

DIARY

Book 497

February 14 - 17, 1942

- A -

	Book	Page
Alaska		
See Financing, Government: Defense Savings Bonds		
Antorg Trading Corporation		
See Lend-Lease: U.S.S.R.		
Appointments and Resignations		
Shell, Bernard J., Most Reverend (Auxiliary Bishop of Chicago): Appointed Consulting Expert, Office of Secretary - 2/14/42.....	497	83

- B -

British Purchasing Mission		
For discussion of assets, see Lend-Lease		
Vesting order sales - 2/17/42.....		317,318
Federal Reserve Bank of New York statement showing dollar disbursements, week ending February 4, 1942..		319
Business Conditions		
Haas memorandum on situation, week ending February 14, 1942.....		247

- C -

Carter, Andrew F.		
See Foreign Funds Control: General Aniline and Film Corporation		

China

Loan:

Welles' letter to HMJr concerning speed of Congress in passing legislation - 2/14/42.....		89
Soong-White conference; Generalissimo's attitude toward possible conditions discussed - 2/16/42...		198
Kung letter delivered by Fox, and reply - 2/16/42..		261
Chiang Kai-shek letter delivered by Fox, and reply - 2/16/42.....		264
Press reaction in China.....		342
Chiang Kai-shek's message to FDR from Delai - 2/17/42.....		345
Financial and economic condition - Fox report - 2/17/42.....		324

- D -

Defense Savings Bonds		
See Financing, Government		

- E -

Exchanges Market		
Resume' - 2/14/42, etc.....		94,276,355

	Book	Page
Federal Reserve System		
See Financing, Government		
Financing, Government		
Federal Reserve System memorandum on Treasury financing -		
Haas report - 2/16/42.....	497	229
Defense Savings Bonds:		
Johnston, Gale: Testimonial luncheon - 2/14/42.....		64
a) Johnston's letter of thanks to HMJr -		
2/25/42: See Book 501, page 139		
Field Organization News Letter, No. 39 - 2/14/42.....		66
Alaska: Criticism of program - correspondence		
concerning - 2/16/42.....		233
a) Treasury letter to Gruening - 2/19/42:		
Book 498, page 258		
Foreign Funds Control		
General Aniline and Film Corporation:		
Vesting order, etc. - announcement - 2/16/42.....		134
a) Copy of order sent to Netherlands Minister -		
2/16/42.....		146
b) Copies to Federal Reserve Banks.....		155
c) Copies to Latin American Diplomatic Missions -		
2/17/42: Book 498, page 279		
Conference; present: HMJr, Crowley, Cummings, Mack,		
Bullitt, Budd, Swope, Foley, Bernstein, Pehle,		
and O'Connell - 2/16/42.....		166
a) Letter from Mack.....		169
b) Report by Mack.....		173
Provost Marshal General memorandum - 2/17/42.....		296
Monsanto Chemical Company - Executive Vice-President		
Belknap sent memorandum concerning presidency of		
General Aniline and Film Corporation by Secret Service -		
2/18/42: Book 498, page 5		
a) Belknap-HMJr conversation - 2/18/42:		
Book 498, page 14		
b) Queeny, President of Monsanto Chemical Company,		
told of offer of presidency of General Aniline		
and Film Corporation to Belknap - 2/18/42:		
Book 498, page 25		
c) Swope-HMJr conversation - 2/18/42:		
Book 498, page 28		
d) Mack-Treasury correspondence - 2/18/42:		
Book 498, page 31		
e) Queeny and Belknap recommend Carter (Andrew F.) -		
2/19/42: Book 498, page 277		
f) Queeny-HMJr correspondence - 3/2/42:		
Book 503, page 98		
Bullitt resigns as Board Chairman - 2/19/42: Book 498,		
page 275		
Pike (Sumner), of Securities and Exchange Commission,		
will accept if FDR approves - 2/20/42: Book 499,		
pages 1 and 195		
a) HMJr's conversations with Pike and Purcell:		
Book 499, pages 196, 198, 205, 389, and 391		



	Book	Page
Foreign Funds Control (Continued)		
General Aniline and Film Corporation (Continued):		
Vesting authority to be published in Federal Register - 2/20/42: See Book 499, page 333		
Pike-HMJr conversation in connection with Hopkins' <u>previous</u> plan to draft Pike for Price Control - 2/23/42: Book 500, page 63		
Purcell-HMJr conversation concerning Pike - 2/24/42: Book 500, page 189		
Carter (Andrew F.) recommended by Belknap - 3/2/42: Book 503, page 101		
(See also Book 505, page 24 - 3/6/42)		
Report of Legal Division on projects during December 1941 and January 1942 - 2/14/42.....	497	48

- G -

General Aniline and Film Corporation  
See Foreign Funds Control

- H -

Hawaii

Liquidation of Japanese banks: Instructions from Treasury concerning - 2/14/42.....		83
a) Copy sent to Interior Department - 2/14/42.....		86

- J -

Johnston, Gale

See Financing, Government: Defense Savings Bonds

- L -

Legal Division

Report on Foreign Funds Control during December 1941 and January 1942 - 2/14/42.....		48
Lend-Lease		
Operating report for week ending February 14, 1942.....		41
Gold and dollar assets of United Kingdom and dollar receipts and expenditures of sterling area as submitted to House Appropriations Committee - White memorandum - 2/16/42.....		257
a) Conference; present: HMJr, Halifax, Phillips, Viner, and White - 2/18/42: Book 498, page 111		
U.S.S.R.: Stettinius-Treasury correspondence concerning cooperation with Amtorg Trading Corporation - 2/17/42.....		308
Allocations and obligations as of February 15, 1942....		313



- M -

	Book	Page
Military Reports		
Reports from London transmitted by Halifax - 2/14/42, etc.....	497	95,277, 280,356
Axis War Production, November 1941 - British estimates of: Kamarck memorandum - 2/14/42.....		98
War Department bulletin: Timely Tactical Topics - 2/14/42.....		106
Monsanto Chemical Company		
See Foreign Funds Control: General Aniline and Film Corporation		
Morgenthau, Robert		
Tugwell correspondence on visit to Puerto Rico - 2/14/42.....		43

- P -

Philippine Islands		
Report on Japanese regime - 2/16/42.....		267
Currency destruction reported by Sayre - 2/17/42.....		349
Pike, Sumner		
See Foreign Funds Control: General Aniline and Film Corporation		

- R -

Revenue Revision		
Federal-State-Local Fiscal Relations and Over-all Revenue System: Gulick-Groves report, No. 2 - 2/16/42..		219
Rosenberg, Anna M.		
Correspondence concerning admission taxes for members of armed forces - 2/14/42.....		59

- S -

Shell, Bernard J., Most Reverend (Auxiliary Bishop of Chicago)		
See Appointments and Resignations		
Spain		
Foreign Exchange Institute utilization of American currency - report from American Embassy, Madrid - 2/17/42.....		351

- T -

Transamerica Corporation		
Proposed branches again disapproved - 2/14/42.....		70
a) Lakewood Village, California		

- U -

U. S. S. R.		
See Lend-Lease		

H

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Saturday, February 14, 1942.  
2/13/42

Press Service  
No. 30-31

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of \$1,500,000,000, or thereabouts, of 2-1/4 percent Treasury Bonds of 1952-55 closed at the close of business Friday, February 13, except for the receipt of subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after issue date. The subscription books will be closed for the receipt of subscriptions of that class at the close of business tonight, February 14.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight of the respective closing days will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Wednesday, February 18.

-c00-

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Discussed in Secretary's office on  
2/14/42 at 10:43 a.m.



DRAFT OF SECRETARY MORSENTHAU'S SPEECH  
TO THE ADVERTISING CLUB IN BALTIMORE  
FEBRUARY 14, 1942

3

We have just gone through a black week in the war, a week of terrible events which should have swept the last cobweb of complacency from our minds. Nobody can say how much the war has been lengthened by the grim events at Singapore, or by the setback in Libya, or by the sinking of so many valuable ships and cargoes on the high seas. But it is simple common sense to realize that the war has been made longer, harder and costlier, and that these tragedies will have to be paid for before victory can be won.

That is why I say that <sup>the</sup> ~~this~~ war will call for a supreme effort from <sup>now on</sup> ~~this very~~ moment, for every ounce of energy in every field of our national life.

DRAFT OF SECRETARY MORGENTHAU'S SPEECH  
TO THE ADVERTISING CLUB IN BALTIMORE  
FEBRUARY 14, 1942

3

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That is why I say that <sup>the</sup> ~~this~~ war will call for a supreme effort from <sup>now on</sup> ~~this very moment~~, for every ounce of energy in every field of our national life.

Everything that civilians can do to help win the war must be done at a faster pace and with more intensive effort from now on -- and that means, among other things, <sup>more</sup> the production of war materials, <sup>more</sup> the conservation of supplies, <sup>more</sup> the volunteer work for civilian defense and <sup>greater</sup> the purchase of Defense Bonds. The job ahead of us <sup>is far bigger than most of us still realize</sup> ~~has taken on new dimensions~~, and it is vitally important at a time like this that we understand those new dimensions and act accordingly, in the financial field as in every other.

Let me give you one or two examples from the Defense Bond campaign, which is my ~~particular~~ responsibility as Secretary of the Treasury. We have sold more than \$1 billion of Defense Bonds in the month of



January. That was a great and impressive figure, yet you must forgive me if I do not <sup>give three cheers</sup> ~~throw my hat in the~~ ~~air at~~ <sup>to</sup> this response. Early last month the President sent to Congress a budget message calling for expenditures of \$40 billion on the war in this calendar year. Our billion in January looks small and inadequate when it is set against that budget figure.

The money we shall have to spend in this war has got to be raised and it will be raised.

We shall have to get as much of it as possible from taxes. You will hear soon how Congress and the Treasury would suggest doing that essential part of the job. At this moment I can only tell you this: that just as war allows no avoidance, the next tax program will not allow anyone to escape from paying his fair share.

## The Balance

~~Some~~ of our wartime needs will ~~also~~ have to be met by borrowing from the banks and from the people themselves. The amount to be borrowed is so vast that some people feel we should raise a part of it by compulsory savings. As you know, I have always preferred the voluntary method. I still prefer it, because it is the democratic method and because I am certain that it will work.

In England, ~~after two years of war~~, voluntary savings yielded \$2,400,000,000, one-tenth of the entire national income, from small savers alone in the past year. That is what the English were able to save in spite of a crushing load of taxes, in spite of the ~~physical devastation of~~ bombing, in spite of dislocations

*hardships*  
and ~~restrictions~~, such as we in our country have never known. One-tenth of our own national income would be more than \$10 billion in a year. If the British people can do so magnificently in the face of such hardships, why can't we do even better?

I know that the American people can do better. The proof came from Honolulu in the second week of December, while the sky was still dark with the smoke of the first direct attack on American soil. Shops and homes were in ruins, and civilians had been killed, but the people of Honolulu just wiped the dust from their hands and the grime from their eyes, and showed what free Americans can do when they are aroused. The day after Pearl Harbor, Honolulu was buying Defense



Bonds ten times as fast as before, and within a few days we at the Treasury had a telegram begging us to authorize the issuance of receipts instead of bonds because the supply of bonds had run out.

Do we have to wait until the bombs fall on our own homes before we rouse ourselves? Do we have to wait until our buildings are in ruins, our fields devastated, our property seized? What are we waiting for? Must we have more disasters like Pearl Harbor before we realize that this war is a life-and-death struggle for every one of us?

All around us we can see evidences of the fact that fighting spirit has not died among free men. (We can see it not only in England, not only in Hawaii.)

We can see it in the Philippines, where Americans and Filipinos, side by side, are writing a new epic of human courage. We can see it in China, where hundreds of millions still fight on after 4½ years of terrible war. We can see it in Russia where men are fighting and dying, in freezing cold, amid unspeakable hardships, to drive the invader from their soil. We can see it through the darkness in all the oppressed and conquered nations of Europe, where Hitler's firing squads cannot kill the love of liberty. The battlefields of this war are not thousands of miles away; they are right here in our factories and our homes, our hearts and our minds, and the need for sweat and effort is as great as if the enemy were at our gates.

I know that the American people are ready to do their part, but readiness and willingness are not enough. The time has come for all of us to translate that readiness into action. We can, we will, we must. We can do it by intensifying our effort in the purchase of Defense Bonds, just as in every other phase of our war effort. ~~So~~, if everyone who earns between \$40 and \$50 a week were to set aside ~~just~~ \$4 out of every pay check for buying Defense Bonds -- and there are almost eight million income earners in this salary group alone -- it would bring <sup>into the Treasury</sup> ~~the Government~~ \$1,200,000,000 a year. I have with me a table showing what the average income earner should be able to save for Defense Bonds, beginning with those who earn \$5 a week and going up



to the higher income levels. We are circulating this table throughout the country as a suggested yardstick for income earners, to show that it is entirely possible to raise almost \$11 billion a year from current income, not counting the additional billions which the larger investors can subscribe.

That will show you, ~~perhaps~~, how little we have done up to now on this one sector of the home front, and how much remains to be done. We have reached only about one-seventh of all the income earners in the country; we must reach the others without delay. We must have every income earner in the country saving regularly on a week-to-week basis if we are to finance this war without bringing the evils of inflation upon us.

Some may say that this is a big sacrifice to be asking of the American people, especially of those with fixed incomes. Yet is it a sacrifice to lend your savings to your country in time of war and to get a <sup>good</sup> ~~handsome~~ rate of interest in the process? Occasionally this group or that <sup>still</sup> protests that it should be exempt from military service or from paying higher taxes; occasionally I <sup>still</sup> hear it said that we must not dislocate business or disturb our economy in wartime -- as if you could fight a band of gangsters in your house without upsetting the furniture!

Fortunately there are not many who complain of extra hardships or extra services to their country. The American people as a whole are eager to help and

determined to give whatever their country may require of them. Fortunately too, we have a man in the White House who saw the terrible meaning of this war from the very beginning, who saw the immensity of the danger when his critics called him a "warmonger."

I see a good deal of the President at close range in these days of crisis; and every time I see him I wish that the whole American people could see him and hear him as he directs this vast and complicated war effort. They would catch something of his courage, his patience, his vision, and they would see him as he is already proving himself to be -- a great war President, a worthy leader of the whole free world.

~~It is up to all of us now to show that we are worthy of our past and of our great place in the world.~~

It is up to ~~all~~ each and every one of us to prove that we

*can take it - and give it*



~~The alarm bell has sounded.~~ Our country has never been in such danger. We cannot afford to wait for another Pearl Harbor, and still another, before we get going. The time has come for ~~all~~ 130 million of us to produce and sweat and save, and never to let up until the war and the peace are won.

February 14, 1942

READING COPY OF SECRETARY MORGENTHAU'S SPEECH  
BEFORE ADVERTISING CLUB  
BALTIMORE, MARYLAND

Mr. Chairman  
Gov. O'Connor  
Mayor Jackson and members of the <sup>16</sup>  
advertising club of Baltimore

We have just gone through a black week in the war, a week of terrible events which should have swept the last cobweb of complacency from our minds. Nobody can say how much the war has been lengthened by the grim events at Singapore, or by the setback in Libya, or by the sinking of so many valuable ships and cargoes on the high seas. But it is simple common sense to realize that the war has been made longer, harder and costlier, and that these tragedies will have to be paid for before victory can be won.

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That is why I say that the war will call for a supreme effort from now on, for every ounce of energy in every field of our national life.

Everything that civilians can do to help win the war must be done at a faster pace and with more intensive effort from now on -- and that means, among other things, more production of war materials, more conservation of supplies, more volunteer work for civilian defense and greater purchases of Defense Bonds. The job ahead of us is far bigger than most of us still realize. It is vitally important at a time like this that we understand how much bigger it is, and act accordingly, in the financial field as in every other.

133  
12 63

Let me give you one or two examples from the Defense Bond campaign, which is my responsibility as Secretary of the Treasury. We have sold more than one billion dollars of Defense Bonds in the month of January. That was a great and impressive figure, yet you must forgive me if I do not give three cheers to this response. <sup>Pause</sup> Early last month the President sent to Congress a budget message calling for expenditures of forty billion dollars on the war in this calendar year. Compared to this estimate of expenditures, our billion dollar sale of Defense Bonds in January looks small and inadequate.

104  
1179

The money we shall have to spend in this war has got to be raised and it will be raised.

We shall have to get as much of it as possible from taxes. You will hear soon how Congress and the Treasury would suggest doing that essential part of the job. At this moment I can only tell you this: that just as war allows no avoidance, the next tax program will not allow anyone to escape from paying his fair share.

The balance of our wartime needs will have to be met by borrowing from the people themselves and from the banks. The amount to be borrowed is so vast that some people feel we should raise a part of it by compulsory savings.

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As you know, I have always preferred the voluntary method. I still prefer it, because it is the democratic method and because I am certain that it will work.

From small savers alone England obtained two billion four hundred million dollars in voluntary savings during the past year, or one-tenth of <sup>her</sup> the entire national income. That is what the English were able to save after two years of war, in spite of a crushing load of taxes, in spite of devastating bombing, in spite of dislocations and hardships such as we in our time have never known. One-tenth of our own national income would be more than ten billion dollars in a year.

113  
7-9

If the British people can do so magnificently in the face of such hardships, we certainly ought to be able to do as well.

I know that the American people can do just as well and even better. The proof came from Honolulu in the second week of December. While the sky was still dark with the smoke of Pearl Harbor, the people of Honolulu were buying Defense Bonds ten times as fast as before. It was not long before we at the Treasury had a telegram begging us to authorize the issuance of receipts instead of bonds because the supply of bonds had run out.

126  
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Pause

Do we have to wait until the bombs fall  
on our own homes before we rouse ourselves?

Do we have to wait until our buildings are in  
ruins, our fields devastated, our property seized?

What are we waiting for? Must we have more  
disasters like Pearl Harbor before we realize that  
this war is a life-and-death struggle for every  
one of us?

All around us we can see evidences of the  
fact that <sup>the</sup> fighting spirit has not died among free  
men. We can see it in the Philippines, where  
Americans and Filipinos, side by side, are writing  
a new epic of human courage.

105  
728



We can see it in China, where hundreds of millions still fight on after 4½ years of terrible war. We can see it in Russia where men are fighting and dying, in freezing cold, amid unspeakable hardships, to drive the invader from their soil. We can see it through the darkness in all the oppressed and conquered nations of Europe, where Hitler's firing squads cannot kill the love of liberty.

The battlefields of this war are not thousands of miles away. They are right here in our factories and our homes, our hearts and our minds, and the need for sweat and effort is as great as if the enemy were actually invading us.

117

69

I know that the American people are ready to do their part, but readiness and willingness are not enough. The time has come for all of us to translate that readiness into action. <sup>pause</sup> We can, we will, we must.

One of the ways we can do much more is by intensifying our effort in the purchase of Defense Bonds. If everyone who earns between \$40 and \$50 a week were to set aside \$4 out of every pay check for buying Defense Bonds -- and there are almost eight million income earners in this salary group alone -- it would bring into the Treasury one billion  $\frac{2}{3}$  <sup>thru</sup> two hundred million dollars a year.

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499

I have in my hand a table showing what the average income earner should be able to save for Defense Bonds, starting with the very small salaries and going up to the higher income levels. We are circulating this table throughout the country as a suggested yardstick for income earners, to show that it is entirely possible for our people to save almost eleven billion dollars a year from current income, not counting the additional billions which the larger investors can subscribe.

That will show you how little we have done up to now on this one sector of the home front, and how much remains to be done.

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We have reached only about one-seventh of all the income earners in the country; we must reach the others without delay. With your help, we must have every income earner in the country saving regularly on a week-to-week basis if we are to finance this war without bringing the evils of inflation upon us.

Some may say that this is a big sacrifice to be asking of the American people, especially of those with fixed incomes. Yet is it a sacrifice to lend your savings to your country in time of war and to get a good rate of interest in the process?

106  
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Occasionally this group or that still protests that it should be exempt from military service or from paying higher taxes; occasionally I still hear it said that we must not dislocate business or disturb our economy in wartime -- as if you could fight a band of gangsters in your house without upsetting the furniture!

Fortunately there are not many who complain of extra hardships or extra services to their country. The American people as a whole are eager to help and determined to give whatever their country may require of them.

91  
193

Fortunately too, we have a man in the White House who saw the terrible meaning of this war from the very beginning, who saw the immensity of the danger when his critics called him a "warmonger."

We in the Cabinet see a good deal of the President at close range in these days of crisis; and every time I see him I wish that the whole American people could see him and hear him as he directs this vast and complicated war effort. They would catch something of his courage, his determination, his vision, and they would see him as he is already proving himself to be -- a great war President, a worthy leader of the whole free world.

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It is up to each and every one of us to prove that we can take it -- and give it. Our country has never been in such danger. We cannot afford to wait for another Pearl Harbor, and still another, before we get going. The time has come for 130 million of us to produce, and sweat, and save, and never to let up until the war and the peace are won.

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**What our Government needs  
in extra War Savings from  
every Citizen in order to  
WIN THIS WAR . . .**



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★ ★ ★ ★ ★

# Enlist Your Savings for Victory

HERE is a table showing how every person who receives wages or salary can help win the war and provide for his own future security by buying Defense Bonds and Stamps. These figures suggest a systematic war savings program to fit every income. They are based on weekly averages and do not, therefore, take account of the individual circumstances of every person. Those with no dependents or other responsibilities should be able to save a good deal more than is indicated on this table. Those with unusual responsibilities may not be able to save so much. Each individual is the best judge of how much he can invest in Defense Bonds. But everyone knows that the war will be won only if he puts every cent he can into guns, and tanks, and planes, and ships. This is not a token war, nor a penny-ante game. It is a fight to the finish against the most ruthless and relentless enemy we have ever faced.

Look at this table and find your own income level. See how many people are included in that group. Note how small savings mount up when everyone works together for the

Nation as a whole. Note also that this plan refers only to the purchase of Defense Bonds out of regular income from week to week, which is much more helpful to the government than to buy them from savings already accumulated. Bear in mind that in 10 years your savings invested in Series E Defense Bonds will increase by 33½ percent as indicated on the back of this sheet. The figures used in this table are not intended as quotas either for individuals or for the Nation, but as suggestions of what we can do without compulsion and without hardship. If every person who receives a regular income in the form of wages or salary adopts a war savings program such as here suggested, it will mean a total of over ten billion dollars a year, urgently needed to insure victory. Over 80 percent of this amount can be saved by those receiving less than \$200 a week. The remainder will come from those comparatively few people receiving higher incomes.

(The additional billions which must be raised will come from other forms of saving and from taxes paid by all of us.)

## A SAVINGS SCHEDULE FOR THE SYSTEMATIC PURCHASE OF U. S. DEFENSE BONDS

If your weekly earnings are	And you save each week	In one year you will save	Number of persons in each income group	Total annual savings
\$5— 10	\$0.25	\$13.00	3,324,000	\$43,212,000
10— 15	.50	26.00	4,975,000	129,350,000
15— 20	.75	39.00	5,470,000	213,330,000
20— 30	1.25	65.00	10,747,000	698,555,000
30— 40	2.00	104.00	7,774,000	808,496,000
40— 50	4.00	208.00	5,794,000	1,205,152,000
50— 60	6.00	312.00	3,007,000	938,184,000
60— 70	8.00	416.00	2,231,000	928,096,000
70— 80	10.00	520.00	1,304,000	678,080,000
80—100	12.00	624.00	1,489,000	929,136,000
100—150	20.00	1,040.00	1,059,000	1,101,360,000
150—200	35.00	1,820.00	298,000	542,360,000
Over 200	.....	.....	695,000	2,000,000,000
			<u>48,167,000</u>	<u>\$10,215,311,000</u>



**SEE HOW YOUR INVESTMENT . . .  
IN DEFENSE BONDS (Series E) WILL GROW**

<u>You Invest</u>	<u>Upon Maturity you get back</u>
\$18.75	\$25
37.50	50
75.00	100
375.00	500
750.00	1,000

**When is maturity?** Ten years from the time you buy the Bond. If you need the money before then, you can cash the Bonds at any time after 60 days from their issue date. A table of cash-in values is printed on each Bond. Naturally, the longer you hold the Bond, up to 10 years, the more money you'll get back. But you'll never get less than you put in.

**What's the interest rate?** When held to maturity, the Bonds yield 2.9% per year on your investment, compounded semiannually. In other words, you get back \$4 for every \$3 you save in Defense Bonds.

**Where do I go to buy a Bond?** To your local bank, post office or other Defense Bond agency.

**What about Defense Stamps?** Buying Defense Stamps is a convenient way of saving money with which to buy a real Defense Bond. Stamps are sold for as little as 10¢ through banks, post offices, retail stores, theatres and newspaper carrier boys.

Start your savings program today. Save every pay day. If your company has a Defense Savings Pay Roll Plan, you will find it the most convenient way to save regularly and systematically.

★ ★ ★ ★ ★

D88-253

442258 GPO

February 14, 1942  
11:20 a.m.

Operator: Mr. Sproul.

Allan  
Sproul: Good morning, Mr. Secretary.

HMJr: How are you.

S: Fine.

HMJr: Are things all right?

S: Yeah. The market for the new issue is doing very well.

HMJr: It's all right.

S: There's some little pressure on the two's at fifty-one, five but it's working itself out; and the new issue is now being dealt in around par twenty and not a great deal being offered relative to what's been offered on other issues on a subscription basis.

HMJr: Yeah.

S: It looks as if it were a little more firmly placed than other issues available.

HMJr: That sounds good. You didn't have to buy anything yesterday?

S: We haven't had - we didn't buy anything yesterday, and we haven't had to buy anything yet this morning.

HMJr: Good. Good. Well, that's fine. I thank you all.

S: All right. We're standing by to see you through.

HMJr: I'm going to talk on the Columbia Broadcasting tonight at ten-fifteen.

S: Ten-fifteen? I'll be there.

HMJr: All right.

- 2 -

Robert  
Rouse: Good-bye.

S: Make it good.

HMJr: It is good. It's tough.

S: All right, fine.

HMJr: It's tough.

S: Ten-fifteen.

HMJr: Yeah.

S: All right.

HMJr: Is Bob Rouse there, too?

R: Yeah, I'm on.

HMJr: Okay.

S: Okay.

HMJr: Thank you all.

R: Right, sir.

S: Good-bye.

HMJr: Good-bye.



~~111~~ 33

THE UNDER SECRETARY OF STATE  
WASHINGTON

February 14, 1942

Dear Henry:

In accordance with our telephone conversation of the twelfth I am presenting a brief summary of conversations between this Government and the Government of Ecuador with special regard to monetary and stabilization questions of direct concern to the Treasury.

As you will recall, in 1940 the Ecuadoran Government requested technical assistance in fiscal, monetary, and stabilization matters and the Treasury made available for loan to Ecuador in accordance with Public No. 33 of March 11, 1941, the services of Mr. Harold Glasser, who has remained in Ecuador ever since. The Ecuadoran Government has frequently expressed its great satisfaction with the technical assistance rendered by Mr. Glasser, and has repeatedly requested the extension of his assignment.

About a year ago Ecuador began to discuss with our Minister at Quito, and through the Ecuadoran Ambassador at Washington, further economic and financial cooperation

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

cooperation covering a variety of fields. Included in the general discussions were technical agricultural studies looking towards the development of production of agricultural commodities, the construction of waterworks, and the improvement of sanitation in Quito and Guayaquil, and the possibility of the conclusion of a monetary stabilization agreement.

These discussions assumed more concrete form with the visit last August to Washington of Señor Illingworth, the Ecuadoran Minister of Finance. Although the Minister's visit was cut short by the unfortunate developments between Peru and Ecuador, arrangements were concluded before his departure from the United States to send a competent agricultural advisory mission, which is now at work in Ecuador, and agreement in principle was reached with the Export-Import Bank to construct waterworks in Quito and Guayaquil upon the preparation of satisfactory engineering studies. The Export-Import Bank has contracted the services of an outstanding waterworks engineer who is now in Ecuador completing such studies.

As you will recall, you discussed the monetary stabilization matter in general terms with the Minister of Finance and a number of discussions took place

between

between him and technical experts of the Treasury at which the possibilities of a stabilization agreement were explored. The Minister was forced to return to Ecuador before these discussions had reached a definite conclusion, and the Treasury requested a considerable amount of further information regarding the Ecuadoran exchange situation and the circumstances in which such a stabilization operation might be carried out. The Treasury subsequently transmitted further queries through the Ecuadoran Ambassador.

The situation in Ecuador held up any rapid progress in these discussions and it was not until late in December that there was received from the Ecuadoran Government a rather full reply to the Treasury's inquiries. This reply was translated in the Department and transmitted to the Treasury Department.

At the Rio Meeting the problem of the Peru-Ecuador boundary arose as a side issue which threatened to disturb the smooth progress of the Meeting itself. Consequently the Delegates of the principal nations made strenuous efforts to bring the Foreign Ministers of Peru and Ecuador to agreement on a settlement of this controversy which had existed for more than one hundred years. At the last moment agreement was reached, and

in



in the early hours of the morning following the closing session of the Meeting proper a Protocol was signed by the two Foreign Ministers, subject to ratification within one month by the respective Congresses, providing a basis of settlement. The importance of this settlement to inter-American relations in the present war situation cannot be overestimated, as Nazi agents and sympathizers have done their utmost to prevent the settlement and to use the dispute as a breach in hemisphere solidarity.

The settlement of the dispute is a realistic one. It gives to Ecuador all of the territory actually held by it in recent years, a guaranteed access to the Amazon River and its tributaries and an outlet to the sea, and in addition a large tract of land east of the Andes bordering on a tributary of the Amazon. The settlement, however, falls far short of Ecuador's claims, and it has taken real courage for the Ecuadoran Minister to recommend its acceptance. In view of the extremely difficult situation which I believed the Minister and his Government would face, the importance of maintaining political stability in Ecuador, the real value to the hemisphere of a settlement of this long-standing dispute, and the genuine desire of the

United States

United States to extend economic cooperation to Ecuador, I requested members of the Delegation during the last days that we were in Rio to make every effort to work out in broad terms a satisfactory program of economic collaboration which could be handed at once to the Ecuadoran Foreign Minister to be used upon his return to Quito. The members of the Delegation consulted the Federal Loan Agency, the Coordinator of Inter-American Affairs, and Dr. White of the Treasury in Washington by telephone and the enclosed four-point undertaking was prepared and handed to the Ecuadoran Minister.

In the brief telephone conversation with Dr. White it was agreed that there was no time for requesting the Treasury to consider and make a formal commitment in the matter. Since the Federal Loan Agency agreed to underwrite points 1, 2 and 3 of the program, the Coordinator of Inter-American Affairs underwriting the fourth point, it was decided to word the monetary stabilization section very loosely, thus making it possible for the Treasury to give, after the Delegation returned to Washington, full consideration to becoming a party to the arrangement.

Dr. Eduardo Salazar, Financial Representative of the Ecuadoran Government and a member of the Ecuadoran  
Delegation,

Delegation, returned to Washington with the United States Delegation and discussed the matter of a stabilization agreement informally with Dr. White and other officers of the Treasury and the Department of State. He has obtained informally, at Dr. White's request, certain up-to-date information regarding the Ecuadoran exchange situation. The general position appears quite good in real terms, and in the opinion of the Department the psychological stimulus of the announcement of a stabilization arrangement would go a long way towards maintaining the Ecuadoran exchange situation and strengthening the position of the Ecuadoran Government. The carrying out of such an arrangement appears to be consistent with similar arrangements entered into by the Treasury with other American republics, and a type of operation properly of direct concern to the Treasury Department. It was for all of these reasons, and in view of the immediate exigencies of the Ecuadoran political situation, that I requested you in my letter of February 11 to give sympathetic consideration to the Ecuadoran proposal at your earliest convenience.

With my kindest personal regards,

Sincerely yours,



Enclosure:

Memorandum of  
January 29, 1942.



MEMORANDUM

The Government of the United States proposes to cooperate with the Government of Ecuador in accordance with the following plan:

1. Subject to the submission of suitable plans and specifications for waterworks for the cities of Guayaquil and Quito, and other municipal improvements, and the availability of the necessary materials and equipment from the United States, the Export-Import Bank will loan funds to finance the construction thereof up to a total sum not exceeding \$8,000,000.

2. To provide financing for a development corporation to be organized to provide transportation for the Oriente region; to encourage the economic development of Ecuadoran products; and to stimulate the domestic economy of the country.

The corporation will be authorized to operate with a capital of \$10,000,000, of which amount the Government of the United States will authorize an initial commitment of \$5,000,000.

Attached hereto is a memorandum setting forth details with reference to the formation of the proposed corporation.

3. In order to aid in the stabilization of the Ecuadoran currency and to alleviate the economic situation existing in Ecuador as a result of the war, dollar funds in an amount not exceeding \$5,000,000 will be provided through some agency of the United States Government upon mutually satisfactory terms and conditions.

4. The

-2-

4. The Office of the Coordinator of Inter-American Affairs will grant \$2,000,000 towards a cooperative program of health and sanitation in keeping with the statement of the Under Secretary of State on January 16, and project no. 25 presented by the Delegation of the United States of America.

Delegation of the United States of America,  
Rio de Janeiro, January 29, 1942.

(initialed:  
WLP  
CHSpaeth)



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

41

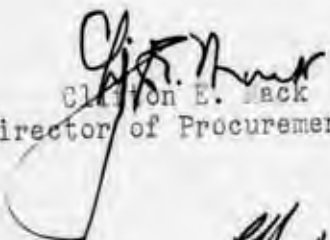
February 14, 1942

MEMORANDUM TO THE SECRETARY

There is submitted herewith the operating report of Lend-Lease purchases for the week ended February 14, 1942.

Requirements for the participating Lend-Lease countries totalling \$2,016,378,682.00 were presented to the House Appropriations Committee on February 13, and testimony was concluded the same date.

The Office of Lend-Lease Administration has asked us to consider handling requirements now being purchased by the Netherlands Commission, which it is estimated will approximate \$150,000,000.00 to \$200,000,000.00 for the balance of this current year, and which will be made on a cash reimbursable basis. A conference with Netherlands Commission representatives is scheduled for February 17, 1942.

  
Clayton E. Mack  
Director of Procurement

eh-1/17/42

FOR DEFENSE



BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS



LEND-LEASE

TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF FEBRUARY 14, 1942

(In millions of dollars)

	<u>Total</u>	<u>U.K.</u>	<u>RUSSIA</u>	<u>CHINA</u>	<u>ADMINISTRATIVE EXPENSES</u>	<u>UNDISTRIBUTED &amp; MISCELLANEOUS</u>
Allocations	\$930.5	\$701.0	\$118.0	\$57.5	\$.9	\$53.1
Purchase Authorization (Requisitions)	672.5	511.1	117.7	41.8	-	1.9
Requisitions cleared for purchase	621.6	495.2	90.4	34.1	-	1.9
Obligations (Purchase)	552.0	441.9	79.0	29.2	.4	1.5
*Deliveries to Foreign Governments at U.S. Ports	184.3	168.9	4.9	10.4	-	.1

\*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.

February 14, 1942

My dear Rex:

Mrs. Morgenthau and I were simply delighted to receive your letter of February 10th and get an eye-witness report about Bob.

We appreciate more than we can say the hospitality that you are extending to him, and particularly that you are taking him in and evidently treating him like a member of your family. Our telephone conversation with Bob was very unsatisfactory; hence, all the more reason why we appreciate hearing from you.

Again many thanks for your kindness to Bob, I remain

Very sincerely yours,

(Signed) Henry

Honorable Rexford G. Tugwell,  
Governor of Puerto Rico,  
San Juan, Puerto Rico.

*Fila N.M.C.  
Air Mail*



LA FORTALEZA  
SAN JUAN, PUERTO RICO

OFFICE OF THE  
GOVERNOR

February 10, 1942

Dear Henry:

I know you will be glad to hear that Robert is with us just now on his off nights. Last night he was best man in a family rummy game. But we expect to do better. In fact, tomorrow we'll have the Commanding General's daughter who, as I remember, is much more entertaining than a card game with the family. He is amusing about the cooking problem aboard; but in spite of that problem he seems well enough and interested.

We were both amused to hear you catch it over the radio from some commentator about the Mickey Mouse film. The politicians here, though, could teach Congressmen tricks they never even heard of. But I doubt that the education I'm getting will ever be useful.

I'll try to keep you informed about Robert.

Sincerely,

R. G. Tugwell

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



February 2, 1942

My dear Rex:

I was delighted to receive your letter of January 27th, and learn that you had word that my son, Robert, had passed through Puerto Rico.

I certainly appreciate the trouble you went to to learn of his whereabouts. You may be interested to know that is the first and only information that we have had that Robert did pass through Puerto Rico.

Yours sincerely,

(Signed) Henry

Honorable Rexford G. Tugwell,  
Governor of Puerto Rico,  
San Juan, Puerto Rico.

*n.m.c.*

*Via Air Mail*

LA FORTALEZA  
PUERTO RICO

46



January 27, 1942

Dear Henry:

After I got your cable the other day about young Henry, I set my spies in motion to catch him when he passed through; but he came through so quickly even the Admiral didn't know it until it was over and he had gone.

I am assured, however, he will be back a little later and we hope to have him stay with us for a while. I was assured, also, that he was fit.

We will be very happy to have him.

Sincerely,

R. G. Tugwell

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

H MORGENTHAU JR PERSONAL

JANUARY 17, 1942

HONORABLE REXFORD G. TUGWELL  
GOVERNOR OF PUERTO RICO  
SAN JUAN P. R.

MY SON ROBERT WHO IS AN ENSIGN IN THE NAVY MAY VISIT SAN JUAN.  
ANY COURTESY YOU MAY SHOW HIM WILL BE WARMLY APPRECIATED BY  
MRS MORGENTHAU AND ME. REGARDS.

HENRY MORGENTHAU JR

*copy filed in Bob's folder*



TREASURY DEPARTMENT

48

INTER OFFICE COMMUNICATION

DATE FEB 14 1942

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

Attached is a memorandum summarizing the more important studies and projects worked on in the Legal Division during December, 1941, and January, 1942, with respect to Foreign Funds Control.

*S-11-72.*

Attach.

Studies or projects worked on during December, 1941 and January, 1942.

### LEGISLATION

Immediately after the outbreak of the war, this office drafted legislation providing the President with plenary powers under section 5(b) of the Trading with the enemy Act for dealing with all foreign property, including the power to vest such property. The legislation drafted by this office was incorporated into the First War Powers Act as Title III. This office also participated in the preparation of committee reports and in conference work at the Capitol during the enactment of this legislation.

