get out & none to pay.

What I want to ask are there going to be a form of some kind for them to fill out & to be checked on.

Yours Resp

Signed/ M. G. Reighley

Junction City
Kans

315-6 Wash.

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211

Brooklyn. N.Y.
Sept. 24. 1942

Hon. Franklin D. Roosevelt
Washington, D.C.

Dear Sir

I am writing to you in regards to peoples who is buying war bonds and paying for them weekly do we fall under the five per cent salary tax we have a pool in our family known as the war bond pool where we put so much in each week untill we have fifty Dollars in this pool when we reach that sum we take it out and buy one more bond making it five bonds we shall own if this five percent is to be paid by bonds buyers we will not buy any more bonds due to the fact that my salary is only Twenty (26.Dollars) a week

If we must pay the salary tax on top of this we will stop buying any more war bonds and after three months we shall turn them back to the bank and get our money back for them

I dont think you are useing the the bonds buyers right when you do this to them as we are beening tax to heavy on this affair if you want the public to do right with you you must use them right other wise you will lose out with them between you and the Mayor it seem you are laying a very burden on them

Will you please let me know wherer this tax is to be paid by bonds holders or not I means the five percent wagers tax hoping i may have the pleasure in hearing from you I am

Yours Very Respectfullu

Signed/ John W. Pimblitt

114 Norman Avenue
Brooklyn. N.Y.

Thank You

September 11, 1942

Secretary of the Treasury

Washington, D. C.

Dear Sir:

I am writing you to find out just how I stand with the Victory Tax. Now this is my income; \$25.00 a week from my husband, rent out two rooms for \$25.00 a month. Rent \$43.00 a month, War Stamps \$2.50 a week for the last 9 months have 2 Bonds for \$25.00 each. Living \$10.00 a week, clothing about \$10.00 a month, Insurance \$12.63 a month, Church a month, about \$3.00. I am keeping my word to my Government even if we go without enough to eat. Living is so high. Please excuse writing. I did not have much schooling. My husband and I are over 50 years old, both born in U.S.A.

Thanking you for a reply,

Mrs. Irene Fleischmann,
918 Brook Avenue,
Bronx, New York City

Decatur, Illinois
August 27, 1942

Secretary of the Treasury

Washington, D. C.

Dear Sir:

Please tell me if the withholding tax of 5 percent approved by either the house or senate committee applies to all wage earners, regardless of what they make, or do they (wage earners) have to make a certain amount before the 5 percent withholding tax can be applied?

I am married and make only \$18.80 per week, and it takes ten dollars of the above amount to pay our weekly rent and buy a few groceries, five dollars for each thing, and that leaves very little to meet other expenses such as doctor bills, and incidentals.

I would like to remind you that it is this group of wage earners that buy the most in war savings stamps and if you tax them too, they will be unable to buy very many war savings stamps.

Yours Sincerely,

(Signed) Wayne E. Miles

Wayne E. Miles
247 N. Illinois Street
Decatur, Illinois

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1942

TO Secretary Morgenthau
FROM Mrs. Forbush

The first group of letters sent up by Internal Revenue numbered 173.

Of these, 90% or more dealt with the details of collecting the Victory tax.

Requests for blanks and folders and general questions numbered 78.

Definite questions as to the first pay period to be covered, types of compensation, etc., numbered 74.

There were 5 applications for extension of time, and a number of scattered inquiries, both from business firms and from individuals.

There were 14 specific suggestions for simplification, revision, or methods of collection.

The 9 letters attached are the only ones that seem to meet your request for quotable ones.

The final report from Internal Revenue is that another group of about the same quantity will be over late to-night or the first thing in the morning. A report on these will follow.

Gabriele E. Forbush

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YJOHN M. MURPHY
Certified Public Accountant
2 Rector Street

New York

November 27, 1942.

Commissioner of Internal Revenue,
Washington, D. C.

Dear Sir:

Under the provisions of your Circular V. T., employers must give each of their regular employees, no later than January 31, a receipt for Victory Tax with held during the preceding calendar year. In the case of employees quitting during the year, these receipts must be rendered at the time employment is terminated.

The latter provision presents serious difficulties to those who engage employees temporarily. The vast bulk of employees in the construction and allied industries are so employed. Frequently such employees terminate their employment without notice on payday, the latter being the end of the pay period. Frequently such employees are engaged a number of times during the year by the same employer. Frequently questions arise as to overtime payment, say overtime put in on Friday after 5 p.m., Friday being the last day of the payroll period, the employee to be paid the following payday. In the latter case, if the employee terminates the employment without notice, he will not be paid for the Friday overtime until a week later, with the consequent bother over the question of a receipt as of the date of termination of employment.

Many other questions will arise in the building and other industries, particularly where only a few are employed and the office work is handled by one employee who may not be available when an individual's employment is terminated.

* * * *

Yours very truly,

(Signed) · John M. Murphy

C O P Y

216

THE AMERICAN ROLLING MILL CO.
General Offices
Middletown, Ohio

November 25, 1942

Commissioner of Internal Revenue
U. S. Treasury Department
Washington, D. C.

Subject: Victory Tax

Dear Sir:

Your Circular VT regarding Victory Tax states that the withholding deduction applicable to regularized wage or salary payments and the withholding deduction applicable to bonuses and other irregular payments will be determined separately.

In the example cited in your circular an individual received weekly payments for a period of 26 weeks, the withholding deduction for such payments totalling \$312 for the period. The individual subsequently was paid a lump sum bonus for the same 26 week period and was allowed a withholding deduction of \$312 with respect to this payment. As this exhausted the maximum amount of the withholding deduction allowable for the entire year it was stated that no withholding deduction could be applied to further payments in the same year.

We respectfully submit that (1) In a large number of instances this will make consistent use of the wage bracket method of withholding tax impossible since different employees will exhaust their allowable withholding deductions at varying time during the year. This would be extremely confusing. (2) The proposed method of separately calculating withholding deductions applicable to regularized payments and special payments, places upon the employer an unnecessary burden of maintaining a record of applied withholding deductions. *** The withholding of the Victory Tax represents a tremendous task for large employers. The more simple the method of withholding can be made the less confusion and error will occur.

Very truly yours,

(Signed)

E. L. Brooks
Assistant Secretary

E.L.Brooks
emw

THE FIRESTONE
TIRE & RUBBER COMPANY

Akron, Ohio
November 23, 1942

Commission of Internal Revenue
Washington, D. C.

Gentlemen:

As you know, we are a large defense corporation and to change our payroll records and add additional reporting forms to the Federal Government means much work. Introducing new methods will take a considerable amount of time. In view of the labor shortage in Akron at this time, this creates a very serious problem for us. The following are some of the questions that concern us most urgently at the moment:

1. In our quarterly return, will we need to report taxes and wages per individual employee or will the yearly or separation statement to the employee be sufficient?
2. If we are required to report the individual's tax will this be controlled by name or social security number?

If it is controlled and reported by name it will double the amount of work that would be necessary in reporting the social security controll.

At present, our payroll departments are taxed to capacity. Any additional activity will require us to add another shift. As we have no additional experienced help, this will place us in a serious position.

Yours very truly,

(Signed)

W. H. Wright
Tax Division

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Letter referred by Representative James W. Mott

Turner, Oregon

Nov. 22, 1942

Mr. Mott

Dear Sir

Will you please give me some information on this 5% victory tax. We are farming, and beans for the Stayton Coop. cannery is our main crop. 75% of our crop goes for labor. Also if the cannery has to pay this tax it falls right back to us farmers to pay it as the farmers own the cannery. This would be paying the tax twice, with so much of the crop going out for labor. The acreage for the coming year is going to be cut way down if this is the way this tax bill is.

We are trying to grow all the foods we can to win this war, and I think you can plainly see our position and if you will give us the true information on this.

H. A. ROAN (signed)

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Turner, Oregon

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CHURCH MANAGEMENT
1900 Euclid Avenue
Cleveland, Ohio

November 21, 1942.

Commissioner of Internal Revenue,
Treasury Department,
Washington, D. C.

Dear Sir:

Do you wish to pass on to our readers who are clergymen instructions regarding the collection of the victory tax from their incomes?

Clergymen receive salaries from churches. The treasurers, however, are many times very amateurish in their handling of money and it may be difficult to withhold this tax at the source and secure proper accounting. In addition clergymen receive fees for weddings and funerals, gifts in appreciation of various services. Such receipts do not pass through the church treasury.

We will give considerable space to the clergyman's income pay in our January issue and advice as to whether this tax shall be collected and withheld by the church employer or be reported as in the case of a professional man will be helpful.

Very sincerely yours,

(Signed) William H. Leach

C
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P
YDes Moines Iowa
November 18th

Dear President:

Would like to know if I can be exempt from this five per cent victory tax until I can get my mother funeral expense paid have another bill I am making payments on, with the expense of my home taxes, coal and payments on my home I won't be in a position to meet all the payments as I only make one hundred dollars a month, and have ins, sec. and so much for Bond taken out of my salary. Would like to have a written statement to present to my employer.

