

DIARY

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September 29, 1942
9:36 a.m.

HMJr: Hello.

Operator: Mr. White on the phone. There you are.

HMJr: Harry?

Harry
White: Yes, sir.

HMJr: Good morning.

W: Good morning.

HMJr: I wish you'd take your hand at trying to draft a letter for me to sign to McCarran which would point out that he wasn't to try to raise the price of silver, and he's broken his agreement with me, see?

W: I see. Is there something in the paper today about

HMJr: Well, he - I was particularly attracted to it by an editorial today in The Washington Post.

W: I see, because the only action that I've known -- maybe that's what you may have in mind -- that he took is he talked to the press about a week ago and said he - they're planning - they may do something. But to my knowledge they haven't, but I'll - I'll....

HMJr: Well, review it.

W: I'll review it.

HMJr: Thank you.

W: All right, sir.

September 29, 1942
9:45 a.m.

OIL REFINERY PURCHASE (Russia)

Present: Mr. Paul
Mr. Cairns
Mr. Schwarz

H.M.JR: I was just reading this "PM" - this fellow Stone trying to make a story out of--

MR. PAUL: I haven't gotten through yesterday's yet.

MR. CAIRNS: I haven't seen it.

H.M.JR: It is a very sloppy piece of writing. I wish you would read it. He refers to Robertson being in on it. If Robertson were in on it, it would be all right. What he tries to make out is that Cliff Mack is now holding it up and going to hold up the whole thing.

MR. PAUL: We can straighten that out with Robertson.

H.M.JR: I think I would do that this morning because they go to press pretty soon.

MR. SCHWARZ: After lunch.

MR. PAUL: We can get it right on the wires; it would be better.

H.M.JR: Stone is very sloppy in this thing. If he is as sloppy as this--

MR. SCHWARZ: I don't think he is, generally.

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H.M.JR: He says here, "Let us look at it closely.

"Procurement Director Mack, the dispatch says, was present at the conference and said, 'two gasoline refineries in Texas were being studied with a view to using them as part of the plant to be sent to Russia.' Who is Mack kidding?

"Some other equipment,' Mack is reported as saying, 'would be used in conjunction with the Texas refineries even if they proved usable....'

"What did Mack mean by 'being studied' and by 'if they proved usable'?

"The Russians picked those plants last Winter and arranged to buy them if they could get clearance," and so forth, and so on.

Then he says, "Morgenthau held an angry private conference in his office two weeks ago yesterday. He pounded the table, figuratively, if not literally, and demanded to know why the devil the Russian deal still was being held up. Ickes knew all about that conference."

Sure, his man was here.

MR. CAIRNS: Fortas.

MR. SCHWARZ: And he told Stone. He got the previous story from Ickes on the Spanish oil.

H.M.JR: But I think you fellows had better get after this, because Stone is very sloppy this morning.

MR. SCHWARZ: He is up in New York working on his book and did this with his left hand, which he shouldn't do.

H.M.JR: Will you take care of it?

September 29, 1942 ..
11:00 a.m.

FINANCING

Present: Mr. Bell
Mr. Buffington
Mr. Haas
Mr. Murphy
Mr. Baker
Mr. Eccles
Mr. Sproul
Mr. Szymczak
Mr. Williams
Mr. Rouse
Mr. Goldenweiser
Mr. Piser
Mr. Draper

H.M.JR: Well, we will start the usual routine. Mr. Bell will tell us how much we need for a month. We don't look much further ahead, now. You can go on to the end of the year, Bell.

MR. BELL: We will go out of September with a balance of about two billion three hundred million dollars. We will need, in October, four billion dollars; November, four and a half billion dollars; and December, three billion seven hundred and fifty million dollars.

That is based on the present program for Treasury bills, merely rolling over the certificates on November 1, and four hundred million dollars of tax notes in September, and three hundred fifty million thereafter. That may be a little low. We have practically the four hundred million already in September, so they may go somewhat over that.

Those estimates give us a balance at the end of October of a billion seven hundred and fifty. That

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is a little low; November, two billion, and December two billion.

That is the picture.

H.M.JR: Any questions?

MR. ECCLES: Did you say it was four and a half or four in October?

MR. BELL: Four; four and a half; and three billion seven hundred and fifty.

I might say this on the estimates of expenditures. We have raised our war expenditures some. I have talked to the Budget. They are not inclined to change their sixty-seven billion, but appreciate that they may go higher. There is a great deal of talk around town of putting the 1944 budget on a full capacity of the country, and there has been some talk on that basis that the budget might run anywhere from eighty-five to ninety-five. So I have raised these expenditure estimates to get a range of seven billion dollars in the last three months of the fiscal year, which would about hit a level that would be necessary to reach that 1944 budget.

It isn't reflected so much in the next three months that we are facing, but it is reflected quite heavily in the months beginning with January.

MR. WILLIAMS: Eighty-five is the capacity?

MR. BELL: It is a talk of capacity. There is no definite agreement on it, but they think that the budget will range in that neighborhood, from eighty to eighty-five to ninety-five.

H.M.JR: Dan, I don't know how they get that way. These are the figures out - just out in September - and a lot of the stuff is going down.

MR. BELL: Is that right?

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H.M.JR: Yes, August is less than July.

MR. DRAPER: There is quite a little slow-down, now, I understand, which is temporary, of course.

MR. ECCLES: A lot of construction is getting completed, for one thing, and then financing - some of it is being done outside in increasing amount, instead of advances being made by the Army and the Navy and the Maritime. There has been an increase in the bank direct lending for that purpose, whereas there was a big expansion in Governments for a time.

MR. BELL: Which will hit us later pretty hard.

H.M.JR: Well, anyway, I hope they are right.

MR. BELL: This is sort of the worst picture from an expenditure angle.

MR. ECCLES: That seven billion that you speak of for the end of the year - you spoke of seven billion - do you mean a month?

MR. BELL: A month, yes, for war alone, and that means an expenditure in 1944 of about eighty-four billion dollars on that basis.

MR. DRAPER: You mean fiscal '44?

MR. BELL: Yes, but we won't know what the budget figures are until December.

MR. ECCLES: That will never be possible on this price level. It may be eighty-four billion on some other price level, but certainly on this price level there is no possibility of that expenditure for war purposes and have a civilian economy survive.

MR. HAAS: They claim there is, figuring a national gross product of one hundred and seventy billion, something like that.

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MR. ECCLES: There isn't such a national gross product at this price level that they are talking of getting.

H.M.JR: Anyway, what I asked for was to look for one month or possibly the rest of this calendar year.

MR. BELL: These figures contemplate paying off the RFC, and you haven't announced anything with respect to the December maturity of two hundred and thirty-two million.

MR. ECCLES: That is, the four and a half for October contemplates paying off the RFC?

MR. BELL: Yes, three hundred and twenty million.

MR. SPROUL: Four for October?

MR. ECCLES: That is right, because that includes the bill program which will give you four hundred million of new money.

MR. BELL: Three hundred million of new money.

MR. ECCLES: Well, if you increased, as there has been some discussion of, at the end of the turn-over on the twenty-first it would give another hundred million the last two weeks.

MR. BELL: It would, that is right.

H.M.JR: We were talking about four billion, which would include paying off the RFC.

MR. BELL: Yes, sir, three hundred and twenty million, October 15, and the December financing contemplates paying off the two hundred and thirty-two million of Treasury notes maturing on that date.

H.M.JR: And what about the first certificate which comes due?

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MR. BELL: We contemplate just rolling over - just selling it like a Treasury bill. I think you might want to discuss here as to whether you want to get five hundred million out of that by increasing it, maybe, to two billion.

MR. ECCLES: When does that come due?

MR. BELL: November 1.

H.M.JR: Have you fellows got a plan?

MR. ECCLES: No.

H.M.JR: This is just to get acquainted again.
(Laughter)

MR. ECCLES: We have been discussing this particular problem this morning. It is the first discussion that we have had of the thing, specifically. We met yesterday, the Open Market Committee, and discussed questions such as the discount rate and the bill-buying program, the reserve picture, and things in general terms - what the problems were - but we discussed this, as I said, this morning.

I have some views and I think Allan has; we have some variations. Possibly some of the others have some that may vary from both of ours. In other words, we haven't, I wouldn't say, crystalized the thing down to any form of recommendation.

H.M.JR: I was sorry I couldn't get over there yesterday but I had had this appointment for about a week. Did you have a good meeting yesterday?

MR. ECCLES: Yes.

MR. SPROUL: One of our better ones, I thought.

MR. SZYMCAK: And a very good luncheon.

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MR. ECCLES: Yes, you missed that. It was very orderly. Nobody threw anything at anybody, and we all left on speaking terms. (Laughter)

H.M.JR: These tax anticipation notes are going moderately well, aren't they?

MR. BELL: Yes, sir, they are. We are going to get well over the four hundred million. We have got that in now, as a matter of fact.

MR. ECCLES: Don't you think you will get nearer five or six?

MR. BELL: Yes, I think we may.

H.M.JR: What do you hear from your boys, George?

MR. BUFFINGTON: They have done a great deal of groundwork that I think we won't get the effect of until after the first of the month. Many of the circulars which they have distributed don't go out until the month-end bank statements, but I think the organizations have acquainted their members with the problem and the figures that I get show that the result is improving each day in volume. I expect to see them do pretty well in October.

H.M.JR: War bonds have been doing a little bit better, too.

MR. ECCLES: The what?

H.M.JR: E, F, and G bonds.

MR. DRAPER: They are doing better, you say?

H.M.JR: Yes, particularly in the pay-roll allotment. That group of theater people have done very well.

MR. SZYMCZAK: Winchell didn't do so bad on the radio last Sunday, he came right out and--

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H.M.JR: I didn't hear him but others said so.

MR. SZYMCAK: He was short and right to the point.

H.M.JR: Well, Sproul, have you got some ideas?

MR. SPROUL: Yes. As Marriner said, we discussed the thing this morning in a preliminary manner, and we developed a variety of ideas. My own ideas for raising four billion dollars in October are about as follows: I think that we went very heavily to the bank market with short-term obligations in September, and we did it in contemplation of going to the market with longer-term obligations in October, which we hoped would reach both the banks outside the larger cities and also some non-banking investment which is not interested, or, for one reason or another, does not want to take the long-term registered two and a half percent bond.

Therefore, my own thinking at this point is that the best combination for raising four billion dollars, in addition to an increase in bills on the twenty-first - which would bring you in an additional hundred million - and in addition to the roll-over of certificates at the end of November - which I think might well be increased to two billion at that time - is that you could put together a two and a quarter percent bond and either a note of five years or a fixed maturity bond of five years plus, to tap your best available market at this time; and at the same time, bring into use funds which have not been brought into use by the obligations you offered in recent preceding months.

The two and a quarter percent bond, I think, is the really questionable feature of such a program, and there I think it is only questionable because we have created in our minds the idea - and I took part in that - that we wanted to keep the bank investment program within the ten-year area, and that is about the two percent area. Two percent is a little less than ten years.

I think, however, that we have found two things: That the two and a half registered bond does not get

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all of the funds outside the banking system that can be gotten with the high coupon bond; and I, myself, have not been able to see any way clearly that we can offer a two and a half percent bond, other than the kind we are offering, which will get that money without disrupting our whole pattern and disturbing our maximum rate.

So I think the next best thing is a two and a quarter percent wholly-marketable bond which will get that additional non-banking money of those who want coupons but won't take the registered bond. I also think that is the thing that will be most likely to bring into use the excess reserves which exist throughout the country to the extent of about two billion dollars; those have not been brought into use, to my mind, at least, at all rapidly enough, although we have made some progress by our offerings of short-term securities.

It seems to me we have to increase the penalty for holding cash in order to get those funds into use. I think there is some other justification for it in that the banks which would go for that would be banks which do hold substantial amounts of time or savings deposits and therefore are not necessarily to be restricted to this arbitrary ten-year maturity which we set up in our minds some months ago.

If you combine that sort of an offering, a two and a quarter bond, with a five-year note, or a five year, plus, fixed maturity bond, you then would give the banks an opportunity to subscribe to whichever sort of maturity they want. They would not be forced into the longer maturity if that didn't suit their book.

If you did that, I think you could - and it would be well - make it an offering of four billion dollars in total without specifying the amount you wanted from each security, and letting the market itself determine how much it would take of the longer bond and how much it would take of the shorter - the allotment being based on the total subscription to the whole offering.

H.M.JR: You are coming around to that?

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MR. SPROUL: Yes. I would also leave the books open for several days to enable some work to be done on the sale of the two and a quarter percent bond outside the banking system.

I think that, in general, presents the kind of a program which, as of today, seems to me to be the one most likely to give you a successful financing, and to leave the field clear in November for a re-opening of the two and a half percent registered bond, and for whatever you need to go with it to fill out your substantial needs in November.

I think it would be premature, now, to reopen the two and a half percent registered bond. That is a bond which is aimed largely at the insurance companies, and a little more time is needed for the funds to accumulate there to make that a successful offering.

We started out with eight hundred and eighty-two and we went up to a billion and two, and I think if we come out now - dropped back to five hundred or seven hundred and fifty million - it would not look so good. It would be much better to wait until November with that, and have a chance of equaling or exceeding what we did before.

MR. BELL: Would you hook up the two and a quarter bond with the over-all total?

MR. SPROUL: Yes; an offering of four billion.

MR. BELL: How could we leave that open?

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MR. SPROUL: You could only allot on the total.

MR. BELL: And have to wait until we closed the books before making an allotment on any? Wouldn't that be bad?

MR. SPROUL: That is right. I don't think so.

MR. BELL: And have that hang over the market a week or ten days?

MR. SPROUL: I was thinking of five days.

MR. ROUSE: Bell is thinking of--

MR. SPROUL: I was thinking if you offer four billion and don't specify the amount you want in each, you still could close on the short in a couple of days and leave the long open. That would not quite meet the situation I had in mind, however, letting the market have a full time to determine what proportion it wanted for each issue.

MR. ECCLES: I have quite a different view on the thing than Allan does.

H.M.JR: That surprises me. (Laughter)

MR. ECCLES: It does? Why?

H.M.JR: I don't know. Don't you usually? (Laughter)

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MR. ECCLES: We have differences. We have quite a fundamental one on this one.

I feel that this idea of trying each month to say, "This is what the market wants," and trying to be shifting and changing is not advisable. The volume of financing to be done is very great, and there is a great difference of opinion. We discussed this whole thing with our presidents, and there was a variety of views from them.

You find that the banks in one area want one thing and those in another area want something else, and so forth. So it does seem to me that the Treasury should try to follow what seems to me to be a pattern that has been established. That was the two-percent, not longer than ten-year bond. We have established a seven-nine year, two percent issue that is available to the banks, and likewise to the public - those that want a short issue. We have issued that now in three different quarters. This would be the fourth quarter. I would like to see us stick to a two percent issue for banks. The market would take it as well. I don't think there is any justification, certainly in the Treasury, for paying more than two percent to the banks for funds; that it, in a sense, is a subsidy; it is a payment to them for the creating of the money that is needed here.

The banks are going to be enabled to buy bonds to the extent that the Federal Reserve as a public body gives them funds with which to buy. We create their reserves for them through open market operations and through the reduction of the reserve requirements, so that we say, "We will create for you whatever funds are necessary to do the financing." It seems to me that to pay them two percent is all that is warranted in view of the very large amount of the public debt that they are going to hold. They will have a very substantial earning; at least it would seem to me, on that sort of a rate, an adequate one.

I would like to see the banks keep within the short securities because the holdings of bonds by banks

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are always the most volatile. We have experienced in the past that they are the ones that are trying to guess the market. They are the smart boys, the ones that are trying to get in and out, if you leave an uncontrolled market. The long bonds are the bonds that are subject to the fluctuation; and ultimately if you don't peg the market at some time in the future, the long bonds would have the widest fluctuations. If the banks are loaded up with wide-fluctuation bonds, you get the greatest activity and the job of a monetary control job becomes increasingly great with the increase in the long market bonds that would be held by the banks. That is a principle, it seems to me, that we ought to keep cognizant of.

The question of excess reserves going into a two and a quarter bond and not into a two percent bond does not seem to me to be a valid contention. The excess reserves are being held by banks pretty generally throughout the country because their deposits are going up, they are getting new accounts and expansion of accounts, and they don't know how long they may have them. There is a feeling they want to have these reserves to meet a shifting of deposits which have been growing very abnormally.

The thing that has appealed to the banks from the use of excess reserves is a short security, and not a long security. They would be more likely to put their excess reserves, if you can induce them to do so at all, in your one-year certificates and in your bills. If you are going to give any increase whatever in a rate to the banks, I would very much sooner see it on the short end of the thing, where you could give them an eighth more, we will say, as a maximum; and that would be much more of an inducement in getting the complete utilization of the excess reserves because of the liquidity that that sort of security would give them.

I would like to see the two percent bond offered at this time on a quarterly basis. That would complete your cycle. I would continue every quarter to make available some of those securities. I feel that if you

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should offer a two and a quarter percent bond to banks at this time that it would have this effect. There would be a substantial selling of the two-percent bonds by those banks that did not feel that they wanted to increase their holdings or that did not have excess reserves to take the two and a quarter and get the higher rate. It is the higher rate that they want, and they would shift, I am sure, from two's, a certain amount of them. Likewise, in the future you would find it much more difficult to sell two percent bonds to the banks if you had established a two and a quarter long pattern for them. You would find them holding off, expecting to get the two and a quarter percent bonds in preference to the two's. All you would have done is simply raise your rate structure for banks to a quarter of one percent.

Now, I don't think that is justified. I don't think it is necessary. The difference then, between a two and a quarter percent bond for the banks and a two and a half gets pretty small. You go up to the fourteen or fifteen-year for two and a quarter, and you are half way to the twenty-year for the two and a half. I would say if you are not going to maintain this differential that is established and consider non-banking investors in one category and your banking investors in a separate category, the bank is the last line of defense. You provide them with whatever reserves are necessary to do what financing you can't do outside. Now, that is what you do. I would like to think of them in this category as a second and a last line of defense, and the general public and investors outside.

Now, we have established the two and a half percent rate for insurance companies and other institutions, investors, and if you are going to go to the two and a quarter on a market issue, I would say let's just kick the partition out and put the whole thing on a market basis. Put your two and a half's, two and a quarter, your two's; and whenever you make an offering, it is made to everybody. Don't try to consider the bank investor and the non-bank investor.

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Now, I think it would be a mistake at this time to do that. I don't think it is necessary. I think it would be a crucial decision to make now to move from the two's to your two and a quarter's. I would, therefore, recommend strongly against it. I would advise that you put out two's - it is three months since you put out two's. They will take two's as well as two and a quarter, if they don't get two and a quarter. I would then put along with the two's a five year note; it figures about one and five-eighths. There has been some thought in my mind that you might, if there is a substantial amount of long-term funds that Allan talks about going into a two and a quarter percent bond, I think we might consider opening the two and a half's again, making that a coupon bond instead of the registered bond, but prohibiting the banks from taking the issue. Let it be a market two and a half bond with the banks excluded, if there seems to be some aversion on the part of the investors to taking the registered issue.

That, I think, at this time would, if there are these investment funds that Allan speaks of, take a two and a quarter. That certainly would reach those funds outside of the banks if they are in substantial proportions.

I would like to consider in opening the two percent bonds that instead of announcing you want a certain amount for those bonds - I think you might consider that it is open end, that you give anybody what they want. You open it up; and instead of making allotments, we would undertake on both that bond and note to get what is needed instead of doing it as Allan suggests on the two and a quarter percent bond and the one and three-quarter percent, as I understand Allan had suggested.

There is just one other point in connection with this that I would like to make. It has been suggested that the banks, the smaller banks with savings deposits, feel that they are discriminated against because the insurance companies, the mutual savings banks, and the

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building and loan companies can take this two and a half percent registered bond, whereas they have got time funds in this same type of funds. They have to pay interest on those. They are in competition with postal savings and these other institutions, and they can't get more than two.

If the two and a quarter would not satisfy them, they are still discriminated against so that that does not meet that problem. I would say the way to meet that problem would be to permit them to take, say, up to the hundred thousand a year of series G bonds, but not to exceed their savings deposits.

Now, that would meet the demand of the small - a lot of these smaller banks. It would go at least a long way towards doing it, and that is where the complaint comes from. They are the ones that are paying one and a half and two percent for savings, and at the present time many of them are not interested, and they are trying to keep away from savings; and I think that has something to do with the currency hoarding, the lack of interest in taking these funds and paying interest on them. They say that they can't get even on the thing and therefore they are putting charges of various kinds in to discourage taking them because there is not an adequate earning - a return on them. They can't invest them in anything but governments, and they are limited to the two percent. Two and a quarter does not meet that.

I think you could say that here are savings funds in these banks, and we are going to give them two and a half, some percentage or some relation to those savings funds. Now, they would feel they were not discriminated against; if you give them the two and a quarter, they would still feel the discrimination. I would not go to the two and a quarter to meet that isolated particular situation which should be met if you are going to meet it - I don't think it is an extremely serious one. It is a factor that all of our presidents have mentioned as a factor, but that could easily be met in relation to the savings deposits. That is about my story on the picture.

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H.M.JR: Haas and his group - this is also just preliminary - recommended two billion of one percent due December 15, '43, and two billion of two percent, March 15, '50-'52.

MR. ECCLES: Well, instead of the one percent, we are proposing a five year note. I would like to see the bank financing confined along this line. I am speaking not only now, but looking to the future, a two percent bond, and about a one and a half to one and five-eighths note, then your certificates and your bills. Try to keep it down to the very short, the one year, the five year, and the nine year. You might fill in, but if you could get this other worked out in one month, you do one thing; the next month, another, so far as banks are concerned, and you do it in such volume as is necessary outside of what you are getting outside of the banks. I would like to see the one percent issue - that is pretty close to your seven-eighths certificate. It is too close. You will be offering certificates possibly - when was it, month before last that the certificates were offered?

MR. BELL: August.

MR. MURPHY: Just got through this month.

MR. BELL: I thought you meant the seven-eighths.

MR. MURPHY: That was offered in August.

MR. ECCLES: August was the short one.

MR. ROUSE: August 6 was the seven-eighths.

MR. BELL: That is right.

MR. ECCLES: I would sooner wait until next month to use the certificate again, possibly.

MR. SZYMCAK: This would be a certificate, wouldn't it?

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MR. MURPHY: It would be a note.

MR. ECCLES: Yes, but it is so darn near to it, a one percent note and a seven-eighths certificate; they are extremely close.

MR. WILLIAMS: You would pass by the five-year maturity range, because of the outstanding--

MR. HAAS: At this time we suggested that we have a wider range. We put out a two. Your five-year note is very close, and we are tapping two different types of demands there. I don't think the fact that it is close to a certificate makes much difference. Before we are through we are going to have plenty in close, and heavy maturities.

MR. ECCLES: If that is too close, instead of the five year note, I would consider a one and a half note then, and a four-year range, which - a four-year maturity at one and a quarter, of course, is quite a difference from your two percent bond.

MR. HAAS: If you are taking a two and a quarter, well then, I think that five-year range would be a better combination, but we did not favor going out. We agreed with you that should not go out.

MR. ECCLES: Well, so far as the short is concerned, I would not have any strong feeling. My feeling is on going out - whether it is a three or five-year, I agree with George that you are going to have to go into that category for whatever you need to make this up and you can get whatever you want in that, because the Fed has just got to provide it, that is all, through giving the banks the reserves, so they will take whatever is offered.

H.M.JR: Are you through?

MR. ECCLES: Yes.

H.M.JR: Williams?

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MR. WILLIAMS: The October problem, as I see it, boils down to the type of offering you are going to make primarily for the banks. I think the two and a half's are out of the question. We called our men in, the District Committee, about ten days ago and questioned them on their experience. They think that it is a bit too early to go back into that barrel; it is pretty well exhausted. They ought to get some time for funds to accumulate.

I would expect the tax notes to do pretty well. I think that the estimates we have heard are conservative, but I would assume that that is not something you could count on other than to increase your working balance. I think anything you get above five hundred million could go for that purpose. I would favor going into this five-year range.

So I think that leaves open the question as to the type of obligation you would offer the banks. There they are pressing, of course, for higher rates, and also they are pressing for coupon obligations. I doubt the wisdom of yielding to that pressure, which exists also in the long so-called tap issue. I think the problem is a general one.

I believe if you go from the ten-year range over to twelve or thirteen that that may raise again the question as to where they fit into the picture. I think with the prospect of six or seven billion dollars having to come from somewhere this month that it is well to set the pattern as definitely as we can. I think if we inject what may be considered as a new element, whether it is or not, I think it is immaterial. The fact that the banks would regard it as a new element into the picture at this time would mean we would just have to solve the problem later. So I would be inclined to agree with you that the decision now is a general decision which would pretty much set the picture for some time.

The question is whether we ought to confine the banks to ten years or go beyond that up to, say, two and a quarter. I think the provisions for the banks that have time deposits and savings deposits could be made, with some special obligation that was clearly designed for that purpose and recognized by the trade as such

- 19 -

H.M.JR: Does not that two and a half percent tap issue give the savings banks--

MR. ECCLES: They can't take it. They are excluded, you see, the savings deposits of these commercial banks. Outside of the eastern seaboard there are no mutual savings. There are about eleven or twelve billions of savings that are carried in the commercial banks, and it is that particular fund where the question is raised.

MR. BELL: Our definition is that any bank accepting demand deposits can't buy these, and many of those accepting demand deposits accept savings. We have not provided for that compartment.

H.M.JR: Two percent does not satisfy them?

MR. ECCLES: No. They feel they are discriminated against. A lot of them pay two and pay one and a half, and the two percent is not sufficient for them to even want to attract savings, to encourage savings.

MR. BELL: They feel they have the same kind of money the mutual savings have - and insurance.

MR. ECCLES: They do, the building and loan, and these other concerns; they are funds that they have to pay interest on, and they just can't get a profitable return at two percent on those funds. They are a pretty stable form of deposit.

H.M.JR: Before I opened that up for them, I would want to consider that very carefully.

MR. ECCLES: In opening it up for them, I would not open it up without limit. My thought would be that if you let them take the G bonds - that is, a hundred thousand - up to the amount of their savings - I mean, let them take the G bonds but not in excess of the amount of their savings. That is an instrument you have already got. It is a simple one. If you let them take the two and a half tap issue, you would permit them to take that issue only in relation to their

- 20 -

savings. For instance, FHA mortgages - there is a provision that no bank can hold FHA mortgages in excess of sixty percent of their savings funds. That is in the law. In other words, they were not letting banks load up with those long-term mortgages except in relation to the time funds. Now, my point is that you might come in in connection with the G bonds and provide that the banks could not hold these bonds in excess of, say, fifty percent or some percentage of their savings funds. These FHA mortgages are going down.

H.M.JR: We don't issue the G.

MR. ECCLES: I mean the two and a half tap issue.

H.M.JR: Which do you mean?

MR. ECCLES: The two and a half tap issue. There are two ways. You can either make the G bonds available, but that is limited to the hundred thousand; or you could make the tap issue, the two and a half tap issue, available, limiting it to a percentage of their deposits. I mean, there are the two alternative ways of meeting--

H.M.JR: Do the mutual savings banks buy the tap?

MR. BELL: Yes, they can buy the tap, too.

H.M.JR: But these national banks with time demand deposits cannot?

MR. BELL: They cannot buy the G or the tap.

H.M.JR: I want to take a careful look at that. If you open that door, it will be a hard one to close.

MR. ECCLES: You have got a universal feeling practically among our bank presidents. They all brought it up, except one, and felt it was a very important - and it would be one way of meeting that requirement.

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MR. WILLIAMS: I have just one more observation, and that is the question as to whether the October offering includes two or a two and a quarter. I think it isn't related to the success of the financing. I think it would go over either way.

H.M.JR: Say that again, will you, Mr. Williams?

MR. WILLIAMS: The question as to whether the October financing includes a two or a two and a quarter is not related to the success of it because I think it will go over one way or the other.

MR. SPROUL: I don't agree with that. I think it is important where you get the funds from, if you get them from the same old places. I don't agree that the two and a quarter wouldn't be attractive both to some non-banks who want a fully marketable security - and that it will not be attractive to these banks with time and savings deposits which would be getting also a fully marketable obligation with only one quarter coupon, so they would not be discriminated against. They would be getting an adequate coupon for their needs and a fully marketable one.

H.M.JR: Draper?

MR. DRAPER: I am in favor of the two-percent bond and a note. I was thinking originally of a note of about five years, but now in view of what George says, it seems to me it ought to be shorter maturity than that.

H.M.JR: What bond were you thinking of?

MR. DRAPER: Two percent bond. That ought to bring the basic amount of money that you desire, which I understand is about four billions; and in addition to that there would, of course, be these other instruments, the tax notes and possibly pushing up of bills, although that is questionable.

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H.M.JR: Szymczak?

MR. SZYMCZAK: Well, I would first make a strenuous effort to put dynamite under George to get the Victory Fund Committees to really sell these tax notes and see if we can't get about a billion dollars, if possible, during October. I think you will come pretty close to getting that amount in the month of October with the right kind of a campaign, and then increase the bills on the 21st and issue a five-year note, one and five-eighths, and a two-year bond.

MR. BELL: You mean a two-percent bond.

MR. SZYMCZAK: That is what I mean. Eventually you may have to go into a two and a quarter, but I think the longer that is postponed, the better.