### PROPOSED EXECUTIVE ORDER DELEGATING AUTHORITY UNDER SECTION 5(b) OF THE TRADING WITH THE ENEMY ACT.

This office participated in the various conferences relating to and the drafting of several proposed executive orders in connection with the delegation of authority under Title III of the First War Powers Act. It also prepared the papers delegating to High Commissioner Sayre of the Philippines and Governor Poindexter of Hawaii all the powers under Title III in order that they might be able to cope with any emergency which might arise in either area.

### EXTENSION OF FREEZING CONTROL.

Freezing control was extended to Thailand on December 9 and Hong Kong on December 26, 1941. The executive order freezing Hong Kong also provided for the automatic freezing of assets of any other territory in case it should be occupied or overrun by the Axis. On January 5, 1942, a public circular was issued announcing that freezing control had been extended to the Philippine Islands as of January 1, 1942. In all these cases, appropriate public documents were issued in order to carry out the freezing program. In connection with the freezing of Hong Kong, a public circular was issued, adjusting the "China Program" to the changing conditions resulting from the occupation of Shanghai and Hong Kong by the enemy.

CONTROL OF AXIS BUSINESS ENTERPRISES

## General Aniline and Film Corporation

A thorough investigation of the files and personnel of this corporation is underway, and five of the top officials of such firm have been suspended. A staff of Treasury men has been installed in the corporation and are supervising its conduct. Consideration is being given to the vesting of title to the shares of this corporation and the documents incident to such action are in the course of preparation.

## Schering Corporation

A thorough investigation of the files and personnel of this corporation was made and eight of the officials and employees were suspended. An application by George Gallowhur to purchase this corporation was denied.

## American Bosch Corporation

A thorough investigation of material available in Washington relative to this corporation was made. On the basis of that information, a staff of Treasury investigators have been installed in the corporation and are conducting a thorough investigation of records and personnel.

## Luscombe Airplane Corporation

A study was made of information available to the Navy Department, War Department, and the Civil Aeronautics Administration relative to this corporation. As a result of that study, a staff of Treasury investigators have been installed in the corporation and are making a study of personnel and records.

Herman A. Brassert and Company;  
Askania Regulator Company

We have almost completed a thorough study of information available in the State Department, Department of Justice, War Department, Navy Department, and Immigration Service (in Justice), relative to the above companies and to



Herman A. Brassert. Herman A. Brassert and Company was about to play an important part in the construction of steel mills for the Brazilian Government, financed by a \$25,000,000 loan from the Export-Import Bank. It is contemplated that as a result of this study recommendation may be made for an investigation of records and personnel of the above companies.

General Ceramics Company;  
Arnhold and Bleichroeder, Inc.

A study has been completed of available information in Washington with respect to the relationship between the corporation, which manufactures vital insulation material for military radio transmission, and the private banking house of Arnhold and Bleichroeder. At present Treasury representatives are supervising the operations of General Ceramics Corporation. As a result of our study recommendation has been made for an investigation of the files of Arnold and Bleichroeder.

#### LATIN AMERICA

##### (a) Mission to Latin America.

On November 25, 1941, a mission composed of Mr. Christian M. Ravndal of the State Department; Mr. Paul H. Nitze of the Board of Economic Warfare and James H. Mann of this office, left Washington for a tour of the United States Embassies in Brazil, Uruguay, Argentina, Chile, and Peru and the United States Legations in Paraguay, Bolivia and Ecuador. The mission returned to the United States on January 8 and had conferences in Miami, Florida on January 9 with representatives of the American delegation to the Rio Conference. The representative from this office returned to Washington on January 10, 1942.

The above-mentioned mission visited the various Embassies and Legations, conferred with the Ambassadors or Ministers and their respective staffs relative to the

Proclaimed List work and freezing control. The Embassy and Legation staffs were advised of the current work being done in Washington and were given technical advice by the representative of this office on the administration of that part of the economic warfare problem which concerned the Treasury Department. Problems of listing and deleting firms from the Proclaimed List were taken up and discussed at length. Ways and means of making the Proclaimed List program more effective, and proposed plans for coping with the problem of cloaking merchandise shipments and dollar transactions were taken up in detail. The mission sought to set up an intelligence system at each Embassy and Legation visited for obtaining commercial information and also advised the various Embassies and Legations of the war measures and Proclaimed List developments in the other countries visited. Where the countries visited had adopted a plan for freezing the assets of the Axis powers, such plan was discussed and analyzed with our Embassies and Legations. On this trip the Treasury representative wrote reports totaling about eighty-five pages, making suggestions and recommendations which have served as a basis for projects presently under consideration in this Office.

(b) The Proclaimed List.

With the outbreak of war, a considerable number of Japanese concerns in Latin America have been added to the Proclaimed List. In addition, Axis individuals and firms in Portugal, Spain, Sweden, Switzerland and Turkey have been added to the Proclaimed List.

With the outbreak of war, new instructions were sent to our missions in Latin America designed to cut off more completely all trade by United States concerns, including their branches in Latin America, with Proclaimed List nationals.

In addition, considerable work has been done setting up a procedure to prevent the cloaking of transactions by Latin American concerns for Proclaimed List nationals.



- 5 -

(c) Freezing decrees by Latin American countries.

With the outbreak of war we prepared, together with the State Department, instructions to the missions in Latin America requesting that they approach the local governments of such countries in an effort to have such local governments of such countries set up local freezing laws with respect to German, Italian and Japanese nationals. As a result, practically every Latin American country has set up some sort of a local freezing law with respect to German, Italian and Japanese nationals. Efforts are being made to have these freezing decree laws tightened and to have them effectively administered.

(d) A resolution was drafted by Treasury and State for the recent Rio conference of American Republics recommending that such republics take appropriate action to cut off all financial, trade and commercial intercourse between such republics and the Axis countries and the states subservient to them and recommending that action be taken to control activities by firms within such countries inimical to the defense of the Western Hemisphere. The substance of this resolution was adopted at the Rio conference.

"SCORCHED EARTH" PROGRAM

This office participated in the formulation of, and drafted the documents with respect to, a program designed to prevent Japan from gaining access to securities, currency, bullion and similar valuables in connection with the occupation of the Philippine Islands. Prior to the fall of Manila, High Commissioner Sayre was given blanket authority under the First War Powers Act to take such steps that might be necessary to attain this objective. Instructions were also furnished him regarding the manner in which to record currency and securities so that they might thereafter be destroyed. In addition, subsequent to the fall of the Philippines, and with the cooperation of the Philippine Government and the Department of the Interior, a program was executed designed to prevent the liquidation by Japan of any Philippine currency or securities which she might loot in the Philippines.



- 6 -

ACTION WITH RESPECT TO JAPAN AND HER NATIONALS

With the outbreak of war on December 7, 1941, all licenses relating to Japan or any national thereof were revoked, as a precautionary measure, placing a complete stoppage on all Japanese financial and commercial transactions. At the same time the Treasury took custody of many Japanese enterprises. Thereafter these tight restrictions were relaxed under appropriate safeguard, various general licenses being reinstated with respect to Japanese nationals.

On December 7, 1941, three attorneys from this office, together with four men from the administrative offices, were in San Francisco in connection with our educational program. As a result, we had a substantial staff in this vital area to meet the Japanese problem precipitated by the war. The educational program was suspended and this group organized and directed the West Coast operations in supervising and closing Japanese firms and handling Japanese transactions and property. They also aided Washington in keeping fully informed as to the West Coast situation. Three other attorneys were also sent to California during this period to assist in this program.

A representative of this office, together with a representative from the administrative office of Foreign Funds Control, spent nine days on the West Coast investigating the Japanese agricultural situation. Public officials, bankers, farmers, labor leaders and produce merchants in various parts of the State of California were interviewed in the course of the investigation. Subsequently, a conference was held at the Department of Justice concerning the demand of the Army and Navy that Japanese aliens be removed from certain strategic areas on the West Coast.

TRADING WITH THE ENEMY AND CENSORSHIP

The outbreak of the war brought into effect section 3(a) of the old Trading with the enemy Act which prohibited any type of trade with any "enemy" or "ally of enemy". Since

- 7 -

the provisions of section 3(a) overlap to a large extent the operations being conducted under freezing control, it was necessary to integrate the two sections. This office prepared a general license which was signed by the President and approved by the Secretary of the Treasury and the Attorney General for this purpose.

The over-all problem of the course of action which should be followed under freezing control with respect to transactions and communications involving enemy territory and enemy nationals has been the subject of conference and study in this office. With the cooperation of the various interested Government agencies, together with the banking community in New York, this office is drafting a general ruling, respecting the obligations of Americans in connection with trade and communication with the enemy. Similarly this office is drafting for the Office of Censorship a proposed general license which will permit the synchronization of the restrictions of trading with the enemy to those relating to communications with the enemy. This program envisages a departure of the old 1917 concepts of "enemy" and "ally of enemy" and the use of the new concept "enemy national", more adapted to the needs of this country during the present war.

This office is also participating in the formulation of a program for cooperation of freezing control with Censorship in order that they may have the benefit of our experience in the financial field in their censoring mail and we, in turn, will have the benefit of the information gleaned through the Censorship channels.

#### MEETING WITH THE NEW YORK FEDERAL RESERVE BANK REPRESENTATIVES

Representatives of the New York Federal Reserve Bank met with representatives of this Department with respect to various problems which have arisen in connection with freezing control, particularly since the outbreak of war. This meeting was very fruitful and considerable progress has already been made in solving the problems which were discussed at this meeting.



### PUBLICITY AND EDUCATIONAL PROGRAM

Representatives of this office attended and spoke at meetings at Cleveland, Chicago, Denver, San Francisco and Omaha, explaining the purposes of freezing control and the functions of the various documents issued thereunder. It was planned that such meetings would also be conducted at Dallas, New Orleans and Atlanta, but the outbreak of war required part of the men involved to remain on the West Coast to meet problems arising in that area. Such meetings were very successful in obtaining the cooperation of the banking community in such areas.

In connection with the issuance of each major document during the months of December and January, explanatory press releases were issued. Such releases explained to the public in simple language what the purpose of each document was and its general provisions. This office prepared eight press releases of such nature.

During the same period this office participated in the preparation of six additional press releases, explaining various operations and functions of freezing control. These releases were not intended to educate the public regarding any particular freezing control document, but were intended to show the scope of problems being dealt with under freezing control.

A pamphlet on Freezing Control for Treasury investigators is in the process of preparation. Such pamphlet will briefly outline the history, purposes and machinery of Foreign Funds Control.

### SECURITIES MATTERS

This office participated in the preparation and execution of a program designed to permit the Danish Government to pay interest on its dollar obligations to other than Danish holders thereof. Public Circular No. 9 was issued in connection therewith.



- 9 -

This office participated in the drafting and issuance of a new public circular prohibiting the purchase for any blocked account of more than 1 percent the outstanding shares of any corporation. In connection with such program a new report form on securities was required in order to facilitate the enforcement of the 1 percent clause.

As previously stated, this office participated in the program dealing with Philippine currency and securities.

This office is also participating in the preparation of a general license authorizing the purchase, sale, and other dealings in Government bonds.

#### MODIFICATIONS IN PUBLIC DOCUMENTS

Among the other documents issued or modified were the following:

Public Circular No. 13, eliminating the reporting requirement in six general licenses.

The issuance of a new series entitled "Public Interpretations". Two interpretations were announced under that series.

Consideration is also being given to the problem of lifting the restrictions on blocked nationals resident in the United States. This will probably be the subject of a major study.

#### CENSUS REPORTS

Series J of Form TFR-300, to be used by certain Japanese nationals in filing a new census report, and Public Circular No. 4-A in connection therewith, were issued. Series K and Public Circular No. 4-B, covering the Census Report of Philippine nationals, is in the process of preparation. During this period, letters were sent to the State and Federal agencies regarding the reporting requirements on Report Form TFR-300. This office participated in advising the enforcement and investigative units in regard to methods of checking large withdrawals or deposits of blocked nationals disclosed by the various reports filed on Form TFR-300.

CONTROL OF AXIS POSTAGE STAMP RACKET

A program was formulated for terminating the Nazi postage stamp racket by banning the importation of postage stamps from Axis and Axis-occupied nations. Prior to the imposition of such control, the Axis had made a practice of printing many new stamp series for the occupied nations which they would forward through neutral cloaks to American stamp collectors who would in turn pay dollars for them. The sum of money obtained in this manner has been estimated to be \$20,000,000. This traffic was terminated by issuing instructions to the Collectors of Customs to block the importation of stamps in which Axis and Axis-occupied countries or their nationals had an interest. At the same time, steps were taken to prevent the evasion of this control by subjecting stamp transactions with Latin America to a special control.

CERTIFICATIONS UNDER SECTION 25(b) OF THE FEDERAL RESERVE ACT

Various licenses, notifications and certifications have been issued under section 25(b) of the Federal Reserve Act, permitting the accredited representatives of certain countries to operate the accounts in this country held in the names of the governments of such countries and their central banks. This includes licenses, etc., over the accounts of the Netherlands Government, Norwegian Government, the Danish Government and central bank, and the central bank of Greece.

FEB 14 1942

Dear Eleanor:

This is in reply to your memorandum of February 10, 1942, transmitting a letter received by you from Anna M. Rosenberg, Regional Director of Defense Health and Welfare Services, concerning the tax treatment of amounts paid for admissions at half-price by officers of lower rank of the Army and Navy. You may wish to incorporate the enclosed paragraph outlining the existing law on this matter into a reply to the letter which is returned herewith.

If you have any further questions on this matter, please do not hesitate to call on me.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,  
The White House,  
Washington, D. C.

Enclosures.

*CW*

GCH:is *RLR*

2/13/42 *JLS*

*Copies to Thompson*



The Federal tax on admissions is now imposed at a rate of one cent for each ten cents, or fraction thereof, of the amount paid for admission to any place. The Revenue Act of 1941 on the recommendation of the Treasury Department abolished all of the exemptions previously existing with respect to admission charges, the proceeds of which are for the benefit of religious, educational, or charitable institutions or organizations. The Congressional Committees felt it desirable, however, to provide that, where members of the military or naval forces are admitted free or at reduced rates, the tax should apply only to the amount actually paid for admission. Thus, under the plan developed by Mr. Golden, officers of the Army and Navy, if admitted at reduced rates, are not required to pay a tax equivalent to that imposed upon the regular admission charge, but are taxed only upon the reduced amount actually paid for admission.

Cus OVD:is  
2/13/42

*Copies to Thompson*

61

THE WHITE HOUSE  
WASHINGTON

February 10, 1942

Memorandum for the Secretary of the  
Treasury

Dear Henry:

Can this be done?

E.R.

C  
O  
P  
Y

## FEDERAL SECURITY AGENCY

Coordinator of  
Health, Welfare, and Related Defense ActivitiesOffice of the  
Regional Coordinator  
1 West 42 Street  
New York, New York

January 26, 1942

Mrs. Franklin D. Roosevelt  
Assistant Director  
Office of Civilian Defense  
Dupont Circle Apartments  
Washington, D. C.

My dear Mrs. Roosevelt:

I understand John Golden has written to you with regard to a plan he has worked out in New York at our request for the selling of theatre tickets to the younger officers of the Army and Navy at one-half the box office prices.

So little has been done for these young officers, whose salaries are in some instances no greater than those of non-commissioned officers with long service records, that we are trying to do whatever we can for them here in New York. We have obtained for them the use of private clubs without the payment of membership fees, for one thing. This and the reduction in theatre tickets will do a great deal for their morale.

Mr. Golden is, I understand, appealing to both you and the President to use your influence in attempting to have the tax on these tickets removed. I do hope something can be done to effect this, particularly since the theatres are really doing their share to help the men in service.

Sincerely,

(Signed) Ann  
Anna M. Rosenberg  
Regional Director of Defense  
Health and Welfare Services



1104-342

Your Excellency:

You are hereby appointed a Consulting Expert in the Office of the Secretary, with compensation at the rate of \$1.00 per annum, payable from the appropriation "Expenses of Loans, Act of September 24, 1917, as Amended and Extended," the appointment to be effective on the date of your entrance on duty.

Sincerely,

(Signed) H. Thompson, Jr.

The Most Reverend Bernard J. Sheil,  
Auxiliary Bishop of Chicago,  
710 North Wabash Avenue,  
Chicago, Illinois.

H.M.C.  
Copies to Champion

February 14, 1942

Dear Mr. See:

I am glad to know that you are honoring Gale Johnston at a testimonial luncheon on February 10th, and I only wish that I could be with you on this occasion.

Mr. Johnston took charge of our Defense Savings sales organization at a time when it was still in the blueprint stage. He built it carefully and wisely, and we at the Treasury will always be grateful to him for the fine work he did.

Although Mr. Johnston has returned to private business to receive new honors, I am happy to know that his help will continue to be available to the Defense Savings organization in New York.

With all good wishes for a most successful meeting,

Sincerely,

(Signed) E. W. Schnitzer, Jr.

Mr. Frank M. See,  
Chairman, Gale Johnston  
Testimonial Dinner Committee,  
c/o New England Mutual Life  
Insurance Company,  
Boatmen's Bank Building,  
St. Louis, Missouri.

FW/cjk

*W. M. C. Photo file  
Air Mail, Spec. Del.  
File to Kuba  
Copies to Johnston  
Mailed FEB 11 1942*

NEW ENGLAND MUTUAL LIFE INSURANCE COMPANY  
BOSTON, MASSACHUSETTS

FRANK M. SEE, C. L. U., GENERAL AGENT  
BOATMEN'S BANK BUILDING  
314 NORTH BROADWAY  
ST. LOUIS, MISSOURI

BARFIELD 0870

Jan. 27, 1942

Hon. Henry Morgenthau, Jr.  
Secretary of Treasury  
Washington, D. C.

Dear Mr. Morgenthau:

On Thursday, February 19, the Life Underwriters of Greater St. Louis and the many other friends of Gale F. Johnston are giving him a Testimonial Luncheon.

I wonder if you would be good enough to write me a letter which might be read on this occasion, expressing your appreciation of the kind of job he did in setting up the organization for the sale of Defense Bonds.

We hope, in this meeting, which will be attended by more than twelve hundred people, not only to honor Gale Johnston, but to promote also the sale of Defense Bonds.

Sincerely thanking you, I am,

Yours very truly,

*Frank M. See*  
FRANK M. SEE  
CHAIRMAN, GALE JOHNSTON  
TESTIMONIAL DINNER COMMITTEE

FMS:HK



# FIELD ORGANIZATION

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



FEBRUARY 14, 1942

NUMBER 39



Men of Company K, 138th Infantry, show their readiness not only to fight the Axis but to stake their pay on the outcome by buying a share in the future of their country. All of the officers and enlisted men in this Company are saving to buy Defense Bonds and have subscribed to invest \$3,700.

Most of the men in the Company are from Kirkeville, Missouri. The above photograph was taken at Camp Robinson, Arkansas.



Herblock - NMA Service, Inc.

IN THIS ISSUE

- PLEDGE CAMPAIGN Launched - Page 3
- NAVY SHORE WORKERS Set Example - Page 4
- BIG LEAGUE BALL CLUBS Adopt Pay Roll Savings - Page 5
- A SAVINGS SCHEDULE - Page 5
- STAMP SALES For December - Pages 6 and 7
- FARMERS Are Buying Bonds - Page 8
- MILITARY EQUIPMENT As Campaign Objectives - Page 9
- RETAILERS FOR DEFENSE - Pages 10 and 11
- LABOR UNIONS Push Bond Sales - Page 12
- BANKING AND FINANCE - Page 13
- FIELD ORGANIZATION NEWS - Pages 14 to 16
- IDEAS - (No Patents Applied For) - Page 17
- MOTION PICTURE News Reels Present Minute Men - Page 18
- RADIO - Page 19
- ICE CARNIVAL Has Defense Bond Motif - Page 20

PLEDGE CAMPAIGN UNDER-WAY

THE PLEDGE CAMPAIGN, announced at the Chicago Conference of the Defense Savings Staff December 15, will soon be under-way in all parts of the Country.

WEEKS OF CAREFUL PLANNING and a "trial flight" in the State of Oregon, during the last week of January, are believed to have produced a plan of action which will result in a highly successful campaign.

EXACT DATES of the Pledge Campaign will be determined for each state by the respective State Administrators and State Chairmen. The procedures to be followed in each State in the conduct of the canvass will also be determined by these State leaders as types of committee organizations vary among the States and in almost every locality there exists some differences in local conditions which must be taken into consideration.

FOUR DIFFERENT CANVASSES are suggested in the pamphlet, "The Pledge Campaign," the cover of which is reproduced above:



1. The Group-Occupation Canvass

This canvass would involve contact with every worker at his place of employment. In towns and cities where annual Community Chest drives are conducted, this plan of contacting employees at their place of employment is successfully carried out.

2. The Rural Canvass

The United States Department of Agriculture has volunteered the services of the State USDA "War Boards" and Triple A organizations to conduct the Pledge Campaign in rural areas.

3. The House-to-House Canvass

4. The Clean-Up Canvass

COMPLETE INSTRUCTIONS for those who conduct the person-to-person canvass and secure pledges are contained in the "Handbook for Canvassers" pictured here, which all canvassers will receive before they begin their work.





PUBLIC EMPLOYEES

NAVY DOLLARS ARE FIGHTING DOLLARS

Navy shore workers are setting an example for the entire country in the purchase of Defense Bonds. The fine record of participation in the Navy's Pay Roll Savings Plan was dramatized February 3 when, during the nation-wide radio program "Meet Your Navy," Secretary Knox presented Secretary Morgenthau with a check for \$1,684,612.50, covering bonds purchased by Navy Department employees in December.



Secretary Knox presenting check to Secretary Morgenthau. Below, the check for \$1,684,612.50

Up to January 27, Navy workers had pledged to invest \$46,360,371 in Defense Bonds during 1942.

The Norfolk Navy Yard and Fifth Naval District, on that date, led all Navy activities with a pledge of monthly purchases of \$638,110.

TREASURY INSTALLS PAY ROLL SAVINGS

All employees of the Treasury Department, both in Washington and the field may now purchase Defense Bonds through the convenient salary allotment procedure.



The new Pay Roll Savings Plan will not supersede but will supplement the "group agent" purchase pledge system which was installed in all Treasury Departments last June and has proved highly successful. According to the most recent available report, 94% of the 60,226 Treasury employees had pledged themselves to buy Defense Bonds and Stamps regularly with actual purchases made through the group agents amounting to \$723,742 during the month of January.

Agencies of the Federal Government which now have Pay Roll Savings Plans -- as distinct from "group agent" plans -- are: Navy Department (see above), Treasury Department, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Work Projects Administration.

BIG LEAGUE BASEBALL PLAYERS TO HAVE PAY ROLL SAVINGS PLAN

Baseball clubs of the American and National Leagues have agreed to install Pay Roll Savings Plans which make it as convenient as possible for players to participate in the Defense Savings Program. Practically all other professional baseball clubs in the country are expected to follow the lead of the major leagues.



This important decision was taken at a meeting of club executives in New York City, February 3, at the personal request of Branch Rickey, Vice-President of the St. Louis Cardinals and chairman of the Defense Savings Committee for Missouri.

"WHAT OUR GOVERNMENT NEEDS"

The following table is taken from a new publication of the Defense Savings Staff entitled: "What our Government Needs in extra War Savings from every citizen in order to WIN THIS WAR."

If your weekly earnings are	And you save each week	In one year you will save	Number of persons in each income group	Total annual savings
55- 10	\$0.95	\$13.00	3,324,000	\$43,212,000
10- 15	.50	26.00	4,975,000	129,350,000
15- 20	.75	39.00	5,470,000	213,330,000
20- 30	1.95	63.00	10,747,000	698,533,000
30- 40	3.00	104.00	7,774,000	808,406,000
40- 50	4.00	108.00	3,794,000	1,705,130,000
50- 60	6.00	312.00	3,007,000	938,184,000
60- 70	8.00	416.00	2,231,000	928,096,000
70- 80	10.00	520.00	1,304,000	678,080,000
80-100	12.00	624.00	1,489,000	929,136,000
100-150	20.00	1,040.00	1,039,000	1,101,360,000
150-200	35.00	1,820.00	299,000	542,360,000
Over 200	.....	.....	695,000	2,000,000,000
				48,167,000
				\$10,215,311,000

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

January 29, 1942

This publication will be of value to canvassers conducting the Pledge Campaign.



## News Letter

### STAMP SALES UP 300%

During December, sales of Defense Savings Stamps increased more than 300% over sales in November, going from \$6,412,600 to \$25,699,100.

The most recent available report on Stamp sales gives the following figures for sales during November and December and total sales for the eight months, May to December inclusive, during which Defense Stamps have been available.

### SALES OF DEFENSE SAVINGS STAMPS

State	November	December	1941 Total May-Dec. Inclusive
Alabama	\$ 42,700	\$ 199,000	\$ 400,200
Arizona	15,500	116,300	194,400
Arkansas	35,800	78,400	211,800
California	384,500	1,974,500	4,060,600
Colorado	61,300	204,900	420,200
Connecticut	195,200	600,100	1,525,300
Delaware	12,700	63,300	136,100
Dist. of Columbia	358,500	580,400	2,122,500
Florida	89,900	246,900	665,300
Georgia	69,300	275,100	625,500
Idaho	21,100	81,400	165,300
Illinois	406,900	2,576,600	4,596,900
Indiana	111,800	586,400	1,068,300
Iowa	50,500	315,500	585,600
Kansas	40,400	212,700	424,600
Kentucky	51,100	276,600	531,400
Louisiana	48,600	254,200	541,800
Maine	41,900	120,300	319,700
Maryland	110,300	472,900	998,700
Massachusetts	335,200	1,110,000	2,792,600
Michigan	335,100	1,108,900	2,859,500
Minnesota	78,200	300,400	661,700
Mississippi	38,300	130,600	320,900
Missouri	152,600	663,500	1,546,600
Montana	23,300	28,800	130,100
Nebraska	30,700	180,000	343,400
Nevada	6,500	33,100	64,600
New Hampshire	41,500	90,800	243,900
New Jersey	277,400	1,071,300	2,496,000
New Mexico	17,000	68,300	144,300

## News Letter

### SALES OF DEFENSE SAVINGS STAMPS (Continued)

State	November	December	1941 Total May-Dec. Inclusive
New York	\$1,069,800	\$4,289,300	\$9,994,100
North Carolina	51,800	243,200	514,800
North Dakota	10,700	53,900	101,400
Ohio	328,900	1,237,900	2,750,900
Oklahoma	57,600	247,500	502,700
Oregon	64,400	197,100	514,800
Pennsylvania	552,300	2,244,100	4,587,500
Rhode Island	59,100	335,500	629,100
South Carolina	25,400	120,000	265,400
South Dakota	10,100	31,000	78,800
Tennessee	56,600	228,500	538,900
Texas	233,000	1,053,300	2,309,300
Utah	14,800	63,200	136,500
Vermont	15,800	54,200	126,100
Virginia	89,800	312,900	721,900
Washington	90,900	306,000	790,900
West Virginia	34,200	198,700	363,700
Wisconsin	87,700	352,300	726,000
Wyoming	10,400	48,500	95,100
Alaska	300	-	4,500
Guam	-	-	100
Hawaii	55,600	35,400	245,700
Puerto Rico	9,500	25,500	70,800
Samos	-	-	100
Virgin Islands	-	-	1,200
<b>TOTAL</b>	<b>\$6,412,600</b>	<b>\$25,699,100</b>	<b>\$57,268,100</b>

At the right, the "Victory House" erected by the Jordan Marsh Company, Boston, Massachusetts, in connection with Miss Audrey Kargers's Defense Doll Tour, which is sponsored by the Defense Savings Staff.



## News Letter

### FARMERS

#### ONE MILLION DOLLARS BY MARCH 1, KANSAS GOAL

Sales of one million dollars worth of Defense Bonds to Kansas farmers between January 8 and March 1, was pledged by the Kansas AAA at the first 1942 meeting of AAA county committeemen held at Salina on January 8th. Secretary of Agriculture Claude R. Vickard, informed of this action, wired the conference:

"I have just learned of your splendid pledge. . . and I want to congratulate you. Your action typifies the patriotism of American farmers who are producing the food and fiber to help the United Nations free the World of Hitlerism and who will help to buy the bonds that mean ships to carry that food to Democracy's armies and the guns and planes to guard it."

Instructions for the conduct of the Pledge Campaign in rural Kansas were developed by Lawrence Norton, chairman of the State AAA Committee and other executives of the Kansas AAA. In each county, the AAA Committees were given full responsibility for the farm canvass. They were instructed to divide the farm community into groups of fifteen families and assign a solicitor to each group, to hold meetings to instruct solicitors, and to use standard pledge and record forms.

The allocation of the million dollar goal among the counties of the State was made by the State AAA Committee.

#### AAA COMMITTEES TO HELP CONDUCE PLEDGE CAMPAIGN

In practically all States, AAA organizations will be called upon by State Administrators to conduct the rural canvass which is to be part of the Pledge Campaign now being undertaken in each State by the Defense Savings Staff.

#### TRIPLE A CHECKS BUY BONDS

Negro tenant farmers gathered recently on the Runnymede Plantation near Greenwood, Mississippi to receive their Triple A soil conservation and parity payment checks. Eighty-three checks representing approximately \$9,000 were distributed. At this meeting the County DSS Chairman made an address which resulted in converting one-third of the benefit payments into Defense Bonds. Every tenant bought a bond. A local banker was on hand to fill out bond application forms and complete the purchases. According to Deputy State Administrator Swayne, the unhesitating patriotic response of the Negro farmers is typical of the response of colored people generally in Mississippi to the Defense Savings Program.

## News Letter

### DEFENSE BONDS BUY TANKS - AND BOMBERS

PARTICULAR PIECES OF MILITARY EQUIPMENT are the symbolic goals of many recent and current campaigns to sell a given amount of Defense Bonds or Stamps in some short period of time, from a given place, or to a specific group.

GOALS OF THIS KIND undoubtedly help to make the objectives of the Defense Savings Program tangible and real to the average person. Of course the success of one of these campaigns does not mean that Army and Navy purchasing schedules are promptly changed and contracts let for an additional rifle, tank, bomber or whatever piece of equipment was thus "purchased." However, Army and Navy equipment is purchased; the labor and materials required to produce this equipment is paid for in dollars; and many of these dollars in the past have been, and in the future will be, provided by patriotic citizens who voluntarily curtail their own spending, and loan to their Government by buying Defense Bonds.

"DEFENSE BONDS BUY BOMBERS," is in this sense a perfectly accurate statement. And in the long run, it is almost certainly true that, as Secretary Morgenthau said in his address of January 4, "THE MORE BONDS WE BUY THE MORE PLANES WILL FLY."

THESE APPROXIMATE COSTS can be used in selecting campaign objectives:

- \$80 - M-1 Garand Rifle
- \$500 to \$3,000 - Machine guns of various types and calibres
- \$100 to \$500 - Heavy case demolition bombs
- \$6500 - 37 MM Anti-tank guns
- \$20,000 - 37 MM Anti-aircraft guns
- \$50,000 - 90 MM Anti-aircraft guns
- \$10,000 - 75 MM guns
- \$40,000 - Light tanks
- \$75,000 - Medium tanks
- \$55,000 - Pursuit plane
- \$210,000 - Light Bombardment plane
- \$335,000 - Heavy Bombardment plane



\$310,000-\$335,000



\$100-\$500



\$40,000-\$75,000



\$20,000-\$50,000



RETAILERS FOR DEFENSE

ROAD, THE "STAFF OF LIFE" CARRIES BOND MESSAGE

Bakers in various parts of the country are now using an attractive red, white, and blue sticker to carry the Minute Man and a reminder to buy Defense Bonds, into the home along with the daily loaf of bread.

The sticker reproduced at the right is used in wrapping bread of the Carpenter Baking Company of Milwaukee, Wisconsin. A similar sticker is used by Stadt's Bakery of Raleigh, N. C. and by Dugan Brothers Baking Company of New Jersey. Mr. George K. Batt of the latter company furnishes the information that 2,000,000 of these end seals cost about \$1000.



BAKERS HELP RETAILERS STOCK STAMPS

Below is one of the 2200 trucks of the Taystee Bread Company, all of which are now traveling billboards advertising Defense Bonds. These trucks are to be seen in more than 35 cities including New York, Kansas City, Minneapolis, Dallas and Houston.

Drivers of these trucks all carry large supplies of Defense Stamps to sell to their customers, and the company has supplied them with large red, white, and blue stickers which read: "I Sell Defense Stamps." In Minneapolis, the makers of Taystee Bread, the Purity Baking Company, reports that their drivers sold \$25,000 worth of Defense Stamps in two weeks and established several hundred new outlets for the sale of these stamps.



One of the 2200 trucks of the makers of Taystee Bread. All these trucks carry the poster illustrated.

The Continental Baking Company of New York City, bakers of "Wonder Bread" and "Hostess Cakes" have agreed to display Defense Bond posters on the several thousand trucks which they operate in many parts of the country.

RETAILERS FOR DEFENSE

STAMPS AS PREMIUMS AND PRIZES

Contests of various kinds in which Defense Bonds or Stamps take the place of more customary awards should not be advertised in a way that would tend to cheapen these securities. Instead of using the word "Free" in advertising these contests it is more appropriate to use the words "Save" or "Earn."

It is important that Defense Bonds and Stamps not be used in any way which violates good advertising ethics or the rules of the Federal Trade Commission.

Committee members should bring to the attention of State Administrators any advertising which violates these precepts.

STORES CAN SELL BONDS

There are several ways in which a retail store can arrange to have Defense Bonds conveniently available to its customers.

1. Any store can arrange to have bond application forms available at the booth where Defense Stamps are sold and at other points in the store. A customer who wishes to buy a bond then fills out one of these applications and then on the following day, after it has been secured by the store from a bank, returns to the store to pick it up.
2. Stores which have installed Pay Roll Savings Plans can qualify directly as issuing agents.
3. Store employee credit unions can qualify as issuing agents and arrange to issue bonds to customers.
4. Stores in which there are postal stations, can arrange to have these stations qualified as issuing agents.

HIGHLIGHTS

All of the 1300 employees of the Wann Store in Brooklyn, New York are buying Bonds and Stamps regularly through a Pay Roll Savings Plan.

Stamp-a-Week Clubs have been formed among the employees of nearly all Oil Drug Stores operating in practically all of the states West of the Mississippi.



## News Letter

### ORGANIZED LABOR

#### LABOR UNIONS PLAN SPECIAL MEETINGS TO HEAR SECRETARY MORGENTHAU

ON SUNDAY, FEBRUARY 22 — Washington's Birthday — the American Federation of Labor will launch its campaign for the purchase of one billion dollars worth of Defense Bonds by its five million members. On that date, over the coast-to-coast Blue Network at 9:30 P. M. Eastern War Time, Secretary Morgenthau and AFL President William Green will address AFL members and make a special appeal to them to buy Defense Bonds to the utmost of their ability.

ALL CENTRAL LABOR UNIONS have been asked by President Green to arrange special meetings at which their members and friends can listen together to these two addresses. At these local meetings there will be programs of music, entertainment, and in many instances, addresses by representatives of the Defense Savings Staff.

ALL NEWS LETTER READERS will want to make special note of the date and time of this broadcast.

#### LABOR PAPERS FEATURE DEFENSE BOND CAMPAIGN

Pictured below are the front covers of four periodical publications of labor unions. All have extremely large circulations. These cover pages are indicative of the powerful editorial support which is being given to the Defense Savings Program by the Labor Press generally.



Front covers of recent issues of Labor periodicals.

## News Letter

### BANKING AND FINANCE

#### OFF-PREMISE SALE OF DEFENSE BONDS BY BANKS AUTHORIZED

Banks in the State of New York have been authorized to sell Defense Bonds at places other than their regular places of business. William E. White, State Superintendent of Banks announced early in January. The ruling was made by the State Banking Board which found that application of provisions of the banking law restricting banking institutions to the transaction of their usual business at duly authorized offices might curtail the co-operation of banking institutions with the Treasury Department in the sale of Bonds.

#### BANKS PLAN BOND ADVERTISING PROGRAM

The Commercial Banks of New York City have launched an extensive advertising campaign in daily papers to promote the sale of Defense Bonds. To develop the advertising program and schedule, the banks set up a special Defense Savings Advertising Committee headed by Arthur DeBebian, vice-president and advertising manager of the Chase National Bank. Bank ads devoted solely to Defense Bonds sponsored by the most prominent banks in the country will appear in New York City newspapers every day throughout 1942.

Banks in New York as elsewhere are co-operating with the Defense Savings Program not only by buying advertising space in newspapers but also by advertising Defense Bonds on bank statements, inserts in correspondence, on bank blotters, and in many other ways.

#### FLAGS AND MAPS MAKE ATTRACTIVE DISPLAY

The display shown at the right appears in the lobby of the Tower Grove Bank & Trust Company in St. Louis, Mo., and Elmer Von Dopersten, the bank's secretary, reports that it has attracted a great deal of attention. The eight maps in the display show the entire World. The flags of the Nations at war with the Axis are animated by a small fan.



#### BANKERS EARN BONDS BY SELLING THEM

A \$25 Bond was awarded by the University State Bank of Chicago to each employee who sold \$1,000 in Defense Bonds within 60 days after December 1. This is only one of the several ways in which this progressive neighborhood bank of Chicago's South Side is promoting the sale of these securities.

FIELD ORGANIZATION NEWS

REGIONAL MEETINGS BEING HELD

Special Consultant Ted E. Gamble, Field Director Robert Sparks and Associate Field Directors Robert Coyne, Boyd Fisher and L. M. Olney are holding eight Regional meetings between February 9 and February 23, which will bring together the State Administrators and State Chairmen of all of the States for discussion of the conduct of the Pledge Campaign, problems of office equipment and personnel, and other pressing matters.

SPECIAL POSTER CHARTS PROGRESS OF BOND DRIVE IN OKLAHOMA



Joseph Brooks, Chairman of the Park County, Montana Committee

At the left is a picture of the large poster which, hanging in the lobby of the post office in Livingston, Montana, charts the purchases of Defense Bonds and Stamps in Park County. A bomber is the objective of the current campaign to raise \$135,000.

DIARY OF A COUNTY COMMITTEE

Fascinating reading for any county chairman is the "Diary of the Travis County (Texas) Committee" published in the January 25th issue of the Texas News Letter. This issue is entirely devoted to reporting the activities of the Travis County and Austin Committee.