Yours very truly

(s)Mrs. Vera Baldwin

3002 So. W. 12th

Des Moines,

Iowa

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Toledo Hot Dog
449 St. Clair St.
Toledo, Ohio

November 17, 1942

Commissioner of Internal Revenue
Washington

Dear Sir:

John Gallos and John Vasello, owners of the Toledo Hot Dog (partnership) which operates the Toledo Hot Dog at 449 St. Clair Street, Toledo, Ohio and the Market Restaurant at 201 South Erie Street, Toledo, Ohio, make the following request:

It is requested that the receipts required by Section 469 of the Revenue Act of 1942 may be given to employees whose employment is terminated, within two weeks after the date of such termination as permitted by Section 469 (c).

The writer is bookkeeper for this organization, doing this work one night a week. Under the circumstances, he could not prepare such receipts at the time of separation.

Yours respectfully,

TOLEDO HOT DOG

(Signed) Harold Koch

Harold Koch,
Bookkeeper.

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Referred by Attorney General Francis J. Biddle²²²

November 5, 1942

Mr. Francis J. Biddle,
U. S. Attorney General,
Washington, D. C.

Dear Sir:

My husband's earned income is as follows:-

Monthly salary -----	\$325.00
Social Security tax(collected at source) \$3.25	
Philadelphia city tax " " " 4.88	8.13
Actual income received -----	\$316.87

I understand the 5% Victory tax will be computed on the gross salary, namely \$325.00. It is possibly fair that the Social Security tax should be included in the computation of the 5% Victory tax, as part of this fund may be recoverable (assuming the U. S. government is paying old age pensions in 1955) but it does not appear to be fair to include the Philadelphia city tax in computing the 5% Victory tax, as this is a direct tax, no part of which is recoverable.

It is my understanding that it is unconstitutional to levy a direct tax on a direct tax. May I have your advice?

Very truly yours,

(Signed) Phyllis Gorsuch

Mrs. Ross Ely-Gorsuch,
The Embassy,
2100 Walnut Street,
Philadelphia, Penna.

(In reply it was stated that no deduction could be made for Philadelphia city tax.)

C
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Letter referred by Senator William Bankhead

PINEVIEW FARM

Auburn, Alabama

October 21, 1942

Senator William Bankhead,
Washington, D. C.

Dear Sir:

According to my information the Victory tax is a gross income tax - a tax that I thought Congress would never pass. It works all right for salaried people and wage earners. Was any thought given to farmers, dairymen, retailers and small business men who operate their own business and who may take in quite a large sum but whose net profit is very small?

I own a herd of purebred Jerseys and operate a small dairy. From the sale of milk, and cattle and a little other income I take in from \$20,000 to 25,000 a year. We call this gross. My expenses are so high that some years I register a loss and some years make a profit of \$1,000 to \$1,500. With exemptions I have never made enough to pay an income tax. A tax of 5% on \$20,000 will put me out of business as it will every other dairy in the country. I want to know how this tax will affect me so that if necessary I can start selling my cattle immediately.

Very truly yours,

(SIGNED) W. A. Gardner

December 29, 1942

Dear Mr. Shepard:

For the Secretary, I am acknowledging your letter of December 21, which encloses a printed copy of the Trust Indenture creating the Endowment Fund of the National Gallery of Art.

Mr. Morgenthau is glad to have your pamphlet, and he has noted the information that it contains.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. D. D. Shepard, Secretary,
National Gallery of Art,
Smithsonian Institution,
Washington, D. C.

GKF:mf

File in Diary



NATIONAL GALLERY OF ART
SMITHSONIAN INSTITUTION
WASHINGTON, D. C.

December 21, 1942

Dear Mr. Secretary:

I am enclosing for your information a printed copy of the Trust Indenture creating the Endowment Fund of the National Gallery of Art, which was executed on behalf of the respective parties on December 1, 1942.

Very truly yours,

Secretary

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

RECEIVED DEC 25 1942

Enclosure

Trust Indenture
creating
the
Endowment Fund
National Gallery of Art

Washington, D. C.

December 1, 1942

TRUST INDENTURE

DATED DECEMBER 1, 1942

BETWEEN

PAUL MELLON, DONALD D. SHEPARD

AND

DAVID K. E. BRUCE

AS SURVIVING TRUSTEES OF

THE A. W. MELLON EDUCATIONAL AND
CHARITABLE TRUST

AND

SMITHSONIAN INSTITUTION

AND

THE TRUSTEES OF THE NATIONAL GALLERY
OF ART

CREATING

ENDOWMENT FUND

NATIONAL GALLERY OF ART

Washington, D. C.

TRUST INDENTURE.

DATED the 1st day of December, 1942, and intended to be effective upon that date, although executed by the parties hereto on various dates, by, between and among

PAUL MELLON, DONALD D. SHEPARD and DAVID K. E. BRUCE, as surviving Trustees of THE A. W. MELLON EDUCATIONAL AND CHARITABLE TRUST, established under and by virtue of a Deed of Trust of Andrew W. Mellon, of Pittsburgh, Pennsylvania, to said Trustees, dated December 30, 1930, parties of the first part, and hereinafter sometimes referred to as the "Donor";

SMITHSONIAN INSTITUTION, an establishment created by an Act of Congress of the United States of America, approved August 10, 1846, party of the second part, and hereinafter referred to as the "Institution"; and

THE TRUSTEES OF THE NATIONAL GALLERY OF ART, constituted under and by virtue of a Joint Resolution of the Congress of the United States, entitled "Joint Resolution providing for the Construction and Maintenance of a National Gallery of Art," approved March 24, 1937, parties of the third part, and hereinafter sometimes referred to as the "Trustees" and "Board."

WHEREAS, by said Joint Resolution of the Congress, there was established a bureau in the Smithsonian Institution to be directed by a Board to be known as the Trustees of the National Gallery of Art, and provi-

sion was made for the administration by the Trustees of the building to be constructed by the Donor for the National Gallery of Art, the site and contents thereof, and all matters and affairs that pertain to the use thereof, for the public benefit; and

WHEREAS, by Trust Indenture dated June 24, 1937, between the above described parties, the Trustees of The A. W. Mellon Educational and Charitable Trust, parties of the first part, gave to the Smithsonian Institution, party of the second part, and the Trustees of the National Gallery of Art, parties of the third part, the collection of works of art listed in the schedule attached to said Trust Indenture, in trust, however, for the uses and purposes therein related, and provided for the construction of a monumental building for the National Gallery of Art to house and exhibit said collection and other works of art contributed to the National Collection; and

WHEREAS, said building for the National Gallery of Art has been completed and has been dedicated to the purposes and uses for which it was given by the Donor, and the Donor and others have contributed other works of art to the Gallery for exhibition therein, and the same is being maintained and administered by the Trustees; and

WHEREAS, the late Andrew W. Mellon, through whose generosity such gifts were provided, planned to create an endowment fund for the benefit of the National Gallery of Art, the income from which would be used to pay the salaries of certain of its executive officers, as contemplated by the said Joint Resolution of the Congress, and for other stated purposes of the

Gallery, but died before the consummation of the proposed gift; and

WHEREAS, since the establishment of the National Gallery of Art, the Donor, from time to time, has provided funds for the payment of the salaries of such officers of the National Gallery of Art, and has contributed sums of money for the payment of certain extraordinary but necessary expenses of the Gallery, as well as for the costs of certain improvements to the Gallery building; and

WHEREAS, the Donor now desires to carry out the wishes of its founder to establish such an endowment for the National Gallery of Art, and in this connection deems it expedient to create a trust, defining the uses and purposes of such a fund, and providing for the proper administration and distribution thereof; and

WHEREAS, under the terms of the said Joint Resolution of Congress, legal title to the National Gallery of Art and to all property of whatsoever character given thereto, or acquired therefor, is vested in the Institution, but the maintenance and administration of the Gallery and the site thereof, and the custody, control and administration of the contents thereof, and of all moneys, securities and other property of whatsoever character, given, bequeathed or devised for the benefit of the National Gallery of Art, is vested wholly and exclusively in the Trustees.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

(1) **The Gift.** The Donor hereby gives to the Institution and the Trustees, and they hereby accept

from the Donor, the sum of Five Million Dollars (\$5,000,000.00) (hereinafter sometimes referred to as the "Trust Fund"), the receipt whereof is hereby acknowledged, in trust, however, for the uses and purposes, and subject to the terms and conditions hereinafter stated.

The Donor, the Institution and the Trustees covenant, agree and declare that said Trust Fund, and any and all other funds and properties which, at any time hereafter, may be given or come into the possession, or under the control of the Trustees for the use and purposes of the endowment fund hereby established, shall be and become a part of the "Trust Fund" hereunder, and as such shall be held by the Trustees, and shall be administered and distributed in accordance with the subsequent provisions hereof.

(2) Name of the Trust. The Trust Fund hereby created shall be known and designated as the "Endowment Fund, National Gallery of Art."

(3) The Trust Fund. The term "Trust Fund," as used herein, shall be deemed to mean the Trust Fund hereinabove mentioned, and such sums of money, securities and other property of whatsoever character as may hereafter be given, transferred or conveyed to the Trustees hereunder by the Donor, and any and all other funds or properties, which, at any time hereafter, may be given, transferred, conveyed, bequeathed or devised by any other persons or parties whomsoever, unto the Trustees hereunder for the use of the Endowment Fund, National Gallery of Art, together with the income therefrom and the accumulations thereupon. The Trust Fund applicable for the purposes hereof shall be deemed to consist of all funds,

securities and properties of whatsoever character, which, at the time being, are in the possession or under the control of the Trustees hereunder, or deposited with the Treasury as a permanent loan by the Board to the United States, pursuant to any Act of Congress, for the use of the Endowment Fund and the benefit of the National Gallery of Art, whether the same shall be represented by principal, income or accumulations.