H.M.JR: Rouse?

MR. ROUSE: Mr. Sproul has expressed pretty much the views that I endorse. I would like to add to that that I think the market atmosphere in an offering of this size has some importance. The market is tired, as far as the two-percent bonds are concerned. Marriner said that if they were offered this month, to put them on a quarterly basis. I don't feel there is any need for those being on a quarterly. I think as far as market atmosphere and tone surrounding an offering of the Treasury that you have a much better reception with the two and a quarter percent bond than with the two percent bond. I feel, just as Mr. Williams does, that as far as getting the money is concerned, you will have an adequate subscription with the two-percent bond, but I think the additional atmosphere that would go with the two and a quarter would be worth while from the Treasury standpoint.

H.M.JR: Piser?

MR. PISER: I agree with the points that the chairman has raised, and I think the best type of offering now would be a two-percent bond along with a one and a half percent, four-year note.

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H.M.JR: Goldenweiser?

MR. GOLDENWEISER: Mr. Secretary, in general I think that it is a good idea to try to get away from the registered bonds and have all of the bonds be coupon bonds, because that seems to be a real obstacle in selling them to a lot of people. I would couple that with putting a limit on the amount of interest that you are willing to pay on bonds that you sell to the banks, so that I would make bonds of anything above two percent ineligible for bank purchase, with the possible exception of a certain proportion for savings deposit. I think two percent is high enough - and probably too high - for what you pay the banks on funds that are created for them by the System.

So in general, I am in favor of a simplification, and I am in favor of making each to as wide a public as possible and only limit - with that one limit as to the banks not buying any new issues of anything above, say, two percent.

If I may add just one other thing, I think you would probably be able to utilize your bank funds outside of the money centers better if you would begin to issue some short certificates. Those banks find it difficult to bid, and they don't like bills. They don't like the discount procedure. They do like coupons and you ought to give them short certificates for their liquid funds, shorter than any that you have now.

I have thought those general principles over, and am pretty definite in what I think about them as to which would fit the market situation.

Right now I haven't any definite opinion, but the two-percent bond would be in better accord with what I consider the general policy than the two and a quarter.

H.M.JR: Yes, sir. Dan?

MR. BELL: Nothing.

H.M.JR: Could we do this? Today is what, Tuesday, isn't it?

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MR. BELL: Yes.

H.M.JR: Couldn't maybe our respective staffs meet and talk it over tomorrow?

MR. ECCLES: Any arrangement you want to make - we will be at your service.

H.M.JR: They might go over and see your fellows tomorrow.

MR. ECCLES: Have them come over and have lunch.

H.M.JR: And then maybe at three o'clock Thursday afternoon we could get together again. How would that be?

MR. ECCLES: It would be fine with me. Allan and Al--

MR. SPROUL: It is a board meeting.

H.M.JR: How about Friday morning?

MR. SPROUL: That would be better.

MR. WILLIAMS: Yes.

MR. DRAPER: What time, Mr. Secretary?

H.M.JR: I was just thinking - ten or eleven - what time would you prefer? Would you like to meet before you come over?

MR. ECCLES: Yes. It is the only chance we have, Allan being in New York and Al in Philadelphia.

H.M.JR: Is ten o'clock all right?

MR. ECCLES: Yes.

H.M.JR: On Friday?

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MR. ECCLES: Friday morning.

MR. SZYMCAK: What time tomorrow, Dan?

MR. BELL: At your convenience.

MR. SZYMCAK: Lunch?

MR. SPROUL: What day is Friday?

H.M.JR: Friday is the second.

MR. ECCLES: What time would you like to come over tomorrow, Dan? Come over and have lunch and meet a little while, or come over before and stay for lunch. Come over at eleven o'clock, meet for an hour, and then have lunch; or if you want longer than an hour--

MR. BELL: Let's make it eleven-thirty. We can't get started on time.

MR. SZYMCAK: Dan, have you been giving any more thought to selling bills, not by bidding, but after the last accepted bid has been accepted?

H.M.JR: Could I suggest that you take that up tomorrow?

MR. SZYMCAK: Fine.

MR. ROUSE: What is your time schedule for the offering?

H.M.JR: We want to offer it on the eighth and ninth.

MR. ROUSE: That is Thursday and Friday.

H.M.JR: The morning of the eighth - I think that seems to work pretty well.

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MR. ECCLES: It does not give too much time, does it?

MR. BELL: It is all this week and three days next week.

MR. ECCLES: Well, it is all right.

MR. ROUSE: From the standpoint of the books being open you had in mind--

H.M.JR: On that, if you want to leave it open a week - I just meant it would be announced the morning of the eighth.

MR. BELL: We can split it so the payment date will come later in the month like we did on the last one.

H.M.JR: That is all. Some may want to leave it open two weeks, I don't know.

MR. ECCLES: From the standpoint of looking at the reserve picture in New York, there has been some discussion with reference to that question and likewise to the open-market operation. I mean, we need to have a little time to sort of prepare for offerings of this size.

MR. BELL: Has your reserve position come back now?

H.M.JR: Is that too quick?

MR. ECCLES: No, I don't think so. I think that that is all right.

MR. ROUSE: It will go down sharply, Dan, if we take no action with respect to open-market operations.

H.M.JR: Thank you very much.

September 29, 1942
12:20 p.m.

HMJr: Hello.

Operator: Mr. McNutt is in Baltimore until about five this evening.

HMJr: Can I talk to his secretary?

Operator: Yes, uh huh.

Miss Higgins: Hello.

Operator: Go ahead.

HMJr: Hello.

H: Hello, Mr. Secretary.

HMJr: Who is this, please?

H: This is Miss Higgins, Governor McNutt's secretary.

HMJr: Well, Miss Higgins, have you got a pencil?

H: Yes, indeed.

HMJr: Oh, three or four months ago the President sort of appointed an informal committee of which he made me chairman on the question of which and how government employees should be treated as to exemptions, you see?....

H: Yes.

HMJr:from the Service.

H: Yes.

HMJr: We've had a couple of meetings, and I've asked the Army and Navy and General Hershey if they'd come tomorrow morning to my office informally at nine o'clock, because I wanted to talk about the drafting of men over forty - hello?

H: Yes, sir, Mr. Secretary, I'm on.

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HMJr: And - because I was amazed to find out how high the proportion is of men over forty. And I wondered if Mr. McNutt would care to drop in.

H: Well, I'll bring it to his attention. He's in Baltimore today and will return late this afternoon. He's....

HMJr: Well....

H:he's on the Hill for two hearings in the morning....

HMJr: Yeah.

H:but it may be that he could drop in before he goes to the Hill.

HMJr: Well, we start very punctually. It's purely on an informal - an informative basis for me.

H: At nine o'clock.

HMJr: Yes.

H: In your office?

HMJr: Yes.

H: All right, Mr. Secretary.

HMJr: Thank you.

H: You're welcome.

September 29, 1942
2:12 p.m.

HMJr: Hello.

Col. Edward
Greenbaum: Henry?

HMJr: In person.

G: In person, in the flesh. You asked Judge
Patterson for the first name of that gentleman
from the State Department?

HMJr: This Robert Daniel?

G: Robert V.

HMJr: Robert V.?

G: Yeah.

HMJr: No, it's "D.", isn't it?

G: Well, I got it - well, I guess it may be, because
I got it over the phone. I thought "Robert V."
but "D." sounds like "V." maybe.

HMJr: Yeah.

G: Well, then you know about him?

HMJr: Yeah, now as long as I....

G: He's here now.

HMJr: Where? In your office?

G: No, in Washington.

HMJr: Yeah, did you - let me just tell you a little
bit about him, huh?

G: Yeah.

HMJr: Let me just see what it says. Well, in the New
York Times of September 6 it is stated that
"Murphy scoffed at his report - at the report
that Gaston Henri-Haye is pro-Nazi. He praised
Henri-Haye warmly, and stated that he is the best
man for the position."

G: Who is the one whose quote this is?

HMJr: From the New York Times. It's quoting Murphy.

G: Yeah.

HMJr: See?

G: No, I'm sorry. Who - he said who was the best man for a position?

HMJr: Well - in the New York Times of September 6 it is stated that Murphy scoffed at the report that Henri-Haye is pro-Nazi. He praised Henri-Haye warmly and stated that he is the best man for the position - Henri-Haye. Hello?

G: Yes.

HMJr: Then in an article in New York - supposing I send this over to you?

G: Yes, I think it would be helpful.

HMJr: I'll send it over to you, but I don't want it to become a part of the official War Department.

G: I'll see that it doesn't.

HMJr: Do you see?

G: Yes.

HMJr: It gives his whole history from the time he was graduated. I personally think he's a terrible selection.

G: Yeah.

HMJr: Our boys think he's - he's - he's the fellow that's made all of these reports to send all this stuff to North Africa - and all of this appeasement stuff to North Africa, Eddie.

G: Yeah, I hear. That's bad.

HMJr: I mean - you can ask either - Pehle knows all about him. Bernstein knows all about him.

G: Yeah.

HMJr: They think he's just about the worst selection possible.

G: Hmm.

HMJr: Now I sent a man's name over to - to Patterson....

G: I've got that.

HMJr:and he is - he's tops.

G: Well, is he on active duty in the Navy now?

HMJr: Yeah.

G: That's what I gathered from this letter you wrote.

HMJr: Yeah, and he could just run circles around a fellow like Murphy.

G: Hmm.

HMJr: Murphy has no training for this. You'll see that. He's just one - you're picking one of the group out of the State Department of the definite French-Vichy appeasers, and I want you to know that.

G: I see.

HMJr: Now if that's what you want, okay. The man that I've recommended is simply a very, high-class technician. He was Harry White's right-hand man, and when Harry White was away he acted for him, and Harry's very enthusiastic. He stood very well at Cornell, this man did.

G: Well, it's a good-looking record that he has here. He seems rather young, that was the only thing, thirty-five.

HMJr: Well, he's very, very able, and a very nice personality, very easy to get along with.

G: Hmm.

HMJr: And he could just run circles around a fellow like Murphy. And his heart is in the right place about winning the war, which I think is terribly important.

G: Well, I'll report that to the Judge.

HMJr: Yeah, I mean, if he - if he wanted - the boys told me what he said the other day when they were over there, Gaston and the others, how he felt about the State Department. Well, if he wants to pick the Cliveden appeaser set, a representative of that group out of the State Department, he picked a swell representative.

G: I'll tell the Judge that. Can you send this over by messenger?

HMJr: It'll be there within the hour.

G: Okay, swell.

HMJr: How's that?

G: That's service.

HMJr: But I don't - but this is not for the War Department files.

G: No, I understand that.

HMJr: And, Eddie?

G: Yes, sir.

HMJr: As you go into this thing, I'd be very curious to know who sold this fellow Murphy to the War Department.

G: Yeah.

HMJr: I'd like to - I mean, if the Judge would care to tell me.

G: All right, I'll tell him that, and we'll be in touch with you on this.

HMJr: Attaboy!

G: Okay, thanks.

September 29, 1942
2:28 p.m.

HMJr: Hello.

Operator: General Somervell.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello, General?

General
Somervell: Yes, sir.

HMJr: Morgenthau speaking.

S: Yes, sir.

HMJr: I thought you might like to know that the two-day trip I made last week I thought was very worthwhile.

S: Well, I am glad to hear that.

HMJr: And I thought - I was very well impressed with General Groninger, is that the way you pronounce his name?

S: That's right.

HMJr: And the way he was running the Port.

S: Well, I'm very glad to have your views on it.

HMJr: I....

S: You got a good chance to look the thing over pretty completely, did you?

HMJr: Yes, I went - I covered a lot of ground.

S: Well, that's fine.

HMJr: I ran right up against your troubles with these various authorities over shipping.

S: Oh - I didn't....

HMJr: And....

S:realize they were so important any more.

HMJr: Well, the General and I boarded a Navy transport, and the conditions were so filthy that I raised hell all along the line about it.

S: I see.

HMJr: And....

S: Well, thank you. (Laughs)

HMJr:and - I mean, I reported that night it wasn't fit for a human being to go on board.

S: Uh huh.

HMJr: And I've also, you'll be interested to know, told Acting Secretary of the Navy that I can't understand why they won't let the Army inspect these Navy transports.

S: Uh huh.

HMJr: You - you - I'm sure - I guess you know about that.

S: Yes, yes, I do. I just got in, Mr. Secretary. I've been out to St. Louis.

HMJr: I - I heard you were out there making a speech before the Masons, I believe.

S: Unfortunately.

HMJr: Well, I just thought you'd like to know, and sometime if you ever have time, why, I'd like to see you.

S: Yes, sir. Well, I'd be glad to. Are there any specific things you think that....

HMJr: No.

S:I ought to be doing as a result of your inspection?

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HMJr: No, I was tremendously impressed the way the thing is running.

S: Well, I'm delighted to hear it.

HMJr: Tremendously impressed - and I - no, I - I have nothing but praise.

S: Well, thank you very much.

HMJr: I thought you'd....

S: I can stand a little of that.

HMJr: Well, I thought you'd like to know that.

S: All right, sir.

HMJr: Goodbye.

S: I certainly appreciate your calling.

HMJr: Goodbye.

September 29, 1942

My dear General Groninger:

I should like to thank you for giving me the opportunity to see what was going on in and around the Port of New York, and I want to compliment you on the efficient manner in which the operations are being handled.

Please also accept my thanks for your hospitality.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Major General Homer M. Groninger,
Port of Embarkation,
New York, New York.

Diary

September 29, 1942

My dear Colonel Dowell:

I should like to thank you for giving me such an excellent opportunity to see what was going on at Fort Dix, and for the hospitality of the Post.

I also want to compliment you on the efficient manner in which the Post is run.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Colonel C. M. Dowell,
Commanding Officer,
Fort Dix, New Jersey.

Diary

No Bank
near Trenton
hot funds
and cashing
checks.
Lt. Col. Henricks
business officer
How many other
posts have no banks

H. Ledston
Mary simply
wful
Crumwell
Pier #12
State Island
called Admiral Andrews
at 3.401

William Lodge J. 41
Camden N.J.
1899 Born
32362123
Married

C. M. Dowell
Col Inf.
Commanding
Officer

St. Dix Mf.

Homer M. Broninger
Major Gen U.S.A.
New York Port of Emb.

Kenneth W. Killaspie
Lt Col U.S.C.
New York Port of Emb.

23- Sept 42

Major Samuel A. Decker
Post Headquarters
Fort Dix, N.J.

Purchased bond by allotment
May 1942 received bond on or
about Sept. 15, 1942.

Bonds purchased by allotment in
June, July & August not yet received.

September 29, 1942

My dear Colonel Gillespie:

My recent trip to Fort Dix, Camp Kilmer, and the Port of New York was made extremely interesting and pleasant because of you. I enjoyed getting to know you, and want to take this opportunity to thank you for the many courtesies which were extended to me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Lt. Col. Kenneth W. Gillespie,
Port of Embarkation,
New York, New York.

Diary

September 29, 1942

My dear Major Decker:

I wish to thank you for accompanying me during my visit to Fort Dix, and for making my trip both interesting and pleasant.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Major Samuel A. Decker,
Post Headquarters,
Fort Dix, New Jersey.

Decker

September 29, 1942
3:50 p.m.

RE: PLATE PRINTING (Bureau of Engraving and Printing)

Present: Mr. Thompson
Mr. A. W. Hall
Mr. William Green
Mr. Frank Coleman
Mr. James Mowatt
Mr. Lee Kistler
Mr. Frank Meehan

H.M.JR: I had a suspicion of what it was about, so I asked Mr. Hall to come over, and Mr. Thompson is my Administrative Assistant who is supposed to look after these things.

You will have to start from the bottom because we have had so little trouble over at the Bureau of Engraving. That is one place I have always felt I could forget about. I could call them up and say, "Give me another million bonds," and they would do it tomorrow, so I have never had to worry about it.

MR. GREEN: These boys represent one of the finest groups of working people, I think, anywhere in the country; and they are making a fine record in the purchase of bonds, and I think they have run as high as fourteen percent for each individual. That is my - of course, they can tell more about it in detail, but that is what they have advised me. They asked me if I could arrange for them to meet with you for the purpose of telling a story, which interested me very much, in a simple way and in simple language without the feeling of recriminations or envy in any way, shape, or form. So I will just let him tell the story.

MR. COLEMAN: Mr. Secretary, as you say, beginning from the beginning, the Plate Printers Union is not only a labor union, but it is an institution. For over fifty

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years the Plate Printers Union has been in existence, and it started in the garret of the Treasury Department many years ago when the Bureau of Engraving and Printing was a part of the Treasury Department in this building.

H.M.JR: You mean for the whole country, or just for--

MR. COLEMAN: Yes, the Bureau of Engraving and Printing was a part - was in this; then when they went over there in the old building, it grew up; and through that the Plate Printers Union has always been a part of the Bureau of Engraving and Printing back - my connections are back to nineteen hundred. For the last twenty-five years I have been their representative on the outside and Mr. Green's representative here in Washington. For all that time the Plate Printers Union has been looked upon by the officials over there as one of the standbys in everything that was done. They were called in during the last war. The officials of the organization were called in by the director and officials and asked to cooperate to see that everything was running smoothly, that the men were secured, and even assistants were secured. That was done.

We sent men throughout the country to locate plate printers and bring them to Washington. At that time the director, Mr. Wilmeth, asked me to go out and even get assistants, under Executive order then issued by the President. We cooperated all through that war; and even when the trouble came there in the so-called bond duplicating - which we thought was a great tragedy - the Plate Printers Union was requested by Mr. Mellon, the Secretary of the Treasury, to cooperate in clearing up that situation. I worked here with Mr. Dewey and Mr. Shuneman, Mr. Evans. I think Mr. Thompson can remember very well, because I worked with him, and I worked there.

H.M.JR: Unless you have worked in the Treasury for at least twenty-five years, you are just a newcomer, you

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don't count - I mean, after you have been here twenty-five years they accept you.

MR. COLEMAN: Mine is forty-two. So in all that time representing the Plate Printers Union, we gave every thing we had in all of these situations. After we had a discharge there, it was the Plate Printers Union which instituted a rotating furlough system in cooperation with the officials - Mr. Thompson was one of them - by which we worked out a plan that would take care of them. That was later adopted by the country, as Mr. Green well knows, in a great many places. It was worked out through Mr. Gompers, who was President of the American Federation of Labor.

Since that time we have continually cooperated in every instance in every drive that was ever made, the Red Cross, the Community Chest; and in these bonds, as Mr. Green stated, our fellows are now averaging, I think, fourteen percent. In every question - on the Russian relief - I don't know just exactly, but the men gave from one to five dollars. In the Civilian Defense for the District of Columbia, which was a donation by the labor movement to Washington, our fellows gave ten dollars each, or a total of five thousand, four hundred dollars.

So when we saw this war coming on, we thought that we, as usual, would be requested to cooperate, that our organization would be recognized for what it was. That was not requested, nor was it solicited, nor was it appreciated. We were very much surprised.

For all the time that Mr. Hall has been the director, there has been a very fine spirit in the Bureau of Engraving and Printing until the entrance in the Bureau of Engraving and Printing of Mr. Slattery as an assistant director. From that time - these boys meet with me frequently - our office is in the Washington Loan and Trust Company - there was a spirit of hostility displayed toward our union which we could not understand, and cannot understand today. Our efforts and our offers of cooperation were met with ridicule, and each time they called there they were practically insulted.

There has been instituted in the Bureau of Engraving and Printing what I would term an effort to disrupt the Plate Printers Union, brought about by

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conditions that were imposed upon the men and conditions not only that were imposed upon them, but they were told that they would have to take it and like it. That all brought up - until recently there was a demand for plate printers. Our organization, without solicitation or without any request, has made requests of the printers throughout the country to make application for a position in the Bureau of Engraving and Printing because it was a patriotic duty. We knew they would need them, and we at our own expense have gone to these different cities and asked men to come to Washington to work here.

That was cooperation, as I say, without any request or without any cooperation on the part of the officials of the Bureau. We perhaps were out of order. Perhaps it was none of our business, as it was intimated, but yet we thought it was a duty and we performed that duty. I would say that nine-tenths of the men who have been employed in the Bureau of Engraving and Printing in recent years have been solicited through efforts of the Plate Printers' Union.

MR. HALL: May I interrupt, Frank? That solicitation was made at my request by the Plate Printers' Committee and they brought the list to me and we wrote to the men.

MR. COLEMAN: They brought you the names, but you didn't solicit them.

MR. HALL: Yes, I did.

MR. COLEMAN: We brought you the names.

MR. HALL: I asked the Committee to write me any name except the American Bank Note Company Printers. Didn't I do that, Mr. Mowatt?

MR. MOWATT: That is true. You asked for the list, but we went out and compiled the list. That is what Mr. Coleman is--

MR. HALL: That is right. I asked you to get it.

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MR. COLEMAN: But the Bureau did not try to get the men.

MR. HALL: No, we asked the Plate Printers to get them.

MR. COLEMAN: That all came down to recently when certain men were brought into the Bureau of Engraving and Printing, who were not plate printers - who have no semblance of plate printers, and our men were told that they would have to teach these men plate printing.

They were - they didn't like the idea. They were piece-rate workers and these men were not plate printers. When our men refused to teach them over-night a so-called "training room" was set up, and one of these men was taken to that training room and kept there six days; and Mr. Slattery informed our committee that they were going to teach these men plate printing whether they were plate printers or not, and he also made the statement to them that he would even bring people in off the street.

MR. GREEN: Did that interfere with your apprentice system?

MR. COLEMAN: Certainly.

MR. GREEN: How long have you had an apprentice system?

MR. COLEMAN: Ever since the organization was instituted.

MR. GREEN: And the plate printer learns his trade through an apprenticeship?

MR. COLEMAN: Absolutely - four years.

MR. GREEN: That is very fundamental.

MR. COLEMAN: I received mine for four years in the Bureau of Printing and Engraving.

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H.M.JR: Let me ask you this. I know very little about this because I have had no trouble. You remember the first thing I did when I was Secretary, I got three hundred and some odd thousand dollars to pay a differential for night work.

MR. COLEMAN: Yes, we appreciated that.

H.M.JR: You remember that?

MR. COLEMAN: Yes, I do.

H.M.JR: That had never been done before.

MR. COLEMAN: No, and that is just exactly why we come to you, Mr. Secretary, because you have been very fine in all of your dealings with us. We have kept this - I would say that the press has solicited information - we have refused to give anything; we have kept this away from everybody until we took it to Mr. Green and we talked it over with him.

H.M.JR: Well, I only had a minute or two beforehand with Mr. Hall, so I have not heard his side of the story. What it gets down to is this: We need more plate printers. Is that right?

MR. HALL: That is correct.

MR. MOWATT: That is right.

H.M.JR: Can the Union furnish those, that is the whole story.

MR. COLEMAN: Yes.

MR. GREEN: That is it. They claim there is an attack being made on their apprenticeship system. The system is to them like religion is to those who join the church, and when you attack that--

H.M.JR: Or like silver is to Pat McCarran.
(Laughter)

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MR. GREEN: So they say they are taking these fellows and training them in a room, and it is--

H.M.JR: Well, now, the thing boils down, gentlemen, to this. We have got to print the bonds; we have got to print the money; and you need more men, don't you?

MR. HALL: Yes, sir.

H.M.JR: How many more men do you need right now?

MR. HALL: Sixty men.

H.M.JR: Sixty?

MR. HALL: At least.

MR. MOWATT: I might say we are compiling a list every day of plate printers for this job, but the main purpose of coming up here is the fact that this training room has been established to make plate printers out of men that we have proven are not plate printers, that have never served a trade and know nothing about it. There have been instances of six men, I think, that have been let out of the Bureau because they have not turned out to be plate printers. Yet they filed applications and were certified by the Civil Service Commission, and the assistant director told us that any man that was certified by the Civil Service, regardless of whether he is a plate printer or not, would be taught plate printing in this training system.

MR. HALL: That is not correct. I have to oppose that statement. That is not a correct statement. The purpose of that training room is to teach a man to operate our type of printing presses. That is all. We are not teaching any man the trade. He must be a plate printer when he comes there. If he is not a plate printer we will not teach him how to operate the presses.

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H.M.JR: Let me just ask one other question. This apprenticeship which you men have, I mean, how many men have you turned out in the last ten years?

MR. COLEMAN: There has been thirty-five, I think, that have finished their time.

MR. HALL: Around that figure.

MR. COLEMAN: There are thirty-five more now in the course of their apprenticeship.

MR. HALL: A great many were taken into the Army.

H.M.JR: Thirty-five in the last ten years?

MR. COLEMAN: That is all because of the fact that there was no call for plate printers. Plate printers had sort of died off, and there was no call for them.

H.M.JR: Now we need sixty; now, what can you gentlemen do?

MR. COLEMAN: I think we can find sixty men.

H.M.JR: How soon?

MR. COLEMAN: I would say--

MR. GREEN: Trained men?

H.M.JR: We can't wait; that is the point.

MR. COLEMAN: Within, say, the next thirty days.

H.M.JR: What do you say, Hall?

MR. HALL: I would be very glad to get them. They have been promising to get plate printers for a year. We have taken all we can get.

MR. GREEN: Have you requested the men to furnish them and they have failed?

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MR. HALL: They occasionally send a name in; we send for them.

MR. GREEN: Have you fellows failed?

MR. MOWATT: I might say we have been requested for names and they have turned them in and these same men have gone over to the personnel office and applied for a job, and the personnel officer over there told them they were not hiring plate printers.

Miss Beckmyer has told that to a number--

MR. HALL: That can't be a statement of fact.

H.M.JR: Let's, on this thing - we will call this the first of October; you say a month. Between now and the first of November, can you people furnish sixty experienced plate printers?

MR. COLEMAN: We could. We think so.

MR. HASS: That, of course, eliminates men now employed in privately owned bank note companies that are printing currency for foreign countries.

MR. COLEMAN: How about the Wright?

MR. HALL: They are in the same category.

MR. COLEMAN: Are they printing anything?

MR. HALL: They only have three plate printers.

MR. COLEMAN: Are they printing anything?

MR. HALL: Chinese money.

MR. MOWATT: We were informed they were not.

H.M.JR: Who do you want to exclude?

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MR. HALL: American Bank Note, The Security, the Republic, Wright, Jeffries.

H.M.JR: Let's put it this way - anybody that is printing money for any of the United Nations.

MR. HALL: That is right.

H.M.JR: I mean, there is no use taking them over - anybody that is printing any money for the United Nations.

MR. COLEMAN: We have not visited a man from any one of those places.

H.M.JR: That might include anybody that is doing a job for one of the United Nations.

MR. HALL: Yes, sir, I don't know how extensive that is. There may be some other companies.

MR. MEEHAN: Mr. Secretary, we are falling down about three hundred and fifty thousand sheets a day, and we are still working our regular shift of eight hours. Now, in another week or so I believe we are going to work nine hours. We worked the past two Sundays, and up until that time we had never been requested to do any more time work than the eight hours a day. Now, we have up to ten hours - they are going to make - later on they are going to have two ten-hour shifts, and that will pick up a considerable amount of work.

MR. GREEN: Are you willing to work?

MR. MEEHAN: We are willing to work - anything.

MR. GREEN: As many hours as they ask you to?

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MR. MEEHAN: We always were. In the last war we worked twelve hours.

MR. GREEN: These men are willing to work any hours.

H.M.JR: What about-- Hall, you said something about going to nine hours.

MR. HALL: I have put a recommendation on your desk, Mr. Secretary.

H.M.JR: Supposing I take a minute to read it. Is there any reason why I can't read this out loud?

MR. HALL: No, sir.

MR. GREEN: If you want a double shift, or two shifts, out of twenty-four--

MR. MEEHAN: We are down there to cooperate to the fullest extent.

MR. HALL: May I make a statement before you read that, Mr. Secretary? It will show that we fell behind eleven million impressions since July 1. Prior to that, July 1, we built up a reserve of about four million sheets, which, of course, under the Appropriations Act we were not authorized to spend that year; but we saw this coming, and we had some money available and we built up four million sheets of reserve.

H.M.JR: Let me read this. I have not read it. I will read it out loud. This is addressed to Mr. Thompson.

(Memorandum addressed to Mr. Thompson, signed by Mr. A. W. Hall, dated September 25, 1942, read by the Secretary.)

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H.M.JR: How do you men feel about that?

MR. MOWATT: I might say, Mr. Secretary, that we were called into consultation with the two assistant directors, Mr. Long and Mr. Slattery, and explained that situation, and we told them that we were willing to go along one hundred percent - anything to get the work out.

MR. GREEN: That is the spirit.

MR. MOWATT: But our only argument is on the establishment of this training room and taking men in there.

H.M.JR: Now, I tell you what we will do,--

MR. GREEN: They are spoiling their apprenticeship system.

MR. HALL: We are not teaching anybody.

MR. GREEN: It has come up through generations.

MR. HALL: That isn't a fact.

MR. COLEMAN: Wasn't it established only recently when this man came in and was put in there overnight, and this man taken down there? It was never thought of before.

MR. HALL: Shall I tell you the story he gave me?

MR. COLEMAN: I think I know the story.