Other Texas city and county committees will be invited to tell about their activities in future issues of the monthly publication of the Texas Staff. Would it not be worth while to record in a diary the activities of your committee?

WYOMING ORGANIZES

First meeting of the Defense Savings Committee for Wyoming was held in Cheyenne during January. Chairman of all County Committees as well as members of the State Committee were in attendance.

FIELD ORGANIZATION NEWS

MANY NEWSPAPER ADVERTISEMENTS REMIND WASHINGTONIANS TO BUY BONDS

An extensive advertising campaign on behalf of Defense Bonds and Stamps is now being carried on in Washington, D. C. During the month from January 5 to February 6, a total of 14 full page display ads devoted exclusively to Defense Bonds have appeared in the four daily papers. These ads of course have not been paid for by the Treasury or the Defense Savings Staff, but have been contributed to the program by prominent business firms.

Among the sponsors have been Woodward & Lothrop, Kanns, Lansburgh, and Necht Department stores, Safeway and District Grocery Stores and the Potomac Electric Power Company. The ad of the latter company is reproduced at the right. One of the interesting features of this ad is: it ties in with a news event - the radio broadcast in which Secretary of the Navy Knax, presented Secretary Morgenthau with a check for nearly \$1,700,000 covering bonds purchased by Navy Shore Workers during December.



The full page newspaper advertisements used in Washington have in most instances been the ads prepared by the Defense Savings Staff and reproduced in the portfolio in which the first ad is headed "A War Message From the Treasury Department." This portfolio has been sent to all daily newspapers and mats are available. Copies of the portfolio will be sent to any Local DSS Chairman upon request.

The D. C. Advertising Campaign did not just happen. It resulted from work - in this case, salesmanship on the part of Deputy Administrator Walter Barkdull, who secured a flat rate for these full-page ads from all newspapers and then sold the advantages of this type of institutional advertising to the concerns listed above. What Mr. Barkdull has done to secure newspaper advertising support for the Defense Bond campaign in the District of Columbia is being done in many other cities and towns by State Administrators and their Deputies and the General or Divisional Chairmen of local Defense Savings Staffs.



FIELD ORGANIZATION NEWS

OUTDOOR ADVERTISING MAKING MEMPHIS DEFENSE BOND CONSCIOUS

Thirty-seven large billboards throughout the city of Memphis, Tennessee now carry Defense Bond posters. Each billboard is sponsored by a different firm or organization which pays for its maintenance and it is planned to devote them to Defense Savings for an indefinite period with a different poster every month.

Particularly interesting is the fact that 8 of the 37 sponsors are local AF of L Unions.

ANOTHER TOWN 100%

Matewan, West Virginia, (population 932) can now boast that every man, woman and child owns a Defense Bond or Stamp. In a ten-day campaign launched on January 12 by the Rotary Club of Matewan and the Matewan National Bank, every person was enrolled as a purchaser and a total of nearly \$20,000 invested in Defense Bonds and Stamps.

Matewan is the first town in West Virginia to establish a record of 100% participation in the Defense Savings Program. Other states in which one or more towns have achieved similar status are: Arizona, California, Florida, Maine, Michigan, Missouri, Oklahoma and South Dakota.

How about putting your State into this list?

LOCAL COMMITTEE BUILDS TANK

Below is a picture of the replica tank built by the Defense Savings Committee of Sarasota, Florida to represent the goal of an intensive one week campaign to increase sales of Defense Bonds and Stamps.



Chairman A. E. Shogren reports that his committee tried to secure a real tank to exhibit during the week of the campaign but of course none were available. So, they had this replica built and expect it to serve the purpose just as well.

NO PATENTS APPLIED FOR

NEW BABIES GET \$5 DEFENSE STAMPS

Every baby born to an employee of the Douglas Aircraft Company in Santa Monica, California receives a \$5 Defense Stamp from the concern.

STAMPS FOR DESERT

At the recent regular luncheon meeting of the Chamber of Commerce of Deadwood, South Dakota when the time came for desert, in walked waitresses with small plates on each of which was a \$.10 Defense Stamp. "It's an American desert" said the manager of the hotel cafe.

STAMPS AS AN EXTRA COURSE

The Advertising Club of Los Angeles has adopted the practice of adding ten cents to the price of its regular luncheon and giving each member a Defense Stamp.



"THE BEST DINNER IN THE PLACE FOR \$37.50"

In Madison County, Indiana, an "All-American" Greek restaurant proprietor served a Defense Bond dinner, "the best in the place" for \$37.50. The guests received \$50 Defense Bonds.

"UNFAIR TO JAPS"

With this sign, carried back and forth by some well disguised boys, a Mankato, Minnesota theater attracts attention to its theater box office where Defense Stamps are on sale.

STAMPS REWARD PAPER SAVERS

An Indiana grocer gives customers who bring their own shopping bags and thus do not have to have their purchases wrapped or put into fresh paper bags, special tokens, ten of which he will exchange for one ten-cent Defense Stamp.

ROYALTIES - A well known literary agent in New York pays small royalties in Defense Stamps instead of by check.



## News Letter

### MINUTE MEN PROGRAMS TO BE RELEASED MARCH 5



The Defense Savings Staff local newswear shots entitled "This Week's Minute Man For Defense" will be released nationally, starting March 5, when the first of this series will appear in the Metro-Goldwyn Mayer News of the Day.

The following week, March 12, we will release through 20th Century-Fox Movietone; March 19, through Paramount News; March 26, MEO-Pathé News; and on April 2, Universal News.

So that members of the Field Staff will more fully understand the releasing of these pictures, Carlton Duffus, in charge of the national Special Activities office, DSS, points out that there are 31 film distribution centers in the United States, covering the 48 States. Only one subject will be released at each distribution point each week, and there will, therefore, be an overlapping of subjects from one state to another in some instances.

The Special Activities office will forward to State Administrators two weeks before each release date, a list of the subjects to be released and the territory in which they will be shown. With this information, it will be possible for a State Administrator to announce: "This Week's Minute Man for Defense will be John Smith, of such and such city of our State."

The newswear crews have now covered much of the country. They are continuing to travel as fast as possible and expect to complete this series within the next 60 days. They are routed as follows:

Colorado, Wyoming, Utah, New Mexico, Oklahoma, Arkansas, Mississippi, Alabama, Florida, District of Columbia, Delaware.

Crew #1: Advance Man - Gordon White.

South Dakota, North Dakota, Iowa, Wisconsin, Michigan, Southern Illinois, Kansas, West Virginia, Maine, New Hampshire, Vermont.

Crew #2: Advance Man - Homer Lambert.

California, Oregon, Washington, Idaho, Montana, Nevada, Arizona, Texas.

Crew #3: Advance Man - Burton Davis.

### ENTERTAINERS STAND READY TO HELP DSS COMMITTEES

Stars of action pictures and the entertainment world appearing at local ballrooms, night clubs, theaters, etc., are in many instances helping to sell Defense Stamps and Bonds by appearing at Defense Stamp booths in department stores and elsewhere, autographing albums for those who buy stamps from them, making brief, patriotic talks, etc.

Most stars are glad to have opportunities of this kind to help promote the Defense Savings Program. Their patriotic co-operation has been greatly appreciated by the many local Defense Savings Committees which have seen them in action.

## News Letter

### RADIO

#### PROGRAMS FOR THE COMING WEEK

Monday, February 16. "FOR AMERICA WE SING," Dr. Frank Black's Orchestra and Chorus, 9:30-10:00 P. M. (KWT) Blue Network.

Thursday, February 19. AMERICAN LEGION BROADCAST. National Commander Lynn U. Stambaugh and Past National Commander Frank W. Belgrano outline the role of the American Legion in the Defense Bond Pledge Campaign. 8:45-9:00 P. M. (EWT) Mutual Network.

Saturday, February 21. "AMERICA PREFERRED," Alfred Wallenstein's Orchestra; Deems Taylor, commentator. Guest Star: Karin Bransell, Swedish contralto. 8:00-8:30 P. M. (EWT) Mutual Network.

Sunday, February 22. Secretary Morgenthau and William Green launch the AFL One Billion Dollar Defense Bond Drive. 8:00-8:30 P. M. (EWT) Blue Network.

#### RADIO MINUTE MEN BUSY

During January, locally prominent citizens were heard in the role of Radio Minute Men in every part of the country. A report as of January 29 indicated that 2,581 Minute Men had made broadcasts over 214 stations.

All United States Senators are now making recorded Minute Man announcements for nation-wide distribution to radio stations.

#### NEW SERIES OF TREASURY SPONSORED RADIO SHOWS

With the nation's top stars in music and drama as featured artists, The United States Treasury Department will present a new series of transcribed radio shows starting the week of February 23, Vincent F. Callahan, chief, Radio and Press Sections of the Defense Savings Staff, has recently announced.

The new series is to be a condensed version of the "Treasury Hour" and is presented with the co-operation of artists and radio stations throughout the country on a schedule of three variety shows each week. Master of ceremonies for the first week's shows will be Lieutenant Robert Montgomery, U. S. N., and co-starred with him are Maurice Evans and Judith Anderson.

#### HIGHLIGHTS

The "Lone Ranger" program, with a listening audience of more than 500,000 children, is now offering a prize of \$10 in Defense Stamps to the writers of the best letters on how to save money to buy them.

# News Letter

## DEFENSE SAVINGS FEATURED IN THE WINTER SPORTS CARNIVAL IN ST. PAUL, MINNESOTA



Defense Savings was emphasized in many ways at St. Paul's Great Winter Sports Carnival. Cards mailed from the branch post office at the big Ice Palace carried a Defense Bond cachet and Bonds and Stamps were on sale there. Thirty-thousand marchers in the parade January 28 wore arm bands like those worn by the girls in the picture above. And many floats in this parade urged "Buy Defense Bonds."



"GREAT NORTHERN R.R." FLOAT  
ST. PAUL WINTER SPORTS CARNIVAL - 1942



"EMPEROR" FLOAT  
ST. PAUL WINTER SPORTS CARNIVAL 1942

TREASURY DEPARTMENT  
DEFENSE SAVINGS STAFF  
WASHINGTON, D. C.  
OFFICIAL BUSINESS

REPLY FOR PRIVATE USE TO AVOID  
PAYMENT OF POSTAGE, \$300

171  
UNIVERSITY  
1942 FEB 19 PM 1  
2:10  
OFFICE  
SECRETARY OF TREASURY  
TREASURY DEPARTMENT



CONFIDENTIAL

67

Daily changes in the stock of Series E savings bonds on hand <sup>1/</sup>  
(In thousands of pieces)

	: Number of : pieces sold : this day	: Number of pieces : manufactured : this day	: Stock on hand : at close of : day	: IBM : deliveries : this day
Jan. 27	186	1,000	11,852	-
28	251	1,000	12,601	2,000
29	265	1,000	13,336	-
30	283	800	13,853	2,000
31	139	800	14,514	-
Feb. 1	none-closed	none-closed	14,514	-
2	505	800	14,809	-
3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-

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

February 14, 1942

<sup>1/</sup> Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.



63

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Eleven Business Days of February and January 1942 and December 1941  
 (February 1-13, January 1-13, December 1-12)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February	January	December	February	January	February	January
	1942	1942	1941	over January	over December	over January	over December
Series E - Post Offices	\$ 47,158	\$ 72,127	\$ 22,586	-\$ 24,969	\$ 49,541	- 34.6%	219.3%
Series E - Banks	<u>178,899</u>	<u>188,400</u>	<u>42,346</u>	- <u>9,501</u>	<u>146,054</u>	- <u>5.0</u>	<u>344.9</u>
Series E - Total	226,057	260,527	64,932	- 34,470	195,595	- 13.2	301.2
Series F - Banks	29,433	27,386	8,840	2,047	18,546	7.5	209.8
Series G - Banks	<u>146,008</u>	<u>110,439</u>	<u>59,530</u>	<u>35,569</u>	<u>50,909</u>	<u>32.2</u>	<u>85.5</u>
Total	<u>\$401,499</u>	<u>\$398,352</u>	<u>\$133,302</u>	<u>\$ 3,147</u>	<u>\$265,050</u>	<u>0.8%</u>	<u>198.8%</u>

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

February 14, 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

Daily Sales - February 1942  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
Total	\$ 47,158	\$178,899	\$ 29,433	\$146,008	\$354,341	\$226,057	\$ 29,433	\$146,008	\$401,499

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

February 14, 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.

7.2, 14, 1962

Transamerica Corporation,  
San Francisco, California.

Gentlemen:

The Board has recently received through the Federal Reserve Bank of San Francisco a copy of a letter from a member bank, control of which was recently acquired by your Corporation, stating that the member bank has under consideration the establishment of several branch banks and that the letter is written for the purpose of securing the necessary approval from the Federal Reserve Board. The member bank's letter set forth certain facts with respect to proposed branches at two locations and stated that the letter would be supplemented by such formal applications as Federal Reserve regulations may require.

The Board gave careful consideration to the information submitted and to other pertinent information in its files and reached the conclusion that it should not approve the establishment of the proposed branches on the basis of the information now before it. The Federal Reserve Bank of San Francisco was requested to advise the member bank accordingly.

Should your Corporation have any plans for the further expansion of its interests in banks, either directly or indirectly, through the mechanism of extending loans to others for the purpose of acquiring bank stock, or in any other manner, you are requested to advise the Board through the Federal Reserve Bank of San Francisco before any such plans are consummated.

The Board's position in this matter is in accord with the policy, upon which there is unanimous agreement by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, that the Federal bank supervisory agencies should, under existing circumstances, decline permission for the acquisition directly or indirectly of any additional banking offices or any substantial interest therein by Transamerica Corporation, Bank of America N. T. & S. A., or any other unit of the Transamerica group.

Please see that all persons in the Transamerica group who may be concerned with this policy are advised accordingly.

Very truly yours,

Chester Morrill,  
Secretary



C  
O  
P  
Y

## FEDERAL DEPOSIT INSURANCE CORPORATION

Washington

January 26, 1942

The Comptroller of the Currency  
Washington, D. C.

Dear Mr. Delano:

We are advised by our Supervising Examiner in the State of California that consideration is being given to the establishment of a new bank in Lakewood Village, California.

On the surface it would appear that an independent group is organizing the bank, but the fact is a large part of the money is flowing from Trans-America or its affiliated corporations indirectly. We are, as you know, unalterably opposed to the acquisition of any more banks by Trans-America or any of its affiliated groups. And we are particularly opposed to their gaining possession of any uninsured institutions whereby they may establish branch systems over which there would be no Federal control.

The Corporation, therefore, intends to ask for legislation which will prohibit any corporation owning ten percent or more of stock in an insured bank from acquiring stock in an uninsured bank. In the case of a holding company owning stock in one or more insured institutions, it will ask that either all or none of the banks in the group shall be insured. And the Corporation will also ask that no purchase or consolidation of any bank may be permitted without consent by the Federal supervisory agency exercising immediate jurisdiction. The legal authority, of course, will not be changed, but it will afford the Federal agencies control over expansion of uninsured institutions.

At your convenience I should like very much to discuss this matter with you.

Sincerely yours,

(Signed) Leo Crowley

Chairman

FEB 14 1942

My dear Mr. Secretary:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

n.m.c.

Copies to Foley

Enclosure

BB:EHF:vls - 2/13/42

FEB 14 1942

My dear Mr. Director:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

The Honorable

The Director of the  
Bureau of the Budget.

*m.m.c.*

*copies to Selby*

Enclosure

BB:EHF:ml - 2/18/42



FEB 14 1942

My dear Mr. Secretary:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) E. W. Morganthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

n. m. e.  
Copies to Foley

Enclosure

BB:EHF:vlb - 2/13/42

FEB 14 1942

My dear Mr. Secretary:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

*H. M. C.*

*Copies to Foley*

Enclosure

BB:EHF:vlb - 2/13/42

FEB 14 1942

My dear Mr. Attorney General:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable  
The Attorney General.

Enclosure

BB:EHF:ml - 2/19/42

*H. M. C.*  
*Spec to Foley*



FEB 14 1942

My dear Mr. McKeynolds:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Lee T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William H. McKeynolds,  
Administrative Assistant  
to the President.

Enclosure

*n.m.c.*  
*Copies to Foley*

BB:EHF:vlb - 2/13/42

FEB 14 1942

My dear Mr. Coy:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

Honorable Wayne Coy,  
Office for Emergency Management,  
State Department Building,  
Washington, D. C.

*W.M.C.*  
*Copies to Foley*

Enclosure

BB:EHF:vlb - 2/13/42

FEB 16 1942

My dear Mr. Vice President:

I am enclosing for your confidential information a memorandum which the President signed last Thursday on the joint recommendation of Mr. Leo T. Crowley and myself.

The memorandum delegates to the Secretary of the Treasury all power and authority conferred upon the President by Sections 3(a) and 5(b) of the Trading with the enemy Act, as amended.

I hope I can count on your help and cooperation in carrying out this delegation.

Very truly yours,

(Signed) E. B. Foley, Jr.

Acting Secretary of the Treasury.

The Honorable

The Vice President.

Enclosure

HRF:BB:fa 2/16'42



THE ATTORNEY GENERAL  
Washington

February 16, 1942

My dear Mr. Secretary:

Thank you for sending me a copy of  
the President's memorandum vesting power under  
sections 3(a) and 5(b) of the Trading with the  
Enemy Act in the Secretary of the Treasury.

Sincerely yours,

/s/ Francis Biddle

The Honorable  
The Secretary of the Treasury

Copied - ml 2/20/42

## THE SECRETARY OF THE NAVY

Washington

February 17, 1942

(SC)A2-8  
(09100A)/GEMCONFIDENTIAL

My dear Henry:

I have yours of February 14 enclosing a copy of the memorandum from the President giving you authority to handle all matters relating to the Trading with the Enemy Act.

You may count on the Navy cooperation in every possible way to implement you in this new responsibility.

Yours sincerely,

/s/ Frank Knox

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

Copied - ml 2/20/42

WAR DEPARTMENT  
WASHINGTON

82  
to the Treasury  
2/27  
FEB 26 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Please accept my thanks for your letter of February 14, 1942, inclosing for my confidential information a copy of a memorandum signed by the President February 12, 1942, which delegates to the Secretary of the Treasury all power and authority conferred upon the President by sections 3(a) and 5(b) of the Trading with the Enemy Act.

I desire to assure you of the help and cooperation of the War Department in carrying out this delegation.

Sincerely yours,

*Henry L. Stimson*

Secretary of War.



FEB 14 1942

Dear Sir:

It will be appreciated if the attached radiogram is dispatched to Governor Poindexter, in accordance with conversation with your office this morning.

Very truly yours,

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury.

Mr. Guy J. Swope,  
Director, Division of Territories  
and Island Possessions,  
Department of the Interior.

Enclosure

BB/ma - 2/14/42

FROM \_\_\_\_\_

84

BUREAU \_\_\_\_\_

CHG. APPROPRIATION 200/10120 Salaries and  
Expenses  
Foreign Exchange Control 1942

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Governor Joseph B. Poindexter  
Honolulu, Hawaii

February 14, 1942

Item 1. Rerad January 17 regarding liquidation of banks it is our view that no seizure or vesting of stock of the three Japanese banks need be made in order to proceed with liquidation which should be effected under Section 5(b) of the Trading With The Enemy Act, as amended by Sections 301 and 302 of First War Powers Act, together with other applicable provisions of law.

Item 2. On the basis of the facts before this Department it is our view that all three of such banks should be liquidated as indicated by our previous cable of *January 13, 1942*

Item 3. I have designated Preston Delano, Comptroller of the Currency, to supervise the liquidation of these banks. The Comptroller of the Currency has designated Mr. Roger E. Brooks to act for him and assume full responsibility in this matter. Brooks is proceeding at once to Honolulu. Upon his arrival and in the exercise of the powers previously delegated to you under Section 5(b) of the Trading With The Enemy Act, as amended, you should formally confer upon him authority under Section 5(b) of the Trading With The Enemy Act, as amended, to take all action which may be necessary or incidental to the liquidation of these banks. The liquidation to be conducted in such manner and subject to such

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM	85
BUREAU	
CHG. APPROPRIATION	

U. S. GOVERNMENT PRINTING OFFICE 16-1732

Governor Poindexter -- Page 2.

directions and instructions as may be specified from time to time by the Comptroller of the Currency. Mr. Brooks will, of course, confer with you and the freezing control representatives in Hawaii in carrying out his duties.

*Wm. P. C. ...*  
Secretary of the Treasury.



February 14, 1942

Dear E. K.:

I am enclosing a copy of the cablegram which Secretary Morgenthau sent to Poindexter today in regard to the liquidation of the three Japanese banks in Honolulu.

Sincerely,

(signed) E. H. Foley, Jr.

Hon. E. K. Burlew  
Assistant Secretary of the Interior  
Room 5116 New Interior Bldg.  
Washington, D. C.

Enclosure

EHF:s 2-14-42

200/10120 Salaries and  
Expenses  
Foreign Exchange Control 1942

February 14, 1942

Governor Joseph B. Poindexter  
Honolulu, Hawaii

Item 1. Rerad January 17 regarding liquidation of banks it is our view that no seizure or vesting of stock of the three Japanese banks need be made in order to proceed with liquidation which should be effected under Section 5(b) of the Trading With The Enemy Act, as amended by Sections 301 and 302 of First War Powers Act, together with other applicable provisions of law.

Item 2. On the basis of the facts before this Department it is our view that all three of such banks should be liquidated as indicated by our previous cable of

January 18, 1942.

Item 3. I have designated Preston Delano, Comptroller of the Currency, to supervise the liquidation of these banks. The Comptroller of the Currency has designated Mr. Roger E. Brooks to act for him and assume full responsibility in this matter. Brooks is proceeding at once to Honolulu. Upon his arrival and in the exercise of the powers previously delegated to you under Section 5(b) of the Trading With The Enemy Act, as amended, you should formally confer upon him authority under Section 5(b) of the Trading With The Enemy Act, as amended, to take all action which may be necessary or incidental to the liquidation of these banks, such liquidation to be conducted in such manner and subject to such

Governor Poindexter -- Page 2.

directions and instructions as may be specified from time to time by the Comptroller of the Currency. Mr. Brooks will, of course, confer with you and the freezing control representatives in Hawaii in carrying out his duties.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

BLT:JWP:BB:EHF/mp 2/14/42





DEPARTMENT OF STATE  
WASHINGTON

February 14, 1942

My dear Mr. Secretary:

I believe that all of us who have been especially interested in meeting Chiang Kai-shek's request that this Government extend substantial financial aid to China are warranted in feeling gratified at the unanimity and the speed with which the Congress has made legislative provision for extending financial aid to China in amount not to exceed \$500,000,000. The psychological effect produced, both in this country and in China and elsewhere, by this Government's action has been, I am confident, highly beneficial to the common war effort of the United Nations.

It has occurred to me that further political advantage would be gained were this Government to take prompt steps looking toward the formulating of a proposal or proposals whereby there would be made immediately available to the

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

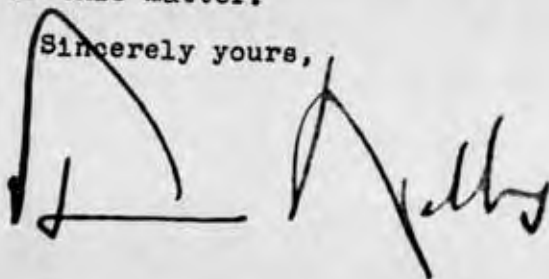


to the Chinese Government some substantial portion of this money.

If this suggestion should appeal to you in principle, might I suggest that there be held at the earliest practicable date a conference of representatives of the interested agencies of this Government for the purpose of working out what may seem to be the most feasible and appropriate plan?

I am bringing the foregoing suggestions to your attention in view of this Department's continuing interest, which I am sure you appreciate and share, in the political aspects of this matter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "A. H. Kelly". The signature is written in a cursive style with a large initial "A" and a long horizontal stroke.

FE  
This telegram must be  
decompressed before being  
communicated to anyone  
other than a Governmental  
agency. (BR)

February 14, 1942

2 p.m.

THE EMBASSY

CHUNGKING (CHINA)

101

FROM TREASURY

NOTE (1) The Navy Department has received a cable from the Naval Attache, Chungking, that his bill of exchange issued December 30 and Tutuila Treasury check of January 9 were returned from Rangoon with the information that the National City Bank there had refused to purchase them. Treasury understands Navy Department communicating with Attache regarding bill of exchange. To facilitate the negotiation of checks drawn on the Treasurer of the United States the following procedure is suggested.

(2) All U. S. dollar checks drawn on the Treasurer of the United States negotiated by the Central Bank of China are to be delivered to the American Embassy, Chungking, accompanied by list in triplicate with complete description each check as follows:



-2-#101, February 14, 3 p.m., 1948 to Chungking (China)

follows: Name of Drawer; symbol number; check number; amount; payee's name; date of check.

Embassy will carefully verify checks against list and advise Treasury by wire through State Department aggregate amount of checks delivered by bank. Upon receipt of this advice Treasury will effect credit in corresponding amount to account of Central Bank of China with the Federal Reserve Bank of New York.

Embassy should instruct Central Bank of China to use all possible diligence in identification of payee and determining validity of endorsements. The Central Bank of China should endorse checks as follows: INHER QUOTE. Pay to the order of the Treasurer of the United States for credit of our account with the Federal Reserve Bank of New York. Signed Central Bank of China. END INHER QUOTE. Treasury will look to bank only for usual currency under laws applicable in China.

Embassy should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by fastest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should

-3-#101, February 14, 2 p.m., 1942 to Chungking (China)

copy should be retained by Embassy.

(3) Embassy should make no arrangements for insurance as shipments will be covered by Government Losses in Shipment Act.

(4) The Central Bank of China, Chungking, is hereby designated a depository of public moneys of the United States in order to carry out the procedure outlined in this telegram.

(5) Please advise Central Bank of China, Naval Attache and other U. S. Government officials appropriate parts hereof.

(6) To minimize number of checks drawn on Treasurer of United States, suggest you advise disbursing officers that they should cable through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to Central Bank of China through Federal Reserve Bank of New York END QUOTE.

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance Sec. V-45, Foreign Service Regulations.

HULL  
(FL)

FD:FL:BMcB

FE

## TREASURY DEPARTMENT

94

## INTER OFFICE COMMUNICATION

DATE February 14, 1942

to Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£19,000
Purchased from commercial concerns	£ 4,000

Open market sterling held at  $4.03\frac{3}{4}$ , with no reported transactions.

Continuing its improvement, the Canadian dollar moved to a closing discount of  $11\frac{1}{4}\%$ , as compared with  $11\frac{3}{4}\%$  at the beginning of the week.

The Cuban peso, which was offered at a premium of  $1\frac{1}{2}\%$  yesterday, moved off to  $5\frac{1}{16}\%$  premium today.

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

Argentine peso (free)	.2358
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Venezuelan bolivar	.2800
Uruguayan peso (free)	.5295

There were no gold transactions consummated by us today.

No new gold engagements were reported.



BRITISH EMBASSY  
WASHINGTON, D.C.

PERSONAL  
AND SECRET

14th February, 1942.

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morzenothau, Jr.,

United States Treasury,

Washington, D.C.

COPY NO. 13

BRITISH (MOST SECRET)

(U.S. SECRET).

OPTTEL NO. 52.

Yesterday at 1042 A.M. Spitfires on patrol reported enemy warships off Le Touquet steering a Northerly course at high speed. These subsequently proved to be the battle cruisers SCHARNHORST and GNEISENAU, and the cruiser PRINZ EUGEN from Brest, accompanied by destroyers and E-boats with heavy fighter protection. At 1230 P.M. five M.T.B's attacked and claim one torpedo hit on PRINZ EUGEN. At one P.M. six naval Swordfish attacked and possibly obtained one hit on a battle cruiser. At 1545 P.M. when about 20 miles west of the Hook of Holland, three of H.M. Destroyers attacked the battle cruisers at 3500 yards range and claim one probable and two possible hits with torpedoes. Simultaneously 2 further destroyers attacked a single ship probably the PRINZ EUGEN. After the attack one of H.M. destroyers was badly on fire, but subsequently was proceeding to base at eight knots and reached harbour with several casualties. At 1615 P.M. torpedo-carrying Beauforts carried out an attack. A total of between 200 and 300 bombers, including Coastal Command aircraft and Naval Swordfish, with more than 300 fighters as cover were despatched at intervals during the day, but owing to poor visibility and low cloud only between 50 and 60 aircraft found the ships and no definite hits are claimed, but in air fighting 17 enemy aircraft were destroyed, 5 probably destroyed and 17 damaged. Our losses were 15 bombers, six coastal command aircraft, six Naval Swordfish and 17 fighters, total of 44. One fighter pilot is safe. The enemy ships were last reported at nine P.M. in two groups 20 miles apart off the Texel proceeding North at about 17 knots. ENDS.

BRITISH MOST SECRET

(U.S. SECRET).

OPTTEL NO. 53.

Information received up to 7 A.M. 13th February 1942.

1. NAVAL.

A British 7,000 ton tanker from Texas to Halifax was torpedoed and sunk on the 31st January 400 miles south of Halifax.

2. MILITARY.

SINGAPORE. During the 12th enemy pressure with infantry and tanks was heavy and there was some infiltration in the race course area north of the main Singapore-Johore Bharu road. Enemy also attacked astride the Madaid Road towards Nee soon but situation is in hand. By the evening the situation was reported to be stabilised, our forward areas and communications were repeatedly dive-bombed and machine-gunned. Enemy air raids were mainly confined to troop and transport in the forward area. During the night 12/13 further Japanese landings of unknown strength were reported at Loyang just west of Changi.

BURMA. During the evening of the 11th Japanese troops west of Martaban, from which our troops have withdrawn, were reinforced by landings from the sea. Japanese force estimated at 2,000 is advancing North and has suffered heavy casualties from a unit of the Gurkha Rifles.

3. AIR OPERATIONS.

Western Front. 11th/12th. Brest, over 20 tons. Havre, 31 tons. At the former results were unobserved but at the latter bursts were seen in the docks area. Mannheim, nearly 70 tons were dropped. Two R.C.A.F. and three R.A.A.F. aircraft took part without casualties. 12/13th. 20 aircraft were sent to lay mines off the Frisian Islands. One crashed on return.

LIBYA. 10/11th. Our aircraft bombed Martuba and Derna. 11th. Air reconnaissance disclosed a considerable movement of enemy M.T. southwards from Giovanni Berta towards Mekill. The enemy dive-bombed our troops in the El Gazala area causing some casualties.

MALTA. 11/12th and 12th. A total of 86 enemy aircraft attacked the island and damaged runways at Luqa and buildings at Hal Far.

MEDITERRANEAN. Wellingtons attacked a submarine base at Leros Island and Heraklion Aerodrome in Crete.

BURMA. 11th. Lysanders bombed Chieng Rai and on the 12th Blenheims attacked Ynan and Moulmain.



TREASURY DEPARTMENT

97

INTER OFFICE COMMUNICATION

DATE February 14, 1942.

TO Mr. White

FROM Mr. Hoflich

Subject: Digest of London Press Reactions.

Highlights of telegraphic London press digests from Colonel Donovan's office, for the period February 5-10, 1942:

1. Great concern is expressed over the plight of Singapore, and little enthusiasm is apparent in the comment.

2. Nowhere in the press is there unqualified satisfaction over the new production ministry, but most papers are willing to reserve final judgment until they see how the new set-up works. Criticisms are made that (a) powers and responsibilities are ill-defined, and (b) the exclusion of manpower and labor from the new minister's jurisdiction constitutes a weakness. But the new arrangement is a distinct improvement over "the creaking machine it supersedes."

3. More energy must be put into the war effort. The Mirror says the lack of urgency "plainly results from muddles on top, from defective organization, and from uninspired industrial leadership."

4. Sir Stafford Cripps continues to be widely quoted and discussed, and regret is expressed that he is not in the Government. There is still demand for a small, compact war cabinet.

5. Promise of independence for India would gain wholehearted Indian cooperation and allay American distrust of British aims.

6. Anglo-American collaboration is threatened by American mistrust of Britain, which is being fomented and exploited by American isolationists for their own political purposes.

7. There is deep-seated suspicion that there are men in high places to whom permanent friendship with Russia is anathema, and belief that this constitutes a grave danger to Anglo-Russian post-war cooperation.

8. A sixpenny increase in soldiers' pay, to be set aside for payment after demobilization, is generally approved.

## TREASURY DEPARTMENT

98

## INTER OFFICE COMMUNICATION

DATE February 14, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: British Estimates of Axis War Production, November 1941.

(The following figures were obtained by Colonel Donovan's office from the Ministry of Economic Warfare. The estimates roughly agree with those of U.S. Military and Naval Intelligence. These data might be of interest to you as a comparison with our production schedules.)

Summary

In November, 1941, total Axis airplane production was 3,400 a month, or a rate of 41,000 a year. (Since then, the British believe German production has increased by 15 percent and French production has also increased. At present, production would be at least 3,850 a month, or 46,000 a year.)

Germany was constructing 17 submarines a month, or 200 a year. It was taking her about 15 months to build a submarine. The whole Axis had 318-319 submarines under construction.

Germany was turning out 920 torpedoes a month.

Exclusive of Japan and with the figures for Italy missing in some instances, the Axis was producing 2,895 cannon per month, or a rate of 35,000 a year. (Beaverbrook stated that England in January, 1942, was producing guns at a rate of 33,000 a year.)

Exclusive of Japan, the Axis was producing 8,125 ground machine guns, 9,050 aircraft machine guns, and 300 navy machine guns a month, or a total of over 200,000 machine guns of all types a year.

Production per month,  
November, 1941

1. Airplanes

Germany: 20 operational types (including trainers and special types)	1,720	2,500)
France (occupied and unoccupied) (March, 1942, 250 per month, full capacity cannot be reached because of the shortage of raw materials)		200
Italy (less than capacity)		350
Japan: operational	250	
other military	<u>100</u>	
Total Military		350
(civilian 40)		
Total Fascist Airplane Production		<u>3,400</u>

2. Submarines

Germany:	500-tons	12
	740-tons	<u>5</u>
Total German production		17
(At any given moment, the Germans have in production 250 submarines)		

Italy is building 50.

France: five of 805 tons are being built in occupied France.

Netherlands: one or two are being fitted out.

Japan is building 12 submarines, three of which are of 1,200 tons.

Total submarines under construction in Axis countries in November 1941: 318-319

Torpedoes

Germany: 21-inch electric battery type	650
21-inch air driven type	<u>270</u>
Total	920



Production per month,  
November, 1941

3. Field Artillery

(a) Medium and heavy -105 mm or higher

Germany	275	
Italy	50	
Rest of European Axis	<u>75</u>	
Total of foregoing		400

(b) Light - under 105 mm

Germany - 70 mm (? , should be 77 mm?)	160	
Italy	100	
Rest of European Axis	<u>40</u>	
Total of foregoing		300

(c) Anti-tank guns

Germany	400	
Italy	75	
Rest of European Axis	<u>100</u>	
Total of foregoing		575

(d) Tank guns

Germany	1,000	
Italy	?	
Rest of European Axis	<u>20</u>	
Total of foregoing		1,020 + ?

(e) Anti-aircraft guns

Light AA (probably, under 88 mm)

Germany	200	
Italy	?	
Rest of European Axis	<u>30</u>	
Total of foregoing		230 + ?

(f) AA, other than light

Germany	180	
Italy	?	
Rest of European Axis	<u>20</u>	
Total of foregoing		200 + ?

Production per month,  
November, 1941

(g) Naval guns

Germany	120	
Italy	<u>50</u>	
Total of foregoing		170

4. Machine guns

(a) Super-heavy machine guns

Germany	1,000	
Italy	125	
Rest of European Axis	<u>300</u>	
Total of foregoing		1,425

(b) Army machine guns

Germany	3,500	
Italy	1,200	
Rest of European Axis	<u>2,000</u>	
Total of foregoing		6,700

(c) Aircraft machine guns

Germany	8,000	
Italy	800	
Rest of European Axis	<u>250</u>	
Total of foregoing		9,050

(d) Navy machine guns

Germany	200	
Italy	<u>100</u>	
Total of foregoing		300

February 14, 1942

Dear Bill:

Thank you very much for your letter of February 11th sending information gathered by your staff abroad.

I shall be interested in having similar reports in the future.

Yours sincerely,  
(Signed) Heary

Colonel William J. Donovan,  
Coordinator of Information,  
Washington, D. C.

*File n.m.c.*



-2-

## [ARTIFICIAL RUBBER]

(c) Buna<sub>x</sub> is believed to be affected particularly by attack from air.

(d) Oil. Reports come from all over Europe of special increasing economies, including an order for 70,000 gas producers for Nazi army on Eastern Front, although the December withdrawal of only 250,000 tons was due to a decline in consumption by air force.

"5. There is a great increase in transport of oil to Italy by rail.

"6. Revival of Berlin Black market in dollars is quoted at 6½ times the official rate and the Swedish Crown, 16 times.

"7. In agreement recently between France and Italy the latter renounces the claim to extradition of certain weapons in consideration for which France grants French franc credit only ~~the~~ part of which will be repaid after the war."

(Due to oversight or other cause, no provision was made in Italo-French Armistice for payment by France of Italian occupation costs in the strip of France held by Italy. Hence, Italy is chronically short of francs.)

UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.



February 11, 1942

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

Dear Henry:

I am attaching a copy of a monthly report from our people abroad as to certain salient points in intelligence.

Sincerely,

William J. Donovan

*Bill*

"1. It is believed the capacity of the aircraft industry in Germany has been extended 15%; [From 2500 to 2900 PER MONTH] (A.M.E.) that the limiting factor of production is skilled labor rather than raw materials. Production in Italy is not at full capacity due to shortage of raw materials, and below capacity in France due to shortage of tools and jigs.

"2. There is increased production in invasion and auxiliary craft. Submarine construction is probably at its highest level. [i.e., 18 PER MONTH]

"3. The supply of German labor is fairly constant. In Italy reduction of workers, due to call to the colors, is offset by an increase from Balkans, Spain, and Galicia.

"4. The indications of tight raw materials include:

(a) Chrome. Where it was formerly refused, inferior Greek ore is now used.

(b) Tin. Libyan iron rations are not tin-plate but black plate.