(4) General Purposes of the Trust. This Trust is created and shall be administered and operated exclusively for the benefit of, and the Trust Fund shall be distributed by the Trustees exclusively for the uses and purposes of the National Gallery of Art, created under the provisions of the said Joint Resolution of the Congress, such distribution of the Trust Fund to be made from time to time and in such amounts and in such manner, as the Trustees in their discretion shall deem to be prudent, subject, however, to the terms and conditions of this Trust Indenture, and the subsequent provisions thereof relating to distribution of the Trust Fund.

(5) Terms and Conditions of Trust. The uses, purposes, terms and conditions of the Trust, under which the Trust Fund is given to and accepted by the Institution and the Trustees, are as follows:

(a) The National Gallery of Art shall for all time be used exclusively for the housing and exhibition of works of art and the administration of the affairs of the Trustees; and the entire public shall forever have access thereto, subject only to reasonable regulations from time to time established by the Trustees.

(b) The Trustees shall always be not less than nine persons, of whom a minority, to be known as ex-officio Trustees, shall be officers of the United States or of the Institution, ex-officio, and of whom a majority, to be known as general trustees, shall be citizens of the United States, none of whom at the time of his or her election to the office of general trustees shall be an officer or employee of the United States of America. Any vacancy in the office of general trustee by reason of the expiration of the term, death or resignation of the incumbent, or otherwise howsoever, shall be filled by the election of a competent person by a majority of the remaining general trustees.

(c) The National Gallery of Art and the contents and operations thereof shall at all times remain in the exclusive jurisdiction and control of the Trustees in accordance with such By-Laws, rules and regulations, as they from time to time shall prescribe.

(d) The custody, control and management of the Trust Fund, in accordance with the provisions of the said Joint Resolution of the Congress, and all the details pertaining thereto, shall, at all times, be vested solely and exclusively in the Trustees.

(e) It is understood by the parties that the faith of the United States is pledged that the United States will, in accordance with the said Joint Resolution of the Congress, at all times provide such funds as may be necessary for the upkeep of the National Gallery of Art and the administrative expenses and costs of operation thereof, including the protection and care of works of art acquired by the Board, so that the National Gallery of Art shall be at all times properly maintained and the

works of art contained therein shall be exhibited regularly to the general public free of charge. Therefore, except as herein provided, it is the intention of the Donor, that neither the proceeds of the Trust Fund, nor the income therefrom, shall be expended by the Trustees, for those purposes for which the faith of the United States has been pledged that public funds will be provided by the Congress.

(f) In no event, and under no circumstances, shall any part of the Trust Fund be distributed or inure to the benefit of any of the Trustees, or their successors in trust; provided, however, that upon resolution of the Board of Trustees of the Gallery, any Trustee may be reimbursed for any expenses, disbursements or liabilities made or incurred by such person for or on account of the Trust Fund, or in connection with the administration of the Trust Fund by the Trustees; provided, further, that if pursuant to the By-Laws of the Board of Trustees of the National Gallery of Art, a Trustee shall be elected to an executive office of the Gallery, and the duties and responsibilities of such office require such Trustee to perform specific, continuous, regular and active service to the Gallery in connection with the administration thereof, then upon resolution of the Board of Trustees of the Gallery, such Trustee may be compensated for such services as the Trustees shall deem reasonable and direct, but no Trustee shall receive any compensation for his services as a Trustee hereunder, or as a member of the Board of Trustees of the Gallery, or of any standing or special committee thereof; and further provided, that nothing in this Paragraph (f), or elsewhere in this Indenture of Trust contained, shall be construed to prevent a distribution from the Trust Fund, otherwise properly made in ac-

cordance with the provisions and purposes hereof, by reason of the fact that one or more of the Trustees hereunder may be connected or associated with the distributee as shareholder, member, trustee, director, officer or in any other capacity.

(g) The Board shall, pursuant to the provisions of the said Joint Resolution of the Congress, and the By-Laws of the Board of Trustees of the National Gallery of Art, appoint or elect and prescribe the duties of a President, a Vice President, a Secretary, a Treasurer, a Director, an Administrator, an Assistant Director, and a Chief Curator, and such other executive officers as the Board, from time to time, shall deem necessary or advisable to the proper conduct of the National Gallery of Art, and the administration of its affairs. Each executive officer shall be well qualified by experience and training to perform the duties of his office. Neither the appointment nor the salary of any of the executive officers designated herein shall be subject to the Civil Service laws of the United States or the Classification Act of 1923, as amended. Each such executive officer shall be entitled to such compensation, if any, as shall be prescribed by the Board, and such compensation shall be paid out of private funds available to the Board for the purpose.

(6) Distribution of Trust Fund. (a) It is the understanding of the parties, which the Donor has expressed as a condition to the creation of the Trust Fund, that the faith of the United States is pledged that the United States will, in accordance with the said Joint Resolution, at all times provide the necessary funds for the upkeep of the National Gallery of Art and the administrative expenses and costs of operation

thereof, with the exception of the compensation of certain executive officers of the Gallery hereinbefore mentioned. Therefore, in the establishment of this endowment, the Donor intends to make available to the Trustees a Trust Fund, the income from which, after payment of the necessary expenses of administration of the Trust, shall be used primarily for the payment of the compensation of the executive officers of the National Gallery of Art, as provided in said Joint Resolution and said By-Laws, and that any surplus of such income may be used and applied by the Trustees in their discretion for extraordinary administrative expenses and costs of upkeep and operation, and for the exhibition of works of art and other such purposes of the Gallery, including the purchase of other suitable works of art for the Gallery, so that the Gallery shall be maintained at a high standard, appropriate to its purpose of being the art gallery of the Nation and the people of the United States, but only to the extent that public funds therefor have not been or may not be made available to the Trustees. It is the further intention of the Donor that any such surplus of income may be used and applied in cases where an expenditure for such purposes is necessary and in the interest of the Gallery, but time will not permit the appropriation of public funds for such purpose, or in instances where the expenditure is not customarily provided by public funds, or other circumstances and conditions do not permit of the use of public funds. The provisions herein made for such expenditures from the Trust Fund are not intended to encourage extravagance, and such surplus income shall be used and applied by the Trustees in an efficient and effective manner, and solely in the interest of the Gallery. Therefore, the Trustees shall

not distribute such surplus of income for such purposes where public funds have been made available or could be made readily available. Mere inconvenience or negligence to secure an appropriation of public funds for particular purposes of the Gallery for which the faith of the United States has been pledged that the United States shall provide will not warrant the use of the Trust Fund for such purposes.

(b) It is the intention of the Donor, and an expressed condition of the Trust hereby created, that the Trust Fund shall constitute and form a permanent Endowment Fund for the National Gallery of Art, and only the income therefrom shall be used and applied by the Trustees hereunder for the benefit of the National Gallery of Art and, therefore, except as hereinafter provided, resort shall not be made to the corpus or principal of the Trust Fund so as to enable the Trustees to execute the purposes of this Trust Indenture.

(c) The Trustees shall hold, administer and distribute the Trust Fund as "Private Funds" for the benefit of the National Gallery of Art, and the proceeds thereof and the income therefrom, to the extent to which they are available for current expenditures, shall be used and applied only for the purposes designated herein, and for which they are intended, and the distribution thereof shall be limited strictly to such purposes, and shall be made only pursuant to the provisions of this Trust Indenture and in accordance with the provisions of the By-Laws of the Board of Trustees of the National Gallery of Art. The term "Private Funds", as used herein, shall have the same meaning as given in the By-Laws of the Trustees.

(7) Distribution of Current Income of Trust Fund.

As regards the distribution of the current income of the Trust Fund, which shall be available for current expenditures, the Trustees shall distribute the same for the purposes of the Trust in accordance with the provisions of this Trust Indenture, and as follows:

(a) The current income of the Trust Fund shall first be applied to the payment of all administrative and operating expenses of the Trust Fund, of whatsoever character, including, but not by way of limitation, the compensation for the services of attorneys, accountants, financial or special advisors, and for clerical and similar services.

(b) The surplus of such current income of the Trust Fund, which shall be available for current expenditures, shall be distributed in the payment of the compensation of the Secretary, the Treasurer, the Director, the Administrator, the Assistant Director, and the Chief Curator of the National Gallery of Art, and for the payment of the compensation of such other executive officers as the Board shall appoint, and at such compensation, if any, as such executive officers shall be entitled and the Board may prescribe. The persons presently holding the offices specifically designated in this Paragraph (b), and who are now being compensated by the Donor on behalf of the National Gallery of Art for their services as such executive officers, shall hold their offices during good behavior and shall be paid for their services no less than the same compensation which is now being paid to them as aforesaid, which compensation shall not be diminished during their incumbency in office without the approval of the Donor,

and no adjustment in the compensation of such officers shall be made by reason of the delegation by the Board to such officers of other authorities or duties, or by reason of any change in the designation of title of such officers.