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MR. KISTLER: Mr. Secretary, might I have a word? Mr. Hall said this, that this room was created to train and familiarize plate printers coming into the Bureau with the working parts of the mechanical press. Now, in the past forty years we have never had this room. Prior to this time, just recently, we have taken in one hundred and fifty-six plate printers. We have what is known as an advisory board in our union. When a new man comes in we assist him by advising him about the working parts of these presses. Why do we do that? So that we will protect the machinery of the Government and it will not be damaged or broken. We know that it cannot be replaced now. We have done that successfully without the breaking of one single, solitary press.

Now, we don't feel that there is any necessity for this training room. It is a waste of money, and the man does not get the fundamentals down there. He has got to get the practical experience. We put a man into production in less than a week, and they had a man down there for one week and he didn't even know a good impression. Mr. Slattery had to admit that, and he had to discharge the man after we had, time and time again, gone to the officials and told them that this man was not a printer.

H.M. JR: Now look, what we will do is this. We will give the union a chance to make good on what they say.

MR. GREEN: That is it.

H.M. JR: Mr. Hall needs sixty more men; you fellows say you can get them for him in thirty days, O.K.

MR. GREEN: That is your (Coleman) obligation to find the sixty men.

H.M. JR: And we will meet here again at this same hour on the 1st of November - the same group,

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see, and we will see where we stand. The same time--

MR. GREEN: The 1st of November?

H.M.JR: The 1st of November, at three-forty-five. .

MR. MEEHAN: If we work ten hours a day we won't need sixty men.

MR. HALL: I am talking about maintaining the eight hours a day.

MR. MEEHAN: We are willing to work ten hours and on Sunday, or anything else.

MR. HALL: Meanwhile we have to get production up.

MR. GREEN: How many would you need, Mr. Hall?

H.M.JR: I am signing this, right now. (Memorandum, copy attached, signed by the Secretary.)

Now, you are going to nine hours when?

MR. HALL: As soon as we can work out the street car schedules.

MR. MEEHAN: The transportation for the people.

H.M.JR: How many men do you need? Don't ask them for the impossible.

MR. HALL: I will have to do some more figuring on the nine-hour basis.

H.M.JR: On the nine-hour you will need less, anyway. If they said they could give you sixty men--

MR. HALL: If they get sixty we will go back on the eight hours a day. We can get all the girls we want.

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H.M.JR: Let's put it this way. On an eight-hour basis you need sixty. Now, going to nine hours, certainly if you need less--

MR. THOMPSON: Forty-five men, I should say, on a percentage basis.

MR. MEEHAN: If we keep up the schedules, wouldn't that be satisfactory to the Treasury Department?

MR. HALL: By increasing the hours?

MR. MEEHAN: Yes.

MR. HALL: If it were not satisfactory, I would not make that recommendation.

MR. MEEHAN: Instead of holding us to sixty men, if we keep up with the schedule from now until the end of the war, that is all you ask for?

H.M.JR: That is all anybody can ask for.

MR. KISTLER: We will get the work out.

H.M.JR: Until this is over, just lock up that room or dismantle it.

MR. KISTLER: Mr. Secretary, we have submitted that the training of the printers' assistants there--

MR. HALL: I should like to tell a story of how that group started.

H.M.JR: I have got to stop. The point is, do you need the room for anything else?

MR. HALL: Yes, I think girls ought to be taught the work of the press in that room.

H.M.JR: What about that?

MR. MEEHAN: We have always taught the girls upstairs for years.

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MR. COLEMAN: It is camouflage.

MR. MEEHAN: Mr. Secretary, there are all kinds of trades, and they haven't training rooms for the other trades. Why pick on the plate printer?

MR. HALL: Let me say this--

H.M.JR: Just one second, you will get your time. If you want, you can go into Norman's office and talk it over. But here is the point, if during the next thirty days, between now and then, if you have any troubles Norman Thompson will see you. Evidently you know him.

MR. COLEMAN: I know him very well.

H.M.JR: Is that agreeable? You ask to see him any time. But we will have this understanding, that I am counting on the help of you men to give me the production that I need.

MR. COLEMAN: You will get it.

H.M.JR: And if I get it there is no reason why we should go outside the union.

MR. GREEN: No, that is right.

MR. COLEMAN: We will guarantee them.

H.M.JR: All I want - I want the money when I want it.

MR. GREEN: That is right.

MR. COLEMAN: I can say, Mr. Secretary, that we will ask Mr. Green to vouch that - have we ever fallen down on a promise?

MR. GREEN: I have never known them to.

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H.M.JR: Between now and the 1st of November, if there is any trouble, or anything, you ask to see Norman Thompson.

MR. COLEMAN: I worked with Mr. Thompson a number of years.

September 25, 1942.

For Mr. Thompson:

On July 1, 1942, the work of this bureau was substantially current. All requirements for the fiscal year ended June 30, 1942, had been fulfilled, and an adequate stock of currency and other securities were in process of manufacture.

Since that time the picture has changed rapidly. The production requirements for U. S. currency has increased 16%. The requirements for Federal Reserve notes have increased 50% and may reach 60% before the end of the year. Although the demands for war bonds have declined, this reduction has had little effect on the overall production program. Requisitions for revenue-raising documents (cigarette, cigar, liquor stamps, etc.) are mounting daily. The same condition exists with respect to checks and transportation requests. During the first quarter, production in currency alone fell behind 11,000,000 impressions.

During the last quarter the bureau operated its plate printing division every Saturday and two Sundays. It did not operate on Labor Day.

The reason for the inability to keep pace with increasing requirements is shortage of manpower. Every possible source of recruitment for plate printers has been exhausted. Mechanics are being transferred to the Navy Yard and other war projects. Younger men in all trades are being called in the draft. Much of the work is too heavy to be accomplished by women, although every effort is being made to replace men with women. In addition, female plate printers, machinists, electricians and other mechanics are not available.

In order to meet the increased demands for production, it appears that only one avenue is open - longer working hours. It is not considered desirable to establish a seven-day week. Experience has proven that absenteeism mounts when employees are engaged on a seven-day week over a long period of time.

I respectfully recommend, therefore, that as soon as practicable this bureau be operated on a 54-hour a week basis - 6 days of 9 hours each. I also recommend a 46-1/2-hour week for the administrative offices - 5 days of 8-1/2 hours each, and 4 hours on Saturday.

In establishing the hours of work for operating the bureau on a 9-hour, 6 day basis (two shifts), I recommend the following schedules:

Day Shift	—	7:30 A. M.	—	4:30 P. M.
Night Shift		10:30 P. M.	—	7:30 A. M.

The reason for the interlude between the day and night shift is brought about by the fact that if these two shifts would connect, the night shift would terminate at 1:30 A. M., and it is not considered desirable to dismiss a large group of female employees at that hour of the morning as transportation facilities would be poor, particularly in the winter months. Furthermore, if it becomes necessary to increase the work day to 10 hours, the change could be made with very little confusion. The day shift would be dismissed one hour later and the night shift would report one hour earlier. Also, it is very desirable to have the shifts connect either at the beginning or the end of the period of work, as it relieves the necessity for closing vaults and counting securities that would have to be stored if there were an interlude between each shift. Under this arrangement, the shifts would connect at the morning hour, instead of the evening hour.

In the rearrangement of hours for the administrative offices, I recommend the following schedules:

8:30 A. M.	—	5:00 P. M.	Monday through Friday.
8:30 A. M.	—	12:30 P. M.	Saturday.

I might add that while the establishment of a 54-hour week will relieve the situation according to present indications, it may be necessary at a later date to consider a 60-hour week (6 days, 10 hours each) if further demands for increased deliveries are made.

Under the proposed work schedule the approximate number of employees on each shift would be as follows:

7:30 A. M.	—	4:30 P. M.	5,300
10:30 P. M.	—	7:30 A. M.	2,700

I would appreciate early consideration of this recommendation.

A. W. Hall

AWH/esh

September 29, 1942
4:55 p.m.

OIL REFINERY PURCHASE (Russia)

Present: Mr. Paul
Mr. Cairns
Mr. Schwarz
Mrs. Klotz

H.M.JR: Paul, there is one thing, you have to have somebody up in the gallery tomorrow prepared to give Barkley an answer to Vandenberg.

MR. PAUL: We have just been discussing that.

H.M.JR: Bell will know what he will do. You have somebody up there to prime Barkley.

Stone has been trying to get me on the phone since four o'clock. I thought I would speak to him.

MR. SCHWARZ: I have just been talking with Cliff Mack. He didn't say this to Cliff directly but to his office. He tried to get Cliff, who was busy. He said that the press conference yesterday was all a fake, and that kind of stuff - "I want to know this and that." He is in that kind of a mood, and I think it is wise that we do talk to him.

H.M.JR: He wouldn't talk to you.

MR. SCHWARZ: Which is swell with me.

H.M.JR: Don't you think I ought to talk to him?

MR. SCHWARZ: I think so.

MR. PAUL: You should talk to him. We went over that pretty carefully with Nate Robertson. I think you ought to be advised.

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H.M.JR: Who should be?

MR. PAUL: You. I don't know whether you know all the things.

H.M.JR: I will tell him that I have got what's-his-name here. I can put him on.

MR. PAUL: That is all right, but some of those issues are terribly slippery.

H.M.JR: I will tell him I have got Cairns here.

MR. SCHWARZ: I was going to suggest that Huntington call him because he had all the facts.

H.M.JR: No, he wouldn't talk, but that is all right.

Did he speak to somebody over there?

MR. SCHWARZ: Procurement, yes, and he asked them, "When did you get it?" and "You are hiding behind technicalities", and that sort of thing.

MRS. KLOTZ: I think it ought to be straightened out.

MR. SCHWARZ: Robertson was straightened out, but he does not want to listen to Nate. He does not want to backtrack.

H.M.JR: You have the facts, haven't you, Huntington?

MR. CAIRNS: Yes, I have the facts - plus a stiff neck.

MR. PAUL: Barkley said this morning on the floor, I understand, that the tax bill was completely inadequate.

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H.M.JR: Well now, you know Dan Bell can tell you just what Vandenberg is going to say on our having this money.

MR. PAUL: We are just going over it with Altmeyer and Roy.

H.M.JR: Are they in your office?

MR. PAUL: Yes.

H.M.JR: You had better go back and let us handle this. We can handle this.

(Mr. Paul left the conference.)

MR. SCHWARZ: I called Ferdie, who said he had the 1939 statement. He understood he might be going back to quote from that.

H.M.JR: What was that on?

MR. SCHWARZ: Some social security taxes; he talked about the reserves. He is still sore because one Sunday we made him make a correction. I stopped him as he was running for a train.

H.M.JR: Oh, on the oil to Franco.

MR. SCHWARZ: You called me, and then I called him. He was wrong. He just writes wild.

H.M.JR: Sure, he wrote wild today.

MR. SCHWARZ: His heart is in the right place, but he is a crusader.

H.M.JR: How old a man is he?

MR. SCHWARZ: Close to forty - maybe a little younger. He is more a crusader than an accurate journalist.

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H.M.JR: He went off the deep end today.

MR. CAIRNS: I have a man in New York who can go around to see him if you want.

H.M.JR: What good would it do? He wouldn't know the facts.

MR. CAIRNS: I can give him the facts in five minutes.

H.M.JR: Do you have somebody that knows him?

MR. CAIRNS: No. I mean that we have one of my men up in New York. We have a case up there tomorrow.

H.M.JR: If he is unreasonable we will call up the counsel for "PM". What is the counsel's name?

MR. CAIRNS: I have never heard it.

MR. SCHWARZ: Isn't it Weiss?

H.M.JR: Weiss - what is his first name?

MR. SCHWARZ: I don't know. I know John Lewis up there. I can call him.

H.M.JR: There is no use looking for a lot of trouble. This man Weiss controls the situation.

MR. CAIRNS: Some newspapers never admit they are wrong. This may be Stone's personal policy.

MR. SCHWARZ: They ran a correction last year.

MR. CAIRNS: "PM" may not, but Stone may have a personal policy.

(The Secretary held a telephone conversation with Mr. I. F. Stone, as follows:)

September 29, 1942
5:00 p.m.

HMJr: Hello.

Operator: Mr. Stone.

HMJr: Hello.

Isadore Stone: Mr. Secretary?

HMJr: Speaking.

S: Hello?

HMJr: This is Morgenthau.

S: Well, this is I. F. Stone....

HMJr: How do you do?

S:Mr. Secretary.

HMJr: How are you?

S: I'm up in New York. I heard you had complained of something about our story today.

HMJr: No....

S: I tried to reach you several times in the past few weeks....

HMJr: Did you?

S:unsuccessfully.

HMJr: How did you try to reach me, Mr. Stone?

S: Oh, I - I talked to your secretary a couple of times.

HMJr: Which one?

S: Well, I don't - I seemed to have talked to several. I always seemed to end up with Schwarz.

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HMJr: Well, he's not a secretary.

S: I know, but I did - I did actually get through to your secretary once, a Mr. - I forget his name.

HMJr: Fitzgerald?

S: Huh?

HMJr: Fitzgerald?

S: I didn't catch that.

HMJr: Stephens or Fitzgerald?

S: No, I don't remember his name.

HMJr: Oh, well, anyway I'm sorry. I never - I was never told that you wanted me....

S: Well, I....

HMJr:but I....

S:I guess they probably thought it wasn't important enough to bother you with.

HMJr: No.

S: Look, I - I understand from Nate Robertson that - that you said Treasury didn't get this till July 28.

HMJr: Well, now look, Mr. Stone....

S: Yes.

HMJr:hello?

S: Yeah.

HMJr: Can you hear me?

S: Yes.

HMJr: I've got sitting here with me Mr. Huntington Cairns....

S: What?

- 3 -

HMJr:who's assistant - Huntington Cairns is sitting here with me.

S: Who is?

HMJr: Huntington Cairns.

S: Yeah.

HMJr: C-a-i-r-n-s.

S: Yes, I know who he is.

HMJr: Now he's got all of these things at the tip of his finger. Do you mind if I put him on another - the same phone with me?

S: Yes - no, I mean.

HMJr: What?

S: Sure.

HMJr: Because I can't answer these, and if there's anything that - these dates, he can give them to you and I can't. If you're not satisfied you can ask me when you get through. I'll hang on.

S: All right.

HMJr: Go ahead.

Huntington Cairns: Hello.

S: Hello, Mr. Cairns?

C: Yes, how are you, Mr. Stone?

S: How are you?

C: Fine, thanks.

S: Look, I - this has been a terribly hard story to work on. I was just telling the Secretary I tried to reach him. I was never able to get through to him, and I certainly have a very high regard for the Treasury, and I don't - I wasn't out to attack that. But I - I understand....

C: Well, we....

S:I understand today for the first time the Treasury got this on July 28. Is that right?

C: No, that isn't....

S: Apparently somebody from Treasury phoned Nate Robertson this afternoon with that information.

C: Well, these are the dates....

S: I can't hear you.

C: These are the dates.

S: What?

C: I - I will give you the dates.

S: Yeah.

C: On July 28 we were notified by Lend-Lease....

S: Mr. Cairns, I - I can't hear you very well. Possibly because of the double connection, I don't know.

C: Can - can you hear me now?

S: Yes, that's fine now.

C: On July 28....

S: Yes.

C: ~~Yes~~we were notified by Lend-Lease....

S: Yeah.

C:that the Russian oil program was ready - appeared ready for transfer to the Procurement Division.

S: I see.

C: Yeah, the Secretary asked me to tell you that he has just hung up so he is not hearing what you are saying.

S: I see.

- 5 -

C: We received that letter from the Acting Administrator of Lend-Lease on July 28, 1942.

S: Yeah.

C: On August 24th we obtained an agreement from the owners of two oil plants in Texas....

S: Yeah.

C:that they would not sell those plants to anyone else for sixty days. It - it amounted to an option, technically it might not have been. On August 26 we employed the engineers to appraise and inspect those plants....

S: Yeah.

C: We expect to acquire those plants or at least get the report from the engineers the first week in October.

S: The first week in October.

C: Yes. They promised us the report. It will be a very long report.

S: I see.

C: Now we can't tell you that we're going to act on the basis of their report, because it would put the other side in a better trading position than - than we want them to be in.

S: I see.

U: I just told you off the record on that.

S: I understand.

C: Now the acquisition of those two plants is a very small part of this deal, only about ten per cent, as a matter of fact.

S: I see.

C: And your story yesterday was focused on those plants, based, I assume, on the U. P. story. But - but really it - it amounts to only about ten per cent of the whole transaction.

- S: I - I didn't know that. I - I thought that was a major part.
- C: No, it's only about ten per cent.
- S: You mean - mean that ninety per cent is new equipment? What's that?
- C: And processes, equipment and processes.
- S: I see. How would you break that down between equipment and processes?
- C: I don't have that.
- S: Well, it would be roughly half and half?
- C: Well, I just couldn't say because I don't know.
- S: And is that - is that in money terms - ninety per cent?
- C: That is a figure I got from Cliff Mack. I - I can....
- S: I see.
- C:break it down for you and call you back if you want to know.
- S: Do you know whether it's money terms or terms of capacity?
- C: I think it's money, but I don't - I don't know. I'd have to - have to....
- S: I'd like to find that out.
- C: All right. I'll let you know.
- S: All right.
- C: Now I want to impress upon you that it's divided into two parts, this transaction, the acquisition of those two plants. Now have you any questions on that first part, because I want to pass to the second part.
- S: Yes, I'd like to ask this. I - I understood and, as I say, not very authoritatively because it's been an awfully hard story to get. It should have been brought out in the open a long time ago, and a lot of things

(cont.)

- 7 -

- S: (cont.) would have been corrected. But I understood that the Russians had been down in Texas in January on these plants, and that - had an option of their own before Lend-Lease took over, for they - they'd wanted to pay cash for it.
- C: Well, Nate Robertson said that this morning, but Mr. Mack just didn't know about it. Our files don't go back that far, that's the point.
- S: I see. Now, for example, there - there is a document that refers to these plants -- not - not in regards to Treasury -- but refers to these plants as far back as February as being in the work. And my information was that - that an American engineer went down to Texas for the Russians, I think in January, picked these two Danziger² plants, got an option on them subject to clearance by the American Government. But the Russians were prepared to pay cash to facilitate matters, but that it had to go through Lend-Lease and that's where it began to bog.
- C: Well, I don't know where it bogged, because, as I say, our files don't go back.
- S: I see.
- C: Our - our letter - our first letter is July 28, 1942, as I said, stating that the program appeared ready to be transferred to the Procurement Division. Now the prior history - history of that, I just don't know.
- S: Well, that isn't the Treasury's fault. I understand that.
- C: I'm not - I'm not holding anything back, because I don't know.
- S: Yeah, I - I - I didn't think you were. I can see where this happened before Treasury came in the picture. Now look, Mr. Cairns, well, that - that clears up the two plants question.
- C: Yeah, now let's pass to the second part.
- S: Yeah.

- C: The second part, which is the ninety per cent aspect....
- S: What's that?
- C: The second part involves, as I say, ninety per cent of the deal, and I'll - and I'll let you know how that's broken down in so far as I can tell you and not give away any military secrets. We don't want the Germans to know too much about this.
- S: No, no, I don't. But what I would like to know is, if this ninety per cent is in terms of money, how it's divided, and - and how much of processes is for - is for patent - why, I suppose that means patent ration royalties.
- C: Well, that's a small part of it.
- S: What's that?
- C: That's a small part of it. That's not going to figure in the....
- S: That's a small part of it.
- C: Yeah, the Russ... - that's not going to enter - cut any figure in the Russians getting the equipment quickly.
- S: Yeah, I under... - I do - I understand the Treasury took a very firm position on this question of - of royalties.
- C: But it's not - we have taken a firm position but it's not going to delay the program at all.
- S: By firm position, I mean a firm position in the public interest and in the Russian interest.
- C: That's right.
- S: Is that correct?
- C: That's right.
- S: That's the impression that I had.
- C: Well, that's absolutely correct.

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- S: Ah - well, and I understand that the question of royalties is to - is to be negotiated afterwards. Is that....
- C: Well, that hasn't been determined. That's a possibility, but it hasn't been determined.
- S: But - but the deal is going to go through. You're not going to wait for the patent question to be decided?
- C: Nothing is going to delay this deal. The Secretary will see to that.
- S: But - but it hasn't been decided yet whether they're going to pay the D.P.C. rate or the regular rate?
- C: Well, the - the royalty - the royalty question is wide open. The only thing that has been determined is that it's - it's not going to delay the acquisition....
- S: I see. And when was it - when - when did you get to the stage where - where it wasn't going to delay anything?
- C: That has been the policy of the Treasury from the moment we knew it was headed our way. Now I want to give you the dates on that.
- S: Yeah.
- C: On July - on September 23....
- S: What did you say on September 23rd?
- C: On September 23rd the Treasury was notified....
- S: Yeah.
- C:that the Russians had made their selection.
- S: Made selection of processes?
- C: And equipment.
- S: Why did the Russians take so long?
- C: That I do not know.

- 10 -

S: By the way, is there any - are there any Houdrey (?) processes included or are they all C.R.A.?

C: Well, I don't think I'm at liberty to state that.

S: I see, well....

C: I don't want to give out any military information, and I just don't know what is military and what isn't, and I'd rather not say.

S: No, would - would whether it was C.R.A. or Houdrey constitute military information?

C: Well, it might. I'm going to call you back again after I get this ninety per cent figure, and I'll let you know.

S: All right.

C: Now we finally got this selection on September 23. We....

S: Yeah.

C:could not go ahead until we knew that the O.P.C. was in accord with that selection. We received that information yesterday at three-fifteen.

S: You couldn't go ahead until you were sure that the P.C.O. what?

C: The O.P.C. was in accord.

S: Was in accord?

C: With the Russian selection.

S: Yeah.

C: We received that information yesterday at three-fifteen.

S: You received that yesterday.

C: Yes.

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- S: Well, in other words, the Russians did confer with the P.C.O. before?
- C: What is the P.C.O.?
- S: Huh?
- C: You mean the O.P.C.?
- S: O.P.C.
- C: Yes, they've been in....
- S: What's that?
- C: They have been in constant communication with the O.P.C. from the beginning.
- S: They had had conferences before making the selection?
- C: Oh, yes.
- S: Well, that's what I thought.
- C: That is right. That's why we wanted to know if they were in accord.
- S: Well, since they - since they'd had conferences before making the selection, it didn't - it didn't require much time to find that out.
- C: Only from September 23 to yesterday.
- S: I see. And did they approve everything?
- C: The O.P.C. is in accord.
- S: What's that?
- C: The O.P.C. is in accord.
- S: Is in accord?
- C: And on that basis we went ahead yesterday.
- S: Yeah - hello?
- C: Yes.

S: Well, now is there anything else you can tell me on that, Mr. Cairns? Now I'm not to quote you on any of this, is that correct?

C: That's right.

S: But I - I can use the information.

C: Yes. Now the Secretary wants to speak to you.

S: Now look, Mr. Cairns?

C: Yes.

S: You will ask about those other questions?

C: That's right.

S: And would you be good enough to call me back and reverse the charges?

C: Have I got your card? What's your telephone number?

S: Sterling 3-2501. Now I am very much interested in the question of whether this is all C.R.A. or whether it is also Houdrey.

C: Yes.

S: And now perhaps it's military information. Now I don't think it is....

C: Well, I'll let you know.

S:and in view of the difficulty that independents like Houdrey have had in doing business....

C: Yes.

S:I think it's a very important question.

C: All right, all right, I'll call you back.

S: I thank you.

C: Now the Secretary wants to speak to you.

S: Yeah.

C: Just a second.

HMJr: Mr. Stone?

S: Yes, Mr. Secretary.

HMJr: Just to get our personal relationships....

S: What's that?

HMJr: I want to get our personal relationships straightened out. I never knew that you called me, and quite frankly, I was surprised that you hadn't tried to get in touch with me, you see? And then - so I told the boys this morning when I read the story, and I thought that you were being unfair to us, and I'd read yesterday's story that the stuff - that you've been getting your information through Robertson - that the natural channel to get it to you was through Robertson. And it never occurred to me to call you direct.

S: I see, well....

HMJr: I want - now you see yesterday in your story you ran the fact that you've been getting information from Robertson.

S: That I was getting it from Robertson?

HMJr: Yeah, in your story you said yesterday. Mr. Robertson had....

S: But Nate called - called me today.

HMJr: No, but in yesterday's PM story....

S: Yeah.

HMJr:you ran the fact that Robertson had been furnishing you with certain information. So I just....

S: Oh, yes - today's story.

HMJr: Yeah, it was....

S: Yeah.

HMJr:today's story.

S: Yes.

HMJr: So I took it for granted the way to get the information to you, never having heard from you, was to pass it along through Robertson.

S: Well, that's okay, Mr. Secretary. I'll tell you....

HMJr: Yeah.

S:I've been wanting to come to see you for some time, but I know you're very busy and not until this story came up did I think it was - it wasn't intruding on your time.

HMJr: No, I....

S: I did try several times, and I wasn't able to succeed.

HMJr: No, I sent word to you once. I tried to interest you in one of our tax stories, I think, or something, and I was told that you weren't interested.

S: I - I want you to know that - that I really have a very high regard for you and for the Treasury....

HMJr: Yes.

S:and I - and anybody that asks me, I always say, "Well, Treasury is probably the most New-Deal agency we've - department we've got in Washington."

HMJr: Well, I'm glad to hear it because I think so. The next time you come to Washington let me know a day or two in advance and let's have lunch together.

S: Well, I - I live in Washington.

HMJr: Oh, I didn't even know that.

S: I'm Washington editor of The Nation.

HMJr: Well, now....

S: Bert Cohen wanted me to come see you when I first came down, but I hated to - to bother you for I know how busy you are.

HMJr: Well, I'm not busy, and the next time you want to get me you call Mrs. Klotz - K-l-o-t-z.

S: Mrs. Klotz?

HMJr: Yes.

S: K-l-o-t-z?

HMJr: Yes.

S: Well, I'm going to be back home, I think, tomorrow and I - I'd like to come see you in the next few days if I may.

HMJr: Well, you call her up, and - well, you come on over and have lunch with me.

S: All right.

HMJr: I'd like to meet you.

S: I thank you very much.

HMJr: Because I - I - I think that the stuff that you've been writing on O.P.M. and all the others is the most helpful that's been written by anybody.

S: Well, that's very kind of you.

HMJr: There's nobody that has written as constructive material as you have on this - on this front, and so I think we'll - I know we sit on the same side of the table, and I want to cooperate.

S: Well, that's very kind of you.

HMJr: Now on this - this business here, I think you know that for the last two or three years I've tried my best to help the Russians on every possible occasion, and I haven't been very successful at it, but I - because there's been so many people that don't want them to be helped. And what we've done is that we've been crowding everybody that we could on this gasoline refinery to get it to them just as fast as they could, and the minute it came to us in our capacity as

(cont.)

HMJr:
(cont.)

purchasing agent, we acted at once. But we couldn't act, inasmuch as the Russians had consulted with the O.P.C. as to what process they should use, and until we got a clearance on that, why, we might have found ourselves throwing the business to somebody - well, who shouldn't get it. Hello?

S: I see.

HMJr: And the O.P.C. played the game very cannily and very carefully, and they didn't - they didn't want to say, after they got into the thing as deeply as they did, which one of these many processes. But as long as they were in it and had taken a position, we, as the purchasing agent, couldn't afford to say, "Well, we'll do it this way or that," once the O.P.C. were in it.

S: I see.

HMJr: So - so we insisted that they express an opinion, and which they finally did.

S: I see.

HMJr: Now that's the whole story from our standpoint. Now all these dates and things, I can't remember them, but I - I spent enough time on it to make sure that not only weren't we an impediment but that we should accelerate it just as fast as we could, and we got everything ready pending the time that we got a clearance from O.P.C. And the minute we got it, we acted. Now that's our - that's our end of the story.

S: I see.

HMJr: Now it's been a succession of dates. Huntington Cairns has those things, because he's been advising me and Mack on the thing.

S: I'm - I'm rather surprised that the Russians didn't make their selection until September 23.

HMJr: Well, I had them all in here. You most likely know that - starting with the Russian Aviation General and this other fellow, this civilian - I mean, the head of the purchasing agent and this civilian

(cont.)

- 17 -

HMJr: (aside) What's his name? Rozin. Hello?
(cont.)

S: Yeah.

HMJr: I went over the whole thing with them myself to make sure.

S: You see, one of my difficulties is I've had to work on one side of the story, because it's just impossible to get anything out of the Russians on it.

HMJr: Well, I had them in here for an hour, and I went over the thing step-by-step. I wanted to make sure that the situation was the way it was reported to me.

S: Well, I'll tell you off the record how I heard about your - your meeting....

HMJr: Yeah.

S:where you raised hell. It was from Ickes.

HMJr: From Ickes?

S: Ickes told me that.

HMJr: Well, I tell you who was here at the meeting, and that's where he got it from - was Abe Fortas.

S: Oh.

HMJr: Did you know that?

S: Well, did Abe come to the - I thought Abe didn't want to come to the meeting.

HMJr: Oh, he - I made him come. Sure, Abe was here when I had the Russians here, and he heard the whole thing. I insisted that he come.

S: I see.

HMJr: No, he sat right here and heard the whole thing. I - I said, "I'm not going to do this unless you sit here."

S: Well.

HMJr: Didn't you know he was here?

S: Well, I knew he'd been asked. I didn't know that....

HMJr: He....

S:I didn't know just what had happened.