# CONFIDENTIAL

106

## CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, February 14, 1943

AIR INFORMATION BULLETIN  
No. 3  
- MID 461

### NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.06 M.I.D. (9-19-40) M-B-N.

### TIMELY TACTICAL TOPICS

The following brief study of certain foreign trends and developments in aerial tactics and equipment is furnished as a matter of general interest and to show what is resulting from the present war. The statements made and the conclusions drawn should not necessarily be considered as applicable or desirable to our own service, nor does this office necessarily place the stamp of approval on the matters herein described. It is hoped, however, that this and future studies of like character will be useful to planning, training, and procurement agencies, and to air force units as a reference source of current intelligence, compiled and digested from an air force point of view, and with air force requirements in mind.

### CONTENTS

1. INTRODUCTION
2. PURSUIT
3. BOMBARDMENT
4. MISCELLANEOUS PLANES
5. GENERAL TACTICAL TOPICS

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TIMELY TACTICAL TOPICS1. INTRODUCTION

The information in this bulletin has been compiled from tactical papers containing relevant information on war in the air. These tactical lessons have been gathered from actual combat in World War II. The tactical points developed are timely and should be of great value to students of air combat in the present war.

The lessons learned from actual combat in this war show that pilots have certain fundamental weaknesses which should be guarded against. These lessons also show the effective results obtained by quick-thinking and well-trained pilots. The disastrous results to pilots who have felt themselves safe over home territory and have failed to keep a close watch for enemy planes, or who have done acrobatics to give vent to their elation at having successfully carried out an attack upon the enemy, only emphasize the necessity of being cautious and alert at all times. The enemy pilot profits greatly if he can execute a surprise attack, and he will do his utmost to come upon another plane suddenly. He may use decoys to draw his adversary off guard; may keep himself from view by making use of the blinding effect of the sun; he may fly low and remain unnoticed as his plane blends into the landscape; he may descend suddenly out of a cloud; or he may be able to approach unnoticed from the rear. Consequently, his adversary must be always on the lookout to guard against these as well as other dangers.

The pilot who gets results is the one who is aware at all times of the difficulties he is up against and who tries to overcome them. The good pilot withholds fire wherever possible until he is at close range, and uses decoys and the advantages of blinding light to catch his enemy off guard. He develops new means of overcoming effective hostile tactics and, realizing the need of good teamwork, tries at all times to cooperate.

The following extracts demonstrate various current tactics as well as strengths and weaknesses of those tactics as they have been observed in actual combat.

2. PURSUITa. General(1) German Fighter TacticsCONFIDENTIAL



German fighter tactics are based on non-rigid types of formation which vary frequently, and make it necessary to be prepared for attack from any direction, particularly from the sun.

German fighters always fly in pairs and try to work in small formations. These formations may be of 6 to 20 aircraft with formations in support of each other, stepped up to over 30,000 feet.

Large numbers of fighter formations always escort day bombers, and may be in front and below the bombers as well as behind and above them.

When on offensive patrol, fighters weave around the leader.

The main difference between German fighter methods and those of the R.A.F. is that the Germans let their target fly through a cone of fire, whereas the British follow on a curve of pursuit, firing with changing deflection in a continuous attempt to hit the target.

(2) Italian Fighter Tactics

On several occasions when British fighters have come into contact with large numbers of Italian fighters flying in close formation, the Italians have concentrated more on keeping formation than on looking out for attacking aircraft. This has made it possible for the British to approach to close range unobserved.

It is stated that in their attacks, Italian pilots appear to concentrate more on spectacular acrobatics than on accurate sighting.

b. Offensive action against Fighters

(1) Surprise Attacks

(a) A pilot reports that the attack most feared by fighters is a climbing attack from below at high speed, gained by a dive from out of the sun. This pilot had been particularly impressed by the tactics of the leader of an enemy fighter squadron who would draw fire by attacking even from an unfavorable angle, and thus maneuver the enemy into a position where they could be attacked by the rest of the squadron.

(b) Two fighters at 9,000 feet were told by control that friendly aircraft were in the vicinity and that

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there were no enemy aircraft below 21,000 feet. However, three enemy aircraft in line astern dove from 13,000 feet onto the rear fighter, who took evasive action and shook them off. The two fighters became separated, and the second fighter finally landed after searching for the first fighter with no success. The missing aircraft had crashed. The pilot reports he did not see the attackers.

(c) Five fighters patrolling at 23,000 feet were told that the enemy was in the vicinity. They were ordered to reduce height to 14,000 feet and circle. While carrying out these instructions, travelling northeast in line astern, in a formation of two sections of two and three aircraft respectively flying parallel, they were attacked by six enemy fighters out of the sun. The flight was taken by surprise and was unable to take evasive action. One pilot fired a single burst without effect. One of the five fighters was seen to go down in a spin.

(3) Decoy Tactics against Fighter Wings

Fighter squadrons flying in formation stepped up from 31,000 to 23,000 feet saw approximately 20 enemy fighters crossing their bow. The top squadron was ordered to attack, and it did, but the pilots could get no satisfactory combat with the enemy because some of his planes climbed away to the southwest, while the rest half-rolled and dove vertically.

During the entire time, enemy fighters were seen above and below. None of them attempted to attack, and when they themselves were attacked, they disappeared to the south rapidly. There were many enemy fighters about, whose chief object seemed to be to fly around the outskirts of the fighter formation, probably in the hopes of catching stragglers, but who refused to fight otherwise. Pairs of enemy fighters were noticed at various times flying underneath the formation at right angles. The enemy planes dove as soon as they were attacked. This was obviously an attempt at decoy, because one pair leader and his No. 2 dove to attack two of these and were in turn attacked from behind by enemy fighters which shot down the pair leader. One squadron leader met this same decoy trick with his No. 2 but was not drawn in when he saw the enemy diving away from the formation.

(3) Fighter Tactics Using High Cover

(a) Three squadrons of fighters proceeded on an offensive patrol, bottom squadron at 25,000 feet, the top at 28,000 feet, and the third between.

Soon many fighters were sighted far below against the clouds. The bottom squadron attacked. The middle squadron

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lost height by diving, and was followed by the top cover squadron. This caused the bottom squadron to become confused. At this time the two upper squadrons were attacked from above and out of the sun by more enemy fighters. The result was a general melee in which one enemy aircraft was destroyed and one damaged. Two of the original fighters were damaged, one so badly that it just barely reached home where it crash-landed.

The tactics used in this encounter with the enemy were very poor. The high cover squadron, in following the other two squadrons down to attack, left the wing without any protection from above.

(b) A similar wing consisting of three fighter squadrons took off and made rendezvous with bombers and escort. They proceeded on their mission, but en route the bombers and their close escort returned owing to weather conditions. The wing, however, proceeded with one squadron at 23,000 feet, another at 34,000 feet, and the top squadron at 26,000 to 25,000 feet.

Enemy fighters were met in strength and were engaged.

The bottom squadron had dropped from 23,000 feet to 18,000 feet when 25 enemy fighters were seen below and to port at 16,000 feet. The whole squadron attacked, destroying five enemy aircraft and damaging two.

The middle squadron also sighted these fighters and came down to attack from 24,000 feet, with the result that in the ensuing combat eight enemy aircraft were destroyed and one more was probably destroyed.

The top squadron at 26,000 feet saw the developments and remained above as cover. Almost immediately they sighted three pairs of enemy fighters at 30,000 feet which tried to get on their tail. The squadron turned towards them and the six attacked. Simultaneously about 14 or more enemy fighters dove on the squadron in pairs from all directions. Numerous dog fights followed, with the result that two enemy aircraft were destroyed and one damaged.

The top squadron in this engagement, by remaining up, warded off the attacks of the high enemy aircraft which had been unnoticed at first, thus giving top cover and freedom of action to the lower squadron of the wing whose job it was to seek out and destroy the enemy.

Comment: The amount of high cover to be left varies with the circumstances and is at the discretion of the wing

leader, but as a general rule the proportion is: 1. one squadron for a wing operating independently; 2. one section of four (two pairs) for a squadron working independently; 3. one pair for a flight operating independently.

(4) Quick Thinking

A pilot saw two friendly fighters signalling and at once realized there was something on his tail. He turned sharply right about and saw an enemy fighter 200 yards away at his own level which immediately dropped away in a right-hand turn. His quick thinking probably saved him.

(5) Lack of Team Work

Two fighters, having completed their shipping patrol off the French coast, descended to just above sea level and proceeded home. At this time the rear fighter was attacked from the rear by three enemy fighters. During the short dog fight which ensued, the rear fighter in a quarter attack from 100 yards fired his four cannon at each enemy aircraft in turn. The enemy emitted a lot of white smoke. Apart from one bullet hole, the rear fighter aircraft was undamaged. The leading fighter was unaware of the combat and returned to base.

Comment: Had the leading fighter kept visual contact with his No. 2, he could have given valuable aid in the combat. In the event of one or the other's having come down in the sea, information could have been given for rescue services to be put into operation. In this case, if the fighter had come down, his chances of being picked up would have been slender.

It is essential for planes to keep together and guard each other from attack at all times.

It will be noted that no radio warning was given by No. 2 when he was attacked.

(6) Good Offensive Tactics Spoiled

Six fighters attacked 12 enemy fighters, who were in patrol formation, while escorting lighters (targes) making for port. The fighters attacked the right-hand flight from above, out of the evening sun, just as the escort was executing a left-hand 180-degree turn. This showed exceedingly good judgment on the part of the attacking leader, who must have realized that the enemy would be more spread out and at a disadvantage on the turn, and that the right-hand flight would be the most awkwardly placed of all. The attack was made in pairs and in threes, singling out individual aircraft while avoiding attack themselves due to their

tactically superior position. Owing to their extremely effective evasive tactics, the enemy suffered no casualties.

**Comment:** This is a case of good opening tactics and a tactically superior position spoiled by bad fighting. The attacking pilots had everything to their advantage and yet did not shoot down a single one of the escort planes. It all shows that the escort pilots took excellent evasive action. This attack could have been avoided, however, if the pilots had been keeping a good look out in all directions. The direction of the sun in this case would have been the most likely area from which to expect trouble.

#### (7) Good Tactics

(a) Small formations of single-seat fighters carried out machine-gun attacks on military objectives with some success, since enemy fighters were normally at high altitudes awaiting the arrival of bombers. To counteract these tactics, the enemy kept some fighters at a high altitude to attack the bombers, while more fighters patrolled at lower heights and attacked the invading fighters. These tactics were successful, and a number of high-flying bombers and low-flying fighters were destroyed.

#### (b) Tactics and Leadership

Twelve fighters escorted three light bombers on a low bombing attack against enemy shipping. The bombers crossed the channel at sea level with the fighters 500 feet above and behind. Four ships were sighted and the escort circled at 2,000 feet, while two bombers made a run over the target and a third machine-gunned it. The escort was about to start the return journey when some six enemy fighters in no set formation dove out of the clouds and attacked them. The escort leader ordered the squadron to break up into pairs and half the squadron to return with the bombers. The other half engaged in a dogfight with the enemy fighters.

**Comment:** The leader took the correct action in dividing the squadron into halves, one-half returning as close escort to the bombers, and one-half remaining to engage the enemy fighters.

#### (8) Action in Event of Radio Failure

A squadron was on an offensive patrol at 27,000 feet when the leader had trouble with his radio transmission. He tried to hand over the lead to another pilot. At this time some one warned the squadron of enemy fighters on the right. The leader, believing that he saw aircraft to the left, dove away and lost the

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squadron. Finding there were enemy fighters, he attacked by himself, destroyed one, and then returned home. The remainder of the squadron, although seeing many enemy fighters, did not engage them and returned home without their leader.

**Comment:** An emergency scheme so that a deputy leader takes over in the event of radio transmission failure should be understood by all pilots before taking off. Had this been understood in this case, heavy punishment could have been inflicted on the enemy.

#### (9) Acrobatics

On his return the pilot of a fighter commenced to do a Victory roll but went into a spin from which he did not recover.

**Comment:** So-called Victory rolls should never be permitted after a combat. A pilot's one aim should be to land, refuel, and rearm as quickly as possible so as to be ready to take off again.

#### c. Offensive Action against Bombers

##### (1) Night Fighter Patrols

(a) There have been several instances recently of bombers returning from raids having been attacked in the vicinity of their own airdromes. German night fighters seem to patrol at between 6,000 and 10,000 feet in the vicinity of bomber airdromes and watch for activity on the ground. If returning aircraft are identified, they will approach, sometimes switching on their navigation lights to appear friendly. If the bombers can be identified as to type, they may be attacked from astern and above if their rear defensive armament is not considered too dangerous.

By closing in to short range, they hope to prevent ground defenses from firing for fear of hitting their own bomber.

**Comment:** These tactics show that vigilant watch must be maintained by bomber crews until after landing, especially after navigation or recognition lights have been switched on. Aircraft with navigation lights on should be treated with suspicion and guns should be trained on them to guard against surprise attacks.

When undertaking an offensive action over an enemy airdrome, fly low, since the most favorable opportunity for attack will probably be as the enemy is about to land or take off, when he may be silhouetted against ground lighting or have his navigation or other lights on.

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(b) Taking off at 5:10 p.m. for patrol duty, a pilot crossed the coast at 12,000 feet, climbing slowly. After about 12 minutes he turned and flew on a 10-mile patrol line northwest to southeast, keeping a sharp look-out into the light part of the sky. His height was 15,000 feet. At about 5:50 p.m. he sighted an aircraft 5 miles to the southwest and 1,000 feet above, flying northeast. Turning toward it and remaining well below and to one side, he identified it as an enemy heavy bomber and informed the gunner to this effect. He climbed very slowly beneath the bomber, which turned on to a course of about 30 degrees. Arriving at a point 100 yards beneath, and 200 to 300 yards behind, the pilot gently eased the nose up, and when the enemy aircraft sailed into sight, he held it and opened fire. Almost immediately there was a large flash in the belly about the center section. The bomber began to disintegrate. It slowly rolled over and went into the clouds.

Comments: This successful interception and combat is worth studying, as it shows: 1. the possibility of making an interception well out at sea at dusk; 2. good tactics by the pilot in positioning himself on the enemy aircraft so that he was ever so slightly ahead right up to the time of opening fire; 3. the withholding of fire until within effective range and then aiming accurately. There is one criticism to make regarding this combat. It is probably unwise to use radio transmission when in the process of stalking an enemy aircraft, as it is possible that transmission may give away the fact that there is a fighter in the vicinity.

(c) The success of fighter and antiaircraft defenses caused night attacks to become more popular. Numbers up to 40 medium bombers attacked individually at night but with a poor standard of bombing accuracy. Many of the night raiders took effective avoiding action against searchlights by coming in on a long glide, dropping their bombs, and getting away by desynchronizing their engines and changing throttle settings. These tactics were countered by maintaining a continuous patrol of one fighter which, with the aid of searchlights, shot down two bombers and damaged a third.

### (2) Decey Tactics

(a) A night bomber pilot recently followed an enemy aircraft over hostile territory, hoping it might lead him to an airbase which would be a suitable target. Hardly had he commenced to follow, however, when he was attacked from astern by an enemy fighter and forced to break away. Shortly afterwards he picked up another enemy aircraft and again followed it, with exactly the same results.

(b) During a recent attack by a fighter against a bomber, the latter fired a double red cartridge. The fighter pilot at once broke off his attack, thinking he might have mistaken the identity of the aircraft. Later, however, he realized that the correct colors had not been fired, but by then the enemy aircraft had disappeared.

(c) A bomber crew observed several white lights on the ground and on descending to investigate them saw an enemy fighter approaching to attack. On another occasion an aircraft crew, seeing small fires on the water, descended to 3,000 feet to investigate and was attacked by enemy aircraft from several directions. The enemy evidently places these decoy lights on the ground and then keeps his fighters circling around in the hopes that a pilot will go down to check.

Comment: Pilots should keep a close watch for fighters if they go down to investigate lights on the ground.

(d) Air attacks on Malta opened with small-scale attacks by fighters, doing little damage and incurring few casualties. The British fighters were, at that time, confined to attacking stragglers, as they expected that bomber formations might follow the fighter patrols. This expectation was realized about a month later when a fighter patrol was followed by a formation of nine heavy bombers escorted by fighters, in a high-level bombing attack on the dockyards and airbase. The formations suffered casualties which justified the British fighter tactics and this appeared to discourage the repetition of this form of attack.

### (3) Use of Strategic Position out of the Sun

The pilot of a light bomber heading homeward at dawn was breaking observed an enemy fighter approaching from astern at 1,000 yards. The fighter was silhouetted very clearly in the dawn as he came in from the starboard quarter. The fighter pilot closed to about 300 yards and fired two cannons and two machine guns. He then broke away below and repeated the attack. The third attack was made from the port quarter from 800 yards, closing to 100 yards.

The air gunner in the bomber opened fire at 300 yards and maintained his fire. As the fighter was breaking away, it exploded with a yellow flash and disintegrated.

Comment: Since the fighter pilot made a perfect target of his plane silhouetting it against the eastern sky, it facilitated range estimation and sighting for the bomber gunner.



who held his fire until the fighter was well within effective range.

(4) Dark Interception

Six fighters were on convoy protection patrol in the North Sea at about 8 p.m. After patrolling for about an hour in pairs one pilot saw a bomb burst in the water and saw anti-aircraft fire from the convoy's guns. The pilot broke away and sighted an aircraft at 1,000 feet. He followed, keeping well beneath, and gradually overtook it until he could see it more clearly against the northern lights. Identifying it as an enemy medium-weight bomber, he then pulled up and delivered a quarter attack from 100 to 150 feet. Closing to astern, he repeated this attack at the same close range, experiencing some return fire from the lower ventral gun. Following the second attack, fire started in the starboard wing of the enemy aircraft. One more quarter attack was delivered from the port side without noticeable results, but by this time the fire in the wing was considerable and the enemy aircraft slowed down and crashed into the sea.

Comment: This was well executed, unhurried attack delivered at close range. Full advantage was taken of the northern lights for attack and the dark background below for approach.

(5) Fire at Close Range (see also pages 8 and 9)

(a) Two fighter aircraft on patrol at 15,000 feet sighted an enemy bomber 15 miles ahead at 31,000 feet, and proceeded to catch up with it. Both pilots thought that they were running short of fuel but afterwards found this to be untrue. They opened fire at long range, No. 2 firing first at 700 yards with a 4 to 5 second burst. The enemy aircraft took violent evasive action, and No. 2 closed to 300 yards, but had only two rounds left. No. 1 then carried out a short beam attack followed by three short bursts at 500 to 500 yards range. Toward the end of the engagement the enemy aircraft fired tracer ineffectively, and then escaped into cloud at 3,000 feet.

Comment: It would appear that No. 2 had an opportunity of closing, but that he had used up his ammunition while out of range and so had none left when he subsequently closed to 300 yards. No. 1 also carried out attacks outside effective range. As cannons have only 60 rounds per gun, with a continuous fire period of 8 seconds, pilots should avoid extended long-range deflection shooting. The effective range is within 600 yards.

(b) A night fighter, during patrol, attacked a heavy bomber from beam to quarter, finishing up astern. The fighter opened fire at 300 yards and continued in short bursts

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to a very short range, firing 240 rounds of 20-mm. and 610 rounds of .303 ammunition. The bomber, which replied with the mainship gun, caught fire near the port wing root, and both port engines stopped. The bomber swung to port, straightened out, and dove into the sea in flames.

(6) Ramming of Aircraft by Russian Airmen

When ammunition has been expended, Russian airmen ram their enemy. The secret of ramming, it is reported, is that the fighter should get into a favorable position behind the tail of the enemy, and then, after opening the throttle fully, come alongside and strike the rear part of the fuselage with the airscrew. The propeller will be damaged, but the machine will be able to glide normally.

One pilot reports that after exhausting his ammunition he overtook a bomber, and when the propeller of his fighter was under the tail of the bomber he began, very gently, to turn up the nose of his ship. The propeller struck the tail of the enemy aircraft and cut off the rudder. On the second ramming he cut off the enemy's elevators, and the bomber dropped like a stone. Although the damaged propeller caused the Russian plane to vibrate violently, the pilot was able, because of his great height (20,000 feet 6,000 meters) to glide down successfully to his airbase.

Thirty-one cases of the destruction of enemy aircraft by ramming are reported. Four of the ramming pilots perished, and 13 machines were seriously damaged and crashed, although their pilots bailed out. In five cases it has not been ascertained what happened to the ramming machines, but the pilots were unhurt.

(7) Cooperation between Fighters and Ground Defenses

(a) Fighter pilots should assume that the first apex of beams from searchlights designates the altitude of the enemy aircraft.

(b) One night fighter took off at 8:20 and, after several vectors and an aircraft interceptor contact, the pilot sighted the exhaust stack of the enemy aircraft ahead of him. He opened fire with a 1-second burst with slight deflection but had to break off fire momentarily because of the intensely accurate fire from the enemy top rear gunner. The enemy bomber was lost for 3 seconds and when the fighter picked him up again the enemy aircraft opened fire inaccurately. From this gunfire the fighter was able to locate the enemy and give him a 2-second burst that resulted in definite hits. The enemy's fire became accurate and the fighter pulled away from the bomber and could not find it again.

Comment: This combat shows that the crew of the fighter used their aircraft interceptor and their Ground Control Interceptor services to good effect to obtain interceptions. Their technique for

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approaching the bomber was also good in that they were able to see exhaust flames and maintain contact without overshooting. It seems that the aircraft Interceptor Operator did not bring the pilot up from below, for if he had done this, it is unlikely that the enemy aircraft would have seen the fighter first. The reason why the pilot broke off the combat is obscure. Pilots must expect return fire. In spite of the pilot's report about the accuracy of the enemy fire he does not claim that his own aircraft was hit. This enemy night fighter was well-armed against light cannon fire from ahead.

(c) The pilot of a heavy bomber flying at 10,000 feet observed red flares being shot up from the ground, to the height of his aircraft, and forming a circle around it. The bomber immediately altered course and a single-engined enemy aircraft shot past in front about 150 yards from the nose of the bomber and was lost to view.

Comment: This indicates good cooperation between night fighters and ground defenses.

(d) A night fighter was put onto a raider and told to flash weapon, and a blip\* was obtained at once. The pilot was told that the enemy aircraft was below, so he dove in steps of 500 feet, getting down to 11,000 feet, and then closed to minimum range. The enemy aircraft was above and to the left. As the pilot throttled back, the enemy aircraft went to the right and was lost for 30 seconds. The pilot, however, managed to pick up the enemy aircraft again, well to the left, and closed in at 200 m.p.h. to minimum range. Exhausts were seen above and to the right. The fighter climbed slowly about 500 feet, closed to 100 yards and got a silhouette which identified the plane as an enemy heavy bomber. White flames were seen after the first burst. The enemy aircraft dove to the right with its under-carriage down and crashed into the sea.

Comment: That this combat was successful was the result of well developed and practiced aircraft interception technique. The night was dark with no moon, and yet the fighter closed to minimum range without overshooting. Combat of this nature can only be obtained by careful attention to detail, by good maintenance of equipment, and above all, by conscientious and continuous training.

#### (8) Searchlights and Star Shells

\* Indication on the oscilloscope.

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(a) A bomber flying at 10,000 feet was picked up by about 30 searchlights. A deep red flare appeared and anti-aircraft fire immediately stopped, while a night fighter shot down the bomber.

(b) Germans have been experimenting in shooting star shells as a possible aid to night fighters. Individual star shells give a light equal to about 1/10th of a flare, and grouped star shells about that of a full moon. Illumination lasts about thirty seconds.

(c) Use of Searchlights. See pg. 36

#### d. Miscellaneous Tactics

##### (1) Initiative in Dealing with Weather Conditions

Two fighters were vectored onto a raider which was first seen flying just below the cloud. The enemy aircraft saw the fighters and immediately went into the cloud but was followed by the fighters and identified as medium bomber, camouflaged black. The two fighters split, one flying above the cloud and the other below. The bomber appeared above the cloud and the first fighter made a beam attack turning to one astern and the bomber went back into the cloud. As it came out below the cloud the second fighter attacked it and the enemy aircraft burst into flames and crashed into the sea.

Comment: This combat was successful because the two pilots used their heads and applied the best possible tactics for dealing with the enemy under the circumstances.

##### (2) Night Combat

(a) In a vigorous night engagement between a medium bomber and an enemy fighter the enemy approached the bomber from astern at 1,500 feet and fired a long burst at 25 yard range. The tail of the bomber was hit. Fire was returned by the wireless air gunner. The fighter then fired a second burst from the same range on the right beam, but the bullets passed over the bomber. A third attack was made from astern at the same height and range, and bullets were heard hitting the bomb doors. Both the wireless operator and lower rear gunner fired long bursts in reply to this attack and they believed that the fighter was hit. The bomber reached cloud cover when the combat was broken off. Throughout the combat the bomber pilot took violent evasive action by jinking and making steep and irregular dives, climbs and turns, which undoubtedly upset the aim of the enemy pilot. This action undoubtedly saved the bomber.

CONFIDENTIAL

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(b) A two-place fighter on night patrol at 13,000 feet sighted an enemy medium bomber about 1,000 feet below, traveling in the opposite direction. The pilot made a steep turn and overshot the bomber about 500 feet above him. Since the enemy was flying very slowly, the fighter pilot lowered his undercarriage in order to reduce speed to a minimum and dropped down in front of the bomber, allowing it to overtake him slightly above on the starboard side. The rear gunner fired a 1-second burst at 75 yards which was seen striking the enemy plane. The bomber took evasive action by diving and turning and three more bursts were fired from point-blank range, with answering fire from the enemy aircraft. At the end of the second burst the fuselage, from the main plane to the tail, was on fire, and part of the tail fell off. The enemy aircraft disappeared into a cloud and was not seen again.

Comment: The crew of this aircraft destroyed two enemy aircraft in one sortie the next night. This pilot made full use of the maneuverability of his aircraft to present his air gunner with a good target and to enable him to fire at an unprotected area of the enemy aircraft.

(3) Success and Effectiveness of Eight-gun Fighters at Night

An eight-gun fighter took off for a free lance night patrol. Seeing a He-111 (enemy bomber) pass underneath him he dove steeply and closed to 200 yards. Taking careful aim he commenced firing, using a quarter attack. The enemy's port motor caught fire and the plane began to lose oil and glycol. A further effective attack was made from below and astern, after which the bomber turned over slowly and went into a cloud. Shortly afterwards the fighter pilot saw another enemy medium bomber flying close to cloud away from the blitz area. The fighter caught up at full throttle just as the enemy dove for the cloud. The pilot attacked from fine quarter and slightly above. The port motor blew up in a shower of sparks. One further effective attack was made from astern and slightly below as the bomber dove more steeply for the cloud.

(4) Fighter Action against Italian Bombers

Twelve Italian heavy bombers approached at 13,000 feet to attack the fleet, in two vee formations about a mile apart. Seven aircraft were in the leading vee and five in the second.

Eleven fighters controlled by fighter control (four of one squadron and seven of another), were flown off a carrier and ordered to intercept the bombers. All aircraft intercepted and engaged the bombers, whose numbers were reduced

CONFIDENTIAL

111

CONFIDENTIAL

to sight by the time they passed over the fleet. By this time some of them had already jettisoned their bombs.

The fighters attacked in formation. Red and yellow sections\* attacked the rear enemy formation first, but since they became separated in the initial dive to attack, a series of individual attacks were made. Before he was hit and dove into the sea one fighter damaged two enemy aircraft, one of which was probably destroyed. The other enemy aircraft was further damaged by a second fighter and was finally shot down by yet another pilot.

Blue and green sections came in to attack the leading enemy formation from ahead, following the rear attack by the first two sections. They carried on to the rear formation and attacked stragglers. One enemy aircraft was destroyed and another probably was destroyed.

Red section of the second squadron came in to attack the leading enemy aircraft formation from the beam and damaged two, of which one had previously been damaged. Both were shot down in flames later. One fighter was hit and came down in the sea.

When the engagement was broken off at the fringe of the fleet's barrage, one fighter pilot sighted three aircraft, probably torpedo planes, close to the water. He went down to attack and damaged one, but was shot down on his first attack.

Comment: This attack was well timed and pressed home with vigor. Italian pilots are reported to keep good close formation when attacked by fighters and to develop a strong cross fire by heavy machine guns firing to the side and rear. If their formation is broken up by head-on and beam attacks, however, the stragglers can be accounted for by astern attacks.

(5) Fighters against Light Bombers

A formation of air light bombers was attacked by four enemy fighters. The four enemy aircraft took up position—two on each beam in formation. They made continuous stern, quarter, and beam attacks in turn, singling out one of three aircraft of the red formation. No defensive action was taken other than to close formation. On the first attack control firing was directed upwards by radio transmission by the leader and gunner, each air gunner firing separately. No. 3 red was shot down. The enemy aircraft continued to attack the leader of the red formation, who took individual evasive action by weaving from side to side, but who was eventually shot down. On two occasions enemy pilots adopted the

\* These color designations are used in lieu of number designations of sections.

CONFIDENTIAL



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following tactics: While on the port side they would swing over in a steep turn to the starboard at right-angles to the direction in which the formation was going and then do a roll turn onto the stern of the formation.

(6) Fighter Action against Medium Bomber

A night fighter pilot seeing an enemy medium bomber crossing from left to right at about his same height, approached the bomber from astern and below. The enemy was showing an interior light and exhaust flames. The fighter pilot followed for about a mile or so in a gradual right-hand turn. He was observed on the starboard engine which was set on fire. The fighter broke away to starboard, keeping the enemy aircraft in sight while the guns were reloaded. The enemy aircraft continued to burn and crashed into the sea.

(7) Poor Tactics and Lack of Plan

While flying at 7,000 feet a heavy bomber was attacked by two enemy fighters simultaneously from both quarters and slightly above. The bomber immediately went down to sea level and turned towards cloud cover. The enemy aircraft opened fire at 300 yards with cannon and machine gun, and broke away at 150 yards. The rear gunner engaged first the enemy aircraft on the port quarter and then the one on the starboard quarter. Two further double attacks were made by the enemy aircraft. On the last attack when one enemy aircraft approached from dead astern, the rear gunner opened fire at 250 yards and continued firing down to 150 yards. The attacking aircraft broke off to port and as the bomber turned to starboard its rear gunner got in a long burst into the center of the fuselage. The enemy plane dove straight down into the sea.

Two of the bomber's rear turret guns and the sight were unserviceable, and during further attacks by the remaining enemy fighter plane, the rear gunner instructed the pilot to turn to port or starboard to avoid the enemy's fire.

The final attack came from above on the starboard bow, and the front gunner got in a long burst as the fighter closed to 200 yards. The enemy broke away just before the bomber entered a cloud. The engagement had lasted 18 minutes.

Comment: The enemy planes do not appear to have been very decided in their tactics against the bomber, and if trouble had not developed in the rear turret the second fighter would probably have followed the first.

CONFIDENTIAL

CONFIDENTIAL

115

F. Pursuit against Miscellaneous Planes

(1) Good Opening Tactics against Torpedo Planes Sighted

A fighter pilot sighted an enemy mine-laying torpedo plane flying 25 feet above the water a quarter of a mile from shore. The pilot climbed up sun to 3,000 feet, whirled, and dove down on the enemy, opening fire from astern at 600 yards with both cannon and machine gun, giving two short bursts and closing to almost point-blank range. After 10 seconds the enemy aircraft flopped on to the water. The fighter pilot received some return fire which did no damage. The pilot then returned to his base.

Comment: Having put his adversary into a state of immobility, a coup de grace should have been attempted.

(2) Tactics Against Reconnaissance Squadrons

Reconnaissance squadrons have recently encountered German fighter patrols which fly at sea level in an attempt to get below the reconnaissance aircraft unobserved. They then pull up into an attack from below. These fighters are camouflaged to blend with the sea and have been extremely difficult to detect on many occasions.

Comment: Such tactics stress the need for keeping an extremely vigilant lookout, particularly into the sun, for planes flying at low altitudes, or close to cloud cover. The use of dark glasses is recommended in the appropriate circumstances.

G. Pursuit Against Surface Vessels

(1) Fighter Attacks on Shipping

(a) The method generally adopted is flying low over the sea, keeping radio transmission silence. The order to attack is given over the radio when sections split. Climbing to a suitable height, the fighter planes attack simultaneously in a steep dive. One section or aircraft, as the case may be, comes from ahead of the ship, one from astern, and others from either beam. The first attacking aircraft usually carries machine guns and the second, cannon. Machine-gun fire is aimed at the base of the funnel and superstructure, and cannon fire is directed at the water line. Break-away is effected by severe erratic climbs and dives. The effect of machine-gun fire is such that it usually pierces pipes, tanks, etc. and sets the ship on fire. Cannon fire frequently dislodges the plates and causes the ship to sink.

(b) Three squadrons of fighters numbering 17 aircraft joined 7 other fighters and proceeded at sea level in a formation of

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5 separate flights to attack shipping. When nearing the target the aircraft climbed to 2500 feet and made diving cannon and machine-gun attacks.

Eleven barges were seen entering harbor, three armed drifter-type vessels were 1 or 2 miles northwest, and there were also two or three small vessels near the harbor mouth. One flight went in first and attacked the small vessels near the harbor, the barges, and the armed drifters. A second flight of the same squadron became mixed up with aircraft of another squadron and the result was that only one aircraft attacked. The remaining flights went in together and made attacks on various barges and ships.

No concerted attacks were made, since all pilots found that the target area seemed to be full of fighters all attacking from different directions.

Comment: Had the squadron leaders decided upon the method and order of attack before taking off, the outcome would probably have been more effective. As it was, some aircraft did not attack at all, and others were not able to press home any concerted attacks.

(c) Four fighters flying at sea level sighted four minesweepers proceeding toward Dunkirk. The fighters dove to attack in sections. Red section attacked from ahead and yellow section from astern, continuing backwards and forwards until the attack was completed. One minesweeper caught fire and exploded, another blew up on the first attack, another was burning well, and the fourth was listing.

#### h. Pursuit Against Land Objectives

##### (1) Attack on Aircraft on the Ground

Fighters attacking enemy aircraft on the ground by moonlight circled an airdrome several times coming down to 50 feet before experiencing any antiaircraft fire. The aircraft were well hidden but several were damaged by machine-gun fire.

Recent reports indicate that probably the best method of damaging aircraft on the ground is by machine-gun or cannon fire, especially if the aircraft are dispersed in blast shelters.

##### (2) Attack on an Airdrome

A formation of four Italian single-seat fighters made a determined attack on an airdrome while more Italian fighters patrolled the area at 8,000 to 10,000 feet as protection. The

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attacking planes approached the airdrome at low altitude from behind high ground, thus achieving complete surprise. The aircraft circled at 2,000 to 3,000 feet and dove in turn out of the sun at a maximum angle of 45 degrees. One came so low that it tore off its undercarriage on the wing tip of a plane which it was attacking. Each aircraft made five or six attacks but only two aircraft on the ground were damaged.

Comment: Italian pilots appear to concentrate more on spectacular acrobatics in their attacks than on accurate sighting.

Italian medical officers reported that a large proportion of the casualties in the final advance in the Middle East campaign were caused by low-flying British fighters who took careful aim and held it throughout their attack.

#### (3) Intruder Strategy.

A night fighter on patrol crossed the coast at 10,000 feet and proceeded to the target area where the pilot decreased height to 8,000 feet, but because of haze was unable to locate a suitable target, and bombs were dropped. On the return journey the pilot crossed the coast at 6,000 feet and observed one rotating beacon which flashed white at intervals.

Comment: It is not clear why the pilot did not attempt to shoot out the rotating beacon. Previously, when a plane shot out two night-flying beacons, considerable confusion was caused for several aircraft were in the air and had a great deal of difficulty in locating their position.

#### c. Defensive Action against Fighters

##### (1) Evasive Action

(a) A fighter returning from a foray over enemy territory was chased home by four enemy fighters, two of which flanked him on either side and attacked together. The pilot immediately closed his throttle, stood on his right rudder and skidded, causing his plane to slow up so rapidly that one enemy aircraft was forced to over shoot and fly above, and was then shot into the sea.

Comment: If the enemy is on your tail, turn fast and keep turning. Do not change the direction of the turn or ease up and so present a sitting target. If you turn suddenly in the opposite direction it gives the enemy the opportunity of giving a short burst from the beam.

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(b) Red I and Red II at 17,000 feet saw between 20 and 30 enemy fighters circling in loose formation 1,500 feet above. The enemy aircraft peeled off and attacked the two planes, continuing their dive after the attack. The attacks were countered by turning into the enemy and firing short bursts head on. Red I and Red II to "spin out", but Red II, acknowledging this message, left his transmitter on for several minutes, during which time the enemy aircraft made further attacks. Eventually Red II's radio went off and Red I gave the order to Red II to spin out. Red II was not seen again. Coming out of the spin, Red I saw two enemy fighters astern flying over the beach at 2,000 feet. He attacked both these, seeing stripes on one and black and white smoke from the other.

Comment: The evasive action taken to get out of an awkward situation should be noted. To have dived straight down would have been useless as the enemy fighter, with direct injection fuel system, would have had the advantage in the initial stages of a sudden dive. The spin or downward spiral must be carefully timed to avoid being followed down and is best started by using the aileron and bottom rudder, immediately after a head-on attack at the enemy.

(c) A fighter took off to examine a ship. He was flying at sea level and when he ran into six enemy fighters, also at sea level, was unable to hold his course. He climbed up through cloud to 9,000 feet hoping to find a clear patch through which he could examine the ship, however, several groups of enemy fighters above the cloud prevented him from doing so. He was engaged in a running fight with 12 or 14 enemy planes, which he evaded by turning continually to meet them firing short bursts from cannon and machine guns, and then turning sharply away. Bursts fired from extreme range were part of his evasive tactics. He makes no claims to have damaged any enemy planes, and does not think that he was fired at, for he managed to remain out of range through constant evasive action.

#### J. Defensive Action against Ground Defenses

Two aircraft that had been on an offensive sweep flew out to sea a mile apart in order to spread the flak.

Comment: These are good tactics and worth remembering, especially for working in pairs.

\* The term "spin" as used in this report refers to a steep diving spiral using aileron and bottom rudder.

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#### K. Signals

##### (1) Day

A fighter that was chased by two enemy fighters to within 10 miles of his coast dropped an orange flare. This may have been a ruse, but it should be borne in mind that a flare is commonly used as signal to fighter aircraft for assistance if direct radio communication is not used.

##### (2) Night

Three enemy aircraft were seen circling one night over home territory. As a night fighter closed to attack, a red flare signal was fired from the airframe. All airframe lights went out and the enemy aircraft switched off their navigation lights and were lost.