(c) After providing for the payment of compensation of such executive officers of the National Gallery of Art, as hereinbefore provided, any remaining surplus of such current income which shall be available for current expenditures, may be used and applied, from time to time, in the discretion of the Trustees, and the same shall be distributed by the Trustees, but pursuant to and in accordance with the terms and conditions of this Trust Indenture and the provisions of the By-Laws of the Board of Trustees of the National Gallery of Art, for such expenses of the upkeep of the National Gallery of Art and such administrative expenses and costs of the operation thereof, as well as the exhibition of the works of art of the Gallery, including payment for the compensation of other officers, representatives and employees of the National Gallery of Art, appointed by the Board, and for personal services rendered to the Gallery or the Trustees, as they in their discretion shall determine to be in the interest of the Gallery, but the distribution of such income shall be limited strictly to expenditures for the purposes of said Trust, and in accordance with the intentions of the Donor, as herein expressed, for purposes and uses where current public funds therefor have not been or may not be made available.

(d) Any remaining surplus of such current income, which shall be available for current expenditures, may be used and applied from time to time as the Trustees

may determine in the purchase for the Gallery of other suitable works of art of a similar high standard of quality to the collections heretofore given to the Gallery by the Donor.

(e) All current income of the Trust Fund unappropriated and not expended for a particular current fiscal year shall be accumulated and added to and become a part of the principal of the Trust Fund, unless the Trustees, in their discretion, by resolution of the Board, shall direct that such unappropriated and unexpended funds shall be appropriated and included in the budget for the succeeding fiscal years.

(f) Further, as regards the distribution of the current income of the Trust Fund, the Trustees shall cause to be taken into account, in the preparation of the annual budget for the financial requirements of the National Gallery of Art, the current income of the Trust Fund available for current expenditures, in the manner and to the extent provided in the By-Laws of the Board, relating to the budget, and unless and until otherwise specifically authorized, the distribution of the current income of the Trust Fund which shall be available for current expenditures for the purposes of this Trust shall be in conformity and in accordance with such budget provisions and requirements. Unless and until otherwise specifically authorized by the Board, no disbursement shall be made or transactions involving financial responsibility entered into for the account of the Trust Fund, otherwise than in accordance with such budget provisions and requirements.

However, for the current fiscal year of the Gallery ending June 30, 1943, the Trustees shall cause each executive officer of the Gallery to prepare and present to the Treasurer an estimate of the financial requirements of his department for the remainder of the current fiscal year not provided for in the budget by the appropriation of public funds for said current fiscal year, such estimates to be in such form and detail as the President may require and take into account the expected current income of the Trust Fund for the remainder of the current fiscal year. After conference, if desired, between the executive officers and the Treasurer, and after consultation with the President, these estimates shall be considered by the Executive Committee and the Finance Committee, and from them and such other data as the Committees shall deem pertinent, they shall cause the Treasurer to prepare a budget of the needs of the several departments of the Gallery for the remainder of said fiscal year, and as approved by the Executive Committee and Finance Committee, current funds of the Trust Fund to the extent thereof shall be appropriated and made available for distribution.

(g) In the preparation of annual budget estimates, careful consideration shall be given to the financial requirements of the department of each executive officer, but, first, consideration shall be given to the administrative expenses and costs of operations of the Trust Fund, and, secondly, to the payment of the compensation of the executive officers herein provided to be paid. Particular consideration shall be given by the Trustees in providing for the payment of the compensation of attorneys, accountants, financial and special advisors

and other agents or employees of the Trustees, costs of dedications and other such exercises, as well as fees or expenses for custodial services. Also, in the preparation of such budget, careful consideration shall be given to the financial requirements of the several executive departments which may not be provided for by public funds, such as extraordinary protective measures for the Gallery, including compensation for special guards, extraordinary telephone and telegraph service, extraordinary expenses of transportation and travel, pensions or provisions for retirement of executive officers, insurance, special cleaning of the exterior and interior of the Gallery building and site thereof, landscaping, extraordinary and urgently needed repairs to the Gallery building, welfare work among Gallery employees, purchase of books, periodicals, magazines, photographs and slides, subscription to memberships, special publications for the educational work of the Gallery, lectures, concerts, music, flowers and plants, special exhibitions, provision for special guests of the Gallery, extraordinary services and materials to be used in connection with repair and restoration of works of art and the Gallery building, and other such items of extraordinary but necessary Gallery expense for which purpose public funds may not be made available.

(h) Insofar as the budget is approved, the Treasurer, from time to time, may advance or pay the amount, so authorized without further authority of the Trustees, after request of an executive officer for an appropriation under such budget, according to a fixed schedule or otherwise. However, the Treasurer shall make no appropriation, division or advance, nor shall any other officer incur any expense in addition to

the amount specified in the budget, without the prior approval of the Trustees or the Finance Committee. The Trustees may direct that an executive officer of the Gallery, upon his own responsibility, may authorize the expenditures provided for in the budget for his department, but no transaction shall be entered into by or for the account of the Trustees which will involve the Board or the Gallery, in any financial obligation except pursuant to and in accordance with the By-Laws of the Board and procedure adopted for the handling of such matters. The Trustees may provide in the budget for a contingent or emergency fund or funds for the several departments of the Gallery, for the purpose of providing for minor unforeseen expenses thereof, and in this connection may authorize the Executive Officer in charge thereof, in his discretion, to incur or make expenditures from such fund or funds, without the approval of the Treasurer, not to exceed One Hundred Fifty Dollars (\$150.00) in amount for any one transaction, but any such expenditure shall be upon the responsibility of such officer, and the Treasurer, on his part, shall not be required to supervise the transaction and certify as to the propriety thereof, provided, however, that all such expenditures shall be reported to the Treasurer, supported by proper vouchers and/or statements of the officer incurring or making such expenditure, as to the necessity therefor and the reasonableness thereof, for submission to and approval of the Finance Committee.

Except as herein provided, no transaction of any character whatsoever, which will involve the Trust Fund hereunder, or the Trustees thereof, in any financial obligation, other than compensation for officers, repre-

sentatives and employees of the Trustees, shall be entered into, unless at the time such transaction is entered into, the Treasurer, or such other officer as may be designated by the Trustees or the Finance Committee, shall certify that adequate provision for the discharge thereof has been made in the then existing budget, or by other funds then available or to become available to the Trustees.

(i) No disbursements shall be made of the Trust Fund, except pursuant to an appropriation made in an annual or supplemental budget approved by the Trustees, or pursuant to a resolution of the Board of Trustees, generally or specially authorizing the expenditure. No disbursement shall be made for the purchase of securities unless (1) the specific securities have been directed by the Trustees to be purchased, or the purchase thereof shall have been approved by the Trustees or the Finance Committee, or (2) an unexpended appropriation made by the Trustees for the purchase of securities exists, which is equal to or in excess of the disbursement, and the disbursement is made pursuant thereto. No other disbursement shall be made without prior approval of the Trustees, except such disbursements as are made in payment of obligations, (1) incurred by the Trustees in protecting, managing or conserving its assets, (2) properly incurred under the direction of an officer of the National Gallery of Art within the scope of his powers, duties and authorities conferred by the By-Laws of the Board which are covered by the budget or prior resolution of the Trustees.

(8) Distributions From Principal of Trust Fund.

(a) While it is the intention of the Donor that resort

shall not be made to the corpus or principal of the Trust Fund, and only the income therefrom should be used and applied for the purposes of the Trust, nevertheless, it is recognized that extraordinary conditions may develop, or situations may arise, which would seriously affect the existence, the continued operation or the proper protection of the works of art of the Gallery, but which could be corrected were the Trustees permitted to distribute principal or corpus of the Trust Fund. Therefore, if at any time in the opinion of at least seven (7) members of the Board of Trustees of the National Gallery of Art resort should be made to the principal or corpus of the Trust Fund for additional funds to enable the Board to meet such situations or conditions, the Trustees may pay out of the corpus or principal of the Trust Fund as may be available for distribution for such purpose such sum or sums as the Trustees are of the opinion shall be reasonably necessary, not to exceed, however, in any one fiscal year two and one-half per centum ($2\frac{1}{2}\%$) of the corpus or principal of the Trust Fund, as the same shall be reasonably valued by the Trustees, but such payments shall not be continued, during the existence of the Trust, for more than an aggregate of five (5) years and at no time shall the principal or corpus of the Trust Fund be diminished below the sum of Five Million Dollars (\$5,000,000.00) as the same shall be reasonably valued by the Trustees, and in the determination of such value, the securities and other properties constituting the Trust Fund shall be appraised at their fair market value; and provided further, that no such payment shall be made during the existence of the Donor without the Donor's approval, and thereafter without the consent of the majority of the Board of Regents of the Institution.