HMJr: No, I insisted on his coming when the Russians were here.

S: Well, why - why didn't you ask for Ralph Davies?

HMJr: Well, you know damn well why I didn't ask for him.
(Laughs)

S: That's enough of an answer. I just don't under....

HMJr: Well, isn't that enough of an answer?

S: Yeah.

HMJr: What?

S: Yeah, I say that's enough of an answer, I guess.

HMJr: Sure. No, I wanted to have somebody that - that I knew, and I had confidence in him.

S: Well, I - I have very great respect and liking for Secretary Ickes. I just don't understand that P.C.O. office, frankly.

HMJr: Well, I - I feel the same way that you do about Harold Ickes, and I don't understand it either. But we're all human. I suppose that's the answer.

S: I guess so.

HMJr: Because certainly starting with helium gas, he's made a great fight on all - of all of this stuff.

S: He's been wonderful in a lot of things.

HMJr: And I just suppose that he's human like all of us, and every once in awhile we stub our toes.

S: Well, I'm going to call Mrs. Klotz....

HMJr: Yeah.

S:when I get back to town, and when you have some time I would like to talk with you about this.

HMJr: I'll have time any time that you have.

S: All right.

HMJr: And then Huntington Cairns will call you back.

S: All right. Thank you very much.

HMJr: You're welcome.

S: Goodbye.

HMJr: Goodbye.

- 5 -

MR. SCHWARZ: That was a good job.

H.M.JR: That is that!

MR. SCHWARZ: It was very much worth doing.

H.M.JR: Sure, I wanted to get that thing straight. You see, he was sore that we did it through this other man.

MR. CAIRNS: Robertson.

H.M.JR: Yes.

MR. SCHWARZ: He never indicated any interest in the story.

H.M.JR: What?

MR. SCHWARZ: He never indicated any interest in it until he gave him a by-line.

H.M.JR: In what?

MR. SCHWARZ: In this particular story.

H.M.JR: What do you mean?

MR. SCHWARZ: We didn't know he was working on it or we could have called him - until this morning.

H.M.JR: The story yesterday was written by Stone.

MR. SCHWARZ: Until those two.

MR. CAIRNS: He did "The Nation" story. We were tipped off.

September 29, 1942
5:32 p.m.

Randolph
Paul:

You - you suggested for a reply to Vandenberg using Barkley, and I tried to check with the people that were there the day that vote came up....

HMJr: Yeah.

P:and nobody can remember definitely whether Barkley voted with us. I know George voted with us.

HMJr: Yeah.

P: Now I've been talking with the boys here, and it seems to me it might be better to use some other Senator and possibly the best man would be Wagner because his secretary has a pretty good knowledge of this subject, I understand, and Wagner's apt to get asked a lot of questions by Vandenberg. Whoever does it is apt to be....

HMJr: Oh.

P:and I'm just a little afraid Barkley won't be sufficiently prepared.

HMJr: As we say in New York, Wagner would be "poifect."

P: He'd be "poifect," eh?

HMJr: "Poifect," yes.

P: Well, I - we - I'll try to get Wagner, and if I can't get him we'll - we might try Barkley. I might speak to George about it. We might use Brown. But, in any event, we'll try Wagner.

HMJr: Wagner would be "poifect."

P: All right.

HMJr: All right?

P: All right, fine.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 29, 1942.

TO Secretary Morgenthau
FROM George Buffington *GB*.

Mr. C. S. Young, President of the Federal Reserve Bank of Chicago, stated that Mr. A. B. Keller, Vice President of International Harvester Company, telephoned him yesterday to give him the following information.

The Company has a total of \$131,000,000 invested in United States Government securities. All plants are now enrolled in Payroll Savings Plans for an amount in excess of 10 percent, with 100 percent of employees participating. These figures include the management group consisting of 4,500 individuals. The average monthly deduction amounts to 11.4 percent. The Company recently subscribed to \$5,000,000 of the new Series C Tax Savings Notes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 29, 1942

TO THE SECRETARY
 FROM TED R. GAMBLE

You will be interested to know of some of the results of the industry-wide labor-management drive, just completed in the rubber industry.

There were 167 companies and local unions participating. More than 120 firms topped the 90 percent participation figure.

15 companies employing 45,000 people went over 90 percent and 8 percent plus of the gross payroll.

3 companies with 72,000 employees went over 90 percent with 9 percent plus of gross payroll.

60 companies employing 89,000 persons went over 90 percent and 10 percent plus of gross payroll.

The figures on the Big Four companies that came in today show as follows:

U.S. RUBBER	--	66,000	employees	-	93%	-	9.5	of	gross	payroll
FIRESTONE	- - -	36,000	"	-	95%	-	8.5	"	"	"
GOODYEAR	- - -	41,000	"	-	92.5%	-	10.8	"	"	"
GOODRICH	- - -	20,000	"	-	90%	-	10 plus	"	"	"

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days				September as percent of August
		September	August	July	September as percent of August	
September 1942						
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821		82.8%
2	14,748	26,381	36,222	30,701		72.8
3	18,305	44,687	50,797	47,523		88.0
4	17,804	62,491	63,785	77,320		98.0
5	19,166	81,657	86,789	95,044		94.1
8	49,400	131,057	111,748	116,643		117.3
9	13,295	144,352	128,176	139,390		112.6
10	16,430	160,781	154,981	164,161		103.7
11	19,573	180,354	164,866	183,238		109.4
12	9,584	189,938	180,787	209,787		105.1
14	35,544	225,482	197,143	225,532		114.4
15	10,717	236,199	215,903	243,938		109.4
16	21,855	258,054	225,481	261,766		114.4
17	17,621	275,675	254,163	284,111		108.5
18	16,476	292,151	263,900	296,344		110.7
19	10,384	302,535	281,550	327,712		107.5
21	40,445	342,980	297,075	339,951		115.5
22	9,714	352,694	313,101	358,135		112.6
23	20,352	373,046	322,982	376,396		115.5
24	27,075	400,122	353,504	394,984		113.2
25	12,368	412,490	367,195	405,679		112.3
26	22,230	434,720	383,303	438,256		113.4
28	41,530	476,250	398,234	455,706		119.6
29	17,874	494,124	415,563	473,962		118.9

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

September 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.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 September sales to date with sales during the same number of business days in August and July 1942

(At issue price in thousands of dollars)

Date	September	Cumulative sales by business days			
	daily sales	September	August	July	September as percent of August
September 1942					
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597	61.6%
2	9,811	17,339	28,810	21,986	60.2
3	9,397	26,735	41,258	32,441	64.8
4	10,678	37,414	54,105	49,175	69.2
5	10,713	48,127	71,552	62,561	67.3
6	18,550	66,678	84,777	84,413	78.7
7	6,072	72,749	92,566	101,585	78.6
8	6,279	79,029	106,782	124,568	74.0
9	7,235	86,263	112,171	141,618	76.9
10	4,342	90,606	120,974	162,232	74.9
11					
12					
13					
14	13,347	103,952	127,375	176,590	81.6
15	4,915	108,867	137,119	191,991	79.4
16	12,776	121,643	140,372	205,833	86.7
17	9,917	131,560	153,496	221,147	85.7
18	6,334	137,893	158,309	230,842	87.1
19	3,361	141,255	168,415	252,731	83.9
20					
21	15,820	157,075	176,681	262,178	88.9
22	5,653	162,728	182,842	278,505	89.0
23	12,959	175,687	186,207	293,679	94.4
24	14,445	190,132	196,715	308,077	96.7
25	5,799	195,931	202,690	316,893	96.7
26	9,108	205,038	211,968	338,137	96.7
27					
28	18,735	223,773	220,311	350,522	101.6
29	9,603	233,376	226,844	365,305	102.9

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.

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

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days				September as percent of August
		September	August	July	September as percent of August	
September 1942						
1	\$ 19,162	\$ 19,162	\$ 26,267	\$ 28,418		73.0%
2	24,558	43,720	65,032	52,687		67.2
3	27,702	71,422	92,055	79,964		77.6
4	28,482	99,904	117,890	126,495		84.7
5	29,880	129,784	158,341	157,605		82.0
8	67,950	197,734	196,524	201,056		100.6
9	19,367	217,101	220,742	240,974		98.4
10	22,709	239,810	261,763	288,729		91.6
11	26,807	266,617	277,037	324,856		96.2
12	13,926	280,544	301,761	372,020		93.0
14	48,890	329,434	324,518	402,122		101.5
15	15,632	345,066	353,022	435,929		97.7
16	34,631	379,697	365,852	467,599		103.8
17	27,538	407,235	407,659	505,257		99.9
18	22,809	430,044	422,209	527,186		101.9
19	13,745	443,789	449,965	580,443		98.6
21	56,266	500,055	473,756	602,129		105.6
22	15,366	515,422	495,943	636,640		103.9
23	33,311	548,733	509,189	670,075		107.8
24	41,521	590,254	550,219	703,062		107.3
25	18,167	608,421	569,885	722,572		106.8
26	31,338	639,758	595,271	776,393		107.5
28	60,265	700,023	618,546	806,228		113.2
29	27,477	727,500	642,406	839,266		113.2


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.

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

TO: Secretary Morgenthau

Gene Duffield likes the idea and is coming back to talk to me about further ~~xxxx~~ in a day or two when he has planned it a little in his mind. He would have done something before this on his ^{own} account but hesitated to capitalize his experience here without your having authorized it voluntarily.


9/29/42 FROM: MR. GASTON

TREASURY DEPARTMENT

94

INTER OFFICE COMMUNICATION

DATE

September 29, 1942

TO The Secretary

FROM Mr. Schwarz *CS*

Your statement on Social Security taxes has been delivered to Phil Pearl, who handles the AF of L clip sheet; to the CIO News through Leo Goodman of Lawrence Houghteling's staff, and to Ed Keating, who handles the Railroad Brotherhoods' publication, as well as to Chester Wright, who has a railroad news letter, and Albert Dennis, who does a "Labor News Review" broadcast every week for CBS. In addition, it has gone by mail to more than 450 labor publications throughout the country, with airmail being used for those western weeklies which would not otherwise receive it in time for their press runs toward the end of the week.

"Possibly - but probably not quite as fast." (Mr. Schwarz's answer to Hays' inquiry as to whether or not Mr. Schwarz would have done this if Hays had not suggested it.)

Tald

ASURY

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TREASURY DEPARTMENT



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

PERSONAL

September 29, 1942

MEMORANDUM TO THE SECRETARY:

It was learned today that a shake-up is contemplated in the top structure of the Office of Lend-Lease Administration. Oscar Cox is to be brought in as second man and Van Buskirk, a lawyer now in Lend-Lease, is to be third man. Tom McCabe, who is expected to return very shortly after several weeks' leave, and Phil Young are scheduled for places as Special Assistants. In the past Tom McCabe was the No. 2 man and Phil Young the third man in the organization.

Knowing Oscar Cox's capabilities and realizing that he has worked very closely with you, there are some matters that I have in mind which would materially help our part in the Lend-Lease program and are becoming increasingly important. Therefore, I think Oscar Cox would be interested to know about them. I will be glad to talk with him directly if you wish, but I think some of these matters you would be interested in personally.

Clifton E. Mack
Clifton E. Mack
Director of Procurement





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

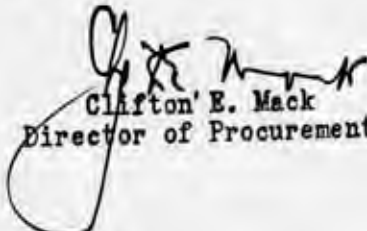
September 29, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended September 26, 1942.

We have received from the Office of Lend-Lease Administration copies of the Russian requirements for the Fourth Lend-Lease Appropriation covering the calendar year 1943. Additional information and itemization of certain materials included in the list have been requested from OLLA. We are currently discussing with the British for clarification certain items contained in their list. The Lend-Lease budget requirements are scheduled tentatively for presentation to Congress November 15th.

Following a meeting last Thursday relative to developing better coordination on Russian shipments, plans are now being developed toward that end.


Clifton 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 SEPTEMBER 26, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>RUSSIA</u>	<u>CHINA</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2100.3 (2100.2)	\$1120.9 (1095.3)	\$598.3 (586.4)	\$56.7 (56.6)	\$3.7 (3.7)	\$320.7 (358.2)
Purchase Authoriza- tions (Requisitions)	\$1605.2 (1563.3)	\$ 970.0 (959.7)	\$579.4 (547.2)	\$40.5 (40.5)	- -	\$ 15.3 (15.9)
Requisitions Cleared for Purchase	\$1546.9 (1513.5)	\$ 958.8 (946.1)	\$532.9 (512.2)	\$40.4 (40.4)	- -	\$ 14.8 (14.8)
Obligations (Pur- chases)	\$1446.7 (1403.8)	\$ 926.9 (915.1)	\$466.8 (435.9)	\$40.4 (40.4)	\$2.3 (2.3)	\$ 10.3 (10.1)
*Deliveries to For- eign Governments at U. S. Ports	\$ 602.1 (582.9)	\$ 479.0 (465.1)	\$ 99.9 (94.7)	\$20.1 (20.1)	- -	\$ 3.1 (3.0)

*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 September 19, 1942.

97-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 29, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes and Tanks to the U. S. S. R.

During the eleven-day period September 11 - 21, 1942, 57 planes (31 fighters, 26 light bombers) and 169 tanks (119 light, 50 medium) were shipped to the Soviet Union from the United States.

Table A

Shipments of Planes and Tanks from the
United States to the U.S.S.R. *

	<u>Shipments during Sept. 11 - 21, 1942</u>	<u>Cumulative Total January 1, 1942 to September 21, 1942</u>	
<u>Planes</u>			
Fighters	31	909	
Bombers	<u>26</u>	<u>799</u>	
Total	57		1,708
 <u>Tanks</u>			
Light	119	1,444	
Medium	<u>50</u>	<u>1,315</u>	
Total	169		2,759

* Based on export declarations received.

Table B

Shipments of Planes and Tanks to
the U.S.S.R. by Months *

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light Tanks</u>	<u>Medium Tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
March	68	170	238	159	258	417
April	120	54	174	287	216	503
May	52	42	94	94	45	139
June	127	104	231	143	206	349
July	123	134	257	151	157	308
August	202	126	328	299	261	560
September 1 - 21	<u>38</u>	<u>50</u>	<u>88</u>	<u>119</u>	<u>112</u>	<u>231</u>
Total 1942 to September 21	909	799	1,708	1,444	1,315	2,759

* Based on export declarations received.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stebbins, Jr.
Administrator

September 29, 1942

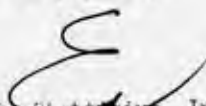
The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
WASHINGTON, D. C.

Dear Henry,

Thank you for your letter of the 28th, enclosing a copy of your letter to Secretary Ickes and a copy of his reply relative to the Russian oil deal.

I appreciate your having sent me these so that we might be kept abreast of developments.

Sincerely yours,


E. R. Stebbins, Jr.

WAR DEPARTMENT
WASHINGTON

SEP 29 1942

The Honorable,


The Secretary of the Treasury.

Dear Mr. Secretary:

I wish to acknowledge with thanks receipt of a copy of a memorandum prepared by Mr. William H. Taylor, Alternate American member of the Stabilization Board of China, on the conditions in the Hongkong area.

It is an interesting and authoritative document, and has been read with great interest by the officers in the Military Intelligence Service.

Sincerely yours,



Secretary of War.

SEP 29 1942

My dear Dr. Herrera-Arango:

This is in reply to your letter of September 24, 1942, enclosing an informal letter to the Secretary of the Treasury from the Ambassador of Cuba entering an order for approximately \$5 million of gold.

The Treasury has taken all of the necessary steps for the sale of this amount of gold to the Cuban Government as requested in these letters.

Sincerely yours,

(Signed) H. D. White

H. D. White
Assistant to the Secretary

Dr. Raul Herrera-Arango,
Second Secretary, Cuban Embassy,
2630 Sixteenth Street,
Washington, D. C.

KMB/jm
9/28/42

C
O
P
YEMBAJADA DE CUBA
Washington, D.C.

September 24, 1942.

Mr. Harry D. White,
Assistant to the Secretary,
Treasury Department,
Washington.

My dear Mr. White:

As on previous occasions and pursuant to the suggestion of Mr. E. M. Bernstein of your Department, I beg to enclose an informal letter addressed to the Secretary by the Ambassador, entering an order for the purchase of approximately \$5,000,000.00 in gold, pursuant to the agreement of July 6, 1942.

Sincerely yours,

(sgd) RAOUL HERRERA-ARANGO,
Raoul Herrera-Arango
Secretary of Embassy

EMBAJADA DE CUBA
WASHINGTON, D. C.

September 24, 1942.

INFORMAL

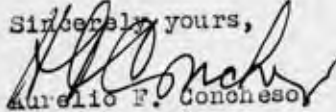
Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Sir:

Pursuant to the agreement of July 6, 1942, under which the Government of the United States undertakes to sell gold to the Government of the Republic of Cuba from time to time under stated conditions, and to the instructions received from my Government, I hereby beg to enter an order for the purchase of approximately \$5,000,000.00 in gold, said gold to be earmarked for the account of the Treasury of the Republic of Cuba at the Federal Reserve Bank of New York.

My Government would wish, if this be agreeable to the Government of the United States, to make payment for this gold at the Havana branch of any American Bank which the Treasury of the United States may designate, upon the receipt of notice of earmarking and total cost thereof to the Cuban Government.

Sincerely yours,


Aurelio F. Conchoso
Ambassador.

September 29, 1942.

My dear Mr. Ambassador:

Thank you very much for sending me the memorandum on Japan's economic position.

I have been most interested in reading this material and appreciate your courtesy in making it available to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Joseph G. Caw,
United States Ambassador,
c/o Department of State,
Washington, D. C.

File in Diary

GEF/4bs

*In white box
copy of 104
enclosed*



DEPARTMENT OF STATE
WASHINGTON

September 25, 1942.

Dear Mr. Secretary:

I am sorry for the delay in sending you the material regarding Japan's economic position which you asked for in our talk on September 10.

An excellent report of some eighty typewritten pages was turned in to the Department of State by our Commercial Attaché, Mr. Frank S. Williams, but I believe that the briefer summary which we have now prepared, and a copy of which I enclose herewith, will be of greater value to you.

Very sincerely yours,

Joseph C. Grew

Enclosure.

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

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WASHINGTON

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Enclosure.

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

BOARD OF ECONOMIC WARFARE
ENEMY BRANCH

SUMMARY STATEMENT OF JAPANESE ECONOMIC POSITION--SEPTEMBER, 1942

September 19, 1942

SUMMARY STATEMENT OF JAPANESE ECONOMIC POSITION--SEPTEMBER, 1942The Changing Pattern of the Japanese Economy

War has imposed upon the Japanese economy changes in kind as well as in degree. There has been vast expansion in heavy industries supplying the war machine, drastic curtailment in others built up to supply an export market now gone; and meanwhile the necessities of war have forced an original establishment of still others to supply goods formerly brought in from abroad.

Japan's chief vulnerability formerly was lack of access to strategic raw materials. The conquest of areas producing these raw materials, accompanied by isolation from former sources of finished goods, has now shifted the primary vulnerability to transportation and processing. Although industrial capacity, particularly in respect to heavy industry, has been expanding rapidly for a decade, the requirements of war will increase very sharply the demands upon industries already well established and upon industries not strongly established in Japan before the outbreak of war.

Japan must increase production of machines, machine tools, and in general the whole range of prefabricated capital goods which the outside world has previously been depended upon to supply. To exploit the oil of the Netherlands Indies, Japan must develop a petroleum and refining industry far beyond any previously developed or organized by Japan. At the same time, the insular position of Japan demands a large merchant marine upon which imperialistic expansion places an ever-increasing burden; and any expansion of this merchant marine necessarily places an increasing burden upon iron and steel and shipbuilding capacity.

At present the Japanese are in the position of having gained a first objective, which was access to needed raw materials. Given time and opportunity to develop these, their strength will be very great. Meanwhile, however, she faces the task of developing transporting and processing capacities and organizing a large scale industrial growth while supplying the heavy demands of modern war. Both ultimate potential strength and present vulnerabilities are concentrated in this situation.

Power of the State Over the Economy

Any appraisal of the Japanese economy should include explicit recognition of the complete power exercised by the State over the entire Japanese economy. This exercise of power makes the application of economic theories of laissez faire extremely dangerous. We cannot expect that any crucial dislocation of the Japanese economy will occur because of purely financial difficulties. Subsidies can replace profits; and stimulated or even enforced adjustments can accomplish in a short time changes or corrections that, if left to "natural" processes, would take a very long time. The total product of the war effort will very closely follow the pattern of utility decreed by the State, and within the limitations of the existing structure of skills, labor

supply, raw materials, processing capacity, and managerial ability, the Japanese economy will function with relatively high efficiency.

Finance

It is no longer possible to judge Japan's financial position on the basis of previous criteria. The gold standard system has been abolished and the circulation of bank notes can be fixed at the will of the finance ministry. The government may be expected to maintain a reasonable balance of living costs and wages, and levy any tax required to absorb surplus earnings or to secure prompt subscriptions to bonds.

The scope of the activities of the Bank of Japan have been enlarged to such an extent that it engages in industrial financing and open-market transactions in foreign exchange. It is in effect the central bank of the entire East Asia Sphere.

Japanese Exploitation of Occupied Areas

The Japanese have a highly developed system of exploitation in occupied areas that is supported by a powerful military government. Manipulation of currency has proved an effective means of diverting to Japanese use a large share of the ordinary production of conquered countries, and private promotion within the framework of government-sponsored development corporations has been used to assure the further exploitation of natural resources.

Each of the conquered areas or countries retains a special currency distinct and insulated from that of the others, yet tied to the Japanese system of exchange. By this means Japan encourages separatism among the conquered areas while maintaining a centralized control from Tokyo. Japan is moreover in a position to establish the prices she wishes to pay for raw materials in occupied countries. This has immediate advantages that can be continued so long as inflationary tendencies are effectively combated and civilian resistance is not too strong. In spite of such power, Japan has been unable to obtain from Manchuria and Occupied China the desired quantities of agricultural products, soybeans and cotton especially.

The Raw Materials Situation

Japan Proper has been notoriously deficient in many of the most important raw materials essential to modern industry. Of the major raw materials necessary to modern heavy industry, Japan has an abundance only of sulphur. Within the territories now occupied by Japan there is a potential production, however, of raw materials more than adequate in all but a very few commodities. But it is important to note that frequently this wealth is potential rather than actual, and that problems of organization, exploitation, transportation, and processing intervene between mere possibilities and actual accomplishments.

Foodstuffs

In foodstuffs the Japanese supply position is secure. By rationing Rice consumption Japan will probably be able to obtain from Formosa and Korea all the rice required for domestic consumption above what can be produced

within Japan Proper. So far as fish are concerned, the production normally obtained from those areas now closed to Japan is roughly equivalent to the amount of sea food products normally exported. Japan Proper will produce only one-fourth or one-fifth of probable war-time requirements of soybeans, but sufficient supplies are available in nearby Korea, Manchuria, and Occupied China to cover ordinary needs unless the low Japanese prices in the latter areas serve to stimulate further resistance. With the sugar production of the Philippines and Netherlands Indies added to an already abundant supply, Japan now controls a surplus. In fats and oils, there is potential abundance. Production of wheat and barley in Japan Proper is roughly equivalent to normal requirements. Japan now dominates the rich rice areas of Burma, Indo-China, and Thailand, from which supplies can be drawn in proportion to need and ability to transport. Inasmuch as needs are not believed to be great, such supplies as are taken from the more distant areas may be probably most correctly interpreted as precautionary, or as intended to release agricultural labor in Japan to other employments. In dominating the southeast Asia bread-basket, Japan inherits a problem of distribution which must be handled efficiently if the good will of native populations is to be held. This, as well as movement of goods to Japan in quantities large enough to insure sufficiency at home, will impose a heavy burden on transportation facilities.

Textiles

In textiles the Japanese position is less favorable. Japan has an abundance of silk and a well-established artificial fibers industry. The available cotton production is below normal requirements, even discounting the very large proportion of cotton imports that in the past went into textiles for re-export. There is practically no cotton production in Japan Proper, but the large stockpile of cotton goods on hand, substitutions of silk and rayon for cotton print goods, and curtailed domestic production and exports will probably combine to meet minimum needs. Most of the normal wool supply is now lost, and there remains only an inadequate supply of coarse wool, principally from China and Manchuria, most of it ordinarily considered suitable only for blankets, rugs, carpets, or the coarsest kinds of cloth. It is possible that the tremendous surplus of kapok from the Netherlands Indies and the Philippines will be used in some measure to substitute for wool by use in padded, quilted garments.

Iron and Steel

In iron and steel, Japanese production is at a rate of about one-tenth that of the annual production rate of the United States. Japanese needs are, of course, not as great as ours. In terms of iron ore, Japan has an established production available within the territories now in her possession that is approximately equal to the amount that she can process, and a potential production considerably greater. The Japanese open-hearth capacity, estimated in excess of 9,000,000 metric tons per year, will probably not be completely utilized unless rolling mill capacity, which is estimated as less than 7,000,000 metric tons, is increased somewhat, or else the total use of iron and of cast steel products is proportionately higher than expected. Japan proper will supply probably no more than 5% of the total iron ore used by all the iron and steel industry controlled by Japan. The rest will come from Korea, Manchuria, Occupied China, Indo-China, Malaya, and the Philippines. There are no reliable indications at hand of the order in which Japan will exploit the various sources of iron ore now at her disposal. The ore of Japan Proper, Korea, and Manchuria has the advantage of proximity to coal and processing centers but is generally poorer in quality; that of Malaya and the Philippines is much richer in Fe content. Philippines production is

susceptible of very considerable expansion, but a serious transportation problem would be involved in making it available in greatly increased quantities to Japanese steel centers.

Coal

Exploitation of coal in Japan Proper has now approximately attained its economic limit. Even so, output is considerably less than the demand within Japan Proper, and the balance must be met by overseas imports, and by the shift of coal-consuming industries to Manchuria, Korea, and Occupied China. Adequate supplies of coal are available in the occupied areas, but transportation difficulties may prevent the full use of these resources. There are also complications that are a function of type and quality of coal, as well as of quantity. Coking coal, so essential to the metallurgical industries, must in part be shipped into Japan and Korea from Manchuria and North China; and anthracite is transported all the way from Indo-China. There is a considerable problem of transportation involved even in the disposition of the coal produced in Japan Proper. Much of the coal from Kyushu and Hokkaido, as well as that from Karafuto, must be shipped by water to processing centers where it figures in Japanese industrial production.

Ferro-Alloys

Japan is relatively well supplied with tungsten, and antimony is available in China if properly exploited. The former should meet most needs for high speed alloys. Japan has manganese production available within the conquered areas, which, when added to that of Japan Proper, should amply satisfy estimated requirements. This is in addition to what appears to be a huge pre-war stockpile. From the Philippines can come a production of chromium more than sufficient to meet the implied requirements of estimated steel production, provided problems of transportation are solved. In nickel, however, Japan has only an insufficient production within the Empire, and 60 percent of the total production available is concentrated in southeast Celebes. Only an insignificant molybdenum production in Korea is available to Japan in all of the Far East.

Non-ferrous Metals

In the non-ferrous metals the Japanese supply position is spotty. Japan Proper produces only about half of the amount of copper normally consumed in peace-time, and all of the Far Eastern production now available brings total current production up to no more than about two-thirds of these peace-time requirements. Japan is believed to have a substantial stockpile of copper, and can undoubtedly curtail exports and civilian uses of cuprous goods, and can effect further saving by substitution of other materials, particularly aluminum. But war industries require additional amounts of copper, and many indications point to a stringent situation in copper that appears bound to grow worse as time passes.

In lead and zinc the adequacy of Japan's supply position appears to depend principally upon the success the Japanese have in exploiting the Bawdwin Mine in Burma. Japan Proper produces about one-sixth of normal lead requirements, and Korea adds one-seventh. There is a small production in Manchuria about which little is known, and a very small amount in the Philippines. For the rest, Japan must depend upon stockpiles and the Bawdwin Mine. In zinc Japan produces probably at home no more than one-third or one-fourth of requirements. There is a small production in Manchuria and Korea, and another small amount in French Indo-China. For the remaining one-half to two-thirds of normal consumption, Japan will have to depend upon small stockpiles and the Bawdwin Mine. Japan Proper produces only a very small amount of mercury and there is no substantial production of mercury available to Japan within the conquered areas, although there are potentialities in China. Stockpiles of mercury are believed to be fairly large.

The Light Metals

In the light metals the Japanese position is relatively strong although it is partially dependent upon imports of bauxite from considerable distance. Japan is now producing aluminum at an annual rate of about 150,000 metric tons, and entered the present year with a stockpile of bauxite sufficient to insure a year's production. Within Japan Proper there are only small and relatively unprofitable deposits of aluminum ore. Small amounts of bauxite from the Mandated Islands are being used. There is a Japanese aluminum industry in Korea and Manchuria adapted to the exploitation of the alunite and shales of these areas, and there are large reserves of previously unexploited bauxite in Shantung that the Japanese are now developing. Although Japan has been using the shale, it is believed emphasis will be given to procurement of the bauxite from Bintan, Malaya, Shantung, and the Mandated Islands, because of its richness, its greater ease of processing, and the superior quality of the aluminum produced from it. Bintan and Malaya alone could supply the highest estimated Japanese production capacity of finished aluminum, but here again the question will be one of ability to organize production and above all, to transport the raw materials. The Japanese magnesium industry, which is relatively strong, uses both sea water and magnesite and dolomite from Manchuria and Korea.