##### (3) Combat

Two fighters who were warned of the approach of six enemy aircraft, circled at 7,000 feet just below a solid cloud layer. Six enemy fighters dove out of the cloud on No. 2, who was weaving. No. 2 took evasive action, diving down toward the coast, and at the same time warned No. 1. No. 1 turned and saw one pair of enemy fighters with four more behind, in straggled formation. In the dogfight which ensued, No. 1 attacked two enemy aircraft from astern with very short bursts, but noticed no damage. He then saw another aircraft diving at his head-on and gave a burst of about five seconds. The enemy aircraft suddenly turned away at about 70 yards with glycol pouring from it. One enemy is claimed as probably damaged.

Comment: Alertness pays dividends.

#### L. BOMBARDMENT

##### a. Day Bomber Tactics—British

##### (1) Disposition

Aircraft should be disposed so as to:

- (a) Permit effective delivery of the bombing attack, which is the primary aim of the mission;
- (b) Present a limited front on which enemy fighters can attack, in order to lessen the chance of an attack simultaneously in force;

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(c) Provide the maximum supporting fire power between aircraft in formation. In order to accomplish this, a fire plan should be made out prior to the mission.

(2) Flexibility

The formation should have sufficient flexibility to:

(a) Permit adoption of the formation appropriate to the type of attack to be delivered;

(b) Permit maneuver against antiaircraft fire and against attack by enemy fighters;

(c) Permit negotiation of clouds;

(d) Increase the fighters' difficulties by upsetting their line of sight;

(e) Adopt the maneuver which will develop maximum fire power and eliminate blind sectors.

The ideal formation will differ with every method and direction of attack. Each formation must therefore have sufficient flexibility to permit alteration to some other formation. If the bombers can force the fighters to change their angle of approach, they have unquestionably added to the difficulties of sighting.

(3) Types of Formations

The basic unit is three, and larger formations are in multiples of three. The most simple, flexible, and maneuverable formation which also possesses formidable fire power is a box of six aircraft in two sections of three. If there are more than six aircraft, they should be in separate boxes of six and in support of one another.

(4) Size of Formations

(a) A large formation is more vulnerable to anti-aircraft fire than a number of small formations.

(b) As the size of a formation increases, its maneuverability decreases, but its concentration of fire power is greater, and it is less likely to be outnumbered.

(c) In a large formation there is a tendency for a number of gunners to fire on a few enemy aircraft and ignore others. There is, therefore, a limit to the size of a formation which will effect economical fire concentration.

(a) Larger formations are required for aircraft which have blind sectors or sectors of reduced fire power.

(5) Shape of Formations

(a) Every pilot should be able to see easily the aircraft on which he is forming.

(b) All pilots should keep station on the leader, with as few as possible in sequence; otherwise, there will be an accumulation of error, making it very difficult for the last pilot.

(c) When under attack, be sure that there is not a straight line from the enemy's approach through two or more aircraft of the formation.

(d) The length of the formation should be equal in all directions. If this is impossible, the direction of the maximum length should be perpendicular to the center line of minimum fire power. This is to insure that an enemy attacking an aircraft from a blind sector shall have the smallest possible chance of being in the blind sector of other aircraft in the formation.

(e) Aircraft should be sufficiently far apart to minimize the danger of one's being hit by fire aimed at another but should be close enough to give maximum mutual support. Aircraft should be closer when defending against short range attack against long range attack.

(f) Formations disposed in depth create a volume of slip-stream turbulence which throws fighters off their line of sight when they are attacking from the rear.

(6) Ground Attack

(a) When attacking ground targets which are capable of defense, such as columns of infantry or armored vehicles, planes should not fly straighter than necessary, but should jink about.

(b) When the attack is finished, aircraft should leave on an erratic course and should not furnish an easy target by pulling up to see what damage has been done.

(c) Rear guns should be used sparingly and should be reserved for defense against aircraft.

(7) Fire Controller

The duties of the Fire Controller are:

- (a) Give a running comment of the movement and range of enemy aircraft;
- (b) Warn against anti-aircraft fire and searchlights;
- (c) Designate fighting maneuvers or evasive action;
- (d) Indicate targets to gunners and check any tendency to waste ammunition;
- (e) Keep the formation leader informed of positions of own aircraft, particularly with regard to stragglers;

(8) Timing of Evasive Maneuvers

(a) It is very important that evasive maneuvers be carried out at the correct instant. If the maneuver is begun before the fighters are committed to their attack, the attack is merely postponed. If it is begun too late, the fighter's attack and aim will not be disturbed.

(b) In order that the maneuver required can be adopted at the correct instant, it is announced over the radio and is followed by the order "go" at the proper time.

(9) Fighting Maneuvers

(a) The purpose in maneuvering formations when attacked is to increase the attacking fighter's difficulties so that even if his sights are brought to bear, his fire will be comparatively ineffective, and to enable the defending formation to bring as many guns to bear as possible. The maneuver should not be so violent as to disturb the gunner's aim.

(b) Attention is invited to the preparation of the fire and search plans prior to the mission, to the disposition of aircraft with regard to fire power and blind sectors, and to the necessity of accuracy in timing of the maneuver.

b. Offensive action Against Fighters

By diving and turning south during an engagement with two fighters, the captain of a heavy bomber silhouetted the enemy aircraft against the northern lights, thus providing his gunners with a more visible target.

c. Offensive Action against Bombers

(1) The pilot of a light bomber sighted an enemy heavy bomber entering a cloud at 400 feet. As the enemy aircraft was leaving a trail of black exhaust smoke the pilot was able to follow it through three masses of cloud. On emerging, the pilot found himself 300 yards astern and slightly above the enemy. He opened fire, concentrating on the cabin and port engine with his single front gun, for which there were 350 rounds, 90% ball and 10% incendiary. All the incendiary was seen to enter the machine. Having expended all his ammunition, the pilot broke away to give the rear gunner a shot, but before he could do so the enemy made a steep turn to the right and dove into the sea.

(2) The captain of a reconnaissance bomber spotted an aircraft 4 miles away, and upon approaching, he recognized it as an enemy heavy bomber. He proceeded to attack the enemy, meanwhile diving to 100 feet, and opened fire from the front guns at 400 yards range. The enemy's top and bottom air gunners replied with fairly continuous fire. The captain dived to 20 or 30 feet beneath and on the port side and opened fire with side and turret guns at point blank range. Smoke and flames were seen beneath the lower cockpit. The enemy made a sharp turn to starboard, being fired upon by both turret and side guns. As the enemy passed the starboard tail plane, the turret gun continued to fire until the heavy bomber glided down and crashed. See also page 40.

d. Offensive Action against Balloons

A recent innovation by German night bombers has been the attack of balloons; this has been carried out by dropping flares above the barrage and then opening fire on the balloons from above the flares. During one such attack, two balloons at 5,000 feet and 6,500 feet, were shot down in flames. Such attacks do not seem to have been the prelude to bombing attacks.

e. Offensive Action against Shipping

(1) Surprise Attacks

(a) Many attacks by low-flying enemy aircraft take place at dusk when it is very difficult to distinguish the airplane until it is very close. Also, at about this time, the ships' captains are beginning to think that all risk of attack is over for the day.

(b) When possible, low-flying aircraft attacking at dusk make use of the land as a background which makes them almost invisible in the falling light.



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(c) Planes sometimes fly at slow speed on a course roughly parallel to the ship's course and keep well away on their leeward side. On several occasions this has given the impression that aircraft were friendly.

(d) One flight of a light bomber squadron attacked a ship from 4,000 feet in order to draw flak. Another flight, unobserved by the enemy, attacked from 50 feet, scoring two direct hits on the ship, and the gunners machine-gunned the deck.

Comment: A straightforward method like this, if correctly timed, can be most effective.

### (2) Good Tactics

(a) Three main attacks were made on a battleship, two of which were dive-bombing attacks and one a high level attack. The high level attack obtained no hits and did no damage, but the dive attacks, made by about 24 heavy and light-weight bombers obtained 5 direct hits with (it is believed) 1,000 lb. semi-armor-piercing bombs. These attacks were made in three main waves, synchronized in different sectors. The aircraft attacked in succession from bearing 5 degrees to 10 degrees apart, but the main attack came from astern. Some aircraft dove from 12,000 feet to release bombs at 1,500 feet, but most spiralled down to 5,000 feet before turning into aiming dives. In some cases bombs were released as low as 800 feet. Many aircraft continued their dive across the ship to flatten out at 100 feet, and zigzagged away, flying low.

Comment: The whole attack was pressed home with unusual determination despite the antiaircraft opposition. The casualties from gunfire were three aircraft shot down, two damaged and three possibly damaged.

(b) In low altitude, high speed attacks from abeam, a bomb which undershoots may go forward and explode under the ship. It is best, therefore, to err on the side of undershooting in such circumstances.

(c) Attacks on shipping are sometimes carried out from as low as 70 feet, and the angle of attack varies considerably. In the case of unescorted vessels, attacking across the beam has gained considerable favor. The bombs are released in a tight stick, the first aimed to strike the water about 164 feet (50 meters) before the target. It is claimed that at least one of the bombs is bound to strike the ship, and in addition, a ricochet effect is obtained when the first bomb strikes the water, impelling it toward the ship, and giving the effect of a near miss. During the approach the aircraft flies at maximum speed in order to secure greater penetration for the bombs, and to provide as difficult a target as possible for the ship's defenses.

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It is considered extremely dangerous to carry out this form of attack in the case of vessels sailing in convoy, because of the concentration of antiaircraft fire which can be brought into bear. Against convoys, therefore, an attack along the length of the ship, or from the quarters, is preferred.

(d) During these low-flying attacks on shipping, the fuses, which are nearly always No. 35, are set with as short a delay as possible so that a near miss will burst just under the water and, it is hoped, start a leak.

(e) Heavy bombers specializing in shipping attacks are being fitted with cannon in the forward and rear lower gun positions.

(f) During an attack on a ship a heavy bomber approached through a cloud and dove over the ship, apparently to identify it. Making a sharp left-hand turn, the aircraft dove again, dropping one direct action bomb from a very low altitude, and missing by 20 yards. At the same time the decks of the ship were raked with cannon shell, and the bomber climbed away into a cloud. It is stated that such attacks are always carried out along the length of the ship from bow to stern, in the belief that the antiaircraft armament of merchant shipping is always mounted on the stern and is blind forward.

(g) Flak ships generally work in pairs with two heavy antiaircraft guns on each ship. On being attacked they close together in the form of a "V"—the bow of one in the amidship position of the other. In this position they are able to put up a heavy screen of fire in any direction.

(h) A bomber attacked a 400-foot motor vessel escorted by five trawlers, dropping two 500-lb. semi-armor-piercing bombs, fused 1/10th second delay in a dive attack from 700 feet. One burst 40 feet astern, the second was a direct hit. Smoke was seen over the stern and the ship stopped. In the second dive attack two 500-lb. S.A.P. bombs, similarly fused, were dropped from 500 feet. One bomb struck the water 4 feet from starboard amidship, where a column of water rose and the ship was seen to list. It was thought that this bomb in effect "torpedoed" the ship. The second bomb was seen to strike the water and was, possibly, also a direct hit. The aircraft was subjected to intense antiaircraft fire and was twice hit by machine-gun bullets.

## F. Offensive Action against Land Objectives

### (1) Technique of German Dive-Bombing

(a) The German dive-bombing attacks carried out by single and twin-engined bombers employ an automatic device to which

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controls the pull-out from the dive. The bomb is released at a certain point in the pull-out, which is computed as a function of the height of release and angle of dive, and set on an automatic bomb distributor. The track of the aircraft is aimed at the target by means of the Revi gunsight, which can be swung in elevation to allow for a headwind. Bombing can be accomplished with accuracy only when the dive is made in the upwind direction. The time interval between the start of the pull-out and the bomb release is computed so that the bomb strikes the point at which the aircraft was aimed.

(b) The automatic device operates as follows:

The aircraft is equipped with under-wing diving brakes which control the speed in a dive. The hydraulic system, which operates the diving brakes, also moves and locks in position a tab on the elevator, the movement of the tab being such that the trim is not seriously affected when the brakes are lowered. The tab is returned to its original position by the action of a strong spring operated by a control button, or when a previously set altimeter makes contact at a predetermined height. The mechanism automatically resets when the brakes are retracted so that the cycle can be repeated as necessary. The angular throw of the tab can be adjusted on the ground.

(c) To operate this mechanism, the pilot decides his angle of dive and height of pull-out, and sets a time interval, determined by these two factors, on the bomb distributor. He next sets his contacting altimeter at the height at which the pull-out is to be started. The aircraft is then trimmed for the contemplated angle of dive. The trim control is marked to indicate plainly a standard 50 dive, which is the angle most commonly employed. Throttle and cooling gills are closed and the diving brakes lowered. The compensating tab on the elevator moves automatically, and the aircraft becomes nose-heavy. The pilot is able to maintain his air speed in a shallow glide until he reaches the position suitable for the start of the main dive. The dive is made into the relative wind, and the Revi gunsight is moved through an angle of elevation from the "no wind" position to compensate for the estimated wind speed. A table showing the relative angle to wind speed is provided.

(d) The pilot adjusts the angle of dive by lining up a mark on the cowling with the horizon. Marks are provided for angles from 20 degrees to 70 degrees, the more commonly used 50-degree angle being marked in red.

(e) When the contracting altimeter circuit closes, the bomb distributor is started and the spring control on the elevator tab is released. The tab moves rapidly to its original position, causing the aircraft to become tail-heavy and pull itself from the dive.

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During this maneuver the bomb is automatically released after the set time interval.

(f) The pilot now takes over, retracts the diving brakes, opens the throttle, trims for level flight and makes his getaway.

(g) Stick dive-bombing is carried out in a similar manner, except that a different time delay is employed, and the stick interval as well as the time delay is set on the automatic distributor.

(h) Attention of fighter pilots is invited to the fact that the main dive will usually be upwind, and to the lack of maneuverability of the aircraft when approaching the upwind position with diving brakes lowered. Ground elements, particularly antiaircraft crews, may also benefit by recognizing the probable direction from which the actual attack will develop.

## (2) Surprise Attacks

(a) A heavily defended target may be impracticable and dangerous to attack from a low altitude in the normal manner. If a large number of sorties have been detailed to attack such a target, however, it will often be possible for one aircraft to wait in the vicinity of the target at low level until the defenses are concentrating on an aircraft attacking at high level; and the waiting aircraft can then carry out a low level attack without encountering the full force of the defenses.

(b) During an attack on an airdrome at night an enemy aircraft flashed its landing lights several times, but the transmission was not recognizable. The enemy then approached as if to land but at about 50 feet he opened up and fired at the airdrome floodlight and then attacked a fighter circling the airdrome.

(c) One night an enemy medium bomber circled the landing ground four times at 1,000 feet and on two circuits asked permission to land. On the last circuit he descended to 500 feet and dropped ten heavy explosive bombs on and near the landing ground. The enemy aircraft was exhibiting navigation lights. Flare path, headed goose-neck flares, two glim lamps and regulation angle of glide indicator were in use on the field.

Comment: Care should be taken not to mistake an enemy plane for a friendly one.

## (3) Gliding Approaches

(a) Bombers have been making glide attacks on foreign objectives, losing about 3,000 feet of altitude during the glide.

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These tactics have invariably proved successful when there has been a large number of aircraft over a target simultaneously. This would seem to indicate that the glide approach renders engagement impossible, but that the defense prefer to take on simpler targets, i.e., those maintaining a more or less constant course, speed and height.

(b) Gliding approaches made by a large number of aircraft over Berlin have been engaged by flak in most cases. Over other targets, however, gliding approaches have met with more success and have often attracted very little flak.

Comment: This points to the fact that in the first instance, methods of detection other than sound are being used, against which gliding approaches are ineffective. It seems therefore, that although gliding approaches are likely to be effective in most areas, they should not be relied on to give immunity from flak, particularly over the most important and heavily defended targets.

(4) Effective Tactics — Miscellaneous

(a) A heavy bomber made a low level bombing attack on an airbase, dropping eight bombs, all of which failed to explode. One bomb ricocheted through the fuselage of an enemy plane. The bomber then made three circuits of the airbase, machine-gunning dispersed aircraft and buildings almost continually. In this attack 11 planes were damaged by machine-gun fire. A second bomber attacked the airbase, and dropped 5 x 5 Kg. bombs from 200 feet, but caused no damage to aircraft.

Comment: This is an excellent example of the effectiveness of machine-gun bullets against dispersed aircraft. They often cause more damage than bombs.

(b) For attacking motor transport convoys from the air, a ground-level attack from astern has been found to be the best opening attack. When the convoy stops, attacks from the beam have best effect; in convoy attacks, surprise is necessary, and a dive from 13,000 feet or above usually attains it. Knowledge of the position, speed, and method of defense of the convoy is most valuable if an effective attack is to be planned.

(c) An attack was launched by three formations of three heavy bombers in vee, each flight attacking individually. The first flight kept station until just before the attack, when it formed into echelon, dropped bombs, and reformed into vee. No. 2 of this formation was shot down by flak.

The second flight repeated this same attack.

The third flight attacked in a line astern, numbers 2 and 3 being stepped up 500 feet, so as to catch up with the leader after the attack had been delivered. The aircraft overshoot the leader who found himself unable to catch up with them. He was attacked by an enemy fighter, both engines cut out, the pilot's harness caught in the control column, and the aircraft steadily lost height from 12,000 to 2,000 feet. The observer came forward to help the pilot and was hit in the head; the second pilot went to the rear turret with the wireless operator and found it on fire with the rear gunner badly injured, and dressed his wounds. Both engines picked up at 2,000 feet and the aircraft made for home.

Comment: The first two flights experienced no attack from fighters while in close formation. As soon as the leader of the third flight left the formation, his aircraft was attacked by a fighter. The crew of this aircraft showed excellent "crew discipline." It was evident that at no time during this rather hectic period was the day "considered lost." Every member of the crew had implicit faith in the others, thus overcoming seemingly insurmountable difficulties.

(d) It has been noted that an enemy reconnaissance plane drew a smoke trail around a camouflaged airbase and a few moments later the airbase was bombed and strafed. On another occasion 2 reconnaissance bombers drew a smoke trail some miles along a winding road, shortly afterwards 20 bombers followed these trails, 10 on either side, and dropped their bombs.

(e) Two favorite tricks of enemy aircraft on reconnaissance at low altitude are putting under-carriage down as if to land, and firing Very lights. If flak does not stop, another color is tried.

(f) A surprise attack was carried out by a single bomber, which closely followed enemy bombers home after a night raid. No warnings or plots were received of this aircraft. Its tactics were very successful in that the plots which would normally have been received from intercepting were masked by those of the enemy bombers.

(5) Miscellaneous

A large open formation of Ju-88's and Ju-87's carried out a dive-bombing attack in daylight from high level down to as low as 200 feet. They were escorted by Me-109's and C.R.-42's at 21,000 feet and 4,000 feet to protect them at the beginning and end of their dives. The attack ended with a small number of Do-215's carrying out high-level bombing attacks.

(6) Lessons Learned in the Middle East Campaign

The effect on morale of high-level attacks on airbases from over 15,000 feet is considered to have been much greater than the



special effect. The 100 and 200 lb of small bombs were used against dispersed aircraft. Low level attacks by fighters caused more casualties to enemy aircraft than any other form of attack. The best results were achieved against temporary airbases where there had been insufficient time to organize a proper defense.

#### K. Defensive Action Against Fighters

##### (1) Good Tactics

(a) Three fighters flying at 5,000 feet sighted a heavy bomber, closed to attack, and the enemy aircraft jettisoned its bombs into the sea. Repeated beam, quarter, and stern attacks were carried out by the three fighters. In all cases bullets were seen to enter the fuselage of the enemy aircraft, and on one occasion a flash was observed above the port engine. The enemy aircraft continued to fly and was finally seen to climb into a cloud bank and was lost. The enemy aircraft had taken violent evasive action, and on each occasion when the fighters were in a position to fire, the enemy aircraft put its nose up and maneuvered to give its rear gunner a good target. Return machine-gun fire was experienced at first, but toward the end this ceased and it is believed that the rear gunner was killed.

Comment: Enemy pilots have normally taken violent evasive action, but seldom do they appear to have shown sufficient confidence in their protection and their rear gunners to have made this use of them.

(b) Six heavy bombers were detailed to attack an enemy warship. Their policy was to maintain two flights in vee formation. Of one flight, one aircraft returned early with engine trouble, while the other two did not return at all. Of the remaining flight, No. 2 lost formation and was seen to be shot down by a fighter. The remaining two aircraft kept in tight formation and experienced, between them, a total of at least 21 separate attacks. The commanding aircraft was at station number three. The squadron gunnery leader was stationed in the astrodome and carried out the duties of Fire Controller for both aircraft. Because of his excellent controlling, inspection showed a total of only six bullet holes in his aircraft. It was not necessary to allocate fire to targets, for at no time did the enemy carry out a two-fold attack. He gave the necessary evasive action to be carried out, and then the command of execution. All the enemy aircraft were the same type of fighters. During these attacks, which lasted 14 minutes, the aircraft lost 7,500 feet in height, from 15,500 feet. During the engagement one enemy aircraft was damaged and appeared to be going down slowly under control. The first operator claimed a fighter fell away, nose down after having been fired at from 300 yards. The evasive action employed was to turn into the attacker. The commanding aircraft stepped up or down according to

the level of the attacker in relation to the formation. The enemy was using explosive bullets which produced a large bang and a red flash.

Comment: This is a good example of the importance of a good Fire Controller.

(c) Six light bombers flying at 100 feet in "box" formation of two sections in vee stepped down were attacked by two fighters. The formation dropped to sea level and the fighters dove to the same level. One fighter made a stern attack, opening fire at 500 to 600 yards range, and bullets were observed dropping short. The air gunners held their fire until 400 yards range was reached and then opened fire, hitting the port engine of the enemy aircraft. The enemy broke off and made for land with his port propeller just turning over and the engine smoking. The second fighter made a similar attack, opening fire at 500 to 600 yards and closing to 300 yards. This attack was repeated and then the enemy broke away to port, exposing its underside, which made a good target for air gunners. The bomber's evasive action consisted of gentle turns in box formation at sea level.

Comment: This is an excellent example of how good leadership and cohesion in a formation of bombers can make stern attacks extremely dangerous and uneconomical for enemy fighters.

##### (2) Day Tactics

For day bombing with a light bomber, the best formation was found to be "flights astern" stepped down. When attacked by fighters, the tightest possible formation was essential. If attacked from the beam, aircraft on the engaged side dropped slightly to allow cross-fire from aircraft on the disengaged side.

##### (3) Night Tactics

(a) A heavy long range bomber was harassed by an enemy aircraft which maintained an average distance of approximately 700 yards on the starboard side, but which periodically turned into attack with machine fire from the starboard quarter. These attacks were half-hearted. The rear gunner of the bomber expended about 300 rounds. Finally the pilot increased speed to 210 m.p.h. by diving slightly to port, and when the enemy was directly astern the pilot throttled back and reduced speed quickly to 110 m.p.h. The enemy was taken by surprise, and as he pulled up his nose at about 300 yards the rear gunner was presented with a good target. The enemy aircraft stalled and dove steeply towards the ground.

Comment: These tactics should nearly always be successful at night when closing speed is most difficult to estimate



accurately.

(b) On a clear moonlight night an attack was made on a heavy bomber from above on the right bow by a fighter firing cannon and tracer. The captain was about to turn to starboard to meet this attack when another enemy fighter was seen turning to attack from the left beam. Turning toward the second attack he brought his front guns to bear on the second aircraft and his rear guns on the first aircraft. The second attacker was apparently surprised by the action taken and passed underneath and ahead without firing. One of the enemy fighters attacked again from above the starboard bow about 1 minute later. Evasive action taken was a sharp turn to port. The enemy aircraft passed over the rear turret, firing cannon and tracer, and climbed steeply immediately after the attack. The rear gunner of the bomber fired a long burst at about 150 yards. The enemy aircraft stalled and fell away in flames. A heavy bomber then came in from the right beam at about 300 feet below. Two 3-second bursts of fire from the front gunner appeared to set fire to the fuselage of the enemy aircraft, which continued on its course and was not seen again.

A further attack by an enemy fighter from the right quarter was successfully evaded by a steep climbing turn to starboard. The next attack from above the right quarter was evaded by a turn to starboard followed by a steep dive from 11,000 feet to 1,500 feet. Two minutes later a fighter appeared on the starboard quarter heading as if for another attack. The gunners, on the captain's instructions, held their fire hoping to avoid giving away their position in case it had not already been located. This appeared to be effective for the enemy aircraft passed underneath from the starboard beam, about 300 feet below, and was not seen again.

(c) Two heavy bombers were flying together at approximately 3,000 feet, well out over the sea with no cloud cover available. They continued, hoping to regain cloud cover later on, and were intercepted by nine fighters. Attacks were delivered simultaneously from the beam, quarter, and stern by three and four aircraft at a time. They concentrated entirely on No. 2 of the bombers, and in the second attack the aircraft gun turrets were put out of action. Nine attacks were delivered in 8 minutes. During this time the bomber suffered damage to the port wing engine and the starboard outer engine stopped. In the meantime the rear and top turret gunners of the leading bomber, which received no damage, engaged the fighters at very close range (i.e. 25 to 300 yards) and succeeded in destroying one enemy aircraft, probably destroying two more, and seriously damaging another. The engagement was then broken off by the enemy and the bomber turned for base. The second bomber was forced to come down in the sea.

**Comment:** An excellent example of the effectiveness of fire control and mutual support.

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(d) In an encounter between a fighter and an enemy heavy bomber, the bomber adopted the ruse of switching on his navigation lights after the fighter had opened fire. This caused the fighter pilot to hold his fire, and the enemy bomber then opened up with a burst of fire and took evasive action.

**Comment:** This is a useful ruse which is apt to make the fighter pilot pause for further identification, and is worth trying whenever opportunity permits.

(e) Fighter pilots report that German aircraft, when attacked, have been known to emit a whitish-gray smoke resembling that caused by a hit on the engine.

(f) A heavy bomber intercepted after dusk, fired a red and blue three star pyrotechnic and turned away from the attacking aircraft. After dark the firing of Very light signals, or the use by enemy aircraft of navigation lights, or the upward and downward light is often disconcerting. It creates doubt in the mind of the attacking pilot as to the identity of the aircraft and demands thorough investigation, thus giving a chance for the enemy aircraft to slip away, and for the enemy rear gunner to obtain a shot.

#### (4) Evasive Tactics

(a) A B-26, when attacked by a fighter recently, went into a spin as an evasive measure.

(b) Italian heavy bombers, when attacked by fighters, go into a shallow dive, carefully maintaining close formation.

#### (5) Four Tactics

As the result of a combat between two heavy bombers and two fighters, in which one bomber was shot down, the following comments were made on the engagement by the units to which the bombers belonged:

(a) The bombers gave away their presence by flying for an unnecessarily long period within sight of enemy territory.

(b) They retained radio transmission silence after being discovered. There was no point in this, and the radio would have enabled them to maintain closer touch than they did.

(c) Their performance and maneuverability would have been improved if they had jettisoned their bombs.

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(d) They did not maintain close formation, and they steered a course with the sun behind them. Tight formation and good use of the sun would have strengthened their resistance.

(e) The aircraft which was shot down took such violent evasive action that the belly of the aircraft was exposed to attack and hits in the bomb compartment caused a fire.

(G) Summary

A recent summary of night combats between bombers and enemy aircraft concludes with the following advice:

Close tactical cooperation between captains and tail gunners will double the effectiveness of arcs of fire and deny suitable targets to enemy fixed guns. Thus, when this cooperation is effective, results are seldom lacking.

The necessity for maintaining an adequate lookout remains paramount.

Fighters, when working without scientific aid, should aim at an underneath approach. It appears that the enemy may be modifying his tactics in this direction.

Until they are satisfied as to their serviceability, gunners must not take off in turrets for whose maintenance they are not responsible.

h. Defensive Action against Land Defenses

(1) Evasive Action against Searchlights (see also p. 29)

(a) An aircraft glided through a searchlight belt from 17,000 feet to 13,000 feet with the throttles closed and was not discovered. No identification, friend or foe, was used. This tactic was repeated on return with equal success. Reports from other sorties state that because of atmospheric conditions, the searchlight belt was generally ineffective.

(b) Ten sorties acted under a pre-arranged plan, which was successful on 120 occasions. The plan was that I.F.F. was switched on when the beam was practically on the aircraft, the master light then started wavering, the I.F.F. was switched off, and the master light fell away. Not one aircraft was held by searchlights in the belt. Two aircraft reported I.F.F. inconclusive. Neither was caught in beams.

(c) In another section several pilots found that gliding through the main searchlight belt was successful. One aircraft glided

through each way at 15,000 feet to 25,000 feet at 100 m.p.h. minus 1/2 boost, coarse pitch, heading direction every 25 seconds, and was not held. Another aircraft glided 15,000 feet to 11,000 feet, minus 1 boost, coarse pitch, and also was successful.

Comment: These tactics appear still to be effective but must be used with discretion since the Germans are relying more and more on radio type location which does not depend on sound.

(d) Searchlights during night bombing attacks had considerable difficulty picking up German night bombers which, unlike the Italian bombers, took effective evading action. They usually approached in a long glide, dropped their bombs, and got away by de-synchronizing their engines and altering throttles setting continually.

(e) It has been found that when several aircraft are over a target at the same time, ground defenses are likely to concentrate on those aircraft which, by flying steadily rather than using a gliding approach, make prediction easier. Aircraft with engines throttled back, changing height and speed continually, are difficult to follow, and may often escape attention in such circumstances.

(f) At 10,000 feet an aircraft was caught in a very powerful cone of searchlights, whereupon the pilot released a photographic flash bomb and all the searchlights fell away. Evasive action was then taken and the aircraft was not picked up again. The flash bomb produces a brilliant flash of 2,000,000 candle power for one-tenth of a second. The effect on searchlight crews might be similar to that on a person photographed by flashlight. For some considerable time vision does not return to normal. As this flash bomb probably dropped 7,000 feet before exploding, such a powerful flash at 5,000 feet may have blinded the searchlight crews and made them lose the aircraft. In extreme emergency this procedure appears to be worth using when possible.

(g) In a night combat, an enemy aircraft picked up by searchlights turned away and returned immediately from another quarter burning navigation lights.

(h) Just before a heavy bomber released its bombs, it was caught in a cone of at least 10 searchlights. The pilot took every kind of evasive action without success, until at 1,500 feet the rear gunner was able to spray machine-gun fire at the searchlight battery with such accuracy that he extinguished first one and then all the searchlights and enabled the pilot to escape from a very hazardous position.

\* Propeller set in high pitch.



(ii) A night bomber pilot at 10,000 feet was suddenly picked up by searchlights and fired on by heavy and accurate flak. He released a flare and descended to 2,000 feet. The flak continued to fire at the descending plane.

#### MISCELLANEOUS PLANS

##### a. Torpedo Planes

###### (1) Defensive Action against Fighters

After dropping his torpedo, the rear gunner of a torpedo plane told the pilot that an enemy aircraft was straightening up under his tail. The pilot thereupon dropped the flaps 15 degrees and pulled the nose well up. This maneuver resulted in a very sharp breaking action and the fighter shot underneath and in front of the torpedo plane which was able then to reach the security of clouds in safety.

###### (2) Offensive Action against Shipping

(a) One method the Italians use for dropping torpedoes is to approach the target in a long, shallow dive, out of the sun, while enemy aircraft attract the attention of antiaircraft fire on the opposite side of the objective. Each attack is carried out by three aircraft flying in a wide vee. Each vee attempts to attack three consecutive ships. The leader chooses his target and the two supporting planes aim at adjacent ones. They are normally escorted by fighters which fly at from 10,000 to 15,000 feet. The torpedo planes themselves fly to their objective at 1,500 feet. The planes approach in a shallow dive, when the pilot pulls out and releases the torpedo at approximately 160 feet altitude and 500 to 600 yards from the ship. The pilots do not attempt to break away immediately after releasing the torpedo, but fly straight over the ship at top speed and arrive before the torpedo. A certain amount of latitude is permitted regarding tactics. After the release, in some cases, the pilots attempt to carry out a steep turn when directly over the ship, flying off roughly along its axis. In this way they do not expose themselves to the full force of the antiaircraft fire. An approach to within 500 yards of a modern warship is extremely dangerous, but it is felt that if the torpedoes are released from much greater range the high percentage of misses would make the operation not worthwhile. The extremely close range eliminates the necessity for making precise calculations, and in some cases the torpedo sight is not used but the aircraft is simply aimed 40 to 50 yards in front of the ship. Although the enemy aircraft are equipped with two external torpedo racks only one is used for using two racks does not permit enough maneuverability to allow necessary evasive action to be taken. The Italians believe that one of their torpedoes is sufficiently powerful to sink the average merchant ship.

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Comment: These tactics apply only to the torpedo plane which is not very maneuverable and consequently presents a very large target when flying over the attacked ship. The range at which these torpedoes are dropped is exaggerated, as the experience of the fleet proves the normal distance of release is far in excess of that quoted.

(b) Five and one-half squadrons of fighters took off and escorted three torpedo-carrying planes to attack a motor vessel. One fighter squadron went ahead in order to arrive 5 minutes ahead of the torpedo planes, and to attack the escorting antiaircraft ships. In doing so they experienced very intensive flak fire. The fighter attack, however, was very successful, for when the main attacking force arrived, only slight antiaircraft fire was received. Three torpedoes were dropped, and although no hits were observed, one torpedo exploded 100 yards short of the target, crippling the ship. No enemy aircraft were encountered, and all but one aircraft returned safely.

Comment: This was a well-executed attack by the fighters which contributed greatly to the safe return of the main attacking force.

##### b. Flying Boats

###### (1) Offensive against Bombers

(a) A reconnaissance flying boat attacked four enemy heavy bombers in a slight dive from above the enemy aircraft. The front gunner opened fire at about 350 yards, and the captain turned parallel to the enemy aircraft and brought his blister guns to bear. The flying boat used the above tactics on each aircraft as it made its "run-up," sometimes using the port and at other times the starboard blister guns depending upon the position of the enemy aircraft. Closing range to 200 to 250 yards, the captain states that he never allowed himself to get into such a position as to allow the enemy aircraft to bring their forward cannon or after gun in the gondola to bear. No aircraft was detached to deal with the flying boat but evasive tactics were employed. All enemy fire encountered came from the amidship exposed gun. Enemy aircraft attacked singly except once, when they attacked in line astern formation. The flying boat's tactics were to make feint attacks with the front gun, with the intention of concentrating on the last aircraft of the formation with the blister gun.

Comment: These were remarkably successful tactics and fire control by the flying boat; a very fine effort. It was later reported that at least two of the bombers had crashed in Portugal, probably as a result of this combat.

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(b) A reconnaissance flying boat on patrol with a convoy saw two enemy heavy bombers. The weather was fine with some low stratus clouds at 12,000 feet. The patrolling plane was flying at 1,200 feet and the bombers were at 700 feet or lower. The bombers were not attacking the convoy, but were circling around it, probably signalling U-boats which were known to be in the vicinity. The patrol plane came down to 400 or 500 feet and placed itself in position between the bombers and the convoy. The enemy aircraft kept their distance and made no attempt to attack, but went down to 50 or 100 feet. The patrol closed range whenever possible remaining inside the circle of the enemy bombers and keeping an eye on both enemy aircraft to avoid surprises. An attempt was made to close each time the enemy aircraft concerned made a turn and the patrol lost height to gain speed. On these occasions, fire was opened at whichever aircraft was around. Tracer appeared to enter the enemy aircraft on several occasions at ranges varying from 350 to 400 yards and on one occasion, 250 yards. The patrol expended 1140 rounds. Return fire was experienced from both aircraft but it was not intense. The patrol was hit by machine-gun bullets but damage was very slight to floats and port mainplane. Bullets made clean holes and did not tear. Some fire appeared to come from a position near the tail of the bombers or from the top dorsal amidship position. The combat lasted for approximately 1 1/2 hours. The tactics of the enemy seemed to be designed to keep the air escort busy with as little danger to themselves as possible. They did not attack the convoy or the patrol plane.

(c) A flying boat pilot over the Mediterranean observed an enemy reconnaissance plane 2 miles ahead. The flying boat pilot tried to usher the enemy toward fighter patrols, but the enemy became suspicious and turned to starboard to break away to westward. The flying boat also turned to starboard and successfully headed off the enemy who then turned about and headed north. The two aircraft were then on parallel courses for approximately 1 minute, when suddenly the enemy aircraft turned steeply to starboard and the flying boat pilot immediately turned into him, diving toward the water. The front gunner was thus able to deliver a long burst which effectively silenced the dorsal gun. The flying boat then broke away beneath the enemy and fired upon him from port amidships and tail turret. The enemy straightened out astern and gave a chance for bursts from starboard amidships and tail turret and then came around to starboard. The flying boat turned to starboard inside the enemy giving all guns short bursts. The enemy then broke away and headed north, pursued by the flying boat. The front gunner fired short bursts at about 600 yards, and the enemy replied from the tail turret, but all his shots fell short. As the flying boat increased its speed to 170 knots by brief use of over-ride, the enemy came within range and turned very steeply to starboard. The flying boat turned to starboard within the enemy's circle giving front and starboard amidships further opportunities.

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but the enemy tightened turn and thus came in on the starboard side giving tail and starboard amidships short bursts. While turning to starboard within the flying boat, the enemy suddenly turned to port, coming within 50 feet across the flying boat's bow giving the front turret a final burst. As the flying boat was recovering from a vertical bank to starboard the bomber carried on its break-away to the south, speeded on its way by port and amidships final bursts and headed flat out northward. The enemy was not pursued.

## (2) Defensive Action against Bombers

A reconnaissance flying boat was attacked by two enemy heavy bombers which appeared on the port bow, flying in cohesion on a reciprocal course to the flying boat. The nearest aircraft opened fire with its port guns and then the two planes turned and attacked individually from astern. The leading bomber closed to 250 yards, firing continually, while the flying boat lost height gradually down to 100 feet and opened fire with rear and dorsal guns together at 300 yards range. The enemy broke away upwards, allowing all the rear and dorsal guns of the flying boat to fire together with much effect that the bomber climbed to 600 feet and then dove straight into the sea. Meanwhile the second bomber closed to 400 yards dead astern, altered course about 10 degrees to starboard and then broke away to starboard, at 500 yards. During this phase no fire was exchanged, but some of the fire directed at the first bomber was thought to have hit the second one, as it was smoking considerably and losing height as it broke away. Fire control in the astro dome was used in the flying boat during this combat and the aircraft sustained no hits.