(b) If the Trustees, from time to time, find it necessary to make expenditures for improvements to the Gallery building, or construct, remodel or enlarge rooms in the Gallery building, to be used in connection with, or in aid of the purposes of the Gallery, and are unable to obtain the required funds from other sources, then the Trustees, in their discretion, at any time, or from time to time, may pay out of such corpus or principal of the Trust Fund as may be available for distribution for such purposes as in the opinion of the Trustees may be reasonably necessary or desirable therefor, upon such terms and conditions as may be agreed upon by the Trustees; provided, however, that the corpus of the Trust Fund shall not be reduced by any such payment to an amount below Five Million Dollars (\$5,000,000.00), as the same shall be reasonably valued by the Trustees, and in the determination of such value, the securities and other properties, constituting the Trust Fund, shall be appraised at their fair market value; and further provided that no such payment shall be made out of the corpus of the Trust Fund, without the prior approval of at least seven (7) of the persons who, at the time being, are serving as members of the Board of Trustees of the National Gallery of Art, and with the consent of the Institution; and further provided, that during the existence of the Donor no amount shall be paid pursuant to the provisions of this paragraph without the prior approval of the Donor.

(9) **Special Gifts.** It may be that some other party, by last will and testament, deed or other writing, may give to the Trustees, for the use of the Endowment Fund, moneys, securities and/or other properties, and therein may designate one or more limited purposes

(within the scope of the general purposes stated in this Trust Indenture) to which the whole or a portion of the principal and/or income of such gift is to be applied by the Trustees, and/or may give certain directions regarding the time, manner, amounts and/or conditions of the application or disposition of such gift or of the proceeds, principal and/or income thereof, by the Trustees, and/or otherwise may curtail, as respects such gift only, the powers, authorities and/or discretions which, as regards the Trust Fund generally, are granted to and vested in the Trustees by the other provisions of this Trust Indenture. In such event the Trustees, in their discretion, may accept such gift for the use of the Endowment Fund and upon such acceptance shall hold, administer and apply the funds, securities and/or other properties so given for the use of the Endowment Fund and the National Gallery of Art, notwithstanding any of the other provisions of this Trust Indenture, strictly in accordance with the provisions of such last will and testament, deed or other writing.

(10) Administration of the Trust Fund and Powers of the Trustees. The Trustees shall hold and distribute the Trust Fund pursuant to the provisions of said Joint Resolution of the Congress, and the By-Laws of the Board of Trustees of the National Gallery of Art, and in accordance with the provisions of this Trust Indenture; and further, in connection with the administration of the Trust Fund, the Trustees shall have and freely exercise the following powers, authorities and discretions:

(a) The Trustees may retain and hold all or any stocks, bonds, securities and real or personal property

which at any time may be given, assigned, transferred, conveyed, bequeathed or devised to, or received by, them, or which otherwise may be or become a part of the Trust Fund, whether the same are or are not of the character or class regarded by law as legal investments, or at any time and from time to time, in their discretion, they may sell and dispose of all or any part thereof.

(b) The Trustees, at any time and from time to time, may sell or exchange any stocks, bonds, securities and/or other property of whatsoever character, which at the time being may be held by them as a part of the Trust Fund, and may invest the proceeds realized from any such sale or exchange, or the moneys realized from any other source whatever, in such manner and in such stocks, bonds, securities, and real or personal property as they shall deem proper, whether the same are or are not of the character or class regarded by law as legal investments.

(c) The Trustees, at any time and from time to time, in their discretion and without other authority and without order of any court, may sell, convey, transfer, exchange, lease, loan and/or grant the use of any or all of the real or personal property, which in any manner or at any time may be or become a part of the Trust Fund, for such considerations and upon such terms as the Trustees shall deem proper, and may make, execute, acknowledge and deliver all such deeds, leases, bills of sale, agreements and other instruments and do all such other acts and things as may be necessary or proper, in the judgment of the Trustees, to effectuate any and all such transactions, without liability on the

part of any party to or with whom any such transaction may be made to inquire as to the expediency thereof, or as to the authority of the Trustees to effect the same, or to see to the application of the consideration therefor.

(d) The Trustees may construct or erect improvements, or change the character of existing improvements, on any land or interest therein constituting any part of the Trust Fund, as, when and in such manner as the Trustees shall deem advantageous and for the best interests of the Trust.

(e) The Trustees, in their discretion, may employ or retain advisors, accountants, representatives, attorneys and other agents and employees; may from time to time prescribe the authorities and duties of such advisors, accountants, representatives, attorneys and other agents and employees, and fix and pay out of the Trust Fund reasonable compensation for their services; may delegate to the proper committee of the Board of Trustees of the National Gallery of Art and the proper officers of the Gallery, as provided in the By-Laws of the Board of Trustees, the discharge of the duties hereby imposed upon the Trustees; and, generally, may take, or cause to be taken, every action, and may do, or cause to be done, every matter and thing which, in the judgment of the Trustees, shall be necessary or advisable in connection with the administration of this Trust.

(f) Subject to such provisions as may be made from time to time by the Board of Trustees of the National Gallery of Art, the Trustees may delegate to the Finance Committee of the Board of Trustees, the power and authority to perform all such duties of the Trust-

tees, including, among other things, the performance of any acts necessary to safeguard the investments of the Trust Fund, entering into refunding agreements, authorizing the enforcement of claims or payment of bonds, selling any securities or property of the Trust Fund when in its judgment the same is advisable, or making any investments of principal which are advisable in order to keep the funds protected, or to take advantage of sudden changes in market conditions.

(g) The President or Vice President, the Secretary or Assistant Secretary, the Treasurer or Assistant Treasurer, or any one or more of them, may be authorized on behalf of the Trustees to execute under seal, or otherwise, such transfers or assignments as may be customary or proper to constitute a regular transfer of any stocks, bonds, or other securities owned by the Trust Fund, and standing in the name of the National Gallery of Art or the Trust Fund or the Trustees, which shall be sold, exchanged, or disposed of, pursuant to authority of the Trustees, general or special, or the Finance Committee, pursuant to the By-Laws of the Board of Trustees, or any authorization of the Trustees hereof, generally or specially, and any person or corporation transferring any such stocks, bonds, or other securities, pursuant to a transfer or assignment executed by one of the officers above mentioned, or any one accepting such transfer or assignment in good faith for a valuable consideration shall be fully protected, and shall have no duty to inquire whether or not the Board of Trustees or the Finance Committee has taken action with respect thereto.

(h) The Trustees may authorize either the President, Vice President, the Secretary, the Assistant Sec-

retary, the Treasurer or Assistant Treasurer to execute and deliver on behalf of the Trustees, from time to time, proxies of any and all stock owned by the Trust Fund, appointing such person or persons as he shall deem proper to represent and vote the stock owned by the Trust Fund at any and all meetings of stockholders, whether general or special, with full power of substitution, and he may alter or rescind such appointments as often as he sees fit.

(i) The Trustees are authorized insofar as in their discretion it may seem proper for the safeguarding of the investments of the Trust Fund, to cause the Trust Fund to participate in the reorganization of any Company, the securities of which are held by the Trust Fund, to cause the deposit of any such securities with such protective, reorganization or other Committee, on such terms as the Trustees may deem proper, and to cause any other action to be taken which the Board of Trustees may deem advisable to conserve or increase the value of the Trust Fund investments.

(j) Subject to such provisions as may be made from time to time by the Board of Trustees of the National Gallery of Art, the Trustees are authorized and empowered to delegate to the Treasurer of the Gallery or such other fiscal agent as may be appointed by them, the custody of all moneys, funds, securities, contracts, mortgages, leases and deeds, constituting the Trust Fund, but such officer or agent shall keep proper books of accounts thereof, which books shall at all times be open to inspection of the Trustees. The Trustees are authorized and empowered to direct the Treasurer or fiscal agent to deposit the money and securities of the Trust Fund in such depositories and on such terms

and conditions as shall be designated and approved by the Finance Committee with the approval of the Trustees, and when so deposited the Treasurer shall not be personally responsible for their safekeeping; also that he shall see that the Trust Funds are invested in such securities as from time to time may be directed by the Finance Committee, with the approval of the Trustees.

(k) The Trustees shall require that the Treasurer shall keep full and accurate accounts of all funds, securities and other properties, of whatsoever character, of the Trust Funds, and of all such additions and receipts thereto and dispositions, withdrawals, and disbursements therefrom, as from time to time shall occur, in books and records belonging to the Trustees, and all such books and records shall be in such form and be kept in such manner as from time to time may be prescribed by the Finance Committee, and that he shall render such reports relating to the moneys, funds, securities, investments and fiscal affairs of the Trust Fund, as may be required of him, from time to time, by the Trustees, the Finance Committee, the Chairman of the Board, or the President of the Gallery.

(l) The Trustees may authorize the Treasurer to sign or countersign checks, stocks, securities, contracts, mortgages, leases, deeds and other instruments of the Trust Fund as require his signature; but he shall not be authorized to pay out any money, invest any funds, transfer, nor dispose of any securities or other property, except under the direction of the Finance Committee, and as hereinbefore provided. Subject to such limitations as the Trustees may impose,

the Trustees may direct that the duties of the Treasurer may be discharged and his books and records kept by an Assistant Treasurer acting under his direction.

(11) Additional Provisions. (a) Title to the Trust Fund shall be taken and held in the name of the National Gallery of Art, provided, however, that if, as, whenever and as often as the Trustees, in their discretion, shall find it advisable or convenient so to do, title to the Trust Fund, or any part thereof, may be taken and held in the name or names of any nominee or nominees designated by the Trustees, but in every instance in which title to the Trust Fund, or any part thereof, shall be so taken and held in the name or names of such nominee or nominees, proper provision shall be made so that said Trust Fund, while so held, shall at all times and in all respects be for the account of the Trust, and be subject to the absolute control and direction of the Trustees.