Petroleum

In petroleum the Japanese supply situation is critically dependent upon successful exploitation and continued possession of the Netherlands East Indies. Japan is believed to have begun the year 1942 with a stockpile of petroleum and products roughly equivalent to a year's war-time demands. The Japanese empire can supply only about one-seventh of estimated war-time requirements, while in the areas conquered since December 7 there was a 1941 production roughly equal to the amount of oil Japan is estimated to require each year. Japan's petroleum position will therefore depend primarily upon ability to restore, exploit, and transport the oil from the rich fields of Sumatra, Java, Borneo, British Borneo, and Burma.

Chemicals and Machines

Japan has a well-established chemical industry but it is threatened with a stringency in salt supply that is as much a function of transportation as of production. The Japanese machine tool industry is believed not fully adequate, and production of some finely machined products, such as bearings, is not sufficiently developed to meet all requirements. Japan entered the war with substantial stocks of many such machine goods, but previous heavy dependence upon the outside world for such products is not likely to be immediately and completely repaired. Precision tools, machine parts, as well as parts, plans, patents, formulae, and technicians will likely be an important part of any economic exchange between the European and the Asiatic Axis.

Transportation

Inadequate transportation now prevents major exploitation of the conquered areas, and even limits coal movement in Japan Proper. Japan depends basically on ships, and Japanese ship tonnage was scarcely adequate to meet all the Japanese shipping demands before December 1941. It is 12% to 15% smaller in size now, due to the excess of sinkings and damage over new construction and captures, the effective fleet amounting currently to about 5,400,000 gross tons. The efficiency of the merchant marine has also been reduced by forced resort to convoying, which decreases the number of voyages that a ship can make in a given time, so that shipping shortage has become a major factor in limiting the Japanese war effort. To remedy this an expanded ship building program has now been started, with priority equal to naval vessels; but little result is expected from this until 1943. The position is at present restrictive rather than dangerous however.

Rail transportation in Japan, Manchuria, and the other areas is also overstrained. Efforts are being made by the Japanese to remedy this through expansion in locomotive and car construction, and there has been much talk of attempting to complete a rail line from Korea through China and down to Singapore so as to relieve the tremendous burden on Japanese shipping. It is believed, however, that Japan will be unable to complete a through rail line across China within the near future. Conquest of central China would have to come first; after that much new construction would need to be undertaken. The difference in gauge between Chinese and Indo-Chinese rail lines would involve additional difficulties. To a limited degree rail transportation is being used to replace shipping already, as for example in the utilization of Haiphong as a terminus for shipping services to Indo-China with use of rail beyond that point wherever practicable.

Due to the seasonal nature of certain essential trades there is a greater demand for shipping space in summer, and hence the Japanese shipping position is tightest at that time. To a certain degree this explains Japan's relative inactivity in the last few months. It is expected that Japan will have a moderate amount of tonnage available for further military operations after October, but this surplus should be temporary only.

Manpower

Under the National Civilian Conscription Act of July 15, 1939, all Japanese labor was registered and made subject to assignment by the state. At the present time the indications are that there is no shortage of general unskilled labor, although some labor is being imported from Korea for special work such as mining. In agriculture some seasonal shortage probably exists as is evidenced by the fact that the government has been giving special leave to soldiers to assist in farm work where evidence of necessity can be given. The greatest shortage exists in the field of skilled labor and technicians, and here the government is attempting to solve the problem by subsidizing classes given in private factories and by launching an extensive national training program. The hiring of school graduates is limited and may be effected only through the government-managed employment bureaus. The Japanese labor movement has been dissolved and in its place the Movement for Industrial Service to the State, inaugurated in August 1938, has been devoting itself on a nation-wide scale to promoting active cooperation between capital and labor, particularly in the essential war industries.

Japan is not Weak

Japan's economic strength is obviously greater than most observers were inclined to believe before the outbreak of war. Estimates of Japanese production of aircraft, for instance, are currently treble or more what they were nine months ago. Respect for the accomplishments of Japanese technology and industry have risen all along the line, though by no means always in such proportion. It would not be difficult, following this trend, to end up by over-estimating the economy of an enemy once held too lightly. But it should be emphasized that if Japan is allowed to consolidate and exploit economically the conquests she has made, her position will indeed be very strong.

Japan's advantage, economically even more than militarily, lay in careful preparation and husbanding of relatively slender resources. Beyond that, her strength is potential rather than actual. But her calculated willingness to gamble on the ability of her established resources to carry over into the period when the benefits of conquest would be realized should serve us as a warning.

The Vulnerability of the Japanese Economy

The principal vulnerabilities of Japan are problems of processing and transportation. The vulnerabilities in processing result from the high degree of geographical concentration, and the insufficient development of many strategic industries.

The vulnerability in respect to transportation is primarily a result of the insular position of Japan, and of the distance between the principal processing centers in Japan proper, Korea, and Manchuria, (but Japan particularly) and many of the most important sources of raw materials, especially those far to the south.

This insular character of the heart of the Japanese economy as it now exists may conceivably constitute its most crucial vulnerability. Concentration of processing capacity within Japan enforces dependence upon water-borne transportation. Raw materials coming in, and finished goods going out, must

move by ship, frequently over very considerable distances. So long as shipping is ample, all is well. But any threat to shipping is a threat to the entire economy. Some realization of this is implicit in the promotion of heavy industrial developments within Korea and Manchuria in recent years. But Korea and Manchuria are very far from the raw materials in south China, the Malayan Peninsula, and the Philippines, and above all are linked with these latter only by shipping.

Practical considerations of transportation and utilization of the raw materials vital to modern industry would seem to indicate, therefore, that an industrialized economy embracing this area can never be rendered secure until its industrial centers move closer to its geographical center, and have a continental base in which alternative and supplementary means of transportation exist. Until conditions in central China are stabilized, no lines of land transportation can be established to supplement the present heavy dependence upon vulnerable sea borne traffic, and no heavy industries can safely be set up there. Central China is close to the geographical heart of the industrial empire that Japan is apparently attempting to establish. From an economic point of view, and with the problems of transportation and secure establishment of heavy industry in mind, it seems clear that the success of Japanese economic ambitions ultimately depends upon a complete conquest and pacification of Central China.

Photostat to White
114
9/30/42

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

White

TELEPHONE: REPUBLIC 7880



BOX 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

September 29, 1942.

Dear Mr. Secretary:

I am working on the figures in the letter which you handed me yesterday, and hope to be in a position to write to you shortly. If I am in England shortly, I will show the letter to the Chancellor of the Exchequer who will, I am sure, be struck with this record of your effective helpfulness over so long a period.

The receipt and release for the cheque has been completed and forwarded to the War Department.

Yours sincerely,

F Phillips

F. Phillips.

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

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 337

Information received up to 7 A.M., 29th September, 1942.

1. NAVAL

A Greek submarine on patrol in the AEGEAN has sunk a 1,500 ton ship and a Caique 23rd. One of H.M. Australian destroyers ran aground on the southeast coast of TIMOR. She was subsequently damaged by aircraft and had to be destroyed by her crew.

2. MILITARY

MADAGASCAR. On the 26th our forward troops captured WEHANTY south of TANANARIVE after slight resistance. General Platt with a small advanced headquarters reached the capital. On the 27th our patrols were delayed by demolitions 32 miles south of TANANARIVE.

3. AIR OPERATIONS

WESTERN FRONT. 26th. Four squadrons of Spitfires provided escort and rear cover to a formation of 19 U.S. Fortresses which was detailed to attack an aerodrome in BRITANNY. Owing to bad weather the target was not located. 12 Spitfires are missing and 3 more crash landed in this country.

RUSSIA. On the 27th and 28th German aircraft bombed the centre of STALINGRAD and Russian reinforcements on railways in the lower VOLGA area. Attacks were also made on the port of TUAPSE.

4. HOME SECURITY

28th. Some bombs dropped at COLCHESTER, killed 7 persons and seriously wounded 24.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 29, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Naval Intelligence Reports on Naval Losses

A Military Intelligence officer has informed me that Naval Intelligence issues two series of reports containing supposedly complete figures on the naval losses of the United States and other countries. However, I have not asked Naval Intelligence for these reports, because a naval officer has told me in confidence that their existence is supposed to be a closely guarded secret.

The reports are (1) "Number of naval vessels lost incident to the present war" and (2) "Summary: United States Naval Vessels in Commission".

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 29, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Summary of Intelligence Reports

Russo-German Front

A recent report of the Office of Strategic Services considers it probable that the Nazis will launch an attack on Murmansk and the Kola Peninsula this fall. According to this report, the Germans probably have sufficient forces to take Murmansk whenever they feel that it is worth the sacrifice. It is stated that the Nazis have apparently taken over the north Finnish sector, where they have ten divisions, five of which are mountain divisions, stationed. Also, for some time, the Germans have had in this region a substantial air force for operations against Murmansk, Archangel, and allied convoys en route to Russia.

An attempt to capture Moscow this year is considered to be unlikely, the period before the beginning of winter weather being too short to accomplish this end. It is considered that an attack on Leningrad is a more likely possibility. This would probably be less difficult than an offensive against Moscow, since Leningrad may be running short of supplies. Leningrad has been cut off from communication with the rest of the country since the ice melted on Lake Ladoga last spring, except for some boat and air traffic across the lake.

(O.S.S., "The War This Week", September 17-24, 1942)

Finland

The Office of Strategic Services reports that the recent statement of the Finnish Legation in Washington, to the effect that Finland wants to stop fighting as soon as her security is guaranteed, does not represent the attitude of the Finnish Government.

(O.S.S., "The War This Week", September 17-24, 1942)

Armored Protection for German Locomotives

A report from Vichy states that the Germans are experimenting with armored plate for the protection of locomotives, apparently indicating the success of R.A.F. bombings of locomotives.

(U.K. Operations Report, September 26, 1942)

Turkish Neutrality

Five prominent Turkish editors are on their way to the United States by way of Great Britain, to view for themselves the war potential of the United States.

(O.S.S., "The War This Week", September 17-24, 1942)

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September 30, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

General Strong phoned Pehle at about 2:15 yesterday that our proposed joint letter to the Secretary of State, recommending that immunity of diplomatic correspondence from examination be revoked, had been referred to the Joint Intelligence Committee; that the Committee would meet at 3:00 o'clock and would be willing to hear representatives of the Treasury. I attended with Pehle and Bernard Bernstein.

I was invited to state our case, which I did, saying that we had definite indications of substantial leaks of information through this channel and that we wanted to raise the question whether any comparable advantages were gained, which we doubted. Pehle supplied some instances. Berle for the State Department asked what authority we had for the statement that we were convinced that our enemies obtained advantages through pouch communication exceeding any gains to us. I said this was based on our own information and impressions plus our conversations with General Strong and Under Secretary Patterson. Strong admitted that I had stated correctly the opinion we got from them, but added that the Army would be embarrassed, particularly in distributing codes, if our pouches were subject to search.

Berle said the problem was not new, that it had been the subject of continuous study; that our espionage system enabled us to know pretty well what was going into foreign pouches and could take action in specific cases; that it would be very dangerous to tamper with Swiss pouches because of their representing our interests in enemy countries.

Admiral Train, representing the Navy, said it was their view that military considerations ought to govern; that the advantages of the present system outweighed the disadvantages and the Navy opposed any change. General Strong's views seemed to have changed since we talked with him in Patterson's office on Saturday. He said nothing to support our position beyond admitting that I had correctly reported his former position.

Colonel Buxton, Chief Assistant to Donovan, mildly supported Train and Berle. Neither Fowler Hamilton of B.E.W. or Milton Ladd of F.B.I., who came in late, had anything to say.

I got the impression that the decision had been made before we entered and our hearing was merely formal.

Mr. Bernstein's memorandum is attached.

WJH

September 29, 1942.

MEMORANDUM

At the invitation of General Strong to present the Treasury Department's point of view with respect to the diplomatic pouch question, Messrs. Gaston, Pehle, and Bernstein attended a meeting of the Joint Intelligence Committee of the Combined Chiefs of Staff. Present for the Joint Intelligence Committee were General Strong, head of Army G-2, Admiral Train, Director of Naval Intelligence, A. A. Berle, Jr. of the State Department, Fowler Hamilton of the Board of Economic Warfare, Colonel Buxton of the Office of Strategic Services, and Mr. Ladd of the F.B.I. who came in late.

Messrs. Gaston and Pehle described in detail the development of the Treasury's interest in the diplomatic pouch problem and instances which have been uncovered of the misuse of the diplomatic pouch for transmission of currency and securities in violation of the freeing control order, as well as instances of transmission of information and material of military significance. Mr. Berle asked for our authority for the following sentence in the proposed letter:

"We are convinced that our enemies obtain advantages through the use of the diplomatic pouch which greatly exceed any values that we are obtaining or could hope to obtain through this channel."

Mr. Gaston explained that this letter was drafted after our conference with Under Secretary Patterson and General Strong in which they indicated their views on the diplomatic pouch for the purposes of our Army. General Strong somewhat reluctantly confirmed Mr. Gaston's statements but emphasized that he (General Strong) had made the point that the pouch was important for the Army in transmitting codes and ciphers.

Mr. Berle stated that the State Department would not be inhibited by protocol in dealing with pouches but would deal with the matter realistically. He said the problem has been the subject of continuous study for some time and that the Joint Intelligence Committee had considered the problem of the Spanish pouch and lately of the Swedish pouch and that they had concluded that from the military point of view it was to our advantage to allow such pouches to be transmitted. The Committee had also studied the French pouch and concluded it was being misused, but that the information transmitted through this channel was not very important. The Latin American pouches, Mr. Berle said, raised considerations which were predominantly political. He also said that another Department had insisted on obtaining diamonds through the pouch and were prepared to "tear down the State Department" in order to get them. Apparently Berle was referring to the synthetic stones being gotten from Switzerland at the request of War Production Board.

Mr. Berle also said that we had an espionage system that enabled us to know pretty well what went into the diplomatic pouches of other countries; if we knew that dangerous information is going into the pouch, we would either go after the man who put the information in the pouch or open the pouch in such a way as not to invite retaliation and extract the document. Berle also suggested that if we examined the Swiss Government's pouches it might cause Switzerland to refuse to represent our interests in enemy areas.

In short, Mr. Berle's position was that the State Department recognized that during war the military considerations were predominant, but that from the military point of view no change should be made in the present method of dealing with the diplomatic pouch.

Admiral Train of Naval Intelligence stated it was the view of the Navy that military considerations have priority on the matter of the pouch during war time; that the Navy felt that it would get more out of a continuation of the present system than by abandoning it; that the Navy concurred in Mr. Berle's statement that we had ways of knowing what went into the diplomatic pouch; that through the pouch the Navy can get its codes and ciphers to its men scattered throughout the world and that this was very important from the point of view of convoys; and that the Navy sends about 800 pounds of mail each week through the pouches to its men in South and Central America. He stated flatly that the Navy did not want to adopt the policy indicated in our draft of the letter.

General Strong stated that there were many places where the Army would be embarrassed if it did not have use of the pouch, particularly from Berne. He did not take a position comparable to the one he took at the meeting in Under Secretary Patterson's office last Saturday. On the contrary, the few remarks he made as well as his silence appeared to support the position taken by Mr. Berle and Admiral Train.

Colonel Buxton, who is chief assistant to Colonel Donovan of the Office of Strategic Services, spoke very briefly and indicated he was impressed by the statements made by Admiral Train and Mr. Berle. Colonel Buxton did not support the Treasury position.

Fowler Hamilton of B.E.W. said he had nothing to say on the matter.

118 D

September 30, 1942

I spoke to General Marshall this morning, and he knew all about the misuse of the Diplomatic Pouch, and told me that Stimson had been to see Hull about it yesterday and that Hull is quite excited about the matter.

September 30, 1942
9:00 a.m.

DEFERMENTS

Present: Mr. Patterson
Mr. McReynolds
Mr. McNutt
Mr. Gaston
Mr. Thompson
Mr. Stevenson
General Hershey
Colonel Fitzpatrick

H.M.JR: Just for the benefit of Mr. McNutt - I don't know as you remember - three or four months ago I raised the question about the exemptions for the Government personnel. The President asked me to do it.

We have had two meetings, and with the help of these gentlemen we drew up some regulations as to Government employees. I want to say this meeting is purely informal and informative to me. As a result of a trip I made, through the courtesy of the Army, last week, I was at Fort Dix at the reception center. Remember, at the last meeting, General Hershey - I sort of got the impression - maybe wrong - they said they were going to start taking the younger men first and take the older ones later.

GENERAL HERSHEY: That was the discussion.

H.M.JR: Wasn't that the tenor of the discussion?

GENERAL HERSHEY: Yes.

H.M.JR: When I faced these hundred and fifty men who had been in the Army twenty-four hours, I never saw a more depressing sight in my life; and I asked them down there if they would just pick a hundred cards out and give me the ages and occupations.

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Of a hundred men, forty-six were over thirty-five; twenty-eight of them were between forty and forty-four; and three were forty-five. How are you going to make soldiers out of men like that? Certainly in combat units - it is beyond me. I am more interested in that.

I know I am a little bit out of my department, but it affects us. My own excuse for bothering you people is that every day you are taking men out of the Treasury over forty; but that isn't as important as what I saw at Camp Dix, because I really was shocked.

GENERAL HERSHEY: Did you say, Mr. Secretary - these inductions are all on a single day or over a period of time?

H.M.JR: No, I walked in there, you see, and I said - the Colonel's name is on the outside, and I waited and took a little time - I said, "Now, would you do me a favor? Just pick up the first hundred cards - just any hundred cards that came in today," which he did, and there is the result; the men, their dependents, and their occupations before they came into the Army.

GENERAL HERSHEY: The point I wondered about, this is quite different than the over-all figures on induction, and I am just wondering if you hit a bad day.

For instance, I have a friend that took a regiment at a certain period in June, and he thought he got all the men in the Army that had no teeth, but he happened to draw just about the time that we changed the regulation. I wondered whether that was indicative.

H.M.JR: It was what I saw for that day, and I talked to some of them. I am sure that the Colonel would not stack the cards on me.

GENERAL HERSHEY: No, that is quite true, but I thought that perhaps on a single day--

H.M.JR: Are your figures worse?

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GENERAL HERSHEY: No, no. For instance, the forty-five - we have about two percent, aged forty-five, in the two million three hundred thousand induction.

H.M.JR: Well, I am sure that that was correct.

GENERAL HERSHEY: I don't doubt it, but the thing I am pointing out is that you might have struck a day - you might have gone back another day and found that, for some reason or another, you had a lot of younger men.

H.M.JR: Now I am getting into the realms of just opinion. My impression that I got was that this was a typical day, but you can verify it. These are actually one hundred men that came in that day.

GENERAL HERSHEY: One reason my figures would not be a good answer to yours is that my figures only go up to July 31; yet we were, of course, taking older men before. July was a big call month - three hundred thousand, net.

H.M.JR: This was either Thursday or Friday of last week. Does it give the date? (See attached letter)

MR. McNUTT: No, it does not.

MR. GASTON: It was Thursday, I think.

MR. McNUTT: The 24th.

GENERAL HERSHEY: You see, we have still thirty-five percent between twenty-two and twenty-four - thirty-five percent in total.

Now, on enlistments, we have more people above forty-five - a larger percentage than on induction. Of course, that is due to the fact that they enlist between forty-five and fifty, and we do not induct between forty-five and fifty.

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H.M.JR: General, let me ask you this question again. It was not quite clear last time whether it was your responsibility, the Army's, or the local draft board's.

GENERAL HERSHEY: You mean taking the older men?

H.M.JR: No, taking the younger men first.

GENERAL HERSHEY: It is the same question.

H.M.JR: Yes.

GENERAL HERSHEY: The local boards have no reason to defer a man for age if that is the only reason they have to defer him. We do have the power to change and defer men by age; the law is broad enough. But we have never yet come to believe that there was any particular intention of Congress involved. There have not been enough users of manpower, either industry or the other side, that have brought the question up enough to seriously - that is, we never have come to the conclusion we should do it.

I said the other time that it is possible, but there are some things on the other side of the picture. That is, you are going to, inevitably, get quite a lot of those older men. There won't be many of those who pass the physical. I have some figures on that. I wouldn't ask you to take them too seriously because they are based on our experience in the past and we are now changing our physical requirements rather rapidly.

H.M.JR: Supposing you walked out of here this morning and you said, "I want to change this and I want to take the men below thirty first." Could you do it? Have you got the authority?

GENERAL HERSHEY: I think there is power in the Act to do it, yes.

H.M.JR: You just say, "We won't take any men over forty. I am going to take everybody under thirty, first."

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GENERAL HERSHEY: I think there is power in the Act, yes.

H.M.JR: Well, I am just one, and I have got - I mean, as I say, this is purely informal. A very slight repercussion on the Treasury is unimportant compared to getting a good Army, but just as a plain, every-day citizen, I would like to urge you, just in my capacity as a citizen, to consider that thing. After what I saw there, I really was shocked, General. It was the most depressing thing I have seen in a long time. Mind you, the same day I was over on the other side and I followed combat troops right from the staging area to the ship's side, and when I followed those men - they had been in the Army one to two years - they were the most magnificent men I have ever seen.

(Mr. Patterson entered the conference.)

GENERAL HERSHEY: Mr. Patterson is much better able to answer for the Army than I am, but if I were garrisoning a post somewhere, and there were very little chance of attack, and yet it was monotonous day after day, week after week, year after year, I would rather take men that were not too young, because they will stand the monotony much better than these twenty-four-year-old youngsters. They go all over the country the first three or four weeks, and fall off the cliffs, and drown where the water is deep, and then they want to do something else.

MR. McNUTT: And they do do something else.

GENERAL HERSHEY: And there are hundreds of places in our stockrooms, and operating a lot of things, where an older man will get a good fit. For instance, try to use any youngster in a fit room. He will throw the first thing at him, and if he complains he will say, "Mine didn't fit, either; get moving," but the older fellow will spend a great deal of time. I am not trying to sell the older men; it doesn't make much difference except the more ages cut off, the heavier the burden on the ages you do not.

- 6 -

H.M.JR: I would like to explain to Mr. Patterson, as an excuse for this committee - this informal committee we had before to help the departments on exemptions - I use this committee as an excuse to report what I saw at Camp Dix induction center last Thursday when I was up there. I think it was the most depressing sight I have ever seen, to face those hundred and fifty men who had been in the Army for twenty-four hours - to see their ages and their physical conditions.

I said the impression that I had when we met here about a month ago was - I remember you seemed surprised - there would be a tendency to take the younger men first. I just checked that with General Hershey, and he said there was that discussion. All I am doing now is - the fact that they are taking a lot of men over forty out of the Treasury is unimportant compared with what I am taking the liberty of bringing to you people's attention, just as a plain every-day citizen.

I am raising this question: Why not take the younger men first? How can you make combat troops out of the forty-six percent of the men over thirty-five?

MR. PATTERSON: You can't.

H.M.JR: Now, General Hershey said there is two percent over thirty-five.

GENERAL HERSHEY: No, that is thirty-five percent--

MR. PATTERSON: The average, I understand to be twenty-five. That is too old for the average age.

H.M.JR: Bob, I have made my explanation, and I hope nobody will mind my bringing this to them, but it was - I don't see how you can make a combat Army out of men - the kind of men that I saw there.

MR. PATTERSON: I saw the same thing you did out at Camp Leonard Wood, coming right in there to a combat division from the reception center - and baldheaded men. I don't know what their ages were; I wish I had inquired; but they were obviously well up in years. We have had this policy of protecting the young men - foolish.

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H.M.JR: One other thing, I asked General Hershey if he felt he had the authority to change this - about taking younger men - and he said he felt he could. Now, that is that.

MR. PATTERSON: Of course, the change that took place two or three weeks ago in regard to college students will be wholesome. That will help.

GENERAL HERSHEY: A great deal.

MR. PATTERSON: I hope the Navy does the same thing.

GENERAL HERSHEY: We are going to begin to get some of these youngsters out of the factories. We can't do it all in one month.

Two point six are above thirty-eight on induction, out of two million three hundred thousand, including the month of July.

Of course, it may be getting worse, now, but, on the other hand, the only thing I am frightened of is, if you go to two or three other induction centers you might get a different feeling.

H.M.JR: Fort Leonard Wood is near St. Louis, isn't it?

MR. PATTERSON: Yes.

GENERAL HERSHEY: Were the majority of them bald-headed?

MR. PATTERSON: No, I wouldn't say that, of course. I was struck by their ages.

MR. GASTON: Do you have figures on how many men you can use of these older ages - how many the Army can use to good advantage of the older men?

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GENERAL HERSHEY: I think the Under Secretary--

MR. PATTERSON: A good many, but the average age ought to be younger than twenty-five plus. It is somewhere from twenty-five to twenty-six, isn't it, General?

GENERAL HERSHEY: I think so. I could give you it very rapidly. Two point six are thirty-eight and above, one point six--

MR. McNUTT: That is not too large a proportion, do you think?

MR. PATTERSON: I think the average age ought to be brought down.

GENERAL HERSHEY: We have about fifteen percent, or a little higher, in the thirties and the rest of them are below.

MR. McNUTT: Eighteen percent, and eighty-two percent in the twenties.

MR. PATTERSON: Those men can be used.

H.M.JR: I think something has happened the last month or so.

GENERAL HERSHEY: That is true, up to July more men of forty-five were inducted than at forty-five and forty-four since. So I--

H.M.JR: Well, all I can do, as I say, is bring it to your attention, and as I say, I am simply doing it as a citizen, that is all. I think it is terrible - the sight I saw. You say you saw the same thing.

MR. PATTERSON: Yes.

H.M.JR: General, let me ask you another question. What is the matter with taking the eighteen and nineteen year olds?

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GENERAL HERSHEY: Nothing, sir.

MR. McNUTT: Nothing.

GENERAL HERSHEY: I have been on record time after time--

MR. PATTERSON: I will tell you the status of that. Of course, the bill has been introduced in Congress. The War Department has written a letter favoring it and sent it to the Bureau of the Budget for approval, and we have not yet received an answer from the Bureau of the Budget. It has been about three weeks, I believe.

GENERAL HERSHEY: We have a letter--

MR. McNUTT: I think the testimony of all of us has been in favor of eighteen and nineteen - it has to come.

MR. PATTERSON: We have not been able to get the letter released yet. Of course, it is most urgently necessary, there is no doubt of that at all.

GENERAL HERSHEY: If that would pass, you would dump into the manpower pool a million and a half, available for service. Probably a third of them would go to the Navy, if they do as well as they generally do, but at least the Army would get about a million and that would be several months - three or four months' supply.

H.M.JR: General, not wanting to press you too hard, but just a little, is there any reason, while that is pending, that you could not give some instructions about, as I say, not taking them over forty with dependents - married men over forty?

GENERAL HERSHEY: Yes. Of course, Mr. Secretary. I am being shot at, and very properly so, by the fact that now, before you can take a man - has he children? Has he two, three, or four children? Is he living with his wife, and so on. We go beyond the occupational.

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That is, I am not quarrelling; I think we have got to look and see what he is doing; I think we have to be very careful we don't take him out so that one plane does not appear this month that should - or this day. But it is getting to the place where your poor local board has got more rules that they have to apply before they can take anyone - and I have no quarrel with this, but if you do it, it will be thirty days before it will begin to take, unless you stop induction this month. I am trying to put half a million men into induction centers; I am having difficulty. If we add one more I think we ought to be prepared to lose twenty or thirty thousand men - perhaps not. If they are coming such as this would indicate, then you are going to lose half of them. But I just can't believe that this - maybe this is the one swallow that somehow or other, I believe, flew up in the latter part of January, and I think we shouldn't think that spring is coming. These figures are there, but that is just one of those days. Now, some local board has cleaned up all their youngsters - or two local boards - and unloaded their oldsters that day, because that is not--

MR. PATTERSON: Where are these figures taken from?

GENERAL HERSHEY: One day - induction day - at Camp Dix.

MR. PATTERSON: This is yours?

H.M.JR: That is mine - one day at the induction center. I saw them and then I said, "Would you mind taking the first hundred cards of this morning and giving me that thing?" - which he did.

GENERAL HERSHEY: I have no doubt on the validity, except I sort of feel that we ought to take more samples to see.

H.M.JR: Couldn't you telegraph to all your induction centers and say to send you a hundred as of today?

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GENERAL HERSHEY: Yes, but I think the Army, very soon now, probably could give you the average age for the induction, certainly in August and probably in September. That is--

MR. PATTERSON: Does the age go up during the summer - average age?

GENERAL HERSHEY: Yes, some, but the figures - I have included the big July draw - three hundred thousand.

H.M.JR: To see whether this is a swallow or whether it is a flock, or whatever you call it, couldn't you just send out telegrams for one hundred?

GENERAL HERSHEY: Mr. Secretary, the Selective Service has nothing to do with those induction centers. The Adjutant General's office keeps within a month current a run by all ages of all the cards of induction. I think they could give - I know they could give August, and probably could give September in ten or fifteen days.

H.M.JR: What about it, Bob, just a quick check like that - could that be done?