Comment: This is a good example of the value of using fire control in an aircraft of this size, and of the folly of two aircraft in line astern carrying out stern attacks against this ship.

## 5. GENERAL TACTICAL TOPICS

### a. German Tactics and Technique

#### (1) General

(a) Air forces cooperate closely with land forces and in particular with motorized and armored units.

(b) German air forces perform reconnaissance not only of enemy dispositions but also of their own.

(c) On the first day of attack after opening of hostilities aviation concentrates on enemy aviation on the ground and in the air.

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(d) On the first 3 days of attack aviation concentrates on main cities, airbases, railroads and troops.

(e) Aviation cooperates with the ground "Destroying Battalion", which is designed to frustrate organization of enemy paratroops (the "Destroying Battalion" is a special unit of the fighting forces).

(f) Columns fly with intervals of from 160 to 980 feet (50 to 300 meters).

(g) In the early stages of attack only small groups of planes are used; later, depending upon the size of objectives, larger groups may be used. In diving operations only one or two peel off at a time from a larger formation while the rest circle the objective.

(h) Road bombing is performed from altitudes of from 3,000 to 5,500 feet. After the release of bombs the plane descends to strafe troops and materiel. Germans concentrate on either side of a road and not at the center.

(i) The same bombing tactics are used during night and day.

(j) Single planes are used frequently over large areas for harassing purposes.

(k) Me-109's are used in groups of 60 at a time.

(l) Good communication between planes and tanks is necessary to avoid possibility of mistake in identification of aircraft.

(m) Two German planes will attack a lone enemy plane from above and below simultaneously and open fire from a distance of 25 to 30 meters.

(n) The average age of fighter pilots is reputedly 17 to 18, and the average age of officers is 20 to 25.

(o) Bombers dive to within 160 to 225 feet from the ground.

(p) Bombing formations are protected by fighters in a ratio of one to one.

(q) A lone German pursuit will follow a lone enemy bomber just out of range for a long distance and for harassing effect, and just prior to the time when the enemy plane feels itself in safe territory the German will attack the tired and worried pilot.

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(r) After releasing bombs, vertical dive-bombers escape to safety by hedgehopping.

(s) In flying in circular formation each plane is charged with the security of the outside flank of the preceding plane.

(t) German airplanes can lay smoke screens of various colors, including grey and dark red, for self-protection.

(u) Formations of three German aircraft were sighted on three different nights flying in tight flight vee, in straggling line astern, and in echelon.

### (2) Routing of Enemy Night Bombers

The following points of interest appear from documents retrieved from enemy aircraft:

(a) Germans make a practice of sending successive aircraft off on alternate courses and at varying heights.

(b) They make use of a specified target approach point, presumably to insure the approach's being made from a certain direction. The track prepared by the crew of a Ju-88 on the night of May 8, 1941 started at Soesterberg, and continued via Texel to make a landfall at Scarborough. From this landfall the track continued direct to Liverpool (the objective), and then turned southeast to a point on the railway line midway between Chester and Warrington. The track ran from this point direct to the beacon at Texel.

### (3) German Minelaying

During the early part of the war, aerial mines were invariably laid by German aircraft from low altitudes. Recent reports, however, indicate that mines are now dropped from as high as 20,000 feet, in areas where great accuracy is not of vital importance.

#### b. Paratroops

(1) During the first 3 days of the attack on the western front, there were 40 descents of parachute groups with from 3 to 200 parachutists per group (not over 10 of these groups, however, came to 200).

(2) On diversionist missions the first mission is to disperse and disappear.

(3) Descents are usually made at twilight and at dawn.

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(4) Paratroops are usually dropped from about 600 feet.

c. Searchlights

Searchlights are used as an aid to interceptor fighters or to confuse bombers:

- (1) By shining searchlights horizontally through ground haze, preventing bombers from locating their targets readily;
- (2) By "ringing" a bomber with about twelve searchlights to assist fighters in finding it;
- (3) By forming a lane of searchlights showing the track of bomber to fighters or flak;
- (4) By laying searchlights along the ground in the direction the aircraft was heading and then raising them to the vertical position as the aircraft passes overhead;
- (5) By focusing searchlights along both sides of a bomber's route and raising beams to about 45 degrees, in order to indicate the track of the bomber;
- (6) By concentrating searchlights in about 10 groups of 5 to 10 lights each and holding aircraft in the lights and passing it from group to group.
- (7) By illuminating enemy aircraft at night through haze or slight cloud in order to distort or cause shadow instead of illuminating clearly. The aircraft will be seen more clearly silhouetted from above, aiding attack from above.

d. German Use of Flares

Flares were dropped in pairs from above the bombers. Four pairs were dropped in a straight line, about a half mile apart, and then a second lot were dropped parallel to the first, about half a mile distant. No noticeable increase in flak or searchlights was seen, and no fighters appeared, but it was considered that the flares were definitely used to illuminate the bombers.

e. Italian Ground Fire

The tactics used by Italian troops against aircraft are to take cover and remain concealed even when the aircraft machine-guns their likely hiding places. The aircraft then frequently returns to examine the area, flying low because of the nature of the country. During this run anti-aircraft fire is opened by pre-arranged plan, at

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the signal of a searchlight. Each of the flares is pumped and it is frequently well coordinated and accurate.

f. Smoke Screen

The enemy is still very much in the experimental stage regarding the use of smoke screens, and reports of their effectiveness vary. Observation of bombing results, however, is often rendered impossible. In coastal districts, unless the screen covers a very large area, it is generally possible, by observing the coastline and picking up good pin points near the edge of the screen, to make a timed run-up to attack the hidden target. On inland objectives where smoke screens may mingle with industrial haze the attack problem is more difficult. Crews should endeavor first to pick up the source of the smoke by approaching up moon. In this manner, they can spot the sharpest edge of the screen and then identify some landmark from which to track up to the known position of the target.

g. Decoys

In addition to dummy airdromes, flare paths, and fires the following new types of dummy installations have been reported:

- (1) Lines of flickering lights giving the impression of sticks of incendiaries;
- (2) Dummy fires with intermittent explosions amongst them;
- (3) A combination of a dummy fire with sticks of incendiaries burning across it.

h. Map Reading at Night

It has been often found difficult to identify landmarks along the coast at night because the state of the tide alters the shape of the coastline. A coastline is mapped at high tide and may appear completely different when the tide goes out. Navigators should find out the state of the tide before taking off.

i. Night Interception

Enemy aircraft have been seen silhouetted against the sun, haze, high cloud, northern lights and against the mirror-like surface of the sea or reflection of the moon in the sea.

j. Effect of Wind on Sound Locators

Appreciable decreases in the volume and accuracy of flak was noticed one night when there was a high wind, which has an adverse

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effect on sound locators. It is reported on this occasion that the aircraft were only engaged when held by searchlights. This is further evidence that sound locators are still being used in considerable numbers, and it is useful for crews to remember this when operating in a strong wind.

#### k. Bear Bottles versus Searchlights

Several pilots state that by dropping beer bottles near searchlight and anti-aircraft concentrations they have succeeded in quieting the flak and shutting off the searchlights. Apparently an uncorked bottle, when dropped from an aircraft, sometimes makes an unusual and unnatural wailing sound.

#### l. Concerning Whales

Experience has shown that the behavior of some species of whales, especially the killer whale, resembles that of U-boats, and that whales have collected quite a number of antisubmarine bombs. A whale's back has several times been mistaken for a U-boat surfacing on her side or upside down before sinking. Whales spouting have been mistaken for U-boats blowing their tanks, and a projecting fin, for a periscope. In addition oil rises to the surface from whales that have been depth-charged or bombed, and a large specimen has been known to produce as much as 30 to 40 tons of oil. Normally, whales rise to the surface and spout for 8 or 9 minutes. Sleeping whales remain motionless with nose and fin above water and float like a boat drifting and wallowing in the swell.

#### m. German Camouflage

(1) German fighters painted very dark green on top, very light gray under the fuselage, with yellow wing tips and nose, have been very difficult to detect, for they blend well with the sea.

(2) Enemy markings are sometimes surrounded by distinct circles, giving a first impression of being British.

(3) Many of the Me-109's are camouflaged a dark red and black and have black crosses in red circles.

#### n. Miscellaneous Notes on German Aircraft

##### (1) Me-109

(a) Evidence was found on a crashed Me-109 that an extra gasoline tank of 90 gallons and extra oil tank of 2 gallons can be carried. These will give the Me-109 an additional 350 miles of range. The normal range of the Me-109 is 406 miles.

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#### (b) Possible Alternative Armament

A sergeant pilot taking part in offensive operations was attacked by a Me-109 which was emitting puffs from four points on the wings.

#### (2) He-111

##### (a) Exhaust Pipes

A night fighter pilot reports that a Heinkel-111 which he intercepted had exhaust pipes above the mainplanes, making it much more difficult to spot from below.

##### (b) Field of Fire

A captured wireless operator from a He-111 stated that he was shot down by a fighter which attacked from dead astern, and that he was unable to return fire for fear of hitting his own rudder.

##### (c) New Armament

An He-111 brought down was found to be equipped with an unusual amount of defensive armament, totalling eight machine guns. The guns were distributed as follows:

- 1 in nose ring;
- 1 in nose just outside movable nose ring at one o'clock, mounted in gimbal;
- 1 rear upper;
- 2 in lower gondola;
- 2 lateral;
- 1 M.G. 17 in extreme tail with remote control electric trigger release and 400 rounds of ammunition.

Another report states that a He-111 had:

A fixed rear firing machine gun operated by the upper rear gunner and/or a tall tube through which grenades are projected, fuzed to burst 60 to 70 feet behind the tail.

He-111 and F.W.-200 aircraft specializing in shipping attacks are being fitted with cannon in the forward and rear lower gun positions.

#### (3) Do-17

A prisoner of war has stated that if the port engine of

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the Do-17 fails it is very difficult to maintain height. If, however, the starboard engine fails, height can be maintained.

(4) Ju-88

(a) Armor and Armament

A Ju-88 night fighter which was shot down had the following equipment:

Armament

Nose--3 x 7.9 mm.)  
1 x 15 mm.) fixed and firing forward

Upper rear--1 x 7.9 mm.)

Armor

A bulkhead of 11-mm. armor plate fitted in the nose to protect the pilot and ammunition containers;

An armored pilot's-seat and bullet-proof windscreen.

There is a possibility of a remote control tail gun in the Ju-88.

(b) Jettisoning of Bomb-Carriers

It has been ascertained that the external bomb carriers in certain Ju-88 aircraft are now being fitted with a jettison device. This device jettisons the complete carrier and fairing, as well as the bomb, if it is still in place. It consists of electrically fired explosive charges which cut the holding bolts. It is suggested that the device is used to:

1. Jettison unnecessary weight and reduce head resistance in the event of the failure of one engine;
2. Effect a quicker jettison of bombs and carriers if intercepted;
3. Get rid of a bomb if it is hung up.

(5) Focke-Wulf Kurier

A prisoner of war has reported that rockets are used to shorten the take-off run on the "Kurier."

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The rockets are said to be pear-shaped about 39 inches long and 24 inches in diameter and are slung underneath each wing. They are fired electrically. On a signal from the pilot, the observer presses a button about half-way through the take-off run. Each rocket gives power equivalent to one engine, and they burn for about a kilometer, by which time the aircraft has reached a height of 300 feet.

The spent rockets are jettisoned in a field near the airdrome by means of a parachute which is fitted to the nose of the rocket.

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G-2/2657-220: No. 531 M.I.D., W.D. 11 A.M., February 14, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: Heavy artillery dueling and aggressive infantry actions by the enemy are reported. In some areas, the enemy is entrenching. From Mindanao and the Visayans, there are no changes to report. Hawaii: No reports of enemy activity. Singapore: The area in British hands continues to shrink after very severe fighting in all sectors. The major part of the city's water supply is probably in enemy hands. Japanese air action increases in scale. Burma: Japanese pressure toward Rangoon increases with a crossing of the Salween near Paan and a general reinforcement of enemy columns. Australasia: Japanese parachute troops were reported dropped in the vicinity of the airdrome at Palembang, south Sumatra, on February 13. No important changes reported.

II. Eastern Theater.

No air activity of importance has been reported. Severe fighting continues along the general front. The relief of Leningrad as reported by the press has not been confirmed. (A situation map will not be issued this date).

III. Western Theater.

London: The R.A.F. bombed Cologne and Aachen in Western Germany, and the docks at the German-occupied city of LeHavre, on February 13.

IV. Middle Eastern Theater.

Ground: No important changes reported.

Air: Rome: The Italian High Command reported that Axis aircraft had renewed the bombing of Malta on February 13. Other Axis aircraft attacked objectives in the Tobruk area yesterday. The High Command admitted that British aircraft had carried out raids yesterday on Greece and Sicily.

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G-2/2657-220: No. 632 M.I.D., W.D. 11:00 A.M., February 15, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: Only local activity reported on all fronts. Enemy is apparently re-grouping his forces after previous repulses and defeats. Hawaii: No activity reported. Singapore: Japanese claim a British request for terms of surrender. British say only small bodies of troops have entered the city and that the water supply is still controlled by them. Dive bombers sank a 20,000 ton Allied transport seven miles from Singapore. Japanese claim to have occupied the fortress of Blakang Mati, south of the island. Associated Press flash from Tokyo says Japanese Army Headquarters announce British accept Singapore surrender terms. (8:26 A.M., February 15) Sumatra: Dutch admit that enemy landings from transports are reinforcing parachutists in the Palembang area. Demolition of oil installations is in progress at Palembang. Press reports Australian troops arriving in the Netherlands East Indies, but mentions no numbers or locations. Burma: Heavy fighting in the Martaban area is reported; no further details given. West Coast: Situation unchanged.

II. Eastern Theater.

Fighting is reported at various points along the front, with no changes indicated officially. The Russian press reports continued successes near Toropets and Nezidovo. Russian pressure continues south of Kharkov; no specific locations given.

III. Western Theater.

No land activity reported.

Air: The British Air Ministry announced that the R.A.F. bombed Mannheim and other Rhineland points as well as docks at Le Havre, Dunkerque and Ostend.

IV. Middle Eastern Theater.

Ground: General ground situation remains unchanged. Only minor engagements by patrols reported by press.

Air: The Italian High Command announced that German planes shot down five Curtiss fighters in the North African Theater, had bombed the British naval base at Tobruk, and started large fires at Malta. Axis air forces are increasing the intensity of aerial bombardment against Malta. R.A.F. and Axis air forces in North Africa are concentrating main effort on supply lines.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE  
Monday, February 16, 1942.

Press Service  
No. 30-33

The Treasury Department announced today the vesting in the Secretary of the Treasury of 97 percent of the outstanding shares of General Aniline and Film Corporation of Delaware. In the judgment of the Secretary of the Treasury the real interest in these shares is German.

The shares seized were registered in the names of I. G. Chemie, Osmon Aktiengesellschaft, Maatschappij voor Industrie en Handelsbelangen, Chemo Maatschappij voor Chemische Ondernemingen, Eidgenossische Bank, and two individuals, the late Geheimrat Professor Dr. Carl Bosch, former chairman of the Board of the German Dye Trust and Geheimrat Dr. Hermann Schmitz, present chairman of the Board of the German Dye Trust.

The purpose of the Treasury Department in vesting these shares was to carry forward recent steps to Americanize the company and better utilize the productive facilities of the company in the war effort. General Aniline and Film Corporation employs 8,000 persons, does about 60 million dollars of business annually and manufactures many products needed in the war effort.

Today's action also is intended to protect the investment of the American bondholders of General Aniline and Film Corporation. The Secretary of the Treasury disclosed that while over ninety-five percent of the common and preferred stock of the Corporation was foreign owned, yet approximately ninety-five percent of the outstanding bonds and debentures of the Corporation are held by the American public. Outstanding debentures approximate \$18,000,000 and are guaranteed by the German I. G. Farben Company.

In announcing the vesting, the Treasury Department stated specifically that the question of ultimate disposition of the property sequestered is being left open and that claims may be filed with the Secretary of the Treasury.

Regulations providing an orderly determination of such claims have also been issued today.

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VESTING ORDER PURSUANT TO SECTION 5(b) OF THE TRADING WITH THE ENEMY ACT, AS AMENDED.

I, HENRY MORGENTHAU, JR., Secretary of the Treasury, acting under and by virtue of the authority vested in me by the President pursuant to section 5(b) of the Act of October 6, 1917, as amended by section 301 of the First War Powers Act, 1941, finding after investigation that the following shares of the stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, are the property of nationals of a foreign country designated in Executive Order No. 8389, as amended, as defined therein, and that the action herein taken is in the public interest, do hereby order and declare that such shares including all interest therein are hereby vested in the Secretary of the Treasury to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States:

<u>Certificate Number</u>	<u>Number of shares</u>	<u>Class of shares</u>	<u>Registered in the name of</u>
027	1,500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.



022	500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany
023	1,500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
029	500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
0656	20,000	A	Osmon Aktiengesellschaft, Schaffhausen, Switzerland
0657	10,000	A	
0658	10,000	A	
0659	10,000	A	
0660	5,000	A	
0661	5,000	A	
0662	5,000	A	
0663	500	A	
0664	500	A	
0665	500	A	
0720	132	A	
022	300,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
187	100	A	
061	50	A	
065	90	A	
092	726	A	
095	500	A	
0568	10,000	A	
0569	10,000	A	
0570	10,000	A	
0571	10,000	A	
0572	10,000	A	
0573	10,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
0574	5,000	A	
0575	5,000	A	
0576	5,000	A	
0577	5,000	A	
0578	5,000	A	
0579	1,000	A	
0580	1,000	A	
0581	1,000	A	
0582	350	A	
3013	650,000	B	L.D. Pickering & Company in custody for N. V. Maatschappij voor Industrie en Handelsbelangen, Amsterdam, The Netherlands

32	100,000	B)	N.V. Maatschappij voor Industrie en Handels- belangen, Amsterdam, The Nether- lands
33	100,000	B)	
34	100,000	B)	
1	400,000	B)	Chemo Maatschappij voor Chemische Ondernehmungen, Amsterdam, The Nether- lands
20	200,000	B)	
4	500,000	B	Banque Federale (Eidgenossische Bank, A.G.) Zurich, Switzerland

Such property and any proceeds thereof shall be held in a special account pending further determination of the Secretary of the Treasury. This shall not be deemed to limit the power of the Secretary of the Treasury to return such property or the proceeds thereof, or to indicate that compensation will not be paid in lieu thereof, if and when it should be determined that such return or compensation should be made.


Any person not a national of a foreign country designated in Executive Order No. 8389, as amended, asserting any interest in said shares of stock or any party asserting any claim as a result of this Order may file with the Secretary of the Treasury a notice of his claim, together with a request for hearing thereon, on Form TFVP-1 within one year of the date of this Order,

- 4 -

or within such further time as may be allowed by the Secretary of the Treasury.

This Order shall be published in the Federal Register.

By direction of the President:



SECRETARY OF THE TREASURY.

February 16, 1942.



Title 31 - Money and Finance: Treasury

Chapter I - Monetary Offices, Department of the Treasury

Part 141 - Regulations relating to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended

TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942.

REGULATIONS RELATIVE TO PROPERTY VESTED IN  
THE SECRETARY OF THE TREASURY PURSUANT TO  
SECTION 5(b) OF THE TRADING WITH THE ENEMY  
ACT, AS AMENDED.\*

SECTION 141.1 Authority for regulations. These regulations are prescribed and issued by virtue of the authority vested in the Secretary of the Treasury by the President pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941.

SECTION 141.2 Receipt and disposition of claims. The following procedure is hereby established for the receipt and disposition of claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941:

(a) Claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, shall be filed with the Secretary of the Treasury on Form TFVP-1 in sextuplicate. Such claims shall be filed within such time, after the vesting in the Secretary of the Treasury of the property to which they relate, as the Secretary shall prescribe. Form TFVP-1 may be obtained from the Secretary of the Treasury, Washington, D. C. The original of each claim shall be executed under oath before an officer authorized to administer oaths, or if executed outside of the United States, before a diplomatic or consular officer of the United States.

(b) There shall be a committee to be known as the Vested Property Claims Committee, to be composed of three members designated by the

\* Part 141; - Sec. 5(b), 40 Stat. 445 and 966; Sec. 2, 40 Stat. 1; 54 Stat. 179; Public No. 364, 77th Congress.

Secretary of the Treasury. The members of the Committee shall designate <sup>140</sup> one of their number to be Chairman. The Committee is empowered to hear claims respecting property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, in accordance with rules and procedures to be formulated by the Committee. The Committee shall have all powers necessary to carry out its functions, including the power to call witnesses and to compel the production of books of accounts, records, contracts, memoranda, and other papers.

(c) The Secretary of the Treasury shall transmit to the Committee claims relating to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended.

(d) Appropriate notice of hearing shall be given by the Committee at least 10 days before the time set for the hearing. This requirement of notice may be waived by any claimant.

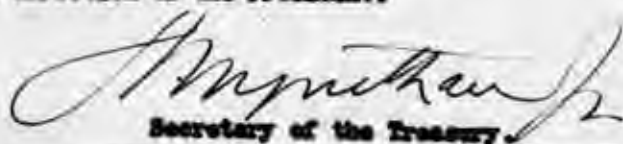
(e) Claimants and the Secretary of the Treasury shall be entitled to representation by counsel, or otherwise, before the Committee.

(f) The Committee shall have a seal which shall be affixed to all exemplifications of the records and such other documents, orders, or notices as the Committee may determine.

(g) A complete record, including a transcript of the testimony, shall be made of any hearing before the Committee. The Committee shall transmit the record, including its findings and recommendations, to the Secretary of the Treasury.

(h) The Secretary of the Treasury, after the examination of the record, will issue a decision and will give appropriate notice of the decision rendered. The Secretary of the Treasury will take appropriate action to effectuate any decision so rendered.

By direction of the President:

  
Secretary of the Treasury.



TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942

NOTICE AND DEMAND

Bankers Trust Company,  
16 Wall Street,  
New York, New York.

There is attached hereto and made a part hereof a copy of an Order dated February 16, 1942, issued by the Secretary of the Treasury, vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Aniline and Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

You are hereby directed to deliver forthwith to the Secretary of the Treasury all certificates or other evidences of ownership of any of the shares referred to in said Order, which are in your possession, control or custody or in the possession, control or custody of any person acting on your behalf.

You are hereby prohibited from exercising any right, power or privilege with respect to such shares or in engaging in any transaction of any nature whatsoever involving such shares or any interest therein, except as authorized by the Secretary of the Treasury.

By direction of the President:

  
Secretary of the Treasury.



Treasury Department  
Office of the Secretary  
February 16, 1942

NOTICE AND DEMAND

L. D. Pickering & Company,  
40 Wall Street,  
New York, New York.

There is attached hereto and made a part hereof a copy of an Order dated February 16, 1942, issued by the Secretary of the Treasury, vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

You are hereby directed to deliver forthwith to the Secretary of the Treasury all certificates or other evidences of ownership of any of the shares referred to in said Order, which are in your possession, control or custody or in the possession, control or custody of any person acting on your behalf.

You are hereby prohibited from exercising any right, power or privilege with respect to such shares or from engaging in any transaction of any nature whatsoever involving such shares or any interest therein, except as authorized by the Secretary of the Treasury.

By direction of the President:  
*W. M. C. Thompson*  
Secretary Regraded Unclassified

Service of the within notice accepted this \_\_\_\_\_  
of \_\_\_\_\_, 1942.

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss.

\_\_\_\_\_ being duly sworn says  
he served the within notice on the within named by delivering a  
duplicate original thereof to \_\_\_\_\_, representing  
the within named, at \_\_\_\_\_ Street, in the city  
of \_\_\_\_\_ District of \_\_\_\_\_, this \_\_\_\_\_ day  
of \_\_\_\_\_, 1942.

Sworn to and subscribed before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

\_\_\_\_\_

TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942

NOTICE AND DEMAND FOR REISSUE

General Aniline & Film Corporation,  
230 Park Avenue, New York, New York.

There is attached hereto and made a part hereof a copy of an order dated February 16, 1942, issued by the Secretary of the Treasury, vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

You are hereby directed to transfer upon your books the shares of stock referred to in said order, including any right, title or interest therein, into the name of the Secretary of the Treasury of the United States of America.

You are further directed to issue a new certificate or certificates, with respect to the shares of stock referred to in said order, in the name of the Secretary of the Treasury of the United States of America in accordance with this demand.

You are further directed to nullify, cancel and void the former registration on your books of the shares of stock referred to in the order and to nullify, cancel and void any certificate representing any of such shares which may be delivered to you.

You are further directed to furnish a copy of this notice and demand to the registrar and/or transfer agent of the shares of stock with respect to which this notice and demand is made.

You are further directed that within ten days from the service of this notice you report to me any and all acts which you have done, or omitted to do, pursuant to the requirements of the order and this notice and demand.

By direction of the President:

*Wm. H. Taft*  
Secretary of the Treasury.

Attachments

Regraded Unclassified

Service of the within demand and notice accepted  
this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

By \_\_\_\_\_

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss.

\_\_\_\_\_ being duly sworn says  
that he served the within demand and notice on the  
within named party at the office thereof at  
\_\_\_\_\_ Street in the city of \_\_\_\_\_,  
State of \_\_\_\_\_, this \_\_\_\_\_ day of  
\_\_\_\_\_, 1942, by delivering a duplicate  
original thereof to \_\_\_\_\_, a  
\_\_\_\_\_ of the said corporation.

Sworn to and subscribed before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1942.



Service of the within demand and notice accepted this

day of \_\_\_\_\_, 1942.

By \_\_\_\_\_

County of \_\_\_\_\_

State of \_\_\_\_\_

ss.

being duly sworn says

that he served the within demand and notice on the within named party at the office thereof at \_\_\_\_\_ Street

in the city of \_\_\_\_\_, state of \_\_\_\_\_

this \_\_\_\_\_ day of \_\_\_\_\_, 1942, by delivering

a duplicate original thereof to \_\_\_\_\_

of the said corporation.

Signed and subscribed before me

this \_\_\_\_\_ day of \_\_\_\_\_

1942.

TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942

NOTICE

Amsterdamsche Bank, Amsterdam, The Netherlands,  
and all persons whom such Bank represents or  
acts for, including Hollandische Koopmans Bank,  
Curacao, D. W. I.

There is attached hereto and made a part hereof a copy of an  
order dated February 16, 1942, issued by the Secretary of the  
Treasury vesting all right, title and interest of whatsoever nature  
in certain shares of stock of the General Aniline & Film Corporation,  
a corporation organized under the laws of the State of Delaware, in  
the Secretary of the Treasury, to be held, used, administered,  
liquidated, sold or otherwise dealt with in the interest of and for  
the benefit of the United States.

You are hereby prohibited from exercising any right, power or  
privilege with respect to such shares or from engaging in any trans-  
action of any nature whatsoever involving such shares or any interest  
therein.

By direction of the President:

*John M. Nathan*

Secretary of the Treasury.

Attachment



DUPLICATE ORIGINAL

THEASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942.

NOTICE

International Gesellschaft für Chemische Unternehmungen  
Aktiengesellschaft, Basel, Switzerland;  
Omnio Aktiengesellschaft, Schaffhausen, Switzerland;  
N. V. Maatschappij voor Industrie en Handelsbelangen,  
Amsterdam, The Netherlands;  
Omnio Maatschappij voor Chemische Ondernemingen,  
Amsterdam, The Netherlands;  
Banque Federale, Zurich, Switzerland.  
(Eidgenossische Bank, A. G.)

There is attached hereto and made a part hereof a copy of an order dated February 16, 1942, issued by the Secretary of the Treasury vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

You are hereby prohibited from exercising any right, power or privilege with respect to such shares or from engaging in any transaction of any nature whatsoever involving such shares or any interest therein.

By direction of the President:

Attachment

*Wm. H. Thompson*  
Secretary of the Treasury.

Service of the within notice and demand for reissue accepted

this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

By \_\_\_\_\_

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss.

\_\_\_\_\_ being duly sworn says he served the within notice and demand for reissue on the within named General Aniline & Film Corporation at the office thereof at \_\_\_\_\_ Avenue, in the city of \_\_\_\_\_, state of \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 1942, by delivering a duplicate original thereof to \_\_\_\_\_, a \_\_\_\_\_ of said corporation.

Sworn to and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

Service of the within notice accepted this \_\_\_\_\_ day  
of \_\_\_\_\_, 1942.

\_\_\_\_\_  
By \_\_\_\_\_

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss.

\_\_\_\_\_ being duly sworn says he  
served the within notice on the within named by serving a duplicate  
original thereof on \_\_\_\_\_ representing the  
within named, at \_\_\_\_\_ Street in the city  
of \_\_\_\_\_, state of \_\_\_\_\_, this \_\_\_\_\_ day  
of \_\_\_\_\_, 1942.

Sworn to and subscribed before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

FEB 16 1947

My dear Mr. Minister:

There is enclosed for your information a copy of an order dated February 16, 1942, issued by the Secretary of the Treasury vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States. There are also enclosed copies of certain notices in connection therewith.

Sincerely,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

Dr. Alexander Loudon

Minister of the Netherlands

Washington, D. C.

Enclosures

9/10  
2/23/42

10/15 E-174



VESTING ORDER PURSUANT TO SECTION  
5(b) OF THE TRADING WITH THE ENEMY  
ACT, AS AMENDED.

I, HENRY MORGENTHAU, JR., Secretary of the Treasury, acting under and by virtue of the authority vested in me by the President pursuant to section 5(b) of the Act of October 6, 1917, as amended by section 301 of the First War Powers Act, 1941, finding after investigation that the following shares of the stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, are the property of nationals of a foreign country designated in Executive Order No. 8389, as amended, as defined therein, and that the action herein taken is in the public interest, do hereby order and declare that such shares including all interest therein are hereby vested in the Secretary of the Treasury to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States:

<u>Certificate Number</u>	<u>Number of shares</u>	<u>Class of shares</u>	<u>Registered in the name of</u>
027	1,500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.

- 2 -

022	500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany
023	1,500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
029	500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
0656	20,000	A	Oxon Aktiengesellschaft, Schaffhausen, Switzerland
0657	10,000	A	
0658	10,000	A	
0659	10,000	A	
0660	5,000	A	
0661	5,000	A	
0662	5,000	A	
0663	500	A	
0664	500	A	
0665	500	A	
0720	132	A	
022	300,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
137	100	A	
061	50	A	
065	90	A	
092	726	A	
095	500	A	
0668	10,000	A	
0669	10,000	A	
0570	10,000	A	
0571	10,000	A	
0572	10,000	A	
0573	10,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
0574	5,000	A	
0575	5,000	A	
0576	5,000	A	
0577	5,000	A	
0578	5,000	A	
0579	1,000	A	
0580	1,000	A	
0581	1,000	A	
0582	350	A	
BB13	650,000	B	L.D. Pickering & Company in custody for N. V. Maatschappij voor Industrie en Handelsbelangen, Amsterdam, The Netherlands

- 3 -

32	100,000	B)	N.V. Maatschappij voor Industrie en Handels- belangen, Amsterdam, The Nether- lands
33	100,000	B)	
34	100,000	B)	
1	400,000	B)	Chemie Maatschappij voor Chemische Onderzoekingen, Amsterdam, The Nether- lands
20	200,000	B)	
4	500,000	B	Banque Federale (Eidgenossische Bank, A.G.) Zurich, Switzerland

Such property and any proceeds thereof shall be held in a special account pending further determination of the Secretary of the Treasury. This shall not be deemed to limit the power of the Secretary of the Treasury to return such property or the proceeds thereof, or to indicate that compensation will not be paid in lieu thereof, if and when it should be determined that such return or compensation should be made.

Any person not a national of a foreign country designated in Executive Order No. 8339, as amended, asserting any interest in said shares of stock or any party asserting any claim as a result of this Order may file with the Secretary of the Treasury a notice of his claim, together with a request for hearing thereon, on Form TFVP-1 within one year of the date of this Order,



- 4 -

or within such further time as may be allowed by the Secretary of the Treasury.

This Order shall be published in the Federal Register.

By direction of the President:

(Signed) H. Morgenthau, Jr.

SECRETARY OF THE TREASURY.

February 16, 1942.

Title II - Money and Finance: Treasury

Chapter I - Monetary Offices, Department of the Treasury

Part 141 - Regulations relating to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended

TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942.REGULATIONS RELATING TO PROPERTY VESTED IN  
THE SECRETARY OF THE TREASURY PURSUANT TO  
SECTION 5(b) OF THE TRADING WITH THE ENEMY  
ACT, AS AMENDED.\*

**SECTION 141.1 Authority for regulations.** These regulations are prescribed and issued by virtue of the authority vested in the Secretary of the Treasury by the President pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941.

**SECTION 141.2 Receipt and disposition of claims.** The following procedure is hereby established for the receipt and disposition of claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941:

(a) Claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, shall be filed with the Secretary of the Treasury on Form TPVP-1 in sextuplicate. Such claims shall be filed within such time, after the vesting in the Secretary of the Treasury of the property to which they relate, as the Secretary shall prescribe. Form TPVP-1 may be obtained from the Secretary of the Treasury, Washington, D. C. The original of each claim shall be executed under oath before an officer authorized to administer oaths, or if executed outside of the United States, before a diplomatic or consular officer of the United States.

(b) There shall be a committee to be known as the Vested Property Claims Committee, to be composed of three members designated by the

\* Part 141; - Sec. 5(b), 48 Stat. 115 and 906; Sec. 2, 48 Stat. 1; 54 Stat. 179; Public No. 354, 77th Congress.

- 2 -

Secretary of the Treasury. The members of the Committee shall designate one of their number to be Chairman. The Committee is empowered to hear claims respecting property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, in accordance with rules and procedures to be formulated by the Committee. The Committee shall have all powers necessary to carry out its functions, including the power to call witnesses and to compel the production of books of accounts, records, contracts, memoranda, and other papers.

(c) The Secretary of the Treasury shall transmit to the Committee claims relating to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended.

(d) Appropriate notice of hearing shall be given by the Committee at least 10 days before the time set for the hearing. This requirement of notice may be waived by any claimant.

(e) Claimants and the Secretary of the Treasury shall be entitled to representation by counsel, or otherwise, before the Committee.

(f) The Committee shall have a seal which shall be affixed to all exemplifications of the records and such other documents, orders, or notices as the Committee may determine.

(g) A complete record, including a transcript of the testimony, shall be made of any hearing before the Committee. The Committee shall transmit the record, including its findings and recommendations, to the Secretary of the Treasury.

(h) The Secretary of the Treasury, after the examination of the record, will issue a decision and will give appropriate notice of the decision rendered. The Secretary of the Treasury will take appropriate action to effectuate any decision so rendered.

By direction of the President:

(Signature) H. Morgenthau, Jr.

Secretary of the Treasury.



UNITED STATES DEPARTMENT OF THE TREASURY  
 Office of the Secretary  
 February 16, 1942

**NOTICE**

Amsterdamsche Bank, Amsterdam, The Netherlands,  
 and all persons whom such Bank represents or  
 acts for, including Hollandische Koopmans Bank,  
 Curacao, N. W. I.

There is attached hereto and made a part hereof a copy of an  
 order dated February 16, 1942, issued by the Secretary of the  
 Treasury vesting all right, title and interest of whatsoever nature  
 in certain shares of stock of the General Aniline & Film Corporation,  
 a corporation organized under the laws of the State of Delaware, in  
 the Secretary of the Treasury, to be held, used, administered,  
 liquidated, sold or otherwise dealt with in the interest of and for  
 the benefit of the United States.

You are hereby prohibited from exercising any right, power or  
 privilege with respect to such shares or from engaging in any trans-  
 action of any nature whatsoever involving such shares or any interest  
 therein.

By direction of the President:

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Attachment

TREASURY DEPARTMENT  
Office of the Secretary  
February 16, 1942.

NOTICE

International Gesellschaft für Chemische Untersuchungen  
Aktiengesellschaft, Basel, Switzerland;

Chemische Aktiengesellschaft, Schaffhausen, Switzerland;

N. V. Maatschappij voor Industrie en Handelsbelangen,  
Amsterdam, The Netherlands;

Chemische Maatschappij voor Chemische Onderzoekingen,  
Amsterdam, The Netherlands;

Compagnie Fédérale, Zurich, Switzerland.  
(Incorporated in Switzerland, U. S. A.)

A notice of these shares and an opinion of the Secretary of the Treasury dated February 16, 1942, issued by the Secretary of the Treasury vesting all right, title and interest of whatsoever nature in certain shares of stock of the General Iniline & Film Corporation, a corporation organized under the laws of the State of Delaware, in the Secretary of the Treasury, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

You are hereby prohibited from exercising any right, power or privilege with respect to such shares or from engaging in any transaction of any nature whatsoever involving such shares or any interest therein.

By direction of the President:

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

Attachment

Service of the within notice accepted this \_\_\_\_\_ day  
of \_\_\_\_\_, 1942.

\_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ }  
\_\_\_\_\_ being duly sworn says he  
served the within notice on the within named by serving a duplicate  
original thereof on \_\_\_\_\_ representing the  
within named, at \_\_\_\_\_ Street in the city  
of \_\_\_\_\_ state of \_\_\_\_\_ this \_\_\_\_\_ day  
of \_\_\_\_\_, 1942.

Sworn to and subscribed before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1942.

\_\_\_\_\_

\_\_\_\_\_



NOTICE OF SERVICE

Service of the within notice accepted this \_\_\_\_\_ day of \_\_\_\_\_, 1962.

NOTICE

\_\_\_\_\_

\_\_\_\_\_

County of \_\_\_\_\_ }  
State of \_\_\_\_\_ } ss.

\_\_\_\_\_ being duly sworn says

he served the within notice on the within named by delivering a duplicate original thereof to \_\_\_\_\_ at \_\_\_\_\_ Street, in the city of \_\_\_\_\_, District of \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 1962.

Sworn to and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 1962.