(b) Any action taken by the Board of Trustees of the National Gallery of Art, at any annual, regular or special meeting of the Board pursuant to its By-Laws, relating to said Trust Fund, shall have the same force and effect, for any and every purpose, as if taken by all the Trustees. It shall be conclusively presumed that any such action has been duly taken by the Trustees if such action be recited or set forth in a resolution, certified by the Secretary of the Board of Trustees of the National Gallery of Art, or by any other person authorized by the Trustees, to have been duly adopted at a meeting of the Trustees regularly convened and held.

(c) The Trustees shall be chargeable only with such funds and property as they respectively shall actually receive, and shall be answerable only for their own acts, receipts and defaults and not for those of each other or of any banker, broker, depositary or other party with whom or into whose hands any funds or properties of the Trust Fund shall be placed, deposited or come, nor for the insufficiency or depreciation of any funds, securities or properties, nor otherwise for any involuntary loss, nor for the act or default of any agent or employee of the Trustees or of the National Gallery of Art selected with reasonable discretion. In no event, and under no circumstances, is any Trustee to be answerable except for his or her own wilful default or gross negligence.

(d) No trust company, bank, banker, safe deposit company or other person, partnership, corporation or institution with which the Trustees may place any funds or property belonging to the Trust Fund, shall be under any obligation or liability whatsoever except to the Trustees, and any and every of them are authorized and directed to make, and shall be fully protected in making, disposition of any such funds or property in accordance with the directions of the Trustees, or in accordance with the directions of any officer, agent or employee of the Trustees or the National Gallery of Art authorized and empowered by the Trustees.

(e) The books of accounts of the Trust Fund of the Trustees shall be kept on the cash receipts and disbursements basis of accounting, or on such other basis of accounting as the Trustees may direct, but the accounting year of the Trust Fund shall be the same as

that in use in the accounting of public funds of the Board.

(f) The Trustees shall cause an audit of the financial records, affairs and transactions of the Trust Fund to be made by a disinterested competent certified accountant or firm of accountants approved by the Finance Committee, annually, or at such other times as may be deemed advisable by such Committee.

(g) Every such officer, representative or employee whose compensation is paid out of the Trust Fund shall, if and when required by the Trustees, give the Trustees, and the Board, a bond in a sum and with one or more sureties satisfactory to the Trustees and the Board for the faithful performance of the duties of his or her office, and for the proper custody of and accounting for all works of art, books, papers, documents, vouchers, moneys, securities, and other properties of whatsoever character, in his or her possession, or under his or her control or supervision.

(h) Subject to the terms and conditions, and the provisions of this Trust Indenture, as regards the distribution of the Trust Fund, the distribution of the Trust Fund shall be in the absolute discretion of the Trustees and nothing herein contained shall be construed to require the Trustees to make such distribution for any particular thing, in any particular manner, or any faster than their judgment shall dictate.

(i) In accordance with said Joint Resolution of the Congress, the actions of the Board as regards any payment to be made by it from said Trust Fund shall not be subject to review by any officer or agency other than a court of law.

(j) Nothing in this Trust Indenture contained, or otherwise, shall be construed as restricting the right of the Trustees in their discretion to deposit with the Treasury as a permanent loan by the Board of Trustees of the National Gallery of Art to the United States all or any part of the principal or corpus of said Trust Fund, or the income thereof, at a fixed rate of interest, pursuant to the terms, and in accordance with any present or future act of Congress authorizing the Secretary of the Treasury to receive the same to the extent thereof provided, and to pay the Board interest thereon at a fixed rate; provided, however, that such interest income, when paid to the Board, shall be and become a part of said Trust Fund, and shall be subject to distribution by said Trustees under the terms and conditions of this Trust Indenture.

(k) During the existence of the Donor, at any time and from time to time hereafter, with the consent of the Institution, the Trustees and the Donor, this Trust Indenture may be altered, modified or supplemented in any respect whatever, as the parties hereto may deem advisable or necessary, which shall not be inconsistent with the general purposes of this Trust Indenture and of the said Joint Resolution of the Congress.

After the termination of the Donor, The A. W. Mellon Educational and Charitable Trust, at any time and from time to time thereafter, this Indenture may be altered, modified or supplemented in any respect which may be deemed advisable or necessary, to accomplish, under conditions then existing, the purposes of the Trust herein created, but only with the prior consent of not less than three-fourths ($\frac{3}{4}$ ths) of the entire membership of the Trustees and three-fourths ($\frac{3}{4}$ ths) of the entire number of the Regents, or other duly

constituted governing body of the Institution, but in no event, and under no circumstances, shall the general purposes and scope of this Trust be modified or changed, and no alteration, modification or amendment of this Indenture shall be made which shall be in violation of the provisions of said Joint Resolution of the Congress, or of any future act of Congress, relating to the National Gallery of Art.

For the purposes of this Paragraph (k), The A. W. Mellon Educational and Charitable Trust shall be conclusively deemed to have been terminated, if three-fourths ($\frac{3}{4}$ ths) of the entire membership of the Trustees, after careful inquiry, shall be of the opinion and publicly declare that such Trust no longer continues to exist.

(l) In no event, and under no circumstance, shall any transaction of whatsoever character be entered into for or on account of the Trust Fund, with or without the approval of the Trustees or of any Committee of the Board, or of any officer of the Board, or other person whomsoever acting for the Trustees, or on account of the Trust Fund, which will involve the Institution in any financial obligation or liability of any character whatsoever, except pursuant to and in accordance with proper action of the duly constituted authorities of the Institution.

(m) Any shares of stock, securities or other property of whatsoever character, except only cash, which

shall be issued, assigned, transferred, conveyed or delivered to the Trustees by reason or on account of any shares of stock or securities of any corporation, association, trust or organization or property then constituting a part of the Trust Fund, whether the issuance, assignment, transfer, conveyance or delivery of any such shares of stock, securities or other property be by way of a dividend by such corporation, association, trust or organization or upon its dissolution, or in any liquidation of its capital, or as a part of, in connection with, or by reason of any reorganization, consolidation, merger, sale of its assets, or adjustment of its affairs, or otherwise howsoever, shall, for all purposes of the Trust Fund and of the provisions of this Trust Indenture, be deemed to be corpus of the Trust Fund and not income thereof.

IN WITNESS WHEREOF, THE A. W. MELLON EDUCATIONAL AND CHARITABLE TRUST has caused this INDENTURE OF TRUST to be executed by the hands and seals of the majority of the surviving Trustees thereof; the SMITHSONIAN INSTITUTION has caused this INDENTURE OF TRUST to be executed, and its official seal to be hereunto affixed, by its Secretary, pursuant to a resolution duly adopted by its Board of Regents; and the TRUSTEES OF THE NATIONAL GALLERY OF ART have caused this INDENTURE OF TRUST to be executed, and its official seal hereunto affixed, by its Chairman, pursuant to a

resolution duly adopted by the said Trustees, all as of the date first above written.

THE A. W. MELLON EDUCATIONAL AND
CHARITABLE TRUST,

By DONALD D. SHEPARD [SEAL]
DAVID K. E. BRUCE [SEAL]
*Constituting a majority of the
surviving Trustees thereof.*

SMITHSONIAN INSTITUTION,

(SEAL)

By C. G. ABBOTT,
Secretary.

TRUSTEES OF THE NATIONAL GALLERY OF
ART,

(SEAL)

By HARLAN F. STONE,
Chairman.

District of Columbia, ss:

On this first day of December, 1942, before me, a Notary Public in and for the said District, came the above-named Donald D. Shepard and David K. E. Bruce, and acknowledged the foregoing instrument to be their act and deed, and desired the same to be recorded as such.

WITNESS my hand and notarial seal the day and year aforesaid.

[SEAL]

MARGARET BELLER,
Notary Public, D. C.

My commission expires:
September 15, 1947.

District of Columbia, ss:

No. 128631

I, Charles E. Stewart, Clerk of the District Court of the United States for the District of Columbia, the same being a Court of Record, having by law a seal, do hereby certify that Margaret Beller before whom the annexed instrument in writing was executed, and whose name is subscribed thereto, was at the time of signing the same a NOTARY PUBLIC in and for said District duly commissioned and sworn, and authorized by the laws of said District to take the acknowledgment and proof of deeds or conveyances of lands, tenements, or hereditaments, and other instruments in writing, to be recorded in said District, and to administer oaths; and that I am well acquainted with the handwriting of said Notary Public and verily believe that the signature to said instrument and impression of seal thereon are genuine, after comparison with signature and impression of seal filed in this office.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Court, at the City of Washington, D. C., the 3d day of December, A. D. 1942.

CHARLES E. STEWART, *Clerk*
By M. DAVEY, *Deputy Clerk,*

[SEAL]

CERTIFICATE.

IT IS HEREBY CERTIFIED That the foregoing is a true and correct copy of the Trust Indenture between the Trustees of The A. W. Mellon Educational and Charitable Trust of Pittsburgh, Pennsylvania, the Smithsonian Institution, and The Trustees of the National Gallery of Art, dated December 1, 1942, creating the Endowment Fund, National Gallery of Art, and that said Trust Indenture is now in full force and effect.