MR. PATTERSON: Yes, the Adjutant General could do that. The last I heard, as I say, was the average age was twenty-five plus - somewhere in there. Is that right?

GENERAL HERSHEY: Yes.

MR. PATTERSON: I don't know how it is running - just August and September.

H.M.JR: No, but I mean, you send out a telegram as of today - a hundred men - induction centers as of today.

MR. PATTERSON: I wouldn't be surprised if that were not representative right today, would you?

GENERAL HERSHEY: No, it is not.

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MR. PATTERSON: It is not?

GENERAL HERSHEY: I am quite sure it is not.

MR. PATTERSON: Because these fellows here - you are pretty high, you have got twenty-eight between forty and forty-four. The last figures I saw on forty to forty-four, I think, showed a total of about fifteen thousand men inducted.

GENERAL HERSHEY: Yes, and, you see, we are inducting three hundred thousand a month, and--

MR. PATTERSON: There are not so very many in the forties; there are a lot in the thirties.

H.M.JR: Mr. McNutt, where does this cut across you?

MR. McNUTT: It cuts across very distinctly. Let me just show you one thing in connection with one of the principal Navy suppliers, in the building of their boats.

Here is a town of twelve thousand; this is the one industry in the town. These people were in this week showing just what was happening to them. It made an honest effort to recruit labor elsewhere. Out of the last hundred men they took, twenty-five were physically able to stick on the job. They say, "We have made an honest effort to replace the younger men, but it just can't be done." The work is such that it requires that much physical energy.

Now, it is a matter of choosing as to whether or not we are going to have boats or the men, but we have got to have boats, and it is like Solomon dividing the child. That is what we are up against.

H.M.JR: But you - I am in Mr. Patterson's corner; I think it takes the younger men to do the fighting.

MR. McNUTT: I quite agree with you, and in certain of these occupations it also takes the younger men to do the heavy work.

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MR. GASTON: In the boatyard, the younger men in this case might have been men from thirty-five to fifty while the older men he was taking in their places might have been men of fifty and up. That is, you may be dealing with different groups, here.

MR. McNUTT: I went very carefully into that situation with them. That happens to be a small community. They have exhausted all the supply. There is not any local labor supply left, and then they have been combing the countryside and we have been combing it for them.

MR. GASTON: What he meant by young men perhaps was men from forty to forty-five.

MR. McNUTT: No, he was talking about some of these men from twenty-five to thirty-five.

MR. PATTERSON: The problem is most acute, of course, in places that Paullin mentions.

MR. McNUTT: The smaller communities - that is General Hershey's most acute problem, for the simple reason that the community itself comes to the draft board - they will pass on it.

H.M.JR: I haven't made a dent on General Hershey.

GENERAL HERSHEY: You don't need to, if you can, for instance, convince the War Department and Mr. McNutt. I am merely pumping gas, and if they say that it is best, I am ready to move any time. I merely set up some of the difficulties, but that does not mean - we have never worried about difficulties. If that is the thing you want to do, we will do it gladly. I personally am not convinced, but I don't have to be convinced. All I have to be is told. I will be glad to do it.

MR. McNUTT: General, don't you feel that if those figures are representative, as of today, that the proportion is not too high?

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MR. PATTERSON: If those are the figures I saw I don't think that is, but I think the thing has been coming in, the June, July, and August--

MR. McNUTT: That is at the end of July. If we can have August and September figures, then we can know what has happened these last two months.

H.M.JR: Plus a one day's spot check.

MR. McNUTT: The spot check is all right. A spot check should reflect the general average, ordinarily.

H.M.JR: It might show a tendency - I mean, it would either show--

MR. McNUTT: It might show a tendency in certain regions, for one thing.

H.M.JR: It didn't take them very long to turn out those figures they gave me.

MR. PATTERSON: Why are the figures at twenty-one so low - much lower than twenty-three?

GENERAL HERSHEY: One thing about the problem, some of your boys have already enlisted, you see.

MR. PATTERSON: Even then it is lower. We didn't move into the twenties for quite a while after we could have.

GENERAL HERSHEY: That is true but now three thousand men become twenty every day, and I will guarantee that within thirty days those fellows will be in one of three places, either rejected physically, have been encouraged to enlist, or will have been inducted.

MR. STEVENSON: Or in the Navy. (Laughter)

MR. McNUTT: The Navy age is twenty-one, plus - average age?

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MR. STEVENSON: The average age is about twenty-two, now.

GENERAL HERSHEY: I think so; I think it is going up.

MR. STEVENSON: Mounting all the time - I am not sure what it is. We can find out.

H.M.JR: Well, anyway, I brought it to your attention. I hope nobody objects to my doing it. If you could have a spot check made, I would appreciate it. I tell you, I will have that thing photostated and send it over to you within the hour.

MR. PATTERSON: I was going to ask if I could take that.

H.M.JR: If you don't mind, I will have it photostated.

MR. McNUTT: I am perfectly willing to sit down and--

MR. PATTERSON: The first relief, of course, that we can get is the passage of the law lowering the draft age to eighteen and getting eighteen and nineteen year old men.

H.M.JR: That is at the Budget?

MR. PATTERSON: It is stalled in the Budget.

MR. PATTERSON: We have tried to get it released. It has been there about three weeks, I think.

H.M.JR: Will you do that?

MR. PATTERSON: They won't take it up in the committee until they get the War Department views of it. We can't give our views until the Bureau of the Budget--

MR. McREYNOLDS: I will find out in fifteen or twenty minutes where it is. If it is in Shangrila I can't answer it until tomorrow.

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GENERAL HERSHEY: I want to make it perfectly clear that I haven't moved, but I am not anchored to a position. I couldn't be, anyway. As soon as I am told I shall act. I don't feel like acting - it is a policy we have been going on quite a while, and I think there ought to be reasons for changing. I don't want anybody to worry about my little difficulties of changing the course of things. I am noted in this country for making contradictory statements, and I am perfectly willing to make one any time the country needs it.

MR. PATTERSON: We didn't act for a long time on the twenty-year olds. Months went by before anything was done.

GENERAL HERSHEY: You mean they were mixed in with the others.

MR. PATTERSON: They weren't being taken, that is all. After the law was lowered from twenty-one to twenty, nothing was done on it.

GENERAL HERSHEY: What we did was put them on the bottom of the list, but now we have long since gone down through the list; we are running up and down the ladder trying to find somebody whose head is sticking out. Now, a boy gets to be twenty - in fact some of these lads got their questionnaires before they were twenty, so we would know all about them and start putting them in to fill the calls.

MR. PATTERSON: That is the only grievance I have had. That is over now. There were months there when they didn't do anything about the twenties. They were taking older men instead of the twenties.

H.M.JR: The only reason I suspect that this is indicative of what is going on in the country is on account of the men of forty-three, forty-four, and forty-five who have been called within the last week who are working for the Treasury. That is why--

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MR. McNUTT: It is indicative of scraping of the bottom of the barrel - another thing, which is another real and present reason for lowering the draft age.

MR. PATTERSON: Of course, the real relief will be when we can get substitutions in war industries, because there are a great many young men in them, particularly.

MR. McNUTT: They have all been warned, Bob, as you well know, but the cry is immediate. The minute you start in on their rolls - and I want to say that the 2-A's, 2-B's, and 3 classifications by draft boards have been very strict. Don't you agree with me, General?

GENERAL HERSHEY: Yes, I think - well, I think it has been strict in that they have held them pretty well in the essential industries. I think, however, that within the industry itself - and that is something I don't know who can solve - you probably have men who are not working full capacity. Some days it is just that that particular day there wasn't material, and the next day there was, and the next day - you can't discharge your force when you get it built up.

MR. McNUTT: The whole thing is to get these employers to make proper manning tables and to be as honest with us as we have tried to be with them in protecting them.

GENERAL HERSHEY: I think they are moving.

MR. McNUTT: "I don't want to break up my organization," they say. But when the Sperry people come down to me - knowing what the fire control apparatus means to both of us - then I begin to wonder. And, of course, we had to step in on this radar. There are only eight hundred men in this country that know anything about it. We had to protect them for it.

GENERAL HERSHEY: And they are all young - they didn't teach it ten years ago. You can't help it. And the things you have to learn quickly, the youngsters learn a little quicker.

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MR. McNUTT: That business you can't teach in six months, or twelve months, or even eighteen.

H.M.JR: There are eight hundred involved. Were they all young?

MR. McNUTT: Practically all of them. I gave the General the list by name and occupation and what they were doing.

MR. GASTON: Have you any figures to show whether you are getting more men - an excess of older men, more than you can use to advantage in these non-combat units General Hershey speaks about?

MR. PATTERSON: No, that would be very hard to figure out. They told me that of course they were not sending the older men into the combat divisions; but to some degree they are, there is no doubt of that, because I saw it in the combat divisions.

MR. GASTON:; You naturally want a lower age that you can use because of the fact you haven't got versatility there in your older groups.

GENERAL HERSHEY: Remember, though, we took under twenty-eight for quite a few months back in '41, and that has tended to pile up some of the older men. In other words, this manpower - you can't stretch it. Of course, you get into the eighteen and nineteen year olds and you get a million and a half of good material, and then you are going to be right back in a worse condition than you were.

MR. McREYNOLDS: I will find out where the letter is in fifteen minutes.

H.M.JR: Will you?

HEADQUARTERS 1229TH RECEPTION CENTER
FORT DIX, NEW JERSEY

HGP-JER

September 24, 1942

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

My dear Sir:-

In compliance with your request, the enclosed report, composed of information contained on the classification cards of 100 Selective Service Men, chosen at random from men received at this station, is submitted.

In the column marked "Specialist Serial Number", there are a number of blanks. This indicates that there is no Army Classification for the occupation listed.

I trust this is the information you desire, and that if there is anything further that you desire, you will not hesitate to call on us.

Respectfully,

(Signed) H. G. Paullin

H. G. Paullin,
Colonel, Cavalry,
Commanding.

Distribution of 100 random Selective Service Men as to age, marital status, and claimed dependency, partial or otherwise.

<u>AGE</u>	<u>NUMBER</u>	<u>M</u>	<u>S</u>	<u>DEPENDENTS</u>
20-24	37	5	32	10
25-29	11	8	3	12
30-34	6	2	4	2
35-39	15	7	8	13
40-44	29	7	21	18
45-	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>
TOTAL	100	30	70	56

September 30, 1942
11:00 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

David
Vaughan: Hello. I'm sorry to bother you, sir -- this is
Dave Vaughan -- but I think you talked with Mr.
Perkins about this secret rubber operation that
we have in Australia?

HMJr: Yes.

V: Well, I wanted to send someone over to make ar-
rangements to obtain some Dutch coins down in
Australia....

HMJr: Yes.

V:and I wasn't quite certain whether Mr. Bell
or someone in your shop over there knew about it.

HMJr: Oh, yes.

V: We're trying to be as secret as possible.

HMJr: Mr. Bell is the man.

V: He is the man.

HMJr: Yeah, he handles that sort of thing.

V: All right. It will be all right then for me to
send someone over to talk with him about it.

HMJr: Yes, but - oh, yes, he - he - he's entirely
familiar and that's his responsibility.

V: All right, sir. Thanks very much.

HMJr: Not at all.

V: Goodbye.

September 30, 1942
12:18 p.m.

HMJr: Hello.

William H.
McReynolds: I found the War Department letter over in Paul
McNutt's office. (Laughs)

HMJr: I don't hear you.

M: I say I found the War Department letter over in
Paul McNutt's office.

HMJr: What are you doing - what are you doing in Paul
McNutt's office?

M: I say I found the War Department letter, request-
ing the reduction of the draft ages.

HMJr: Yes. What about it?

M: Well, they sent it over to McNutt for a clearance
and he hadn't cleared it.

HMJr: Well, I'll be damned!

M: (Laughs) Well, he - as a matter of fact, he didn't
know that he had it. It hadn't gotten to him yet.
His gang hadn't informed him yet that he had it.

HMJr: How long was it over there?

M: About a week.

HMJr: Well, that's a good joke, isn't it?

M: Uh huh.

HMJr: He must feel kind of foolish, doesn't he?

M: I should think so.

HMJr: Does - does Patterson know that?

M: (Laughs) No, I don't think so. I haven't told
anybody. I naturally wouldn't, except to you.
But it's been - it's been in - they sent it over.
I checked with the Budget and had them check the
dates. And they say, in the first place, it
hasn't been there two weeks. It only came in a
week ago.

- 2 -

HMJr: Yeah.

M: And they sent it immediately over to McNutt....

HMJr: Yeah.

M:and have been trying - they said they made several efforts to get it out of his office.

HMJr: Yeah.

M: But they couldn't get a report on it, and I discovered that the routine over in McNutt's office hadn't gotten up to him yet. He hadn't been informed yet that it was in his office.

HMJr: I see.

M: He cleared it this morning.

HMJr: I thought he had such a wonderful run office.

M: (Laughs) Well, that was the fact with this letter.

HMJr: Well, where - where is it now?

M: It's on its way back to the Budget.

HMJr: You got it cleared within the hour?

M: Yeah, it will be clear.

HMJr: Well, we got something out of the meeting this morning, anyway, didn't we?

M: I don't know how long it would have stayed there if we hadn't of found out.

HMJr: I think that's wonderful.

M: (Laughs) I thought maybe you'd get a kick out of it.

HMJr: Yeah, okay, Mac.

M: Okay, sir.

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HMJr: Hello?

M: Yeah.

HMJr: Well, supposing you follow it through from....

M: Yeah, I'll follow it from the Budget and see when it gets back - back to the War Department.

HMJr: All right.

M: I think it will be done today.

HMJr: Right.

M: All right.

HMJr: Thank you.

September 30, 1942
12:25 p.m.

HMJr: Hello.

John W.
Schott:

Mr. Schott talking, Mr. Secretary.

HMJr: Well, at 10:05 I called up Mr. Stimson and asked to speak to him, and somebody said he would call me back in ten minutes.

S: Well, I didn't - I didn't state any time. The Secretary said he'd call back later, because he had some people in there, and he's had people in there continuously all morning, but I did try to get you just a little before eleven-thirty before he started this - this meeting, which he has every Wednesday morning....

HMJr: Yeah.

S:and the operator - I heard her tell another operator to transfer it to your private line. In the meantime, the people came in through the Chief of Staff's office, and the Secretary told - told me to hold it off until after this meeting is over.

HMJr: Well, is he still busy?

S: Yes, sir, that meeting is still going on.

HMJr: Well....

S: He hasn't forgotten about it. He just hasn't had a chance to call you.

HMJr: Well....

S: But just as soon as this meeting breaks up, I'll - I'll go in there, and we'll put the call through.

HMJr: Well, he'll be going to lunch.

S: Well, I - oh, it will break up before he goes to lunch.

- 2 -

HMJr: Well, I'm going out for a little while now. That's why I called.

S: I see, sir.

HMJr: I - I did want to talk to him, but - I'm disappointed.

S: Are you - are you leaving now, sir?

HMJr: Well, I'm going out for fifteen or twenty minutes. I'll be back again. I'll be back before one.

S: Well, now I'll tell you, this meeting usually lasts until around quarter to one or ten minutes to one. It's a meeting they have every - every Wednesday morning at eleven-thirty.

HMJr: Yes. Well....

S: And when - when it breaks up, I'll call your office, and if you're - if you are there I know that the....

HMJr: All right.

S:Secretary would be very glad to talk with you. He just hasn't had a chance.

HMJr: Well, okay. Say, you can tell him I was disappointed because I was - I wanted certain information before one o'clock.

S: Yes, sir, I understand, sir. I'll give him that message.

HMJr: Goodbye.

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September 30, 1942
1:03 p.m.

HMJr: Hello.

Secretary
Stimson:

Hello, Henry. I've been sitting for more than an hour and a half in a large conference here and haven't been able to - I tried to get you in answer to your call just when they were filing into the conference....

HMJr: Oh, yes.

S:and you were busy.

HMJr: Well....

S: So I've been delayed ever since by the conference.

HMJr: I....

S: I'm sorry.

HMJr:I don't know whether you want to on the phone or what but it was in regard to these pouches that I wanted to talk.

S: I wanted to tell you, yes, I've already acted on that.

HMJr: Have you?

S: Yes, I had a long talk with Hull yesterday....

HMJr: Yes.

S:on various matters....

HMJr: Yes.

S:and I've - I had gotten in preparation for it these four outrageous instances that General Strong had....

HMJr: Yes.

S:of violation of most important secrets, and I sprang those on Hull.

HMJr: Yes.

S: He hadn't heard of them at all, and he was very serious... - was deeply impressed with it apparently, and said he would take it up - and would take up - I said, "The - the harm done by these things is so serious that I think that you should consider the abolition of the privilege."

HMJr: Yes.

S: He said he thinks - thought it very likely that was so, that the only thing he had to consider was the weighing off of the counter privileges - but he thought that some step like that - step ought to be taken, and I - I'm going to keep right on him.

HMJr: Well, that's what I wanted to find out.

S: Yes.

HMJr: Well, I'm glad you're on it. The only thing, as I understand, that the Navy has is that they're getting some of these jewel....

S: The - the....

HMJr:from Switzerland.

S: Switzerland things.

HMJr: But that's perfectly silly as a comparison to what might be going out.

S: Oh, yes. Oh, well, I have the facts from - for him on that.

HMJr: Good.

S: And I know the first step was in the direction that General Strong should prepare his whole dossier to meet the other corresponding matter.

HMJr: Do you think - do you think Hull was impressed?

S: I thought he was very deeply impressed.

HMJr: Good, good. Well, that's what I had on my mind.

S: Yes - much more so - if you - if you'd start at the bottom in the State Department, you'd get nowhere.

HMJr: No. Well, I hope they act soon.

S: Yes. Well, now this other thing I talked to him about was also a thing that had been - come from you.

HMJr: Yes.

S: That was the basis of exchange.

HMJr: Yes.

S: And Hull and I agreed that - that we'd take the figure you represented ?

HMJr: Good.

S: And so I issued the order for that.

HMJr: Okay, Harry.

S: So you see I'm not - not wilfully trying to neglect you.

HMJr: (Laughs) I never even would suspect that.

S: All right.

HMJr: Thank you.

September 30, 1942
2:50 p.m.

HMJr: Hello.

Operator: Mr. Patterson.

Robert P.
Patterson: Hello.

HMJr: Bob?

P: Yes, Henry.

HMJr: I thought in these difficult times I might give you a smile.

P: What is it?

HMJr: Where do you suppose your recommendation for men of eighteen and nineteen years old was?

P: I don't know.

HMJr: You never could guess.

P: No.

HMJr: In - in Paul McNutt's office.

P: Oh, hell!

HMJr: And it's....

P: God! Who reported that? McReynolds?

HMJr: Yeah, and we got it out this morning, and now it's back in the Budget. But it was resting in McNutt's office.

P: All this - all these weeks, I suppose.

HMJr: Well, he said he only had it one week.

P: Oh, yeah.

HMJr: And they claimed that he didn't know it was there.

P: Yeah.

- 2 -

HMJr: But I thought that that might give you a smile, and.....

P: Yeah, isn't that a hell of a thing. Well, are they going to release it to us?

HMJr: I don't know. I'm going to keep following it, and at least I've done that much today.

P: Well, that's a good day's work.

HMJr: I mean, at least....

P: You nabbed it out of there anyway.

HMJr: And we're - I'm going to follow it right through the Budget now.

P: Well, thanks very much.

HMJr: But I....

P: Your trip was worthwhile.

HMJr:but - but do you think....

P: I - I told - I told the Secretary this morning about your observation up there at Camp Dix....

HMJr: Yes.

P:and it disturbed him some.

HMJr: Oh, about those older men.

P: Yes. Yes, I told him. I told the War Council, Marshall and the rest....

HMJr: Did you?

P: ...at the meeting, yes....

HMJr: And are you going to check as to the other reception centers?

P: Yes, yes.

HMJr: Good.

P: Right.

HMJr: Good.

P: Yes.

HMJr: Well, I'm going to follow through on that.

P: On the - on the eighteen and nineteen?

HMJr: Yes.

P: Good.

HMJr: And....

P: I welcome that.

HMJr:and I spoke to Stimson, and he spoke to Hull yesterday.

P: About the other matter?

HMJr: About the pouch.

P: Yeah.

HMJr: And he said that - he said, "I gave him four outrageous incidences," and he said that Hull was quite disturbed.

P: Yeah.

HMJr: So that's moving.

P: All right, good. Well, we may get - we may win the war at last.

HMJr: (Laughs)

P: Well, thanks for your help.

HMJr: Well, anyway maybe - maybe you can make me - give me at least one stripe anyway.

P: Yeah. It is - it is greatly - your help is greatly appreciated.

HMJr: Thank you.

P: Thank you very much.

HMJr: Goodbye.

P: Goodbye.

September 30, 1942.

Conference in Secretary Morgenthau's Office
September 30, 1942
5:30 P.M.

Present: Secretary Morgenthau
Brazilian Ambassador
Mr. D. W. Bell
Mr. White

The appended telegram from the State Department was received in the Treasury Department at 4:35 P.M. on September 30. The matter was called to Secretary Morgenthau's attention and Secretary Morgenthau decided to get in touch with the Brazilian Ambassador at once to inquire of his Minister of Finance whether the Treasury could be of any assistance in the present monetary emergency. The Ambassador was asked to call on the Secretary at 5:30, which he did.

The Secretary stated to the Ambassador that he had just been informed by cable that a banking holiday had been declared in Brazil and he understood confidentially that the reason was the greatly increased withdrawals of currency from the banks there. Secretary Morgenthau asked the Ambassador if he wouldn't inquire of his Minister of Finance whether there was anything that the Treasury could do to aid them in this emergency situation. The Ambassador thanked Secretary Morgenthau for his desire to aid Brazil and said that he would inquire at once. He thought he might telegraph in view of the fact that telephone messages sometimes leaked out, but in view of the nature of the request, it was decided that he would telephone.

The Secretary told the Ambassador that he would be available that evening, if the Ambassador wished to reach him, and that he (Secretary Morgenthau) was prepared to act quickly if assistance were requested.

Immediately after the Ambassador left, the Secretary tried to get in touch with Mr. Welles to inform him of the conversation but Mr. Welles could not be reached.

Mr. White got in touch with Larry Duggan, State Department, and informed him of the conference and Mr. Duggan stated he thought it was a fine thing to do.

H. D. White

DLS

A portion of this telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Rio de Janeiro
Dated September 28, 1943
Rec'd 1:35 a.m. 29th

Secretary of State,

Washington.

3876, September 28

The president today promulgated the following decree law relating to mobilization of economic resources of the country.

"Article one. There are mobilized in the service of Brasil all economic utilities and resources existing in the national territory regardless of their origin, nature, ownership or affiliations. Sole.

Human labor is included in the mobilization.

Article two. In order to provide for the mobilization referred to in the preceding article, the President of the Republic shall appoint a Coordinator of Economic Mobilization who will serve under his direct and exclusive control.

Sole.

If such an appointment should involve a government employee, he will be assured while in service of all rights and privileges pertaining to his function.

Article three. The Coordinator of Economic Mobilization as delegate of the President of the Republic will have authority to handle general coordination matters necessary to: (one)--regulate the mining, agriculture and cattle industries as well as all industries in general so as to enable them to produce with a maximum of efficiency the materials and products of a most essential and urgent nature; (two)--control through the Export-Import Department of the Bank of Brasil all imports and exports of raw materials and semi-manufactured and manufactured products in accordance with the conveniences and demands of the armed forces, public services and the public in general; (three)--coordinate transportation in the national territory and abroad; (four)--plan, direct and fiscalize the rationing of fuel and energy; (five)--intervene in the supply of labor, determining the utilization of labor in the proper time and place; (six)--investigate the cost and prices of, and profits from merchandise, materials and services; (seven)--establish the maximum, minimum and basic prices, or the limit of prices at which merchandise or materials should be sold or at which services should be charged for; (eight)--prohibit the purchase, sale or supply on a

different basis than the established prices; (nine)—determine the conditions for the sale of merchandise; (ten)—require from producers, manufacturers and other dealers and suppliers of merchandise the licenses which may become necessary; (eleven)—establish or limit the quantity of any merchandise which may be sold, supplied or distributed to public consumption as well as the services to be rendered; (twelve)—gather and coordinate statistical data relative to prices, costs and stocks of merchandise; (thirteen)—study and propose any measure designed to assure the defense of the nation's economy.

Article four. In order to fulfill his duties the coordinator of Economic Mobilization is authorized to: (one)—issue regulations to govern the operations of public administration or private enterprises, taking over the management of the latter when necessary; (two)—promote the purchase, loan or rental of materials and equipment necessary to the installation of new industries or to the maintenance and expansion of existing ones; (three)—requisition merchandise or services, promoting the distribution of the former among consuming centers or retaining them for stockpiling; (four)—stimulate the closest possible collaboration among the organs of public administration including any others affiliated with the government and autonomous departments—federal, state and municipal, as well as between such organs and private enterprises; (five)—carry out all necessary and appropriate acts to safeguard the interests of the public and obtain the greatest profits from economic utilities and resources.

Article five. The activities of the Coordinator of Economic Mobilization will be carried out in the entire national territory by means of the organs of federal, state and municipal administration.

Article six. Any person who may oppose the execution of the orders of the Coordinator of economic Mobilization or in any (*) manner his activities shall be punished by confinement from one to three years and a fine up to 100 contos.

Sole.

The National Safety Tribunal shall pass judgment on the crime mentioned in the preceding article.

Article seven. The Commission for the Defense of National Economy is abolished.

Article eight. Provisions to the contrary are revoked.

(BERN BROWN) Donnelly, Micoen and Childs today attended inaugural session of the Coordinator's Office presided over by Minister Jose Alberto Lins de Barros who has been named Coordinator. The Brazilians informed us of plans for carrying out the provisions of the legislation. We assured them of our full cooperation. (END BROWN)

Detailed report follows. Please inform. Board of Economic Warfare.
CHARGE BOARD ECONOMIC WARFARE. CAFFERTY

KLP

(*) apparent omission

sh:copy
9/30/42

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152

BEH
A portion of this telegram
must be paraphrased before
being communicated to any-
one. (BR & PLAIN)

Rio de Janeiro

Dated September 30, 1942

Rec'd 12:30 a.m.

Secretary of State,
Washington.

TRIPLE PRIORITY

3897, September 29 (SECTION ONE)

Brazilian Government tonight declared a bank
holiday of eight days effective September 30.
Official reasons for action include (one) time to
mobilize economic resources of country and (two)
to prevent serious repercussions to commerce and
industry. The legislation also suspends collections
during the holiday.

(BROWN)

(See Embassy's telegram No. 3898 September 29
for section two) (END BROWN)

CARFFERY

C
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153

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil.

DATE: September 29, 1942, 10 p.m.

NO.: 3898, SECTION TWO.

In strict confidence.

In reality the reason for the action is that because of the trend of affairs here Axis nationals, Spaniards and Portuguese have withdrawn very large quantities of bank notes in the past few weeks and current demand cannot be met because of insufficient bank notes. The economic mobilization program also aggravated the situation.

(Reference is made by the Embassy to its telegram No. 3876, September 28, 1942.)

Detailed description of situation will follow.

END OF MESSAGE.

CAFFERY

TREASURY DEPARTMENT

154

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

September 30, 1942

With Mr. Altmeyer and Mr. Cohen of the Social Security Board I saw Senator Wagner this morning. We discussed with him the whole subject of the Vandenberg social security proposal. I told him that you hoped he would make a reply immediately after Senator Vandenberg had made his attach, -- that you did not think the reply should be postponed, as had been suggested, to a later date. We left with Senator Wagner a statement, copy of which is attached hereto, designed to constitute an effective reply to what we think Senator Vandenberg will say.

Senator Wagner did not think this matter would come up for consideration today because of the price control bill situation, but he agreed to study the memorandum we provided and seemed quite willing to undertake the job.

REP

Attachment

The basic question which the distinguished Senator from Michigan has raised is whether the increase from 1½ on employers and employees to 2 percent each scheduled for next year in the contribution rates of the old-age and survivors insurance program is justified in the light of the needs of that program. A careful review of the background and the current situation will show that such an increase is not only desirable but necessary for sound financing of the social security system. In order to arrive at this conclusion, however, it is necessary to do more than just look at some figures. We must carefully evaluate the meaning and the importance of our statistics with the facts and conditions we are faced with in this rapidly changing world of ours.

It was understood when the original social security act was passed in 1935 and when it was amended in 1939 that the cost of the benefits will rise each year for many years to come, (due in large part to the increasing number and proportion of aged in our population), and the average, or level, rate of contributions which would be required to support the program over the later as well as earlier years of operation is well above 2 percent each on employer and employee. Contributions at a still higher rate could have been collected from the outset without providing any long-term excess of funds for benefit purposes. The increase now scheduled would thus be reasonable without regard to any problems of war financing and the prevention of inflation.

The current size of the Old-Age and Survivors Insurance Trust Fund is of course largely a result of the high level of economic activity during the last two years. This level of activity has involved a high contribution income and, because of an abnormally low rate of retirement among the aged,

a low level of expenditures. With this extra-ordinary activity there has been and will continue to be a very rapid increase in the number of older workers who meet the insured status requirements of the program but remain in employment, and an increase in the level of benefits which will be payable to these persons when they do retire because of their longer period of earnings and contributions. The net effect of the rise in industrial production and of the fact that we cannot predict when such production will begin to decline has been, therefore, to create a misleading picture concerning the status of the Trust Fund.