\_\_\_\_\_

\_\_\_\_\_

Notary Public for the District of Columbia

\_\_\_\_\_



2020120  
 Salaries and Expenses  
 Foreign Exchange Control 1942 - allot 1b

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

122 FEBRUARY 16, 1942

THE FOLLOWING IS THE TEXT OF AN ORDER ISSUED TODAY VESTING ALL RIGHT, TITLE AND INTEREST IN CERTAIN SHARES OF STOCK OF THE GENERAL AMILINE AND FILM CORPORATION, A CORPORATION ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE, IN THE SECRETARY OF THE TREASURY, TO BE HELD, USED, ADMINISTERED, LIQUIDATED, SOLD OR OTHERWISE DEALT WITH IN THE INTEREST OF AND FOR THE BENEFIT OF THE UNITED STATES:

HERE TAKE IN TEXT OF ORDER ATTACHED

THE FOLLOWING IS THE TEXT OF REGULATIONS ISSUED TODAY RELATING TO PROPERTY VESTED IN THE SECRETARY OF THE TREASURY PURSUANT TO SECTION 5(b) OF THE TRADING WITH THE ENEMY ACT, AS AMENDED:

HERE TAKE IN TEXT OF REGULATIONS ATTACHED

THE FOLLOWING IS THE TEXT OF A PRESS RELEASE IN CONNECTION WITH THIS MATTER:

HERE TAKE IN TEXT OF PRESS RELEASE ATTACHED

(Signed) E. H. Foley, Jr.  
 ACTING SECRETARY OF THE TREASURY.

VESTING ORDER PURSUANT TO SECTION  
5(b) OF THE TRADING WITH THE ENEMY  
ACT, AS AMENDED.

I, HENRY MORGENTHAU, JR., Secretary of the Treasury, acting under and by virtue of the authority vested in me by the President pursuant to section 5(b) of the Act of October 6, 1917, as amended by section 301 of the First War Powers Act, 1941, finding after investigation that the following shares of the stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, are the property of nationals of a foreign country designated in Executive Order No. 8389, as amended, as defined therein, and that the action herein taken is in the public interest, do hereby order and declare that such shares including all interest therein are hereby vested in the Secretary of the Treasury to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States:

<u>Certificate Number</u>	<u>Number of shares</u>	<u>Class of shares</u>	<u>Registered in the name of</u>
027	1,500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.

028	500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany
023	1,500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
029	500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
0656	20,000	A	Osmon Aktiengesellschaft, Schaffhausen, Switzerland
0657	10,000	A	
0658	10,000	A	
0659	10,000	A	
0660	5,000	A	
0661	5,000	A	
0662	5,000	A	
0663	500	A	
0664	500	A	
0665	500	A	
0720	132	A	
022	300,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
137	100	A	
061	50	A	
065	90	A	
092	726	A	
095	500	A	
0568	10,000	A	
0569	10,000	A	
0570	10,000	A	
0571	10,000	A	
0572	10,000	A	
0573	10,000	A	International Gesellschaft für Chemische Unternehmungen Aktiengesellschaft, Basel, Switzerland
0574	5,000	A	
0575	5,000	A	
0576	5,000	A	
0577	5,000	A	
0578	5,000	A	
0579	1,000	A	
0580	1,000	A	
0581	1,000	A	
0582	350	A	
BB13	650,000	B	L.D. Pickering & Company in custody for N. V. Maatschappij voor Industrie en Handelsbelangen, Amsterdam, The Netherlands



32	100,000	B)	N.V. Maatschappij voor Industrie en Handels- belangen, Amsterdam, The Nether- lands
33	100,000	B)	
34	100,000	B)	
1	400,000	B)	Chemo Maatschappij voor Chemische Ondernemingen, Amsterdam, The Nether- lands
20	200,000	B)	
4	500,000	B	Banque Federale (Eidgenossische Bank, A.G.) Zurich, Switzerland

Such property and any proceeds thereof shall be held in a special account pending further determination of the Secretary of the Treasury. This shall not be deemed to limit the power of the Secretary of the Treasury to return such property or the proceeds thereof, or to indicate that compensation will not be paid in lieu thereof, if and when it should be determined that such return or compensation should be made.

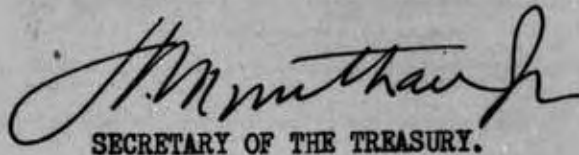
Any person not a national of a foreign country designated in Executive Order No. 8389, as amended, asserting any interest in said shares of stock or any party asserting any claim as a result of this Order may file with the Secretary of the Treasury a notice of his claim, together with a request for hearing thereon, on Form TFVP-1 within one year of the date of this Order,

- 4 -

or within such further time as may be allowed by the Secretary of the Treasury.

This Order shall be published in the Federal Register.

By direction of the President:

A handwritten signature in cursive script, appearing to read "H. M. Southworth".

SECRETARY OF THE TREASURY.

February 16, 1942.

TREASURY DEPARTMENT,  
Office of the Secretary,  
February 16, 1942.

REGULATIONS RELATING TO PROPERTY VESTED IN THE  
SECRETARY OF THE TREASURY PURSUANT TO SECTION  
5(b) OF THE TRADING WITH THE ENEMY ACT, AS  
AMENDED.\*

SECTION 141.1 Authority for regulations. These regulations are prescribed and issued by virtue of the authority vested in the Secretary of the Treasury by the President pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941.

SECTION 141.2 Receipt and disposition of claims. The following procedure is hereby established for the receipt and disposition of claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended by section 301 of the First War Powers Act, 1941:

(a) Claims to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, shall be filed with the Secretary of the Treasury on Form TFVP-1 in sextuplicate. Such claims shall be filed within such time, after the vesting in the Secretary of the Treasury of the property to which they relate, as the Secretary shall prescribe. Form TFVP-1 may be obtained from the Secretary of the Treasury, Washington, D. C. The original of each claim shall be executed under oath before an officer authorized to administer oaths, or if executed outside of the United States, before a diplomatic or consular officer of the United States.

(b) There shall be a committee to be known as the Vested Property Claims Committee, to be composed of three members designated by the Secretary of the Treasury. The members of the Committee shall designate one of their number to be Chairman. The Committee is empowered to hear claims respecting property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended, in accordance with rules and procedures to be formulated by the Committee. The Committee shall have all powers necessary to carry out its functions, including the power to call witnesses and to compel the production of books of accounts, records, contracts, memoranda, and other papers.

\* Part 141; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Public No. 354, 77th Congress.



- 2 -

(c) The Secretary of the Treasury shall transmit to the Committee claims relating to property vested in the Secretary of the Treasury pursuant to section 5(b) of the Trading with the enemy Act, as amended.

(d) Appropriate notice of hearing shall be given by the Committee at least 10 days before the time set for the hearing. This requirement of notice may be waived by any claimant.

(e) Claimants and the Secretary of the Treasury shall be entitled to representation by counsel, or otherwise, before the Committee.

(f) The Committee shall have a seal which shall be affixed to all exemplifications of the records and such other documents, orders, or notices as the Committee may determine.

(g) A complete record, including a transcript of the testimony, shall be made of any hearing before the Committee. The Committee shall transmit the record, including its findings and recommendations, to the Secretary of the Treasury.

(h) The Secretary of the Treasury, after the examination of the record, will issue a decision and will give appropriate notice of the decision rendered. The Secretary of the Treasury will take appropriate action to effectuate any decision so rendered.

By direction of the President:

H. MORGENTHAU, JR.

Secretary of the Treasury.

VESTING ORDER PURSUANT TO SECTION  
5(b) OF THE TRADING WITH THE ENEMY  
ACT, AS AMENDED.

I, HENRY MORGENTHAU, JR., Secretary of the Treasury, acting under and by virtue of the authority vested in me by the President pursuant to section 5(b) of the Act of October 6, 1917, as amended by section 301 of the First War Powers Act, 1941, finding after investigation that the following shares of the stock of the General Aniline & Film Corporation, a corporation organized under the laws of the State of Delaware, are the property of nationals of a foreign country designated in Executive Order No. 8389, as amended, as defined therein, and that the action herein taken is in the public interest, do hereby order and declare that such shares including all interest therein are hereby vested in the Secretary of the Treasury to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States:

<u>Certificate Number</u>	<u>Number of shares</u>	<u>Class of shares</u>	<u>Registered in the name of</u>
027	1,500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.
028	500	A	Geheimrat Professor Dr. Carl Bosch, Ludwigshafen, Germany.
023	1,500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany
029	500	A	Geheimrat Dr. Hermann Schmitz, Berlin, Germany

-2-

0656	20,000	A)	
0657	10,000	A)	
0658	10,000	A)	
0659	10,000	A)	
0660	5,000	A)	Osmon Aktiengesell-
0661	5,000	A)	schaft, Schaff-
0662	5,000	A)	hausen, Switzerland
0663	500	A)	
0664	500	A)	
0665	500	A)	
0720	132	A)	
022	300,000	A)	
137	100	A)	
061	50	A)	
065	90	A)	
092	726	A)	International Gesell-
095	500	A)	schaft für Chemische
0568	10,000	A)	Unternehmungen
0569	10,000	A)	Aktiengesellschaft,
0570	10,000	A)	Basel, Switzerland
0571	10,000	A)	
0572	10,000	A)	
0573	10,000	A)	
0574	5,000	A)	
0575	5,000	A)	International Gesell-
0576	5,000	A)	schaft für Chemische
0577	5,000	A)	Unternehmungen
0578	5,000	A)	Aktiengesellschaft,
0579	1,000	A)	Basel, Switzerland
0580	1,000	A)	
0581	1,000	A)	
0582	350	A)	
BB13	650,000	B)	L.D. Pickering & Company in custody for N. V. Maat- schappij voor In- dustrie en Handels- belangen, Amsterdam, The Netherlands
32	100,000	B)	N.V. Maatschappij
33	100,000	B)	voor Industrie en
34	100,000	B)	Handelsbelangen, Amsterdam, The Netherlands



-3-

1	400,000	B)	Chemo Maatschappij
20	200,000	B)	vccr Chemische Ondernehmungen, Amsterdam, The Netherlands
4	500,000	B	Banque Federale (Eidgenossische Bank, A.G.), Zurich, Switzerland

Such property and any proceeds thereof shall be held in a special account pending further determination of the Secretary of the Treasury. This shall not be deemed to limit the power of the Secretary of the Treasury to return such property or the proceeds thereof, or to indicate that compensation will not be paid in lieu thereof, if and when it should be determined that such return or compensation should be made.

Any person not a national of a foreign country designated in Executive Order No. 8389, as amended, asserting any interest in said shares of stock or any party asserting any claim as a result of this Order may file with the Secretary of the Treasury a notice of his claim, together with a request for hearing thereon, on Form TFVP-1 within one year of the date of this Order, or within such further time as may be allowed by the Secretary of the Treasury.

This Order shall be published in the Federal Register.

By direction of the President:

H. MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.

February 16, 1942.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Monday, February 16, 1942.

Press Service  
No. 30-33

The Treasury Department announced today the vesting in the Secretary of the Treasury of 97 percent of the outstanding shares of General Aniline and Film Corporation of Delaware. In the judgment of the Secretary of the Treasury the real interest in these shares is German.

The shares seized were registered in the names of I. G. Chemie Osmon Aktiengesellschaft, Maatschappij voor Industrie en Handelsbelangen, Chemo Maatschappij voor Chemische Ondernemingen, Eidgenossische Bank, and two individuals, the late Geheimrat Professor Dr. Carl Bosch, former chairman of the Board of the German Dye Trust and Geheimrat Dr. Hermann Schmitz, present chairman of the Board of the German Dye Trust.

The purpose of the Treasury Department in vesting these shares was to carry forward recent steps to Americanize the company and better utilize the productive facilities of the company in the war effort. General Aniline and Film Corporation employs 8,000 persons, does about 60 million dollars of business annually and manufactures many products needed in the war effort.

Today's action also is intended to protect the investment of the American bondholders of General Aniline and Film Corporation. The Secretary of the Treasury disclosed that while over ninety-five percent of the common and preferred stock of the Corporation was foreign owned, yet approximately ninety-five percent of the outstanding bonds and debentures of the Corporation are held by the American public. Outstanding debentures approximate \$18,000,000 and are guaranteed by the German I. G. Farben Company.

In announcing the vesting, the Treasury Department stated specifically that the question of ultimate disposition of the property sequestered is being left open and that claims may be filed with the Secretary of the Treasury.

Regulations providing an orderly determination of such claims have also been issued today.

166  
February 16, 1942.

Memorandum for the Secretary's Diary

**CONFERENCE:** General Aniline and Film Corporation,  
Monday, February 16, 1942, 10:30 a.m.  
in Mr. Foley's office.

**PRESENT:** Messrs. Leo T. Crowley, Homer Cummings,  
John E. Mack, William C. Bullitt,  
Ralph Budd, Gerard Swope, Edward H.  
Foley, Bernard Bernstein, John Pehle,  
and Joseph J. O'Connell.

**SUMMARY:** The conference was arranged to discuss  
the general situation with regard to General Aniline, and  
particularly its immediate future, in the light of the  
fact that the Treasury Department today vested in itself  
27 1/2 percent of the stock of the Company.

Judge Mack read a letter, dated February 14, 1942,  
addressed by him to the Secretary. A copy is attached. In  
general, the letter constituted a statement of the terms  
upon which Judge Mack and others in the management would be  
willing to continue to operate the Company now that the  
Government owns most of the stock.

Mr. Foley advised Judge Mack that the Department intends  
selecting, at the earliest possible moment, a competent and  
trained man who will be put in as the chief executive and  
general manager of the Company. He also informed him that  
in such a man would be vested all executive authority, and  
that he would be responsible to the Government.



A general discussion ensued, from which the conclusion emerged clearly that after such a man has been selected and has his feet on the ground, there will no longer be any necessity for continuing Judge Mack or the present Board of Directors.

The tone of the conference was entirely amicable, and Judge Mack and Messrs. Bullitt and Budd expressed complete willingness to do whatever would be desired of them. The general understanding is that the present management and Board of Directors will proceed as heretofore pending the appointment of the new general manager, and that they will continue on thereafter until we indicate to them that their services are no longer required.

Mr. Bullitt indicated that he wishes to resign quite soon, partly because of the pressure of other work and partly because he feels that the purpose in putting him on the Board of Directors has now been achieved. Mr. Foley suggested that such a move ought to be timed in such a fashion as not to give the wrong impression. Mr. Bullitt then stated that he would discuss the matter with the President.

Judge Mack suggested the desirability of keeping Mr. Williamson for at least some period of time in view

- 3 -

of his knowledge of the operations of the Company.

The discussion was entirely frank and the Department is in the very desirable position of being entirely without commitment to the present management, either as regards its tenure or the policy the Government may wish to pursue.

The conclusion reached makes Judge Mack's letter of February 14th entirely academic.

## GENERAL ANILINE &amp; FILM CORPORATION

230 PARK AVENUE

NEW YORK

February 14, 1942

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

Dear Mr. Secretary:

Your letter of February 4, 1942 has received my thoughtful consideration. It is gratifying to know that you are in accord with the objectives announced when I assumed the presidency of General Aniline & Film Corporation. The Country, the Government itself, and the national war program will all benefit from success in making this corporation an effective, loyal and dynamic American enterprise.

Your representatives, I am pleased to note, are directed to consult and cooperate closely with the management in pursuing our common purpose. You may be confident that I shall make available, in the future as in the past, any information within the knowledge of the management, or contained in the Company records. Naturally, I am desirous of receiving from your representatives or from any other source information as to the possible disloyalty of any employee or as to any possible danger to our plants or defects in our products.

Your thought that our exchange of views presages an improvement in the situation, as fully set forth in my letter to you of January 29, 1942, is, indeed, welcome. I am encouraged thereby to make a brief recapitulation of the principles which appear to be essential to the success and usefulness of the Company and to the proper functioning of the management.

1. The management believes that the highest and primary aim of this Company should be to help win this war.



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## GENERAL ANILINE &amp; FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE  
MURRAY HILL 4-1300Honorable Henry Morgenthau, Jr.  
February 14, 1942

2.

2. To this end, the Company and all its plants should be converted as quickly as possible into a full-time war-production agency.

3. The management will, of course, be constantly concerned with the question of personnel, and in its investigations it will solicit and confidently expect to receive from the Department of the Treasury, and from any other branch of the Government having jurisdiction to investigate, full cooperation for the purpose of assuring the Company against sabotage and subversive influence.

4. The fact that any American citizen is of German birth, ancestry, or training shall not be considered sufficient ground for his discharge, without evidence that he is or has been disloyal to the United States. I accept unreservedly the declaration of President Roosevelt of January 2, 1942:

"I am deeply concerned over the increasing number of reports of employers discharging workers who happen to be aliens or even foreign-born citizens. This is a very serious matter. It is one thing to safeguard American industry, and particularly defense industry, against sabotage; but it is very much another to throw out of work honest and loyal people who, except for the accident of birth, are sincerely patriotic.

"Such a policy is as stupid as it is unjust, and on both counts it plays into the hands of the enemies of American democracy. By discharging loyal, efficient workers simply because they were born abroad, or because they have "foreign-sounding" names,

## GENERAL ANILINE &amp; FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE  
MURRAY HILL 4-1300Honorable Henry Morgenthau, Jr.  
February 14, 1942

3.

or by refusing to employ such men and women, employers are engendering the very distrust and disunity on which our enemies are counting to defeat us.

"Remember the Nazi technique: 'Put race against race, religion against religion, prejudice against prejudice. Divide and conquer.'

"We must not let that happen here. We must not forget what we are defending: Liberty, decency, justice. We cannot afford the economic waste of services of all loyal and patriotic citizens and non-citizens in defending our land and our liberties."

The foregoing is drawn to your attention in view of statements of policy, in this regard made by both Mr. Foley and Mr. O'Connell at a formal conference held February 6, 1942, and which were to a contrary effect.

5. A general license should be issued to the Company so that the management will have full control over its internal affairs.

6. Full reports, of course, will be made to the Department of the Treasury and all records of the Company, as well as all knowledge of its employees, will be made available to the Government.

7. In order that the management may successfully operate in accordance with these principles and in cooperation with the policies of the Government, there should be agreement between the president of the Company and the Government as to the filling of vacancies arising in the Board of Directors.



## GENERAL ANILINE &amp; FILM CORPORATION

230 PARK AVENUE

NEW YORK

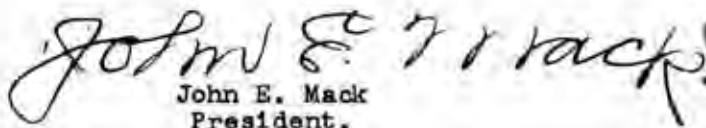
Honorable Henry Morgenthau, Jr.  
February 14, 1942

4.

In order to be of as much assistance to you as possible, (especially since your representative, Mr. O'Connell, has today notified me by telephone that the Treasury is taking over the stock control of the Company) I have prepared, and attach hereto, a Report as to the business and affairs of General Aniline & Film Corporation.

I do not see how it would be possible for me and my associates to carry the varied and heavy responsibilities involved in the management of this Company otherwise than in accordance with these briefly stated general principles. I sincerely trust that I may have authoritative word that they are acceptable to you as a common working platform.

Respectfully yours,



John E. Mack  
President.

Attachments/

REPORT BY MR. JOHN E. MACK ON THE  
GENERAL ANILINE & FILM CORPORATION

This statement has been prepared by me with the full concurrence of my associates and fellow directors, the Hon. William C. Bullitt and Mr. Ralph Budd, for two main purposes. First, because the relationship between the present management and the Government has radically changed since our last meeting - the Treasury Department now being, according to information conveyed to me today by Mr. O'Connell in a telephone conversation; in the position of majority stockholder to which it is my duty as steward to account; and second, because of the public necessity of examining our apparently divergent points of view on basic matters of policy and explaining fully my own reasoning.

My associates and I believe that a review of the affairs of this Company would be of service to the Treasury and its other shareholders, as well as to its American holders of eighteen million dollars of Company bonds.

For a long time prior to my appointment as president of General Aniline & Film Corporation, its American directors had been making continuous effort to Americanize the Company and to free it from foreign connection and control. Principal steps to this end had been:

- 2 -

1. Pressure upon I. G. Chemie, a Swiss corporation, alleged by the Department of Justice to be under the control of I. G. Farbenindustrie, to sell its claimed stock control to non-competitive industrial interests wholly and responsibly American. Such possible purchasers were found and proposed to I. G. Chemie, but rejected by Chemie.

2. Opposition to the proposal of I. G. Chemie to sell its stock rights to General Dyestuff Corporation. Permission for such sale was later refused by the Treasury Department.

3. Opposition to the efforts of I. G. Chemie through legal proceedings in Delaware to convene a special meeting of stockholders to substitute a board of its own choice.

4. The removal of Mr. D. A. Schmitz from the presidency.

5. The election to vacancies in the board of men of undoubted American standing and of industrial prominence.

After the removal of Mr. Schmitz, the Board of Directors requested me to accept the presidency, in the knowledge that I would pursue the policy of Americanization and lead the company wholeheartedly into the national defense program which was becoming more and more vital. With my policies the Board of Directors as now constituted has been in complete accord, with the result that the status and prosperity of the Company have improved, its affairs have been administered in furtherance of the program of the Government, and it has become, so far, at least, as its management is concerned, unmistakably an American organization wholly free from any foreign domination whatever.



- 3 -

The present composition of the Board of Directors is, in addition to myself as President, Hon. William C. Bullitt, as Chairman of the Board, and Messrs. Budd, Baragwanath, Bennett, Breed, McCann, Stevens, Talbott, Williamson, Hutz and Schmitz. The last two named do not attend meetings, in obedience to orders of the Treasury department. Both before and again after my election, the board requested Mr. Schmitz to resign but he declined to do so. After my election the board declared vacant the position of director held by Felix Iselin, a Swiss National and an officer of I. G. Chemie.

Since my election to the presidency, the improvement in the status of the Company has continued and been accentuated. Production figures in the last quarter of 1941 were \$8,447,218.39, an increase of \$1,888,834.48 over the last quarter of 1940. Production figures for the entire year 1941 were \$32,334,582.60, an increase of \$9,628,480.81 over 1940. It is a substantial contributor to the national economy having paid Federal taxes of \$5,973,392 in 1941 as contrasted with \$652,070 in 1938 and having a payroll in 1941 of \$10,925,490. For the last quarter of 1941 the income before payment of the Federal income taxes showed an increase of \$500,470.20 over the last quarter of 1940. The interest on its \$18,000,000.00 of American-held bonds has been paid and the customary dividends on its stock have been declared and, so far as foreign stock is concerned, paid into special accounts in

- 4 -

compliance with Treasury regulations. All this has been achieved despite enormous and increasing expenditures for research, improvements and enlargements. The figures for all branches have not been compiled but in the General Aniline Works alone the following comparison is of interest.

<u>YEAR</u>	<u>ANNUAL PAYROLL</u>	<u>NUMBER OF EMPLOYEES</u>	<u>PRODUCTS MADE</u>
1930	\$1,374,801.00	658	369
1940	\$4,155,283.00	2,074	1,055
1941	\$5,188,393.00	2,545	1,282

The activities of the General Aniline & Film Corporation are handled by three main divisions - General Aniline Works, Agfa Ansco Division, and the Ozalid Division. The history of all three of these branches follows a parallel course in the face of an identical problem. It was not the intention of I. G. Farben of Germany, who were the originators of 3,766 or 97% of the total of 3,892 patents now controlled by the Company, to relinquish the vital "know how", or in other words, to allow independence by giving complete knowledge of the processes of production.

In the case of General Aniline Works, the Corporation was, for many years, dependent on I. G. Farben for supplies of "intermediates". This handicap was overcome by the constant pressure of Dr. Aickelin who sponsored the construction of equipment to manufacture inter-

mediates, and by his efforts with I. G. Farben obtained information on the methods of this important phase in the manufacture of dye. As a result of his activity, we went into the war with completed facilities and an ample supply of imported intermediates.

In the case of the Agfa ~~Ansco~~ Division, the Corporation was dependent on the supply of sensitizers and color components of unknown composition. For some time attempts were made to obtain the "know how" concerning the manufacture of sensitizers and color components even though these patents were owned by the Agfa Ansco Corporation. To secure this information, Dr. Aickelin made a trip to Europe in 1940. He was unsuccessful in his attempt because I, G. Farben refused to disclose the "know how" for military reasons. He was successful, however, in obtaining adequate supplies of sensitizers and color components. Immediately on his return the Research Department of both the Agfa Ansco Division and General Aniline went into action. After two years of constant work most of the important problems were solved and a number of sensitizers are now in production. A final solution seems near at hand with respect to color components. The supplies of color components secured by Dr. Aickelin were the only material available in this country for the manufacture of this type of color film and, therefore, have been exclusively reserved for the military. This color film, which we are still in the process of perfecting, is the only



one susceptible of development by the user, and, therefore, will enable the Army to develop color film in their own field laboratories without the necessity of loss of time and the increased opportunity for espionage incurred by sending it to the manufacturer for developing. It would do incalculable harm to the war effort of our government to delay, in the least degree, the completion of the research in this field.

In the case of Oxalid products, the Corporation likewise was dependant. Here it was the sensitizing dyes necessary for coating the paper. By repeated trips to Germany, Mr. von Meister had gradually secured the "know how" on most of the Oxalid products until, in 1939, he obtained the process of manufacturing them. With the aid of General Aniline research this "know how" was exploited and we can now manufacture all the products in this line.

Other manufacturers, infringing on Oxalid Products' patents, have for years attempted to duplicate Oxalid Products' processes. Lacking Oxalid's "know how", they have been unsuccessful however, and Oxalid Products supplies today approximately 90% of all the whiteprint paper sold in the United States. The great time saving accomplished by the Oxalid process and the fact that it alone of all reproduction papers insures absolute accuracy of reproduction, makes it of particular importance to aircraft and instrument makers. Today General Aniline has no dependence on I. G. Farbenindustrie or any other foreign organization.

The manufacturing lines of the Corporation are typical of fields which have not been explored successfully by other than entrenched producers possessing trained personnel and "know how" of long standing. The progress and success of the Corporation has been the result of its ability to build up a staff of first rate brains in a highly specialized field in which acceptable talent is difficult to secure. Since the organization of the Company in 1928, Agfa Ansco has been the only manufacturer able to compete effectively with Eastman. In the matter of dyestuffs, General Aniline Works has risen from a small producer to one of the three principal factors in the field. The Oxalid Products Division has singlehandedly created a new industry of great importance for the national war effort and has, in its Oxaphane Department, started developments of substantial promise.

Virtually all the production of the Agfa Ansco and Oxalid Divisions are covered by patented processes, as are about one-sixth of the total number of products manufactured by General Aniline Works. As recently as 1940, the Company acquired 608 additional patents in various fields from I. G. Farben. It would be misleading, however, to consider the Farben patents independently of the "know how" that makes it possible to operate them successfully.

In furtherance of the policy of making this Company completely independent, I have by authority of the Board of Directors instituted a suit against General Dyestuff Company to obtain a judgment declaratory of the right of General Aniline & Film Corporation to terminate the present agency contract with General Dyestuff Corporation under which the latter acts as exclusive selling agent of the Company. The Board of Directors and I desire to discontinue that contract which was made in 1928, and to have our company market all its own products; but because of a serious question as to the duration of the agency contract, we have found it necessary to seek a declaratory judgment in the Supreme Court of the State of New York, where it is now pending.

The extent to which the Company contributes both directly and indirectly to the war program is already enormous, and will be still further expanded if the plans and policies of the present management are carried out.

The total business now being done for war purposes is as follows: (1) in the General Aniline Works Division 62% of all sales; (2) in the Oxalid Division 85%; and (3) in the Agfa Anaco Division 32%. By June 30, 1942, this last Division's percentage will, it is estimated, be increased to approximately 60%.

The production of uniform colors for which General Aniline Works is estimated to have the largest individual capacity in the



country, is expected in 1942 to approximate 400% of the 1940 production. 40% of all dyes for military textiles (uniforms, tents, blankets, etc.) are manufactured by General Aniline Works.

Moreover, recent developments by General Aniline Works include carbonyl iron powder, for which General Aniline Works is the only manufacturer within the territory of the Allied Powers, and for which both the United States Government and the British Government have approached General Aniline Works on the manufacturing "know how". Another recent development is vinyl carbasol, which General Electric believes to be superior to mykalex as insulation material for electric wires.

In the Osalid Division, defense orders for whiteprint papers and machines are expected to rise substantially as the armament program gets further underway. Recent developments of considerable importance are:

1. An oxaphane paper and process for microscopic prints - a development considered unique and revolutionary;
2. The first usable photographic process for reproduction of reticules on optical glass - a process which is expected to eliminate existing bottlenecks in the manufacturing of optical instruments, including range finders, calibrated binoculars, etc.

- 10 -

Many of the sales referred to are made direct to the United States Government, including Army, Navy, Coast Guard, War Production Board, Civil Aeronautics Administration, etc. Special sales for the war program to governmental contractors or sub-contractors or to corporations whose products are used for governmental supplies, include such important customers as Boeing Aircraft, Douglas Aircraft, Curtiss-Wright Corporation, Vultee Corporation, Ford Company, Bendix Aviation, Chrysler Corporation, General Motors, Cramp Shipbuilding, Sperry Gyroscope, General Electric, and many other leading aviation and war-instruments corporations.

As to the Company's staff and employees, the other officers and I, as well as the Board of Directors, have been and will be, as matter of course, constantly concerned. We have been vigilant in conducting investigations as to the antecedents, affiliations, and loyalties of all our employees; and we solicit and confidently expect to receive from all departments of the Government full cooperation so that this Company and its business and plants may be protected from sabotage and disloyalty.

The great majority of the Company's employees are American by birth and citizenship. The following table will illustrate:

<u>Total Employees</u>	<u>American Citizens born in Germany</u>	<u>Born in Germany having 1st Papers</u>	<u>Born in Germany having no Papers</u>
6,118	417	83	7

- 11 -

While the percentage of employees of German birth and training is small, these particular employees have in the main been with the Company or its predecessor many years and some of them are in the top flight in the chemical field. Its increasing success in the technical and manufacturing field and in the expansion of its highly scientific products, has been due in very large part to their unique training, skill and inventive genius.

Much of the credit for the upbuilding of this great industry in America and for its present independence of German industry and German scientific knowledge is due to the fact that these employees had training in German processes, inventions and chemical formulae. Through this "know how" they have equipped America with scientific products of the utmost value in times of peace and war and not duplicated by any other American industrial organization. Their removal merely because of their original German training, and irrespective of complete loyalty to this business and to this country, would be to deprive this Company of much of its vital technical life and to cripple greatly, if not to paralyze, its large and increasing contribution to the national war effort.

While the first duty of management is to purge the Company of subversive factors as soon as ascertained, the management also has the duty and, in the present instance, the fortunate opportunity



of turning against the enemy its own industrial secrets, achievements and weapons through those familiar with their content, make and use. In my judgment it would be little short of a tragedy if we should by our own obtuseness forego the opportunity to employ this high technical skill against the very sources which gave it birth.

I feel strongly, therefore, that sound and patriotic management must not make expulsions in any haphazard or unrestrained fashion or merely because of prejudice, rumor, or German origin, but rather with fair and intelligent ascertainment and consideration of the facts, and with careful discrimination in the light thereof. Indeed, not only do I feel that this principle is essential to good and successful management, but I also feel that it is the only principle in accordance with American standards and American interests, for my associates and I, at least, take our stand squarely with President Roosevelt in his assertion that the opposite policy would be "as stupid as it is unjust, and on both counts it plays into the hands of the enemies of American democracy." This point is stressed because at our last conference, February 6, 1942, Mr. Foley and Mr. O'Connell, informed me that it was the Treasury's policy to remove from the Corporation all employees of German birth (whether citizens of the United States or not) who

- 13 -

have at any time had the benefit of Farben training. I trust that so drastic and devastating a policy will be reconsidered, in favor of a policy more realistic in its approach.

I may add that this Company has pursued and is pursuing an enlightened and liberal labor policy, in full obedience to the law. It has had no serious labor trouble. It pays generous and recently increased wages in the belief that efficient mass production is thereby promoted. Its rapid commercial expansion has brought expanded employment, and today over 6,000 employees are dependent upon the Company's continued success and intelligent management.

As already stated, the Company is the largest individual producer of dyestuffs for Army textiles. It is the only producer at all likely to succeed in producing color film capable of being developed on the spot by Army laboratories. It is the only producer of quality whiteprint reproduction paper and machines. It is the only producer of carbonyl iron powder. If left with full opportunity to pursue its pending developments, it expects soon to be the producer of many other vital materials which chemists, trained in German secret processes, are attempting to perfect against the background of the 603 patents acquired from I. G. Farben in 1940. Furthermore, production agencies of both the American and the British Governments are turning to me as the



- 14 -

president of this Company to place at their disposal the technical advice and knowledge which only we can effectively give, and to undertake to give assistance in certain features of their production plans. As an example, I append hereto a letter to me, dated February 14, 1942, from Dr. E. W. Reid, Chief, Chemicals and Allied Products Branch, War Production Board, relative to carbonyl iron powder and the proposed construction by the Government of a plant for its manufacture and relative to the doubling of the output of our Linden factory. Such increase illustrates the purpose of the present management to devote all our plants and equipment to the fullest possible extent to the war effort, and to expand in accordance with national requirements.

If the present management continues the operation of the company we plan further to develop our Research Department with all possible speed. I have always had in mind that our Research Department should be greatly expanded and that we should, in the course of time, have expertly trained corps of American scientists. It is contemplated that President Conant of Harvard be invited to become a member of the Board of Directors, and if this is not feasible for reasons of his own, at any rate to secure his counsel and advice. Ambassador Bullitt has already conferred with Mr. Conant on the subject of technicians and research men. He has also discussed the matter with President Gates of the University of Pennsylvania.



I have emphasized these considerations because it should be fully understood that the technical and scientific staffs have successfully bent every effort to make the Company independent of outside assistance, and that in a comparatively short period they have achieved, against considerable odds, the building up of new industries unmistakably American and of great value to the country.

Naturally, the officers of the Company and I, as well as the Board of Directors, desire that the Company's relation with the Government be those of close cooperation and mutual confidence.

It was to that end that I wrote to the Secretary of the Treasury my letter of January 29, 1942. For the sake of clarity and brevity, and in order to avoid repetition, I attach hereto a copy of that letter and of the Secretary's answer of February 4, 1942. Attention is also drawn to my reply to the Secretary, dated February 14, 1942 to which this report was appended. The last mentioned letter states my conception of the principles which I deem to be essential to the success and usefulness of the Company and to the proper functioning of its president and Board of Directors under the law and a general license from the Treasury Department.

I fully recognize that the Treasury Department by taking over the stock interests of foreign nationals is in a position to elect a Board of Directors; but I cherish the hope that as

long as the present management is to remain in office and to accept responsibility for the continued success of the Company, the principles which I have stated in my letter of February 14, 1942, and which have met the approval of other directors, will also be approved by the Treasury Department.

I accepted the presidency of this Company only after mature consideration. I did so because I was fully persuaded that I had no right to forego an opportunity to render a service of constructive importance to the country. I have no wish to continue in the office for a moment beyond the time when I feel I cannot continue to render this constructive service in accordance with the only principles and conditions under which I can responsibly continue, or beyond the time when the Government manifests by word or action that it has other plans or objectives as regards the Company. In saying this, I feel sure that I also express the viewpoint of the other directors, both those who joined the Board at my solicitation and those now on the Board who elected me.

Respectfully submitted,

/s/ John E. Mack

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President, General Aniline & Film  
Corporation

February 14, 1942



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January 29, 1942

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

Dear Mr. Secretary:

As of course you are aware, I became president of General Aniline & Film Corporation on November 1, 1941. For many months prior to my appointment, there had been going on within the company an effort upon the part of the American directors to free the concern of the foreign influence existing by virtue of the claimed ownership of a majority of the stock of the company by I. G. Chemie, a Swiss corporation, alleged by the Department of Justice to be under the domination of I. G. Farben of Germany. The American directors were not only seeking to Americanize the company, but to secure the sale of the foreign-owned stock to a noncompetitive industrial group of undoubted American standing.

This internal struggle is fully revealed in the minutes of the meetings of the directors; and, as a corollary thereto, there were proceedings in the Chancery Court of Delaware brought for the purpose of forcing a stockholders' meeting in order that the Chemie stock could be voted by its purported owners in an effort to oust the then existing officers and directors who were seeking to Americanize the company. As you undoubtedly know, a hearing upon the proceedings in Delaware has been postponed from time to time at the request of the Attorney General of the United States.

I was made aware of so much of this history as had already transpired, and other details which I have not time to enumerate, when I agreed to become president of the company. It was represented to me and I fully believed, and still believe, that by accepting the presidency of the company I would be in a position to aid in important matters of national defense, which, incidentally, have become more and more important as time has gone on.



Honorable Henry Morgenthau, Jr.  
January 29, 1942

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Upon accepting the presidency of the corporation, I issued a public statement, a copy of which is attached hereto. Since that time, I have consistently labored for the purposes therein outlined. It was my thought that ultimately an Alien Property Custodian would be appointed and that the stock in question would be taken over by the United States Government, or, if there were difficulties growing out of the claimed ownership by the Dutch, some alternative method might be found by which this stock could be disposed of to American purchasers. It was my belief that my duty was primarily to conserve the interests of the company as a going concern essential to the war purposes of our Government and to preserve the status until such time as the Government saw fit to act through an Alien Property Custodian. I recognized from the beginning that my tenure of office might be temporary and in any event was uncertain. It was for this reason, amongst others, that my salary as president of the company was made payable upon a monthly basis. You will do me the credit of believing, I am sure, that the personal monetary considerations involved were of secondary consequence. I was, however, pleased to have this opportunity to render a public service. Incidentally, I may say that my salary was fixed by the Board of Directors at precisely the amount paid my predecessor.

The changes that have been wrought in the official setup of the company are well illustrated by an additional memorandum which I attach hereto. You will note that Ambassador William C. Bullitt is Chairman of the Board of Directors. I was very much gratified when he found, after full consideration and discussion of the problem involved, that he was in a position to become a member of the Board. I then issued another public statement, a copy of which is also appended hereto. Prior to Mr. Bullitt's departure from the country on a special mission for the President, he left a written statement outlining the circumstances under which he was appointed and the purposes he had in mind.