WITNESS the due execution hereof this day of, A. D. 19.....

THE TRUSTEES OF THE
NATIONAL GALLERY OF ART,

By:
Secretary.

OFFICE
SECRETARY OF TREASURY

Enclosure

Dear Felix:

I thought you
might be interested in
the enclosed statement.
This was prepared as a
result of an article, by
Mauby of Chicago Tribune,
and was given to him
sincerely, Henry Mountain.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 28, 1942

MEMORANDUM FOR MR. SCHWARZ:

Perhaps you have seen the attached clipping from the Times-Herald of December 25, 1942. The facts are as follows:

Mr. Otto Frankfurter was appointed July 22, 1941, as Assistant Purchasing Officer, CAF-7, at \$2600 a year and promoted to \$3200 September 24, 1942. He resigned effective November 3, 1942. He purchased chemicals but did not purchase alcohol. Industrial alcohol is purchased by Mr. Gibson who was Mr. Frankfurter's superior, and since October 5, 1942, all purchases of industrial alcohol have been made from the Defense Supplies Corporation (DSC). Mr. Frankfurter has never held the position of Special Assistant to me and his employment was not in any way connected with that of Mr. Herman Klotz, neither did Mr. Klotz succeed to the position of Purchasing Officer left vacant by Mr. Frankfurter's resignation.

The Gulf Distilling Corporation has never received any business from the Procurement Division.

Clifton E. Mack
Director of Procurement

*marked "Personal"
file in diary*



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 29 1942

TO Secretary Morgenthau
FROM Randolph Paul

For your information, Charles R. Clark has been acting as head of the New York office of the Foreign Funds Control Field Investigative Staff for approximately six weeks. The Foreign Funds Control Field Investigative Staff is a Section of the Enforcement Division of Foreign Funds Control and does the New York field work necessary to the investigation of violations of the freezing order.

At the time that the Foreign Funds Control Field Investigative Staff was established, approximately a year ago, a skeleton staff, headed by Erwin May, was loaned to Foreign Funds Control by the Bureau of Customs. Included in this staff was Clark who had returned to the United States in November 1939 from Berlin where he had held the position of United States Treasury Representative. Clark was assigned to the New York office of the Foreign Funds Control Field Investigative Staff and was chosen by Sydney Kennedy, the Chief of the New York office, as his first assistant. Kennedy was formerly Treasury Attache in London and was also on loan to Foreign Funds Control from Customs.

On November 11th of this year both Erwin May and Kennedy were released to Customs for special assignments. In view of Clark's status as second man in the New York office, at the time of Kennedy's departure, he was made acting chief pending a survey, now being conducted, of the personnel of the office and a determination of his ability to handle the job.

Clark has never been transferred to the Foreign Funds Control payroll but is still on loan from Customs.

HR



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

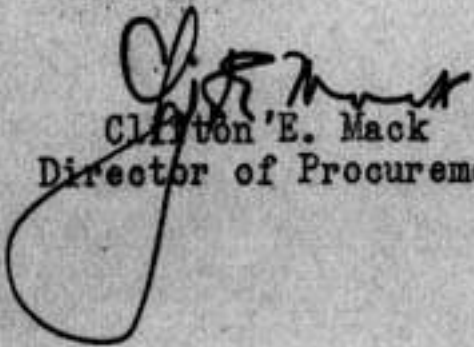
December 29, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended December 26, 1942.

The budget estimates have been prepared for the period from January 1 to June 30, 1943, to cover Lend-Lease requirements within the scope handled by the Procurement Division for all participating countries which totals \$1,015,265,266.00.

The unobligated balance of funds allocated under the Second Lend-Lease Appropriation Act will be determined as of December 31, 1942 and deducted from the total estimates in arriving at the net figure required to be appropriated for the first half year of 1943.


Clinton E. Mack
Director of Procurement



LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF DECEMBER 26, 1942
(In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$2722.4 (2721.9)	\$1264.8 (1258.4)	\$849.1 (842.1)	\$58.3 (58.3)	\$3.7 (3.7)	\$546.5 (559.4)
Purchase Authoriza- tions (Requisitions)	\$2074.8 (2020.0)	\$1184.2 (1173.8)	\$822.4 (778.6)	\$41.2 (41.0)	- -	\$ 27.0 (26.6)
Requisitions Cleared for Purchase	\$1971.0 (1905.5)	\$1153.1 (1135.7)	\$750.9 (703.6)	\$41.1 (41.0)	- -	\$ 25.9 (25.2)
Obligations (Purchases)	\$1865.3 (1807.3)	\$1088.3 (1074.2)	\$710.1 (666.9)	\$41.1 (41.0)	\$3.3 (3.3)	\$22.5 (21.9)
Deliveries to Foreign Governments at U. S. Ports*	\$ 796.3 (787.7)	\$ 628.6 (623.3)	\$140.9 (137.7)	\$20.3 (20.3)	- -	\$ 6.5 (6.4)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of December 19, 1942.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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December 29, 1942

MEMORANDUM TO THE SECRETARY:

Attached is list showing the status of purchases made for shipment to North Africa as of the close of business December 26, 1942. The purchases listed on the attached schedule are those which have been made against a \$5,000,000 Lend-Lease allocation and are completed; likewise, purchases thus far authorized and cleared against a \$40,000,000 appropriation.

There is an additional purchase authorization approximating \$27,000,000 against a further \$100,000,000 program on which we are now endeavoring to obtain clearance from War Production Board. Immediately upon clearance, we will proceed with purchase, and the present indications are that the goods purchased against the \$100,000,000 program will go into warehouses pending shipping instructions.

I will have at your office Tuesday morning of each week, beginning January 5, 1943, a report of the status of these programs as of the close of business the preceding Saturday.



Clifton E. Mack
Clifton E. Mack
Director of Procurement

<u>Commodity</u>	<u>Amount Purchased</u>	<u>Shipped From USA</u>	<u>On Hand At NYC Waiting Vessels</u>	<u>En Route To Port</u>
Used Clothing	1208 tons	300 tons	408 tons	500 tons
Cotton Piece Goods	2970 "	260 "	1710 "	1000 "
Shoes	200,000 pair	0	0	200,000 pair
Cotton and Knitted Wear	180,000 dozen	0	0	180,000 dozen
Refined Sugar	3947 tons	876 tons	3071 tons	0
Raw Sugar	2160 "	1915 "	245 "	0
Powdered Whole Milk	178 "	170 "	8 "	0
Condensed Milk	234 "	234 "	0	0
Tea	173 "	173 "	0	0
Matches	410 "	0	310 "	100 tons
Nails	4.3 "	4.3 "	0	0
Pharmaceuticals	10.4 "	10.4 "	0	0
Copper Sulphate	2632 "	1957 "	675 "	0
Books	5000 each	5000 each	0	0
Lamp Chimneys	80,000 each	0	0	80,000 each
Phonograph Records	1,000 each	0	0	1,000 each
Newsprint	30 tons	0	0	30 tons
Printer's Ink	200 lbs.	0	0	200 lbs.
Machine Finished Book Paper	2 tons	0	0	2 tons
Cordage and Twine	300 tons	0	0	300 tons
Thread	100 tons	0	0	100 tons
Totals		* 5899.7 tons	6427 tons	

*Total tonnage "Shipped From USA" does not include weight of 5000 Books.



IMPORTÉ DES
ÉTATS-UNIS
D'AMÉRIQUE



من
الولايات المتحدة
الأمريكية



LEND-LEASE ADMINISTRATION
WASHINGTON, D. C.

E. R. STETTINIUS, JR.
ADMINISTRATOR

December 29, 1942

Dear Henry,

I regret that it will not be possible for me to attend the meeting tomorrow with you and others relative to dollar balances of Lend-Lease countries as I have been called to New York on an important matter.

I have asked my Senior Deputy, Mr. Bernhard Knollenberg to attend in my behalf.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

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

**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. 65 - Aircraft Despatched
- for week ended December 22, 1942.

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

December 29, 1942.

MOST SECRET

STATEMENT NO. 65

Aircraft Despatched from the United States

Week Ended December 22, 1942

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
<u>BOEING</u>					
Fortress II	U.K.	U.K.		1	
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.	26		
<u>CONSOLIDATED</u>					
Catalina 1B	U.K.	Bermuda enroute		2	
Liberator GR.V **	U.K.	U.K.		1	
<u>DOUGLAS</u>					
Boston III A	U.K.	U.K.		12	
Boston III A	U.K.	Canada enroute		8	
<u>CURTISS</u>					
Kittyhawk	Middle East	Port Sudan	15		
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			5
<u>GLENN MARTIN</u>					
Baltimore III A	Middle East	Middle East		17	
<u>LOCKHEED</u>					
Hudson VI	West Africa	Freetown		5	
Hudson VI *	West Africa	Freetown		2	
Ventura	South Africa	South Africa		7	
Ventura *	South Africa	South Africa		1	
<u>NORTH AMERICA</u>					
Mitchell I	Bahamas	Nassau		4	
Mitchell I *	Bahamas	Nassau		3	
Mitchell II	Canada	Canada			1
Harvard	India	Bombay	1		
Harvard II	South Africa	Durban	1		
Mustang	U.K.	U.K.	1		
<u>VULTURE</u>					
Vengeance	India	Bombay	16		
Total			60	63	6

* Exported by Air week ended December 15, 1942. Reported too late for inclusion in report for week ended December 15th.