The great increase in contribution income is readily apparent, but the heavy drain on the Fund which will occur as soon as economic activity slackens is not apparent. However, no one can tell when the war will end, and thus prudent management would assume that economic activity may decrease and decrease sharply within the next few years. If a sharp decrease does occur, a large proportion of the potential recipients--and they will number over a million by the end of 1946--will elect to receive their benefits. Thus, it is possible that the level of benefit disbursements will be much higher than that shown for 1946 in the estimate referred to above. A decline in economic activity would at the same time reduce payrolls and tax income. Therefore it is possible that a post-war depression, by causing a continued period of high disbursements and low income, will bring the Trust Fund below a safe level. The issue then becomes one of whether it is prudent to act on the basis of present uncertain estimates and fail to take account of the possibility that these estimates will be sharply upset by changing events.

The scheduled increase involves no inequitable burden upon those covered by the program. Even at the 3 percent rate which is to take effect in 1949, workers will receive insurance protection of greater value than the value of their own contributions. The lower rates of contribution now in effect are only possible because the benefit load during the initial period of operation is a small fraction of what it will be in the later years.

Moreover, the accruing liability which has been accruing for the payment of the future benefits is several times in excess of the amount in the existing Trust Fund. The actuaries have estimated that the present program may entail a level annual charge of as much as 7% of payroll. On this basis the fund would already have a deficit of nearly \$9 billion. Thus, instead of the present reserve fund being too large, the fund is small when tested on the basis which any private insurance company would be compelled to use. While social insurance cannot be judged by a too rigorous application of private insurance concepts, nevertheless, this comparison does indicate that the existing Trust Fund is not unduly large in view of its liabilities.

The discrepancy between the scheduled rates for the early years of operation and the level rate referred to above must of course be made up by increased rates in later years or by a government subsidy, or both. Lengthening of the initial period of low rates must necessarily involve

- (a) still higher ultimate rates,
- (b) less gradual later increases, or
- (c) a larger Government subsidy.

It has been the intent that the full rate of contributions necessary for the support of the old-age and survivors insurance program be applied gradually so that industry and employees would not be burdened by large increases at any one time. This intent is of particular significance for the present question. If the three-times rule is adhered to strictly, and increases in contribution rates are postponed until they are required under the terms of that rule, it will be necessary to provide sharper and more rapid increases in the rates than those now scheduled. Moreover, the necessity for a sharp increase would most probably occur at a time when economic activity slackened and it would be undesirable to impose a sudden, large increase in taxes on employees and employers. The conclusion is inescapable that the increases being necessary in the future, they can be more easily absorbed by both employees and employers at the present time than at some future time when they can no longer be postponed.

The major condition governing the facility of adjustment to the tax burden is of course the level of economic activity at the time the tax goes into effect or is increased. It is clear that the level of economic activity is more favorable to easy adjustment now than it has been at any time since the start of the program or is likely to be for some years after the war.

1. The 1939 amendments do not include any specific language outlining the policy of Congress with respect to the controversial problems of financing the old-age and survivors insurance program. The amendments only provide that the Board of Trustees of the Old-Age and Survivors Insurance Trust Fund is to "report immediately to the Congress whenever the Board is of the opinion that during the ensuing five fiscal

years the Trust Fund will exceed three times the highest annual expenditures anticipated during that five-fiscal-year period . . ."

2. The foregoing provision was adopted after testimony before the House Ways and Means Committee by the Secretary of the Treasury and by the Chairman of the Advisory Council on Social Security, (Professor J. Douglas Brown of Princeton University).

3. It must be kept clearly in mind that there are of course no positively known facts concerning the highest annual expenditures during the next five fiscal years. No complete estimates of such expenditures will be available until the Third Annual Report of the Board of Trustees is prepared. Meanwhile, the only official estimates are those included in the Second Annual Report of the Board of Trustees. These cover the fiscal years through 1946.

4. It must be emphasized, as it is in the Second Annual Report, that the estimates through 1946 are subject to considerable margins of error. In part this is due to the fact that benefit payment experience under the act is still very limited--benefits under the law only began in 1940, just about 2-1/2 years ago. In part, also, it is due, as the Board of Trustees of Trust Fund stated early this year, to the fact that "business and employment conditions in the near future, which will influence significantly the operation of the old-age and survivors insurance system, undoubtedly will be dependent to a large degree on the state of international affairs and the domestic armament and war program. It is impossible to forecast with confidence the policies which will be pursued by both business and government in the future in carrying out the war program--and any program for peacetime adjustment, should peace come within this period--nor can the effect of these policies on payrolls and employment in industries covered by the insurance system be predicted accurately."

5. Subject to the limitations just mentioned, the expenditures estimated for the fiscal year 1946, the highest of the 5-year period, are \$392 million. As of the beginning of the 5-year period, the size of the Old-Age and Survivors Insurance Trust Fund was \$2,398 billion. (As of the beginning of the fiscal year 1943, it was \$3,227 billion.) If the aforementioned "unusually uncertain" estimate of the highest expenditures in the 5-fiscal-year period, 1942-46, is compared with the size of the Fund at the beginning of the period, it is seen that the Fund was slightly over six times the estimated amount of the expenditures (for the one fiscal year ending in 1946). There are, however, a large number of potential claimants for old-age benefits who have not retired primarily because of favorable employment conditions due to the war. If the present high level of employment continues, it is estimated that by July 1945, there will be over 1,000,000 workers and wives who will be eligible for benefits but not in receipt of benefits. If these potential beneficiaries all retired from active work by July 1945, an increase in the annual rate of benefit payments of \$300 million would result. If this \$300 million were added to the estimated expenditures for 1946, the fund at the beginning of 1942 would then be only slightly more than three times the highest annual expenditure during the 5 year period.

Bearing of the Data Upon the Question of Basic Congressional Policy

1. The recommendation of the Secretary of the Treasury, quoted above, was stated in terms of an "eventual" reserve. Moreover, the Secretary clearly emphasized the possibility that "We may have for a few years

- 7 -

... a reserve fund somewhat larger than would be necessary under the standard I have suggested. However, the early annual disbursements of benefits are neither representative nor can their amount be precisely forecast at this time. Consequently, it may be desirable to anticipate a somewhat larger contingency reserve during the first few years of benefit payments."

2. The Chairman of the Advisory Council likewise brought out the point that the "three-times" standard which he proposed was to be taken only as a rough rule of thumb which might well be disregarded in the early years. He suggested "something like roughly three times the benefit load, varying above or below the benefit load, but particularly higher in the early years when you are uncertain as to your data." The reference to the uncertainty of the data has special point in view of the uncertain reliability of the estimates of expenditures.

3. It is probable that the qualified recommendations of the Secretary of the Treasury and of the Chairman of the Advisory Council were the reasons that the Congress adopted no fixed rule on the subject but merely provided for a report by the Board of Trustees whenever the Fund exceeded the amount specified.

- 8 -

The increased taxstepup is not only advocated by the Social Security Board and the Treasury Department but by the representatives of the workers themselves. Here is an occasion when the representatives of the workers come to us and say increase our contributions to protect our social security benefits. Yet the Senator from Michigan advocates keeping the tax at the present level.

Let me read the Senate a copy of the letter which the AFL has just sent to the Chairman of the Finance Committee:

"The American Federation of Labor is gravely concerned over the action of the Senate Finance Committee in including in their bill the Vandenberg amendment freezing old age and survivors' insurance contributions at one percent.

"The only real security that wage earners have in the emergencies and sacrifices we face, is social security. We hope that Congress will add to what has already been provided by law instead of taking from us that on which we count. Old age insurance must be accumulated by payments over the years. The Federation estimates that reserves for old age and survivors' insurance are approximately only 3 1/2 times the highest annual benefits payable within the next five years. It cannot safely be operated on a yearly basis. In addition the increase in rates will help meet the Government's immediate war needs.

"The Vandenberg amendment proposes to weaken old age and survivors' insurance as fatally as experience rating has weakened unemployment compensation. As the Federation's primary proposal

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"We, therefore, respectfully urge that instead of the compulsory 5 per cent savings, which your Committee has been considering, you substitute an extended social security program financed by equal contributions of at least 5 per cent of payrolls by both employers and employees.

"This program would produce more immediate revenue for war use and in addition would maintain national morale during a most difficult period by assuring workers income in the emergencies that may interfere with their employment."

"Sincerely yours,

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"American Federation of Labor"

I also wish to insert in the Record material which Mr. Altmeyer, Chairman of the Social Security Board sent me in answer to my request. Mr. Altmeyer's letter contains all the essential facts concerning this matter and points out the justification for the scheduled increase in the tax.

COPY

164 10

September 29, 1942

Honorable Robert F. Wagner,
United States Senate,
Washington, D.C.

Dear Senator Wagner:

In answer to your request for material bearing upon the question of the old-age and survivors insurance tax increase. I am enclosing a copy of a letter which I sent to Senator Vandenberg in answer to a similar request which I received from him some time ago.

If there is any further information you desire, please do not hesitate to call upon me.

Sincerely yours,

A. J. Altmeyer,
Chairman

Enclosures

wjc:ver

Secretary Morgenthau

September 30, 1942

Randolph Paul

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(Initialed) R.E.P.

Attachment

REP:mv

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"The Vandenberg amendment proposes to weaken old age and survivors' insurance as fatally as experience rating has weakened unemployment compensation. As the Federation's primary proposal

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"This program would produce more immediate revenue for war use and in addition would maintain national morale during a most difficult period by assuring workers income in the emergencies that may interfere with their employment."

"Sincerely yours,

"President

"American Federation of Labor"

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COPI

10

September 29, 1942

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United States Senate,
Washington, D.C.

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If there is any further information you desire, please do not hesitate to call upon me.

Sincerely yours,

A. J. Altmeyer,
Chairman

Enclosures

wj:ver

TREASURY DEPARTMENT

176

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

September 30, 1942

FROM Randolph Paul

In a discussion this morning with Senator George, in his office, on a technical point connected with the post-war credit, the Senator volunteered some of his ideas on the next tax bill. In answer to certain criticisms Mr. Tarleau and I made of a certain proposed provision with respect to the post-war credit, Senator George spoke of the temporary nature of the bill we are about to pass. He said that he was convinced we needed a program of much greater proportions for the control of inflation. He used the figure 10 to 15 billion. In answer to some questions, he agreed that both corporate and individual rates would have to be raised and integrated with such a compulsory savings program. He did not seem hostile to a suggestion or two I made with respect to the increase of net rates, viz., rates after the application of compulsory savings.

REP

Daniel Bell
Randolph Paul
Herbert Gaston
Ferdinand Kuhn

September 30, 1942

From: Secretary Morgenthau

I wish you would take a look at the article in September's FORTUNE by Dr. Golem of the Budget. I would like to know if that article was shown to anybody in the Treasury before it went to the printer. If it wasn't, I certainly think that we should vigorously protest the Budget having one of their people write on this subject without consulting the Treasury.

I want you four to talk about it and then come and see me after you have decided what you think we should do.

*Taken up at Group 10/1/42 -
see also memo of 9/30 -*

TREASURY DEPARTMENT

178

INTER OFFICE COMMUNICATION

DATE

September 30, 1942

TO Herbert Gaston
FROM Randolph Paul

Mr. Colm tells me that the title he sent in on this was, "War and Post War Aspects in Fiscal Policy." If you want me to join with you in writing a memorandum to the Secretary, I will be glad to do so.

REP

D.W. B.: I think there is nothing objectionable in the article itself but only in the title, which gives the impression of an authoritative governmental statement. In view of the above I don't see any basis for objection.

Agree
DWB

September 30, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Randolph Paul, Ferdinand Kuhn and Herbert Gaston.
SUBJECT: Publicity on Treasury Fiscal Policies

I. ORGANIZATION

With your approval we shall create a committee, consisting of Messrs. Paul, Odegard, Kuhn, Schwarz and Gaston, with Savington Crampton as Executive Assistant to the Committee, for the purpose of coordinating all public relations efforts in the tax and fiscal field. Others in the Department would be consulted and drawn into the discussions as necessary. The scope of our activities will involve:

(1) Speeches - including assignment of speakers on invitation and general supervision of material.

(2) Radio - consisting mainly of the stimulation of discussions on existing programs rather than the special engagement of radio time, which would have to be done through O.W.I.

(3) Magazine articles - which would be approached through suggesting topics and furnishing material to well known writers, the articles to be marketed on their own responsibility.

(4) Informal background conversations with columnists and other newspaper men.

(5) Letters, pamphlets and memoranda which might be distributed to particular groups of Treasury employees, economists, bankers and others.

(6) Contacts with unions, consumer groups and other organizations which send out material to members.

II. POLICY

In spite of the uncertainties of the present situation, we think the Treasury can properly go ahead, and should go ahead, with a program employing the mechanisms listed above

- 2 -

to give the public adequate background information on the fiscal problem we face. Such a program should be directed toward developing:

(1) The need for additional revenue.

We should undertake to show, as you have stated, that the present tax bill is inadequate from the revenue standpoint. It will bring the total yield of the tax structure to not more than 24 billions on an annual basis at present price levels. This is less than one-third of anticipated expenditures in the current fiscal year and will bear a lesser relation in succeeding years. It will be admitted that fiscal prudence demands that as high a proportion of expenditures be defrayed out of taxation as can be done without hampering the war effort. It is easily demonstrable that 24 billions a year on this basis is not enough. The prospect is that the public debt will increase not less than 50 billions in this fiscal year and the ensuing years of the war will create even greater additions. A debt of 250 billions, at 2-1/2 per cent, would mean an interest burden of 6-1/4 billions after the war and without additional revenue the prospect is that the burden may be greater than this. To permit this situation to continue will be bad fiscal planning.

(2) The need for fiscal legislation to prevent inflation.

The gap between goods available for purchase and consumer incomes available for spending will probably be not less than 45 billions in the calendar year 1943. It is true that present estimates indicate that saving is now going on at the rate of about 25 billions a year, but this amount can not be counted on in the face of greatly higher taxes and higher prices. However, a gap of 20 billions will exert tremendous pressure on price ceilings and upon any and all methods of control, short of fiscal controls, foreshadowing the possibility of black markets and making practically certain effective increases in living costs that will bring in their train urgent demands for higher wages and in turn the lifting of price ceilings.

The difficulties of the situation are enhanced by the present high rate of spending. Excluding automobiles and other consumer durables from consideration, consumer purchases are now continuing at the highest rate in the country's

- 3 -

history. If the problem were simply one of restricting expenditures to the present level, it would be relatively simple, but we have the far more formidable problem of reducing over-all consumer expenditures by perhaps as much as one-fourth if we are to avoid an irresistible upward pressure on prices.

The problem can well be illustrated from another angle, which is that of the borrowing program. The Treasury will have to borrow approximately 50 billions in the current fiscal year and perhaps larger amounts in succeeding years. If we should count on from 12 to 15 billions direct borrowings out of current earnings through the War Savings program, we would still have from 35 to 38 billions to borrow through other means. A high proportion of this borrowing must of necessity come from the banks. This borrowing will not be inflationary if expenditures are rigidly controlled. It will be highly inflationary if expenditures are not so controlled.

(3) Conclusions.

We believe Congress will not enact legislation to deal with this situation except under the pressure of a strong public demand. We think the general considerations stated above should be frankly put before the public through all the media we can properly reach, including such help as we may get from the Office of War Information. We believe the publicity we stimulate should be made to point as much as possible to the two objectives - (a) increase in direct revenue; (b) additional legislation which will have the effect of restricting spending. A great deal will be gained and nothing will be lost in our opinion if all the proposals for restricting spending, including the spendings tax, forced lending, and over-all rationing of consumer purchasing power, are explained and discussed, by others rather than in Treasury publicity or releases.

W.S.
A.S.
F.K.

TREASURY DEPARTMENT

182

INTER OFFICE COMMUNICATION

DATE September 30, 1942.

TO The Secretary

FROM Harold Graves

In response to your inquiry re. Mr. William H. James, I find the following:

Mr. James, Advertising Manager of the Hudson Motor Company, Suite 1504, 485 Madison Avenue, New York City, was asked to come to Washington on August 14 by Mr. Callahan in connection with his radio program, "RADIO AUCTION." His expenses were paid by the War Savings Staff.

Mr. James was accompanied on his trip to Washington by his business manager, Mr. Dave Elman, who has the program "HOBBY LOBBY," Columbia Network.

Mr. James is not employed in any capacity by the War Savings Staff--paid, "1-a-year," or volunteer--but he is using his radio program to further War Bond sales.

Mr. Gamble took all outgoing letters to New York 9/30/42

Same letter sent to: (9/30/42) 183

Miss Ann Rutherford,
141 Barlock Avenue,
West Los Angeles, California.

Mr. Edward Arnold,
10425 Bainbridge Avenue,
West Los Angeles, California.

Miss Dorothy Lamour,
9131 Callejuela Drive,
Beverly Hills, California.

Mr. William Gargan,
512 No. Palm Drive,
Beverly Hills, California.

Miss Veronica Lake, c/o Constance Keane,
9836 Olympic Blvd., Beverly Hills,
California.

Miss Paulette Goddard,
1416 North La Brea Avenue,
Hollywood, California.

SEP 30 1942

Dear Miss Garson:

Now that your September tour for the Treasury is ending, I should like you to know how much I appreciate all the devoted effort which you have given to the War Savings campaign in the past month.

It was a strenuous assignment, and I know that it must have been tiring for you at times. Yet you showed untiring zeal and unflagging good humor throughout the tour, and your spirit was an example to the people who saw and heard you.

I should like you to know that your work for us in September has been a real contribution toward the winning of the war and that all of us at the Treasury are deeply grateful.

Sincerely,

(Signed) H. Morgenthau, Jr.

Miss Greer Garson,
680 Stone Canyon Drive,
Bel Air, California.

TRG:eh

Copies to Thompson

Sales of United States savings bonds
September 1 through September 29, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales
	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date
Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of	
	date	date	quota		date	date	quota		date	date	quota	
1	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
6	49.4	131.1	143.3	91.5	18.6	66.7	58.1	114.8	67.9	197.7	201.4	98.2
7	13.3	144.4	168.8	85.5	6.1	72.7	67.8	107.2	19.4	217.1	236.6	91.8
8	16.4	160.8	193.4	83.1	6.3	79.0	76.7	103.0	22.7	239.8	270.1	88.8
9	19.6	180.4	220.6	81.8	7.2	86.3	84.4	102.3	26.8	266.6	305.0	87.4
10	9.6	189.9	239.2	79.4	4.3	90.6	90.1	100.6	13.9	280.5	329.3	85.2
11	35.5	225.5	272.7	82.7	13.3	104.0	99.7	104.3	48.9	329.4	372.4	88.5
12	10.7	236.2	288.2	82.0	4.9	108.9	105.0	103.7	15.6	345.1	393.2	87.8
13	21.9	258.1	307.6	83.9	12.8	121.6	112.1	108.5	34.6	379.7	419.7	90.5
14	17.6	275.7	327.2	84.3	9.9	131.6	119.2	110.4	27.5	407.2	446.4	91.2
15	16.5	292.2	350.1	83.5	6.3	137.9	125.7	109.7	22.8	430.0	475.8	90.4
16	10.4	302.5	365.4	82.8	3.4	141.3	130.5	108.3	13.7	443.8	495.9	89.5
17	40.4	343.0	399.6	85.8	15.8	157.1	141.0	111.4	56.3	500.1	540.6	92.5
18	9.7	352.7	415.7	84.8	5.7	162.7	147.0	110.7	15.4	515.4	562.7	91.6
19	20.4	373.0	436.2	85.5	13.0	175.7	155.2	113.2	33.3	548.7	591.4	92.8
20	27.1	400.1	457.1	87.5	14.4	190.1	163.4	116.3	41.5	590.3	620.5	95.1
21	12.4	412.5	581.4	85.7	5.8	195.9	171.0	114.6	18.2	608.4	652.4	93.3
22	22.2	434.7	497.4	87.4	9.1	205.0	176.6	116.1	31.3	639.8	674.0	94.9
23	41.5	476.3	532.7	89.4	18.7	223.8	188.7	118.6	60.3	700.0	721.4	97.0
24	17.9	494.1	549.2	90.0	9.6	233.4	195.5	119.4	27.5	727.5	744.7	97.7
25			570.0				205.0				775.0	

September 30, 1942.

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

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

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

September 30, 1942.

My dear Mr. President:

With reference to your letter of the 26th, stating that you have designated me, together with the Director of the Budget, to represent the Federal Government in working with representatives of the State and local governments in developing better Federal-state-local tax and other fiscal relationships, I shall be glad to cooperate with the members of the joint committee which is to be formed, and shall await word from the Executive Director of the Council of State Governments, Mr. Frank Kane, as to the arrangements for a meeting of the committee.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President.

The White House.

Del. by Harmon 4:47 9/30/42

Photo file in Diary

HH:r

File to Thompson.

THE WHITE HOUSE
WASHINGTON

SEP 26 1942

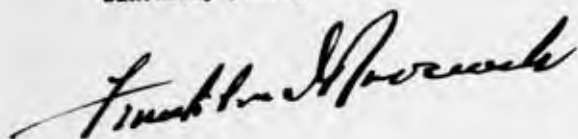
My dear Mr. Secretary:

A committee of the Council of State Governments has requested that I designate representatives of the Federal Government to work with representatives of the state and local governments in developing better Federal-state-local tax and other fiscal relationships. This is an opportune suggestion. Harmony in fiscal policies and practices is of great importance for the stability of our wartime economy and for the post-war readjustment.

I believe that a joint committee can do much to promote this harmony by formulating sound and practical recommendations for legislative and administrative actions for the Federal, the State, and the local governments. Therefore, I am designating you and the Director of the Budget to represent the Federal Government in working with the state and local group on a joint committee.

Arrangements for a meeting will be made by Mr. Frank Bane, Executive Director of the Council of State Governments, to whom I am writing today.

Sincerely yours,



The Honorable

The Secretary of the Treasury

FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

For the record, OWI (Abe Feller) has just called to ask that no further statements on the Russian high-octane refineries be made without clearance by Harry Hopkins. Earlier in the day, Huntington Cairns and I talked with VanDevander of the New York Post and, for background and not for attribution, answered some of his questions with respect to facts and dates.

@ 9/20/42

TREASURY DEPARTMENT

189

INTER OFFICE COMMUNICATION

DATE Sept. 30, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

1. During the week ending September 22, 1942, 153 planes (118 combat planes and 35 trainers) were sent from the United States to British forces.

2. Thirty Grumman Martlet IV fighter planes were sent to the British forces in the Middle East, marking an all-time high for shipments of this plane.

3. Twenty Vought-Sikorsky O.S.2 U scout observation planes were sent to South Africa for use on armed merchant vessels.

Table A - Shipments by Area

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	Week Ending Sept. 22, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>to the United Kingdom</u>			
Light and medium bombers	36	619	1,780
Heavy bombers	2	144	248
Naval patrol bombers	2	65	167
Pursuit	6	936	1,257
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	46	1,883	3,616
<u>to the Middle East</u>			
Light and medium bombers	7	521	851
Heavy bombers	0	0	2
Naval patrol bombers	0	6	6
Pursuit	30	667	1,515
Army Cooperation (for use on ships)	20	55	55
Trainers	16	40	182
Total to the Middle East	73	1,289	2,614
<u>to the Canadian Forces</u>			
Light and medium bombers	0	66	234
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	19	632	1,873
Total to Canadian Forces	19	752	2,211
<u>to the British Pacific Forces</u>			
Light and medium bombers	0	145	245
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	0	12	117
Total to Pacific Forces	0	357	752
<u>to the British Indian Forces</u>			
Light and medium bombers	15	169	169
Pursuit	0	40	40
Trainers	0	43	43
Total to Indian Forces	15	252	252
<u>to the British West Indian Forces</u>			
Army Cooperation	0	6	6
Total to West Indian Forces	0	6	6
<u>Totals</u>			
Light and medium bombers	58	1,520	3,279
Heavy bombers	2	145	254
Naval patrol bombers	2	94	241
Pursuit	36	1,873	3,237
Army Cooperation	20	180	211
Trainers	35	727	2,239
Grand Total	153	4,539	9,451

Table B - Shipments by Types

	Week Ending <u>Sept. 22, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
<u>Light and medium bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	6	7	7
Douglas Boston I, II, III	7	13	505
Lockheed Hudson	28	542	1,512
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura bomber	1	313	313
Martin Marauder B-26A	0	54	54
Baltimore	0	280	348
Maryland	0	0	150
North American B-25	1	111	111
Northrop Vengeance	15	137	137
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy Bombers</u>			
Boeing B-17	0	42	62
Consolidated Liberator	2	103	192
<u>Naval Patrol Bombers</u>			
Consolidated Catalina PBV-5B	2	94	231
<u>Pursuit</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	0	868	1,250
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	36	76	76
Lockheed Lightning	0	3	3
North American Mustang	0	549	629
<u>Army Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogiro	0	0	5
Vought-Sikorsky OS2U	20	53	53
Vultee Stinson O4G	0	10	14
<u>Trainers</u>			
Cessna-Grane I-A (AT-17)	0	97	97
T-50	0	86	700
Fairchild PT-26 Cornell	19	106	106
North American Harvard II	16	141	1,038
Stearman PT-27	0	297	298
Total	153	4,539	9,451

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly average of shipments in 1941	35	2	3	27	1	29	97
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	77	17	0	17	0	30	141
July 14, 1942	42	11	3	24	0	1	81
July 21, 1942	66	8	3	0	2	4	83
July 28, 1942	39	0	2	0	6	46	93
August 4, 1942	32	0	4	27	38	8	109
August 11, 1942	59	9	6	70	8	19	171
August 18, 1942	60	3	7	20	0	11	101
August 25, 1942	25	0	11	26	0	26	88
September 1, 1942	33	0	8	81	17	28	167
September 8, 1942	31	0	13	11	0	6	61
September 15, 1942	57	0	4	139	6	36	242
September 22, 1942	<u>58</u>	<u>2</u>	<u>2</u>	<u>36</u>	<u>20</u>	<u>35</u>	<u>153</u>
Total shipments since Jan. 1, 1941 to date. <u>1/</u>	3,279	254	231	3,237	211	2,239	9,451

1/ Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

Treasury Department
Division of Monetary Research

Date Oct. 6, 1942 19

To: Miss Chauncey

I think the Secretary will
be interested in the last (marked)
paragraph.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMUNGATION, Bern
TO: Secretary of State, Washington
DATED: September 30, 1943, 1 p.m.
NUMBER: 4448

STRICTLY CONFIDENTIAL

The Department is informed that Elmer reports the following as having been related to him by an Hungarian economist in an official position whose comments are worthy of credence.

A critical situation exists as regards Hungary's finances in view of the Budget deficit approaching by the end of 1943 in the amount of two thousand millions of pengoes. Long term borrowing is out of the question and the banks are glutted with Government paper. The people are hoarding the inflated currency with about one-third of the two thousand million notes having been withdrawn from circulation. Although wages are higher, they are proportionally exceeded by a rise in living costs. There is no industrial unemployment and the agrarian proletariat are now constantly and gainfully employed.

The President of the National Bank, Baranyai, is discouraged and remains only at his post because of the regent and he has recommended an increase in the taxation upon consumers' goods and leniency toward Jews among the measures necessary to draw funds out of hiding. Runaway inflation is feared by Baranyai and he doubts whether the Government will take remedial measures.

Hungary's favorable balance in its German clearing account now amounts to 700 million pengoes.

The almost universal unpopularity of the war against Russia has had an adverse effect against public morale. This war is opposed by most of the peasants, industrial labor and the aristocracy and all object to sending Hungarian forces to Russia in order to fight for the despised Germans. Support of the war comes only from those classes which have taken the place of the Jews in middle class jobs and when Germany falls social disorder is anticipated and Bolshevism is feared by the possessing classes.

HARRISON

NOT TO BE RE-TRANSMITTEDCOPY NO. 18BRITISH MOST SECRET
U.S. SECRETOPTEL No. 339

Information received up to 7 A.M., 30th September, 1942.

1. NAVAL

One of H.M. Destroyers escorting a homeward convoy is believed to have been sunk by a U-boat in mid-Atlantic on the 26th. One of H.M. Submarines sank a large ship off southwest GREECE on the 27th.

2. MILITARY

MADAGASCAR. On the morning of the 29th after the local commander had surrendered, our forces landed at TULEAR and occupied the town and barracks. The wireless station intact. The Chief De Region and local administration are friendly and the police co-operative.

RUSSIA. The Germans continue their slow penetration into the centre of STALINGRAD against stubborn resistance and have also made further slight progress up the River TEREK.

3. AIR OPERATIONS

WESTERN FRONT. 29th/30th. 26 aircraft were sent mine-laying. One is missing.

EGYPT. 27th/28th. TOBRUK HARBOUR was bombed and mined. Petrol installations were hit. Landing grounds were attacked southeast of MATRUH.

28th. Enemy bomb carrying fighters heavily escorted made raids on landing grounds at AMIRIYA without effect. Spitfires destroyed one Me 109 and probably destroyed another.

MEDITERRANEAN. 28th/29th. A Wellington bombed a ship off CAPE PARTIVENTO (ITALY), the next day a 2,000 ton ship was seen beached in the vicinity. Four naval aircraft attacked a destroyer in the same area scoring a torpedo hit and ships.

HOME SECURITY

29th. Taking advantage of low clouds and rain five enemy aircraft operated over Southern England and dropped bombs in various localities. In SOMERSET a milk factory was wrecked, a military reception centre on SALISBURY PLAIN was severely damaged, at POTWORTH a boys' school was hit and in KENT damage was done at the pit head of BOTTESHANGER Colliery. 32 civilians, including 19 children and about 12 service personnel were killed.

Regraded Unclassified

- 2 -

5. INTELLIGENCE

Enemy submarines. About 7 German submarines are at present unlocated in the South Atlantic and are probably intending to operate against our MIDDLE EAST supply route. One was reported about 200 miles north of CAPETOWN on the 20th. The activity of Japanese submarines in the ARABIAN SEA and GULF OF ADEN adds substance to the signs of increased Japanese-German naval co-operation in these waters.

German Navy. TIRPITZ was sighted steaming west in the NARVIK area on the 28th. Reports have been received that she has boiler defects and so may be returning shortly to a German port for docking and refitting.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: Sept. 30, 1942

TO Secretary Morgenthau

FROM Mr. Heflich

Subject: Summary of Intelligence Reports

1. Russian convoy

Of the twelve cargo ships lost in the recent convoy to Archangel, six were U. S., three British, two Russian and one Panamanian. In the convoy just returned from Russia, five cargo vessels, one destroyer and one minesweeper were sunk by U-boats (nationalities not revealed).

2. British convoys

During the week of September 17 - 24, five ocean convoys with 139 cargo vessels arrived in the United Kingdom without loss.

3. Submarine warfare

The British estimate that 90 German submarines are now operating in the Atlantic. Their activity is still concentrated in the North Atlantic and in the Trinidad-South American coast area.

(British Operations Report, September 17 - 24, 1942)

9-30-42

INTELLIGENCE REPORT

RUMORS IN WARTIME

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

THE REPORT IN BRIEF

Elements of Rumor

Rumors develop out of situations in which information is inadequate to satisfy public interest. People tend to invent and circulate explanations which reflect their individual emotional biases.

Rumors may be classified, therefore, on the basis of their psychological motivation: Hostility rumors are those which give expression to prejudices and animosities. Anxiety rumors are those which reflect underlying uneasiness and fear. Escape rumors are those which tend to deny reality and minimize problems on a wishful basis.

In a nation at war, the conditions which promote rumor are intensified. The focus of public interest is sharper and more homogeneous, while censorship clogs the formal channels of information. Wartime dislocations foster frustrations and fears.

Effects of Rumor

Rumors have a contagious influence, spreading the emotional weaknesses they reflect. Hostility rumors act to disrupt national unity, widening cleavages between elements of the population. Anxiety rumors promote defeatism and dismay. Escape rumors encourage complacency.

For this reason, enemy propaganda gives impetus, if not inspiration, to rumor-mongering. Many current rumors are paralleled by Axis radio broadcasts.

Conclusions

The danger of rumors lies, not, as popularly believed, in the information which they may give to the enemy, but in the misinformation they disseminate among the American people. Official denials provide an inadequate means of combatting them. Such underlying psychological factors as tension and prejudice cannot be removed through direct negation. Positive information, designed to overcome the tension and prejudice, affords a more effective means of minimizing rumor.

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Belief in Rumors	13
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"Most earnestly I urge my countrymen to reject all rumors." — President Roosevelt, December 9, 1941.

RUMORS IN WARTIME

Rumor is one of the foundations of normal social intercourse. It is a part of the stock-in-trade of everyday conversation. All men spread rumors — more or less guardedly, more or less innocently and innocuously. The wider their social contacts, the more likely they are to hear rumors and to repeat them. For men do not confine their conversation to verifiable fact. Whenever they relate any proposition represented as fact rather than as personal opinion, yet not verified by common knowledge or recognized authority, they contribute to the spread of rumor.

Rumors are responses to a felt need for communication in an atmosphere of uncertainty or inadequate knowledge. They move with the speed of sound. Unlike sound, however, they are magnified by distance — amplified and distorted by the human instruments which transmit them.

THE ELEMENTS OF RUMOR

About the middle of March, the steamship Queen Mary put into the harbor of Boston. Her arrival, stay and departure were not mentioned by newspapers or other media of information. But since she was plainly in view, news about her spread by word of mouth and became common knowledge

throughout the city.

During the following fortnight, a number of rumors about the Queen Mary attained wide circulation in Boston. The case of the Lafayette (Normandie) gave rise to tales of her destruction:

- (1) She had been sabotaged at her dock.
- (2) She had been set afire.
- (3) She was loading ammunition and had exploded.

Other rumors related to her crew:

- (1) She was manned by Negro sailors.
- (2) All her officers were Jews.
- (3) None of her officers or sailors was Jewish.

Some two weeks after her arrival, she set forth in broad daylight. Her departure roughly coincided with the first city-wide blackout of Boston, giving rise to the story that the blackout had been arranged for the express purpose of permitting the Queen Mary to slip out of the harbor unobserved.

In the week following her departure, a good many rumors appeared:

- (1) She was carrying 15,000, 20,000, 50,000 troops.
- (2) She was heavily loaded with ammunition, carried almost no troops.
- (3) All of the troops loaded in Boston were Negroes.
- (4) Negro troops had to be driven aboard the Queen Mary before she left. They mutinied and white troops had to be called in.
- (5) As the Queen Mary left, troops aboard broke into a song, the words of which were "We are going to get Hitler and when we get back we are going to get the Jews."
- (6) She set sail for England, Ireland, Iceland, Africa, the Near East, Australia.
- (7) She had been sunk with all lives lost.

Here was a situation in which rumors were bound to germinate. The Queen Mary was naturally an object of keen public interest. In the absence

of adequate information to satisfy interest, the unheralded arrival of the ship precipitated a welter of conjectures.

Although the conjectures sprang from a common stimulus, they showed wide variety. Plainly the nature of the conjectures was a product of the differing psychological attitudes upon which the stimulus acted.

The creation and transmission of rumor is a selective process. People do not repeat all that they hear; they choose for repetition those topics which meet their own interests and satisfy their own emotional impulses. Along with this process of selection, there goes a distortion in accordance with the individual psychological bent of the rumor-relator.

EMOTIONAL BACKGROUNDS OF RUMOR

It is possible to classify rumors broadly on the basis of the emotions which they reflect. For the sake of simplification, an attempt has been made to do this among the great number of rumors studied by the Bureau of Intelligence. Classification is not always indisputably clear. The same story, when told by different individuals, may reflect different impulses. Roughly, rumors may be divided into three basic categories, reflective of their psychological motivation: hostility, anxiety and escape.

Hostility

Rumors provide a ready mode of expression for the animosities men feel toward particular groups or individuals. Rumors of this type range all the way from generalized expressions of antipathy or contempt to detailed anecdotes depicting the despised subject in an unfavorable light. The important point to note here is that these rumors reflect, rather than create, prejudice.

Such rumors are common enough, even in normal times. Among a people at war, they increase both in frequency and intensity. Today they are generally reflective of anti-Government, anti-British, anti-Russian, anti-labor, anti-Semitic, anti-Negro and anti-alien sentiments.

Among the rumors circulated in Boston about the Queen Mary, the story that the troops aboard her broke into a song suggesting that they were "going to get the Jews" on their return provides an obvious illustration of the hostility rumor type. Boston provides a milieu in which the expression of anti-Semitism can be favorably received. The Queen Mary furnished nothing more than a peg on which to hang the prejudice. Hostility toward Jews was the real breeding ground of this particular rumor.

Some other samples of hostility rumors may serve to clarify the point that these are determined more by the emotional character of the rumor-relater than by the nature of the stimulating circumstances:

There is so much red-tape connected with the Government that the new lumber used at Remington for temporary sheds and buildings is just piled up and burned when they are through with it, instead of allowing it to be used some place or sold to the public. (Salt Lake City, Utah)

The soldiers are a no-good lot — they go around seducing the local girls. (New Brunswick, N. J.)

The shipyard workers get paid for checking in and not doing any work. (Portland, Maine)

England is just trying to get all our boys trapped in Britain where they will be slaughtered and then England and Germany will gang up against the United States. (Oregon)

The effect of rumors of this type is to promote internal division, to disturb national unity. From the point of view of their consequences, they

are wedge-driving rumors. They separate group from group within the population, aggravate and exaggerate existing cleavages.

Anxiety

The fears to which individuals are subject also find a natural expression in rumors. People are prone to invent or repeat tales which reflect their own uneasiness or maladjustment. These rumors take different forms. Their specific content does not necessarily reflect the particular fear disturbing the individual; it reflects only anxiety in general.

The rumors concerning the Queen Mary which suggest that she was sabotaged, had exploded or had sunk with all lives lost seem to reflect apprehension in the narrators. While the presence of the Queen Mary stimulated hostility rumors in the minds of persons overloaded with prejudice, the same precipitating event provoked others to expressions of anxiety.

Wartime conditions multiply the fears to which people are normally subject. Many of the current anxiety rumors are concerned with military or naval affairs, betraying anxiety about persons in the armed services. Here are some additional illustrations of the type:

They say that during maneuvers the night of the wind storm they made the boys practice using life boats and 60 of them were left in the ocean. (Norfolk, Va.)

The accident rate in the shipyards is terrible, up to 100 deaths a week. (Portland, Maine)

Isn't it true that the Government will be so heavily in debt that they will have to take the bonds as taxes or else just won't try to pay them? (Iowa)

This type of rumor, too, has an unhealthy effect upon the community. It serves to spread the fear which it reflects. Despair and defeatism grow out of rumors of this character.

Escape

Certain rumors reflect a natural human tendency to escape from reality or to distort situations by viewing them through rose-colored glasses. Unlike the anxiety rumors, which distort in the direction of exaggeration, escape rumors tend to deny the existence of problems or to dismiss them as trivial.

These appear to be somewhat less frequent than the other types. The stories about the Queen Mary suggesting that she carried great numbers of troops were perhaps reflective of wishful thinking. Other rumors illustrative of this emotional impulse are:

Warehouses are full of sugar, so why should it be rationed. (Minnesota)

Lloyds of London is betting that the war will be over in 1942. (Missouri)

In spite of gasoline rationing in Georgia there are numbers of tank trucks at the pipe-line outlet in north Georgia which daily load up and carry gasoline into unrationed Tennessee and Alabama. (Atlanta, Ga.)

The danger of the escape rumor lies in its promotion of complacency. Insofar as rumors of this type encourage people to believe that all is going well, they undermine determination and relax the intensity of effort requisite for the effective prosecution of the war.

In many rumors the emotional coloration seems less clear and more difficult to catalog. Uncertainty and curiosity often find expression in rumors which apparently constitute pure conjecture. In the absence of real facts, people tend to invent answers to the questions which perplex them. Frequently these inventions spring from a reluctance to admit ignorance, a desire to seem "in the know." The effect of such rumors, however

innocent their intent, is to sow misapprehension and confusion.

INTENSIFICATION OF RUMOR IN MARTINE

In a nation at war, all of the conditions likely to promote the spread of rumor are intensified. There is a much more homogeneous focus of public interest than at normal times. People are subject to intense hopes and fears about the progress of events. But these events are necessarily subject to wartime censorship so that the channels of information are less free than ordinarily, and naturally inadequate to the popular desire for news.

The societal dislocations engendered by war also foster the spread of rumors. Great masses of men are brought together in Army camps, industrial workers flock in unprecedented numbers to war production centers. All of these people, confronted with novel circumstances and unfamiliar surroundings, shut off from their customary associations and avenues of communication, are peculiarly prone to a variety of speculative rumors about the subject in which they are most interested — the progress of the war.

During the course of any war, there are long periods in which men do not feel that they are actively participating in the conflict. Soldiers engage in training the usefulness of which is not always clear to them. Many civilians, similarly deprived of any sense of effective contribution to the war effort, tend to become bored and restive. Such a situation quickens the development of rumors.

In order to study the nature, origin and effect of rumors in wartime, the Bureau of Intelligence conducted an experimental study in two cities — New Brunswick, N. J., and Portland, Maine. The study was exploratory in character, designed to determine the feasibility of interviewing

techniques for the analysis of rumors. Although only tentative conclusions can be drawn from the results, the study does shed light on the incidence of rumor and the patterns in which it develops. In addition, the Bureau analyzed some 3,200 rumors reported to it from all parts of the country by its correspondence panels, by the 31 field offices of the Bureau of Public Inquiry and by 150 offices of the Federal Security Agency.

RUMOR INCIDENCE IN TWO CITIES

The two cities selected for intensive study by the Bureau of Intelligence are seaboard communities, roughly equivalent in size, similar in their economic relation to metropolitan centers, largely engaged in the production of war goods and vitally affected by specific military and naval developments. Yet they are sufficiently separated geographically to avoid the same local idiosyncrasies. The differences between the cities are reflected in the differences between the content of rumors prevalent in each of them.

New Brunswick is the site of a new Army staging area, Camp Kilmer. This camp, large enough to house a population nearly double the size of New Brunswick, was completed late this spring. Interest in the project has been high among the townspeople. Soldiers on "town leave," jeeps, military police, the increase in population and the attendant expansion of business have all served to make this city intensely "soldier conscious."

In Portland are concentrated the activities of two major shipbuilding companies, employing over 27,000 men. Portland's harbor is the scene of intense activity. The city's population has been greatly increased and business has boomed as a result of the influx of new workers with their

families. Portland, in consequence, is a community which may be described as intensely "shipbuilding conscious."

Rumors had different foci in the two cities. In New Brunswick, they centered around Army life, the behavior of the soldiers and military affairs. In Portland, however, the rumors clustered around topics relating to the shipyards — the high wages of workers, high accident rates in the yards and the amount and kind of work done. But, despite the differences in stimuli and content, the basic motivations of the rumors remained similar.

In both communities, the amount of news appearing in local newspapers relating to the new centers of popular interest was very small. An analysis of the Daily Home News of New Brunswick for the week of July 26 - August 2 disclosed that little news was published concerning activities in the camp itself or concerning such natural topics of gossip as soldiers' leaves, troop movements or the relations between enlisted men and local girls. Almost no shipyard news appears in the Portland Press Herald, save the sport page accounts of shipyard baseball games. An examination of this paper during the week of July 26 - August 2 showed that no shipyard accidents were recorded and no accounts involving people described as "shipyard workers."

This absence of information adequate to allay groundless speculation provides an ideal atmosphere for the generation of rumor. But it cannot of itself be held responsible for rumor creation. The atmosphere in these communities is charged with the tensions in which rumors germinate. Shipyard workers and soldiers alike descend by the bus-load upon the cities' busiest corners; they crowd the moving picture theaters, create waiting

lines in restaurants, wander aimlessly about the streets at night, jostle each other and anyone else who happens to be around. They have few friends and no local attachments. They dislocate the normal life of the communities, causing irritations and animosities. Interest in them is heightened by the uneasiness which they create.

Deep-seated, latent prejudices are brought to the surface, moreover, by the very presence of these newcomers in the community. The Portlanders' traditional sense of thrift and hard work is violated by his notions of the shipyard workers' high wages and easy jobs. To the New Brunswickian, the man in uniform who whistles at a girl on the street calls up the traditional stereotype of the lustful soldier who takes his fun where he finds it.

In these two cities, interviews were conducted with 172 persons by half a dozen trained interviewers during a two week period beginning August 23. That rumors were prevalent is indicated by the fact that 1,283 of them were recorded. There were 456 different rumors, of which 304 were reported only once. Of the 152 that were reported more than once, the average number of repetitions was 6.4. Fifteen rumors were reported 16 times or oftener.

The interviews were extremely lengthy, ranging from one to four hours. Although no formal questionnaire was used, every person interviewed was given an opportunity to express himself upon the following topics: rationing, defense production, the wartime role of minorities, spies and sabotage, military strategy, wartime Washington, submarine and naval action, atrocity stories and other topics of purely local interest. At a suitable point early in each interview, the purpose of the questioning was explained with varying elaboration, depending upon the sophistication of the respondent.

FACTORS IN THE SPREAD OF RUMOR

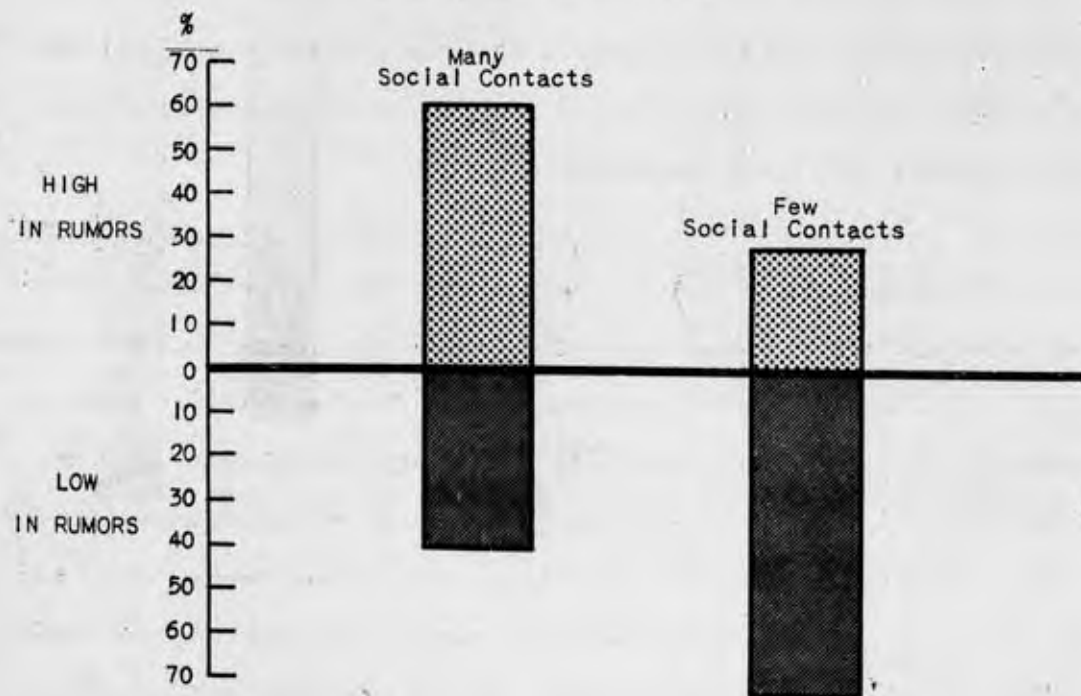
On the basis of the whole conversation, interviewers rated each of the persons with whom they talked as to their main focus of interest in the war, their degree of satisfaction with news, their level of information, their degree of identification with the war effort, their prejudices and the degree of social participation in which they engaged. Although the size of the sample and the imperfection of the techniques employed forbid conclusive generalizations, the data suggest four hypotheses as to the factors which facilitate the spread of rumors.

1. The people who were rated as well-informed showed a greater tendency to recount rumors than did the persons rated ill-informed. One obvious reason for the higher incidence of rumor among better-informed people lies in the fact that these people have greater verbal facility, are more articulate. It is a fact, moreover, that people who are well-informed about certain phases of the war are likely to have a higher degree of interest in these phases. This higher incidence of rumor among the better informed does not necessarily indicate, however, that they are more affected by rumors than the less informed; they are less dependent upon rumor for their information and better able to overcome or counteract a rumor's impact.

2. Rumor incidence is higher in people who participate widely in society than among the socially isolated. Obviously, social interaction provides an opportunity for rumor-mongering. It is natural, therefore, that working women should be more prone to the retailing of rumors than are housewives. All persons who see a great many people daily and see them under circumstances of considerable intimacy are much more liable to

hear and to repeat rumors than the persons whose lives are comparatively secluded. The chart below illustrates the greater frequency with which rumors are mentioned by socially active persons.

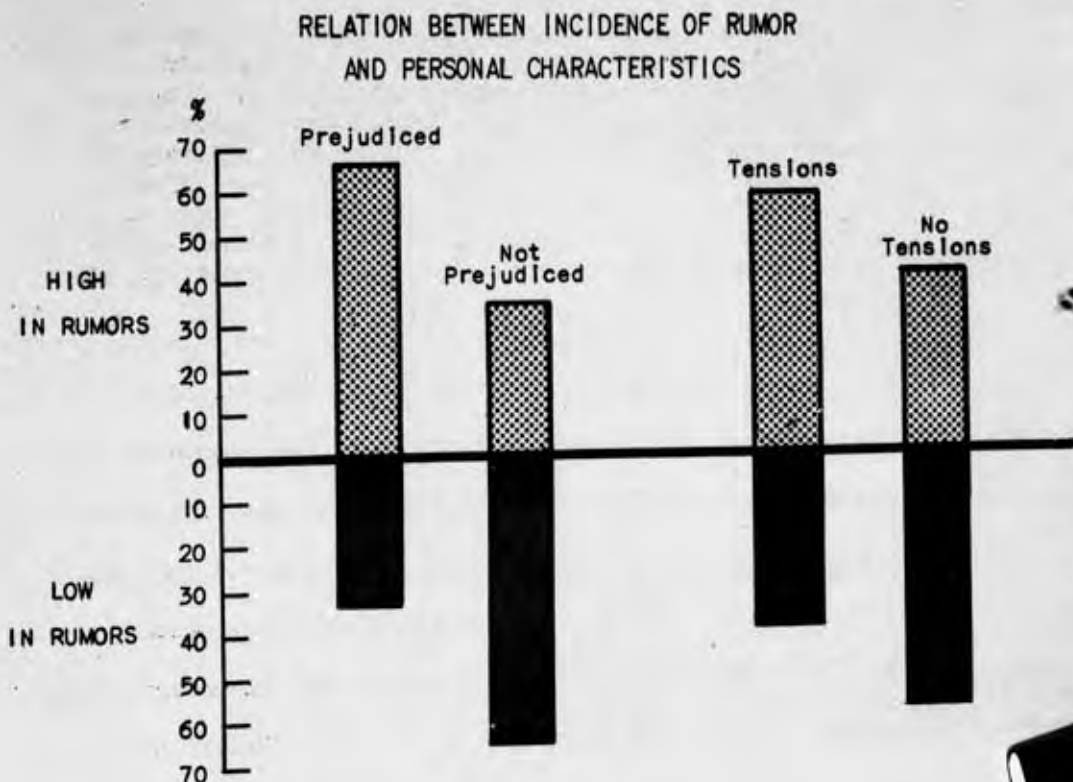
RELATION BETWEEN INCIDENCE OF RUMORS
AND SOCIAL INTERACTION



3. Prejudice appears to be a fertile breeding ground of rumor. People whom the interviewers rated as being high in prejudice were twice as prone to mention rumors frequently as were those rated as unprejudiced.

4. A similar relationship exists between emotional tensions and the incidence of rumors. People who were regarded by the interviewers as emotionally tense were considerably more prone than those not subject to tension to repeat rumors. The relationship between rumor-mongering and these

characteristics is illustrated in the following chart.



BELIEF IN RUMORS

Interviewers in New Brunswick and Portland estimated that over 70 per cent of the rumors mentioned to them were believed by the people who related them. Belief in rumors is, of course, a matter of degree. Since the selection of any particular rumor depends, in part, upon an emotional predisposition toward acceptance of it, some measure of belief may be indicated by the mere recounting of a rumor; people do not tell stories which they know to be nonsensical.

Constant repetition of rumors may, moreover, help to induce belief.

The point is illustrated in the following self-analysis offered by a person interviewed in New Brunswick:

"I have heard many stories about Jews and they get me very angry -- that Jews are trying to get deferred and were using all possible excuses; that many of them are trying to get defense work or special commissions in places like the Signal Corps, or other work which would defer them from the actual fighting. A friend of mine on the draft board has even told me of such cases and occasionally I even find myself believing these stories even though I know very well that they are probably not true."

In general, it may be said of rumors that they tend to find acceptance whenever they are related, however distantly, to some known facts and whenever they present a proposition which the hearer desires to believe.

Certain factors operate to check credulity with respect to rumor. People commonly reject rumors which are in conflict with first-hand information. For example, a cab driver in New Brunswick, who had heard a story about a fight between a local policeman and an M.P. from Camp Kilmer, said: "...just a story, that's all it is. I seen him and he's still on duty."

Rumors are rarely believed when they run counter to a firmly established belief. A USO worker remarked, "Many of my friends say 'Roosevelt is a dictator and is using the war to build up his political machine.' Of course, I am strongly New Deal and that is just a lot of nonsense with no basis."

Sometimes a simple sense of realism makes a rumor seem incredible. A doctor in Portland told laughingly about the submarine stories he had heard. "They have those subs," he said, "cruising around in about four feet of water."

RUMORS AND AXIS PROPAGANDA

Close and striking parallels exist between current rumors and the content of Axis propaganda broadcasts. The origin of any single rumor is difficult, perhaps impossible, to determine. And there is no conclusive evidence to prove that rumors circulating in America had enemy inspiration. There can be no doubt, however, that a great many of them serve the enemy cause.

Whether or not they originated the rumors, Axis propagandists sedulously foster their dissemination. One out of five of all of the rumors reported in Portland and New Brunswick -- including those rumors which were of a purely local character -- have been repeated over the Nazi short-wave station, Debunk. Among hostility and anxiety rumors, the percentage of coincidence is much higher.

One or two examples will suffice to illustrate the parallelism between rumors and enemy propaganda:

RUMOR

Minnesota: "Roosevelt has a lot of Jew advisors around and they are telling him what to do."

Arkansas: "They told me that they are going to have 750 Negro cadets stationed at this school, and that white men are going to do the menial jobs. There will be plenty of trouble if that is the case. I hear that they have been having race riots down at Montgomery, Alabama, and that they have had to shoot a bunch of Niggers."

PROPAGANDA

Radio DEBUNK, April 6: "But would you have reelected FDR a third time if he had honestly told you what he and his Jew crowd of advisors were up to?"

Radio ROME, to North America, July 29, 1942: "LISBON: The United States War Department communicates that 769, I will repeat the figure, 769 Negro cadets have been admitted to an American Officers Training School."

Illinois: "Trouble between the United States soldiers and British soldiers is commonplace."

Radio DEBUNK, June 18; "American doughboys in Iceland staged a short but heated battle with British soldiers there but came out on top. Our boys had one casualty, whereas the Limeys suffered two dead and three wounded. The British soldiers had called our soldiers cowards for not starting an offensive."

In the waging of psychological warfare, Axis propagandists have consistently played upon the known weaknesses of those whom they attack. They have been content to widen existing cleavages, to compound confusion, to magnify alarm. In their attacks upon the United States, the aims of our enemies have been to undermine the confidence of Americans in their Government, to foster discord between minority elements in our population, to enhance confusion and dismay -- in short, to divert our attention from the real issues confronting us.

Whatever the origin of rumors, their effects have been to promote these enemy purposes. It is in these effects that the real dangers of rumor-mongering lie. Informational campaigns have consistently stressed the thesis that loose talk may endanger the lives of American soldiers and sailors. The internal corrosive influence of loose talk in the form of rumors has been largely ignored. Yet the real menace they represent lies, not so much in the information they give to the enemy, as in the misinformation they give to the American people.

CONCLUSIONS

The nature and prevalence of rumors provide an index to the morale of a people. Results of this preliminary investigation show the existence

in America of widespread elements of disunity, anxiety, complacency and confusion.

The effect of rumors is to aggravate the weaknesses which they disclose. And it is to this end that Axis propagandists consciously give impetus, if not inspiration, to the spread of rumors in the United States. To the extent that people depend upon rumor for their knowledge and beliefs, their confidence in the formal system of communication is undermined. Their faith in authoritative sources, and, consequently, in the Government itself, is decreased.

Rumors within a community grow most easily in situations where people are confronted by new and unexplained problems. Their spread is accelerated by the frictions and frustrations which develop out of wartime dislocations. The very hostility, anxiety and desire for escape which rumors reflect constitute their primary sources.

The high incidence of rumor among well informed people affords a means of combatting the rumor danger. Because of their literacy, these people are accessible to anti-rumor campaigns designed to enlist their cooperation. They need to be shown that the damaging effects of rumor-mongering lie, not so much in its disclosure of information to the enemy, as in its divisive and disconcerting impact on the home front.

Rumor denial, while of some value in combatting rumors of a local nature, seems an inadequate means of meeting the problem as a whole. Such underlying psychological factors as tension and prejudice cannot be removed through direct negation. Positive information designed to overcome the tension and prejudice stands a better chance of minimizing rumor than authoritative rebuttals of the rumors themselves.

Local campaigns to counteract rumors have a limited usefulness. There is danger that they may, if carelessly directed, spread the rumors which they seek to scotch. They need careful supervision and coordination with federal policy.

The large number of rumors of morale-lowering potentialities in circulation suggests the importance of a continuing study of the problem. There is need for investigation of the incidence of rumor on a national basis, for a study of the effects of the more dangerous rumors and for further analysis of the psychological factors which motivate rumor-mongering.

SOURCES OF THE REPORT

This report is based on the following material:

"Wartime Rumors in Two Eastern Cities," division
of Surveys, Special Report #21
Appendix: A List of Rumors Compiled in Connection
with Special Report #21
Rumor Report, Special Services Division

The Division of Surveys reports are available to authorized individuals through the Bureau of Intelligence of the Office of War Information.