** These aircraft were changed from Mark III to Mark GR-V Liberators upon installation of certain radio equipment.

Please note the following corrections in previous reports.

Report for Week Ended	Name of Aircraft	No. of Aircraft	Correction
November 17	Hudson VI	13	Freetown is correct consignee instead of South Africa.
November 24	Hudson VI	2	" " "
November 17	Hudson VI	1	Was consigned to RAFFC, not Africa
November 17	Catalina 1B	1	Was exported Nov.14 and omitted from report because it returned on Nov.17th for repair.
November 24	Ventura	1	Was consigned to RAFFC, not S. Africa

Movements Division, British Air Commission
December 28th, 1942.

December 29, 1942

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

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending December 10, 1942 amounted to \$30,635,000 as compared with \$88,415,000 during the previous ten-day period. Military equipment accounted for only \$3,113,000 of the total and included no tanks or planes. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$822,000, of which \$195,000 was military equipment.

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$1,290,000 and \$590,000, respectively.

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations Received
During the Period Indicated ^{1/}

(In thousands of dollars)

	10-day Period ended Dec. 10, 1942	10-day Period ended Nov. 30, 1942	Total Domestic Exports Aug. 1, 1942 to Dec. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$ 30,635	\$ 88,415	\$ 583,916	\$ 742,941
Free China	822	296	110,639	97,720
Spain	-	1	770	2,858
Switzerland	1,290	935	6,919	11,537
Sweden	2	-	2,628	18,056
Portugal	590	204	1,986	9,743
French North Africa ^{2/}	-	-	2,088	6,305

Treasury Department, Division of Monetary Research

December 28, 1942

^{1/} Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

^{2/} Includes Morocco, Algeria and Tunisia.

KFM/cfs 12/28/42

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APPENDIX B

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

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942 1942	\$ 32,758	\$ 98,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
Oct. 11 - Oct. 20	30	55,083
Oct. 21 - Oct. 31 4/	--	45,701
Nov. 1 - Nov. 10	233	53,144
Nov. 11 - Nov. 20	2,032	45,867
Nov. 21 - Nov. 30	296	88,415
Dec. 1 - Dec. 10	822	30,635
Total	\$ 110,639	\$1,327,676

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research December 28, 1942

ISF/efs 12/28/42

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APPENDIX C

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

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of dollars)</u>
TOTAL EXPORTS			\$ 30,635
<u>Military Equipment (\$3,113)</u>			
Ammunition	-	-	1,669
Internal combustion marine engines	No.	45	767
Ordnance combat vehicles Scout cars	No.	400	365
Explosives	Lb.	800,000	138
All other	-	-	174
<u>Non-Military Goods (\$27,522)</u>			
Motor trucks, auto replacement parts and accessories	-	-	5,115
Industrial, electrical and agri- cultural machinery and parts	-	-	4,218
Iron and steel manufactures and semimanufactures	-	-	3,537
Metals and manufactures, n.e.s.	-	-	3,374
Meat products	-	-	2,680
Food products, n.e.s.	-	-	2,011
Wool and cotton	-	-	1,660
All other	-	-	4,927

Treasury Department, Division of Monetary Research December 28, 1942

**EFM/efs
12/28/42**

APPENDIX D

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

(Thousands of Dollars)

TOTAL EXPORTS

\$ 822

Principal Items:

Printed matter	535
Military equipment	195
Photographic supplies	76
Power tools	14
Fountain pens	1
Mica and manufactures	1

Treasury Department, Division of Monetary Research December 28, 1942

EFM/efs
12/28/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

December 29, 1942

FROM Frances McCathran

HIGH-LIGHTS OF THE WAR NEWS
(11:00 A. M.)

Gibraltar

A second Allied fleet is gathering at Gibraltar, according to dispatches from La Linea, Spain.

North Africa

1. French Somaliland, last Vichy stronghold in North Africa, joined the Fighting French in an agreement signed at 8:15 A.M. yesterday at Chebille, De Gaulle's headquarters announced. This territory (of 8,492 square miles, containing 45,000 natives and 1,700 Europeans) is the starting point of the only railroad running into Ethiopia and its acquisition thus simplifies the Allied supply problem into that part of interior Africa.
2. Tunisia - Allied bombers from the Libyan desert in the east and from North African airfields in the west, have damaged almost every Axis-held port, Tunis, Bizerte, Sfax, Sousse, etc., as the Axis sends up reinforcements. American planes also bombed a big German truck column taking supplies from Tripoli. Infantry patrols are increasing, especially in the Medjez-El-Bab area. Torrential rains are easing but the ground still is slippery and muddy.
3. Libya - British advance units are reported within 18 miles of Buerat El Hsun with only slight aerial activity over the battle zone.
4. Allies continue to damage shipping on the Axis Tunisia-Sicily-Italy supply line.

Russia

1. The Middle Don Front - Red armies, only 3 miles from Kotelnikovski, have advanced from this key railroad city to within 45 miles of another Russian force pushing down the Moscow-Rostov railroad from the Middle Don. Russians are reported in the immediate vicinity of Kamensk, 80 miles north of Rostov (gateway to the

Caucasus). In the Kotelnikovski area they are reported not more than 170 miles east-northeast of Rostov.

2. Central Front - Russians have repulsed German counter-attacks around Velikie Luki and Rzhev.
3. Russians claim they are now killing from 2,000 to 3,000 in one engagement as the Germans throw in powerful reserves.

The Pacific Area

1. New Guinea - Sunday night the Japs made a desperate sally outside their prepared defenses and pillboxes at the same time that their naval craft, probably subs, shelled Buna village. They were beaten back, however, with the net result the deepening of the Allied wedge at Buna Mission.
2. New Britain - Allied planes bombed Rabaul for the second day in succession. Shipping was damaged in the harbor and one heavy cruiser believed sunk.
3. Timor Island - Allies made their fourth consecutive air raid on the northeastern tip of Timor Island where the Japs are believed to be constructing an airfield.

Burma

1. Advance British units have encountered the Japs at Rathedaung, approximately 25 miles northwest of Akyab and 7 miles inland from the Bay of Bengal coast.
2. The R.A.F. twice raided the Jap airdrome at Magwe (120 miles from Akyab) and continued to soften other Jap installations in Burma.
3. U.S. fliers again bombed Lashio, at the Burma end of the Burma Road.

China

1. A new Jap offensive in the Eastern China lowlands in Shantung and Hupeh provinces has been partially thwarted, according to a Chinese communique.
2. U.S. fliers repulsed a Jap attack on the American base in western Yunnan.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Frances McCathran

December 29, 1942

AFTERNOON SUMMARY OF THE WAR NEWS

Russia

1. The pincer movement against Rostov:
 - A. One arm of the pincer is continuing to drive down the Voronezh railroad, despite German reinforcements all along the line. This group has broken into the Rostov Administrative District (equivalent to an American state) from the northeast to within 80 miles of the city proper.
 - B. The second arm, all but surrounding Kotelnikovski (principal German base southwest of Stalingrad), has swept 56 miles to the south, entering the northeastern tip of the Rostov Administrative District. (Germans in Kotelnikovski have only one avenue of escape as Russians cut 5 of 6 highways leading to the city.)
2. To the north of Rostov, General Golikov's Soviet forces tightened the ring around Millerovo to the strangling point.
3. Six German divisions, which started a counter-offensive southwest of Stalingrad on December 12 to relieve the 22 divisions trapped between the Don and the Volga, have been routed and thrown out of action, reports indicated.

North Africa

1. Tunisia - Allied units have withdrawn from the hill position 6 miles northeast of Medjez El Bab (which they took Christmas Eve) "after inflicting severe casualties on the enemy", an Army communique revealed today. French forces, however, have cut an important road south of Pont-Du-Fahs, after a fierce dawn battle backed by Allied tanks and planes.
2. General Alphonse Juin, former military aide to General Nogues (Governor-General of Morocco) has been appointed to succeed General Giraud as Commander-in-Chief of the French North African forces.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPT:EL No. 449

Information received up to 7 A.M., 29th December, 1942.

1. NAVAL

An outward convoy in mid-Atlantic has been subjected to persistent U-boat attacks since 26th/27th. Full details not yet available.

2. MILITARY

LIBYA. 27th. Patrols of 7th Armoured Division were in contact with the enemy on line WADI BEI EL KHEBIR from the sea to BIR EZ ZIDEN 30 miles to southwest. Some German prisoners were taken. The main road is now clear of mines to SIRTE inclusive.

RUSSIA. Southwest of STALINGRAD the Russians have made a further advance on a broad front in the general direction of KOTELNIKOV and have captured NAGOLNI five miles to the south.

3. AIR OPERATIONS

WESTERN FRONT. 28th. A Hampden probably hit with torpedo a 5,000 ton ship in convoy off NORWAY.

FRENCH NORTH AFRICA. 26th/27th. U.S. heavy bombers attacked the harbours at TUNIS, SOUSSE and SFAX.

27th. SOUSSE Harbour was again attacked at least three ships were hit and many large fires were started in the docks area.

27th/28th. Malta Wellingtons bombed TUNIS and LA GOULETTE docks.