For many months prior to my appointment, the Department of Justice, through the Antitrust Division, was conducting a sweeping investigation into the affairs of the company, its business affiliates and the status of I. G. Chemie as related thereto. Indeed, there were two grand jury investigations under way and one group of indictments has already been handed down. These proceedings

Honorable Henry Morgenthau, Jr.  
January 29, 1942

3.

are still active. As you will readily see, there was much to require the constant attention of the officers of the company and their counsel, both prior to and subsequent to my election as president. Moreover, the demands upon the time of the directors have been very heavy. The officers of the Board of Directors are acting in complete harmony and are fully conscious of the grave responsibility that rests upon them.

In addition to these matters, I have been concerned with problems of personnel and have sought help in this respect wherever I could secure it. This is especially important in view of the history of the company, its antecedents, and the specialized work in which it is engaged. Of course, you could not possibly be more interested than I am in purging General Aniline & Film Corporation of subversive factors, in freeing it completely of foreign domination and in making it in every sense of the word an effective, loyal American enterprise. Your attention, however, is drawn to the fact that recent communications received through your representative, Mr. Joseph J. O'Connell, Jr., amount to orders issued by you with reference to the internal affairs of the company and its personnel without any previous consultation with me and, indeed, without any subsequent explanation.

You will realize that the corporation is large, with wide flung interests and thousands of employees, many of whom are working upon matters important to the Nation's war effort. It would seem to me that before issuing orders in the nature of unexplained commands, well calculated to shake the morale of the company and to impair its usefulness, it would be desirable for your representative to consult with me as to the wisdom and propriety of any particular move. The timing and method of an action otherwise appropriate may be fully as important as the action itself.

Your order of January 13, 1942 (of which I had no previous notice), directing the simultaneous and immediate suspension of five individuals and barring them from the company premises was, I am free to say, particularly ill-timed. I also note that this order, signed by Joseph J. O'Connell, Jr., "Treasury Representative", contains the following language:



Honorable Henry Morgenthau, Jr.  
January 29, 1942

4.

"All the company officers and employees are to be advised immediately that they are not to communicate with any of these individuals, directly or indirectly, without my prior written approval."

I cannot help but believe that this portion of the order, at least, was inadvertent for I am frank to say that I cannot find for it any warrant in law or in fundamental justice. So far as I am personally concerned, that portion of the order I cannot be expected to honor. Nevertheless, you will note that in all other respects the order has been fully complied with, although the individuals concerned were afforded no opportunity to know what accusations, if any, were made against them and have had no opportunity to be heard. Compliance with your order was based upon the settled purpose of the management to cooperate as fully as may humanly be possible with any branch of the Government having any authority in the matter whatsoever.

Frankness compels me to say that the method adopted in ordering the foregoing suspensions could have only an adverse effect upon the practical operation of the affairs of the company. Furthermore, I regret to say that certain sources, which I am not presently prepared to identify, have sought to shake the confidence the company enjoys with the various Government agencies with which it does business.

A little more restraint and a little less disposition to condemn upon the basis of ex parte statements would seem to be indicated. In my judgment this company cannot be successfully operated by remote control. There should be an intimate and frank cooperation between the company management and your Department. That frankness and cooperation I not only would welcome but most earnestly solicit. It lies well within your power to achieve this result. I stand ready, and so do the officers and directors of the company, to consult at any time with regard to any feature of the business of the company. If this course does not appeal to you, I shall have to assume that your



Honorable Henry Morgenthau, Jr.  
January 29, 1942

5.

Department desires to manage the enterprise in every detail without reference to the wishes, the advice or the experience of the officers and directors. I cannot believe that you would wish to assume such a heavy burden or so great a responsibility. Moreover, it would place me in an embarrassing position and render the task I have assumed increasingly difficult. In view of the fact that our objectives are, as I hope, identical, I would appreciate an authoritative word from you which would tend to clarify the present confused situation and prevent unnecessary friction.

Respectfully yours,

/s/ JOHN E. MACK

JOHN E. MACK  
President

December 5, 1941

The following statement was issued by Judge John E. Mack, President of the General Aniline & Film Corporation, this morning:

When I accepted the Presidency of General Aniline & Film Corporation, I made an announcement of the policies which would guide me and which were fully approved by the Board of Directors. These policies in brief are to improve the status of the Company, bring its affairs into harmony with the purposes and policies of the Government, and to establish this important enterprise, so essential to national defense, as unmistakably an American organization. It is, therefore, with great satisfaction that I am able to announce today that Ambassador William C. Bullitt, who is thoroughly in accord with the policies as set forth, will today become a member of the Board of Directors of our Company.

STATEMENT ISSUED BY JUDGE JOHN E. MACK  
FOLLOWING HIS APPOINTMENT AS PRESIDENT  
AND DIRECTOR OF GENERAL ANILINE & FILM  
CORPORATION, NOVEMBER 1, 1941

I have accepted a place on the board of directors as well as the presidency of the company after acquainting myself with recent developments in the management indicating a determination upon the part of a majority of that board to bring the affairs of the company into harmony with the purposes and policies of the government and to establish this important industry, which is now so essential to national defense, as unmistakably an American organization.

I have expressed to the directors my views and they are thoroughly in accord with the policy I intend to pursue. It seemed to me that there was here offered an opportunity not only to develop fully and completely an institution that was nurtured and grown on American economic soil, but to make certain that it was truly American in every sense of the word and completely free from foreign influence or domination. I conceived this to be a public service which I had no right to forego.



GENERAL ANILINE & FILM CORPORATIONOld SetupNew SetupOfficers

President - Schmitz  
 Secretary - Vom Rath  
 Treasurer - Williamson  
 Chairman of Board - Bosch

Mack  
 Gibbons  
 Williamson  
 Bullitt

Directors

Iselin  
 Schwartz  
 Schmitz  
 Breed  
 Hutz  
 Ford  
 Aichelin  
 Bennett  
 Williamson  
 Weiss  
 Vom Rath  
 Vacancy

Mack  
 Bullitt  
 Schmitz  
 Breed  
 Hutz  
 Budd  
 Stevens  
 Bennett  
 Williamson  
 Talbott  
 Baragwanath  
 Charles L. McCann

THE SECRETARY OF THE TREASURY  
WASHINGTON

Feb. 4 1942

Dear Judge Mack:

I am in receipt of your letter of January 29, 1942, and the two documents enclosed.

I agree that our objectives are, or ought to be identical. In consequence, I assume that you are in accord with the changes made by order of this Department on January 13, 1942. We were unfortunately unable to reach you prior to the issuance of the order but I can assure you that the decision was made only after a thorough examination of the facts.

I have asked Mr. O'Connell and the other Treasury representatives in New York who are supervising the operations of General Aniline and Film Corporation to consult with and cooperate closely with you or any of your officers or directors in pursuing our common objective.

I hope this exchange of views presages an improvement in the situation.

Sincerely yours,

H. Morgenthau, Jr.  
Secretary of the Treasury

Honorable John E. Mack  
President  
General Aniline and Film Corporation  
230 Park Avenue  
New York, New York.

## WAR PRODUCTION BOARD

Washington, D. C.

In Reply Refer To:  
EWR-2029 Temp R

February 14, 1942

Judge John E. Mack, President  
General Aniline and Film Company  
230 Park Avenue  
New York, New York

Dear Judge Mack:

I thank you very much for your very courteous interview.

I am very glad to know that you will cooperate in every way with the Government in turning out carbonyl iron powder for use in the Signal Corps. We are making an examination of the situation in Louisiana, but I will be governed to a great extent by the War Department and the Signal Corps as to what will be required to prepare for defense work.

If it is necessary to locate a new factory for this purpose in another location, we shall be glad to cooperate with you. I understand you will be glad to locate a factory (if necessary) wherever we desire. I note also that you have 110,000 pounds of carbonyl iron powder in reserve and can increase this amount, and that you will be glad to locate additional warehouses to store this surplus wherever we desire. I also note that at a reasonably small expense you can double your output of your Linden factory.

Very sincerely yours,

s/ E. W. Reid

E. W. Reid, Chief  
Chemicals and Allied  
Products Branch



February 16, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's Office  
February 16, 1942  
11:30 A. M.

Present: Mr. White  
Dr. Soong

Dr. Soong called at his own request. He reported that he had talked to Mr. Fox about the possible uses of the loan and that Mr. Fox had stated that aside from the general approach to the problem the matter had not yet been definitively discussed.

Dr. Soong showed Mr. White copies of two messages he had received. One was from Chiang Kai-shek to the President, sent from Delhi, thanking the President for the loan, and the expedition with which it had been granted at his request.

The second message was from Chiang Kai-shek to Wellington Koo, in which Wellington Koo was instructed to try to get the British not to set any conditions on their loan and was advised to keep in close touch with Dr. Soong on the matter.

Dr. Soong seemed concerned about his position in this matter. He said he would like to have it understood that he was acting solely as an intermediary for transmitting messages from his Government to the Treasury or reverse; that he believed the Generalissimo would insist on no conditions for the loan, and yet he appreciated the fact that Secretary Morgenthau might wish to impose conditions and he would be caught between the upper and nether millstone. Mr. White said that was something he could probably clarify with the Secretary.

February 16, 1942

Statement by Secretary Morgenthau before  
the Ways and Means CommitteeI. Introduction

I am here to offer my suggestions as to our first revenue act of the war. I hardly need emphasize the seriousness of the occasion. The task before us is to decide how this war is to be financed and how its cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and wisdom with which we attack these problems.

Victory in this war will demand expenditures on a scale for which there is no precedent. The President has announced a program involving war expenditures of \$52.8 billion in the fiscal year 1943. If we are to furnish the weapons to the men who are doing the fighting, we shall have to mobilize every possible dollar of our income. The President's Budget Message calls for an additional \$7 billion in addition to a Social Security Program of \$2 billion. This will

leave \$\_\_\_ billion to be borrowed. In so far as is possible this borrowing will be from the income and savings of the great mass of our people.

In the development of our program for financing the war, several principles should guide us. The first will be to facilitate the maximum production of war materials. This will mean that our usual ways of living will be drastically affected. We should not hesitate to change our ways of living in any way that helps the war effort.

On the other hand, it is important to the war effort to maintain a high standard of morale in civilian life. Still another consideration is that the readjustment after the war should not be made unnecessarily difficult. We must never forget that our first task is to win the war, but we must also remember that new problems will face us at the end of the war.

As we assemble for the consideration of the 1942 tax bill we are confronted with an economic problem which is intimately associated with the need of revenue. I refer, of course, to the grave threat of inflation. In war time money incomes are high due to full employment at high wages, while the quantity of civilian



goods available for purchase is not enlarged, and in general is actually diminished. Unless effective preventive measures are taken there will result a rapid general increase in prices.

While moderate price rises may stimulate production when resources are partially unused, a substantial price rise would be an unqualified evil at a time when we are approaching full utilization of our productive resources. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, allocations,

rationing, and the regulation of consumer credit are other parts of such an integrated program.

All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price and commodity controls are used.

Although increased taxes cannot by themselves solve the inflation problem, a much larger volume of tax revenue is necessary than will be collected from our existing tax system. My purpose today is to indicate the tax program which the Administration believes should be adopted at this time for the best interest of the country in the light of the considerations I have mentioned.

## II. Volume of Revenue

### A. Objectives of Tax Bill

In reaching the conclusion that the tax bill should raise \$7 billion of additional revenue, I have had in mind the fact that the social security program should be expanded both as to coverage and as to

protection, and that increased taxes and contributions for this purpose should be increased by approximately \$2 billion a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

B. Restraint of Inflation

The tax recommendations which will be presented have been framed also to promote the objective of curbing inflation as well as raising revenue. I have already indicated the menace of inflation and the manner in which taxes contribute to its restraint. The most effective anti-inflationary taxes are those which bear most directly on consumers' purchasing power. Since mass purchasing power is very largely in the low incomes, it is necessary to place heavier burdens on such incomes than would be justifiable if there were no inflationary danger.

The increased collections for social security taxes will also serve an anti-inflationary purpose.



C. Ability to Pay

In his recent Budget Message the President said that "progressive taxes are the backbone of the Federal tax system." Although the financing of the war requires taxes upon lower income levels to help in restraining inflation, we must not lose sight of the basic principle of our tax system, namely, that taxes should be fair and nondiscriminatory and imposed in accordance with ability to pay.

Taxation according to ability to pay leads me to recommend increases in taxes upon higher levels of income as well as lower levels. Another corollary of the principle of ability to pay is that special privileges in our tax laws should be removed. Another is that taxes not capable of being adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided. Finally, it is an essential of taxation according to ability to pay that undue profits should be recaptured wherever they occur. It is not necessary to allow unreasonable profits in order to secure maximum production with economical business management. Under conditions of a war time

economy the country cannot tolerate the retention of undue profits.

### III. Tax Recommendations

#### A. Removal of Special Privileges

There are in our tax system certain provisions which grant to relatively few of our people special advantages and privileges at the expense of the great mass who must pay what is thereby lost. I am unwilling to ask the great mass of the taxpayers of the United States to pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace--they are completely inexcusable in time of war.

An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt securities, however, persons with large taxpaying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting to any significant extent the great privilege of escape from war time burdens and surely the States did not offer the securities on any such basis. The holders

of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on future Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on future or outstanding State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, the gradual elimination of tax exemption through imposing taxes only on future issues had much to recommend it, but the national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities. ~~Unfortunately~~, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never been any contract or moral commitment between



the Federal Government and the security holders or the local governmental authorities regarding Federal taxation. It is true that some representations have been made in good faith by these governmental authorities on the strength of a mistaken interpretation of the Constitution. However, since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair minded experts in constitutional law have had no doubt of the Federal power and moral right to tax the income from State and municipal securities. Federal tax policy has never been static; new taxes and higher rates have always been adopted when necessary. Such changes, as well as the possibility of new interpretations of the Constitution, have always been an unavoidable risk of those subject to our laws. Where this involves special hardships in particular cases, I would recommend that effort be made to devise relief measures designed to alleviate the situation.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large taxpaying ability to pay virtually nothing in taxes. The

sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing in their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes." I should feel remiss in duty if I did not recommend the elimination of an exemption which prevents all Americans from contributing their utmost.

Further examples of special privileges which should be removed from our tax laws will be given to the Committee in the statement following mine.

B. Removing Other Discriminations

The inequities of our tax laws work in two directions. As I have said, some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Such inequities are like the defects in a picture--bad enough when the picture is on a small scale, but increasingly glaring as the picture is enlarged. With rates at war time levels it becomes urgent to correct all such defects.

I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

C. Individual Income Taxes

Most of the revenue that will be raised by the elimination of special privileges will come from the individual income tax. In addition, it is recommended that the individual income tax be changed to yield approximately 2.5 billion, or 50 percent, more revenue than will be yielded under the present law. In recommending this amount I have had in mind the fact that the great bulk of tax increases under the social security changes will fall on individual incomes.

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted according to amount of income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

If the income tax is to be an effective means of inflationary control, it must reach smaller incomes



than have been taxed in the past. A large proportion of the total income and of the increased income during the defense and war periods is received by persons whose incomes are too small to be subject to the income tax at present exemption levels. These are people whose incomes are so meager that only with the greatest reluctance do I suggest the lowering of the personal exemptions to \$1,200 for married persons and \$600 for single persons and \$300 for each dependent. I make this suggestion because I can see no alternative if there is to be effective control of inflation, and if we are to avoid the harsher alternative of a general sales tax. If any sales tax were enacted I would not be in favor of lowering the exemptions.

If we do reduce the exemptions, relief should be afforded to persons who have very small incomes, in that part of their income taxes should be treated as savings deposited with the Government, to be repaid after the war. The result will not only be the maintenance of purchasing power after the war when purchasing power may be badly needed, but also the assurance that the standard of living of these low income groups will not be permanently impaired.

Because of the lowering of exemptions and the addition of large numbers of taxpayers with small incomes to the tax rolls, it becomes essential to afford an easy way for the payment of income taxes. A provision for the collection of as much of the tax as possible at the source for those incomes that are paid periodically, including wages, salaries, bond interest, dividends, and royalties, is the best available expedient to this end. To institute such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary quick and substantial increases in the rate of tax collection, the institution of collection at the source cannot be postponed. Since it is not known how soon substantial increases in the rate of tax collection may be necessary for the restraint of inflationary price rises, it would be desirable to enable the collection of income taxes at the source at any time and at rates within the discretion of the Treasury up to \_\_\_ percent--

the rate applicable to the first dollar subject to normal and surtax. This will furnish desirable flexibility without imposing additional taxes that may not be necessitated by future economic conditions.

D. Corporation Taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3 billion, an increase of slightly more than 40 percent.

A large share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than have taxes which are generally applicable to all corporate earnings, irrespective of amount. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety and for continued incentive to produce. On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying capacity, if not their very existence. Excess profits taxes have the additional virtue of recapturing undue profits on war contracts.



The goal of \$3 billion additional corporate taxes cannot be achieved alone by increased excess profits taxes. The surtax rate applicable to all corporations must also be substantially increased. There should be no increase in the corporate normal tax because any such increase would result in an undesirable windfall to the holders of partially tax exempt Federal securities.

There can be no fair quarrel with the imposition upon corporations of a substantial proportion of the increased load of taxation required by our national peril. We are fighting for the maintenance of the very system of free enterprise which makes corporate profits possible. I am confident that incorporated business will willingly pay at such a time an additional amount of tax which will leave it in a position in which its profits after taxes will in the aggregate be at the level of corporate earnings during the pre-war years.

The imposition of corporation taxes at the level and in the manner suggested will require a very high rate of tax on any additional profits earned by corporations subject to maximum excess profits tax rates.

In the critical months ahead our patriotism will be put to the acid test. It must rise above the profit motive. National war production depending upon that motive alone may be tragically inadequate. This is a time in which we must forget profits and concentrate upon a supreme productive effort which alone will win the war.

However, it is recognized that very high top, or so-called "marginal rates," may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond 80 cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor.

When tax rates are very high it is more than ordinarily important that profits be accurately determined. The determination of profits on an annual basis necessarily depends largely on more or less uncertain prophecies of the future and some of these prophecies later turn out to be false. Some supposed profits prove, in the light of subsequent events, to be illusory; this sometimes happens, for example, to be profits due to the rising prices of inventories. In a period combining unusual uncertainty and high tax rates, such as the present, there should be in the tax law provision for the practical correction of tax liabilities based upon erroneous assumptions.

E. Estate and Gift Taxes

Increased revenues of approximately \$250 million should be obtained from estate and gift taxes. This will involve primarily an increase in rates. It will also call for somewhat lower exemptions and the further elimination of loopholes and special privileges which exist in the law at the present time.

F. Excise Taxes

New and increased special excise taxes are suggested to raise approximately \$ billion of additional revenue.



Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Most of them are imposed on commodities of which there is or will increasingly be a scarcity. The taxes yield needed revenue while conserving materials needed for defense. Those excise taxes not relating to commodities of which there is a particular scarcity have been chosen so as to fall on goods which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will permit maintenance of the demand for those commodities despite the higher taxes. The Government will thus secure needed revenue, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended and, indeed, I strongly urge that no such tax be made a part of this revenue bill. The general sales tax falls on

scarce and non-scarce commodities alike. It falls across the board on necessities and luxuries alike. It bears disproportionately on the low income groups whose incomes are almost wholly spent on consumers goods. It is, therefore, regressive and harmfully encroaches upon the standard of living. It increases prices and makes price control more difficult. It stimulates demands for higher wages and adds to the parity prices of agricultural products. It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is scarce.

#### IV. Conclusion

I would like to end my recommendations with a further plea as to their importance as part of our war effort. Your task is the hardest any Congress has ever faced. The consequences of failure are staggering. But--on the happier side--if our war financing is wisely done, war production will be encouraged, inflation will be curbed, public morale will be improved, and our economic world after the war will be in a better position to meet the inevitable problems following victory.

Such objectives cannot be painlessly accomplished. There must be temporary dislocation, hardship, and sacrifice. But I feel certain that we will all rise to the challenge presented to us. Taxes have been described by a great American as "the cost of living in a civilized society." It will be our privilege to pay that cost cheerfully.

This is the spirit in which the American people will want to approach the problem of financing the war.

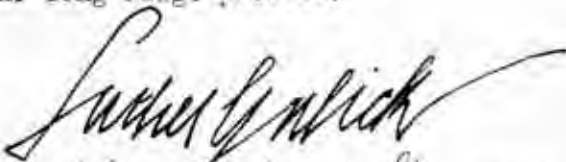


MEMORANDUM FOR THE SECRETARY

We are submitting herewith a further progress report of the work on intergovernmental fiscal relations and the over-all revenue system.

A report concerning Intergovernmental Fiscal Relations during the Defense Period was submitted on January 1. A further memorandum concerning immediate problems is now nearing completion. This covers the impact of war rationing upon the motor vehicle tax revenues of the States. Additional memoranda of this nature will be submitted later.

While considerable time has been and is being devoted to the gathering of data and the preparation of memoranda bearing on immediate issues progress is also being made on the long-range problem.

  
Harold M. Groves.

February 16, 1942.

PROGRESS REPORT: THE STUDY OF  
FEDERAL-STATE-LOCAL FISCAL RELATIONS  
AND THE OVER-ALL REVENUE SYSTEM

February 16, 1942

I. PROJECTS UNDERTAKEN IN THE TREASURY  
BY A SPECIAL STAFF RECRUITED FOR  
THE PURPOSE

Each of the major taxes in the Federal revenue system is being analyzed from two points of view:

- (1) How well does the tax function and is it a suitable element in the over-all tax system?
- (2) What are the proposals for coordinating State and Federal use of the tax and their respective merits?

These projects include the following:

1. The Federal and State Death Taxes - J. Lowell Harriss and Loren D. Melton. Mr. Harriss is the author of a book on gift taxation; Mr. Melton is the former statistician of the Oklahoma Tax Commission. The project contemplates the analysis of such proposals as the integration of Federal gift and estate taxes, the structural improvements of the Federal taxes, changes in the present Federal credit for taxes paid to States, and Federal collection with State sharing of revenue. The project has been largely completed and several memoranda on the subject are on file.

2. The Federal and State Income Taxes - Herbert Klarman. An initial study of the effects of the mutual deductibility of Federal and State income taxes in the calculation of the State and Federal tax liabilities has been completed. Further study is being devoted to State income tax institutions and various proposals for the coordination of Federal and State income taxes.
3. Federal and State Business Taxes - Gordon Keith and L. S. Hellborn. The proposal to disallow interest paid as a deduction in computing the Federal corporation income tax is being analyzed.
4. Federal and State Gasoline Taxes - Bristol Goodman. Mr. Goodman is on leave from the Bureau of Agricultural Economics. Proposals to eliminate conflicting taxation in the gasoline taxation field, among them that the Federal Government should abandon this field to the States, are being examined. A memorandum concerning the impact of war rationing on motor vehicle tax revenues is nearing completion.

#### II. OTHER PROJECTS IN PROGRESS AT THE TREASURY

5. Federal and State Liquor and Tobacco Excises - Bristol Goodman. Mr. Goodman has begun work on this project.



6. Migration of Industry to Escape State and Local Taxation - William B. Gates, Jr. A memorandum on this subject has been completed.
7. Problems of Federal and State Aids - Russell J. Hinckley. Mr. Hinckley is the author of a book on state grants-in-aid. This project now in process includes an analysis of allocation problems raised by the numerous Federal grants to States and local units.
8. A History of the Coordination Movement - Russell J. Hinckley. This project, now completed, summarizes the resolutions, reports, and laws adopted concerning intergovernmental fiscal coordination and submits an inventory of the organizations which have expressed an interest in this subject.

III. PROJECTS CONDUCTED IN THE FIELD AND IN  
CONJUNCTION WITH OTHER AGENCIES OF  
THE GOVERNMENT

9. Study of the Cost and Efficiency of Tax Administration - James W. Martin, University of Kentucky and former Tax Commissioner of Kentucky. This study is assembling the available information on the costs of administration and appraising the suitability of the administration of each tax at the Federal or State level and the possibilities of economy and better enforcement through

Federal-State cooperation. A staff assisting Mr. Martin is at work. The required information is being assembled by field work and correspondence. Mr. Martin spent some time in Washington establishing contacts and securing the cooperation of the Bureau of Internal Revenue. Several short informal memoranda offering suggestions for immediate improvements in Federal administration have been submitted to the Bureau.

10. Study of the Cost of Tax Compliance - A study, in conjunction with No. 9, was designed to provide a complete statement of the cost of tax machinery in the United States. It was to be sponsored by the Department of Commerce, with Treasury cooperation. The study was designed to cover a sample of approximately 10,000 taxpayers. It was planned to get more accurate data than could be obtained from questionnaires, the device previously used in such very inadequate studies as have been made. A weekly or monthly cost analysis and regular reporting of results throughout the year by each firm was proposed. Unfortunately on account of war developments the Department of Commerce was unable to proceed with this project.

However, some data on cost of tax compliance are being assembled by direct correspondence; in addition, in cooperation with the American Management Association plans have been made to bring previous information on the subject up to date.

11. Study of Elasticity of the Property Tax as a Possible Future Source of Local Revenues - George Mitchell. Mr. Mitchell has been released part-time by the Illinois Tax Commission. This project is proceeding to analyze important trends in State and local property taxation, particularly as to the future adequacy and elasticity of the tax as a source of future revenues in various types of communities. The cooperation of the Bureau of Census has been secured.
12. Summary of the Financial Transactions of all United States Governments - This project, undertaken in cooperation with the Bureau of Census, will provide summary information on tax collections, expenditures, debts and intergovernmental transfers, with breakdowns by governmental units, kinds of receipt and purposes of expenditure. The data assembled will be utilized in an analysis of the incidence



and effects of the overall fiscal system. Substantial progress has been made in gathering the necessary data and in planning the analysis on this project.

13. A Digest of the Literature Concerning the Complaints Against the Existing "Uncoordinated" Tax System - Mabel Newcomer, Vassar College. This project has been completed and is on file. A bibliography of literature in the field has also been submitted.
14. Analysis of Geographic Distribution of Wealth and Its Significance in Taxation - Mabel Newcomer, Vassar College. This project has been completed.
15. Comparative Study of Intergovernmental Fiscal Relations in Canada, Australia and the United States - Mabel Newcomer. This project is in process.
16. Jurisdictional Difficulties in the Application of the State Sales Tax - Neil Jacoby, University of Chicago. This project will include an analysis of the sales tax problems created by interstate transactions. Work on this project has begun.
17. A Study of the Division and Possible Reallocation of Governmental Functions - Clarence Heer, University

report has been completed and has served as the basis of discussion in the Treasury. Mr. Shoup has also prepared an extensive analysis of future revenues and needs of the Federal Government.

IV. ADDITIONAL PROJECTS UNDERTAKEN SINCE  
THE LAST PROGRESS REPORT

21. A study of the possible economies and other improvements which might follow from the consolidation and simplification of governmental machinery in the United States. Professor William Anderson of the University of Minnesota, well known authority in this field, has agreed to prepare a memorandum on this subject.
22. A type study of the fiscal problem of the New York metropolitan area. Professor Edward Spengler of Brooklyn College has started on this project. It is being undertaken under the auspices of the National Resources Planning Board with our cooperation. Changes in plans concerning the cost of compliance study have been previously noted.
23. A history of the Council of State Governments and other organizations promoting interstate fiscal

cooperation - Mr. Brownlow of the Public Administration Clearing House has agreed to submit a memorandum on the subject.



TREASURY DEPARTMENT

229

INTER OFFICE COMMUNICATION

DATE Febr. 16, 1933.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Memorandum of the Board of Governors of the Federal Reserve System on Treasury Financing.

I. Suggestions for Action Made in the  
Board's Memorandum

The Board of Governors in their memorandum make the following suggestions for action:

- (1) Tap Securities: The Treasury should issue two tap securities as follows:
  - (a) A short-term security with a maturity of 5 years (redeemable at the option of the holder on 60 days notice) with graduated coupons varying from  $\frac{3}{8}$ ths of one percent for the first 6 months to 2 percent for the final 6 months. This security would be available for purchase without limit as to amount by all classes of investors other than commercial banks.
  - (b) A long-term security with a maturity of 15 years or thereabouts, patterned after the present Series G savings bonds with an interest rate of 2-1/2 percent if held to maturity. This security would be available for sale to all investors other than commercial banks. The upper limit on the amount which might be purchased by any one investor in any one year should be "not less than \$1,000,000."

Secretary Morgenthau - 2

- (2) Treasury Bills: The supply of regular weekly Treasury bills should be increased to not less than \$2.6 billions (\$200 millions a week). Substantial amounts of Treasury bills should also be issued, coming due immediately after quarterly tax-payment dates. These should be in addition to the regular weekly series.
- (3) Borrowing from Banks: Necessary borrowing from commercial banks should be done by the issuance of short-term securities -- that is, "with notes and bonds with maturities not exceeding ten years."
- (4) Pattern of Rates: The Treasury and the Board of Governors should " . . . determine and establish a pattern of rates for United States Government securities which will fix, for the present, the general terms of Treasury financing."

In the opinion of the Board of Governors, " . . . the establishment and maintenance of such a pattern of rates does not require the excessive volume of excess reserves which has characterized recent years." It does, however, in their opinion " . . . contemplate that should excess reserves shrink to a point which endangers maintenance of the pattern the Reserve System will provide a sufficient volume of reserves to enable banks to assist the Treasury's financing to whatever extent is necessary."

## II. Comment

The following observations with respect to the Board of Governors' proposals appear pertinent:

### (1) Tap Securities

- (a) A short-term tap security for the purpose of absorbing funds of business enterprises rendered idle by allocations, rationing, etc., appears advisable at the present time. The security proposed by

Secretary Morgenthau - 3

the Board of Governors appears suitable for this purpose, although we should prefer the security proposed in our memorandum to you on this subject dated December 31, 1941.

- (b) The issuance of a long-term tap security such as that proposed in the Board's memorandum seems inadvisable at the present time. Such a security would be unlikely to reach any substantial volume of real savings which would not otherwise be obtained by the Treasury. It would, if offered at the terms proposed, tend to depress the market for outstanding Government securities by fixing 2-1/2 percent for a 15-year bond as a fair rate in the public's mind; and, in any event - regardless of terms - would greatly narrow the open market.
- (2) Treasury Bills: The Board's point with respect to increasing the outstanding amount of regular weekly Treasury bills to \$2.6 billions and making more liberal use of bill concentrations on tax dates seems well taken, provided that the market is well supplied with excess reserves. The adoption of this suggestion under present conditions, however, would merely run up the bill rate. This would have repercussions on the rates for other forms of Treasury borrowing, extending even to the longest maturities.
- (3) Borrowing from Banks: The Board's point that borrowing from banks should be accomplished by means of securities with maturities of not over ten years is well taken, although it presents certain technical difficulties in application.



Secretary Morgenthau - 4

- (4) Pattern of Rates: We do not believe that it is advisable to establish a complete "pattern of rates" from the longest to the shortest maturities. However, we do believe that it is feasible, and have previously urged, that the Treasury announce the highest rate that it proposes to pay for long-term money. Short-term rates would then have to be adjusted from time to time in such a way as to support the desired long-term rate. We believe that this will require a larger backlog of excess reserves than is available at the present time, and urge that action be taken as soon as practicable to increase this backlog.



TREASURY DEPARTMENT  
WASHINGTON

February 16, 1942.


MEMORANDUM FOR THE SECRETARY:

As I think Governor Gruening has told you, the Defense Bond project in Alaska has been made the subject of certain criticism by citizens who have objected to our having a paid assistant to Governor Gruening, who is serving as our Administrator.

The attached letter, for your signature, answers one addressed to me by Delegate Dimond, asking us to state the reasons for employing paid personnel. It is intended for distribution and publication in Alaska, as a means of bringing about a better understanding of our program in that Territory.

The letter was submitted to Governor Gruening and Delegate Dimond for criticism, and has been approved by them.

It has also been approved by Mr. Kuhn and Mr. Odegard.

  
GREVES.

February 11, 1942

Dear Mr. Diamond:

Your letter of February 7, 1942, in regard to protests you have received from several of your constituents concerning the appointment by the Hon. Ernest Gruening, Governor of Alaska, of a Deputy Administrator to supervise and promote the sale of ~~Defense~~ Defense Bonds in the Territory, has been brought to my attention.

In it you ask: "Will you please inform me what justification, if any, exists for the appointment of such an agent or Assistant Administrator to have supervision of the sale of Defense Bonds in the Territory of Alaska, having in mind our common desire to promote rigid economy in every way? I shall much appreciate your giving me complete information on the subject so that I am able, in turn, to advise my constituents."

I am glad this matter has come to my attention, because it affords me opportunity to lay before you certain information which should help straighten out your constituents' misunderstandings. The Defense Savings Staff which has been established in Alaska is in line with the general plan which the Treasury Department has employed since the inception of the Defense Savings Program almost a year ago. Perhaps it will be useful for me to outline to you briefly the philosophy and policy behind it.

The task confronting the program is of such magnitude that from the beginning last Spring, we have sought to establish in each State a Defense Savings Committee, non-political in nature, to help inform the people about the program, and to persuade them to participate. The establishment of such a staff for Alaska has been handled on the same general pattern used in the other States and Territories.

An essential feature is that, to guide and aid its work, each such committee, made up of citizens representing each major group in the social and economic life of the State or Territory, shall have a full-time administrative staff, paid by the Treasury Department. Depending on the area and the number of people and organizations to be contacted, the Staff embraces an administrator with clerks, stenographers, typists, etc. This personnel is paid for several reasons. Because they are employees of the Government, their full-time work can be utilized and expected. Then too, they are subject to instruction and correction and can be expected better to carry out the details of the Program's plans, purposes, and philosophy.

It is the job of the Defense Savings Staff to persuade every American who is the receiver of regular income, to put a large part of that income into Defense Savings Bonds, regularly and systematically. This means reaching more than fifty million people in an effective way and causing them, of their own



free will, to buy bonds. To do this, we must have a very active program along many different lines. The detail involved is such that the program cannot possibly succeed without extremely hard work by organization staffs, just as also it cannot succeed unless it has the loyal and enthusiastic aid of hundreds of thousands of unpaid volunteers. The organized staffs are essential as suggesters, coordinators, catalyzers for the masses of folk who have the good will and the patriotism to want to do their utmost to help. It takes both types to give the Program the success that conditions demand.

From January, 1941, when we began formulating the Program, this has been our general approach. It must be kept in mind that this was several months before Hitler attacked Russia, and almost a year before Pearl Harbor. Then we were confronted with a general psychology with accent on defense rather than on all-out war. We had to set up our Program to fit the then-existing situation. Our staff had to be built from the ground up; necessarily we went forward on the well-known plan of trial and error.

We have tried to make haste slowly. The new staff here in Washington had to set up a field organization in each State and Territory. We could not do this in every State and Territory overnight. Some States were started first, others had to wait. For example, in Virginia, right across the Potomac from us, we did not get the State Chairman or Administrator or committee personnel until late September, and the State-wide organization meeting was not held until November. Alaska, too, happened to be a place in which delays held back the setting up of its Committee and Staff.

We have used the same general approach to the Alaska problem that we employed in the situation of the States themselves. Governor Gruening, who is ex officio Defense Savings Administrator for the Territory, is serving as such without compensation. When we asked him to perform this added duty, we knew that it would add to executive and administrative tasks already largely increased by Civilian Defense, Food and other rationing, alien fund control, and innumerable other new duties which already were burdening the staff at his disposal. Therefore we undertook to select a Deputy Administrator to carry on the Program there.

After canvassing persons qualified for the work, Mr. Frederick W. Ayer was selected for appointment. His qualifications and record were then investigated by the Treasury's Intelligence Unit and the United States Civil Service Commission, a procedure employed with all of those whose employment we consider. This takes time, and it was not until early December that the necessary investigations, approvals, and authorizations had been secured, and Mr. Ayer's appointment could be made. He was sworn in and our records show that he began his work on December 30, 1941.

Now as to the salary at which Mr. Ayer was appointed. We consider that the person who administers a State Defense Savings organization holds a position of importance, and he is put on a pay scale comparable to that of the similar personnel in other Treasury work in the area. This policy was followed as to Alaska. Mr. Ayer's salary is \$2,800 a year. It is expected that a paid stenographer will be furnished him. His office is in the Government building at Juneau, rent free.

The rumor that the Alaska Defense Savings Staff payroll is between \$10,000 and \$20,000 a year is obviously untrue. Such an unfounded report could be given circulation, it would seem, only because its sponsor had failed to seek the truth before starting the rumor. Such a course of conduct cannot but be depressing to the spirit of the people, and harmful to the National welfare.

Your letter states that the protests you have received seem chiefly to have arisen because of the belief that, "since the population of Alaska is relatively small, probably not more than 80,000 altogether, all necessary work in connection with the sale of Defense Bonds can easily and willingly be taken care of by volunteers, as was done, it is said, during World War I". And you quote a statement that "many people are actually refusing to buy Bonds, because their savings may be used for the salary of a paid promoter."

In the instance of Alaska, with its area of 800,000 square miles, it would seem especially unlikely that volunteers without staff assistance could be expected to do the whole job. Furthermore, the feeling that people giving full-time service to the Defense Savings Program should not be on the Government payroll, but should be unpaid volunteers, is one which obviously stems out of the patriotic determination of the people, that has existed since Pearl Harbor, to do everything within our power to aid the all-out fight for victory. It is but another evidence that the heart of the people is sound and firm.

We believe, however, that probably those who have written you did not give sufficient heed to the magnitude of the task confronting the Defense Savings Program. We have to do a tremendous number of different detail-consuming tasks. For months, the Staffs have been bringing the payroll savings plan to the attention of employers and workers over the country. An educational Program is under way in most of the States. Another of the duties of Defense Savings Staffs is to operate a speakers' bureau, arranging engagements for the presentation of information to clubs, conventions, mass meetings, etc.

In the last few weeks we have planned a nation-wide canvass of the people, through which there can be presented to every American who receives regular income the opportunity to help pay his part of the cost of the war by buying, regularly and systematically, Defense Bonds and Stamps. To give you an idea of some of our plans for this, I enclose herewith a booklet on "The Pledge Campaign," giving general suggestions and plans for this pledge campaign. These activities illustrate the multiplied demands for organizational work, the detail involved, the large amount of staff work called for, the supervision entailed, the records to be kept and reports to be made. It is only through such supervision, administration and assistance that the vigor and enthusiasm of the volunteers can be used as it deserves to be used.

This is only one of the many phases of the Program that calls for a continuing staff in every State and Territory, to plan, to make contact, to enlist volunteers, to keep the records and make the reports, to stimulate publicity by press, movies, and radio, to get these pledge cards signed.



such staffs work best when paid for the services they perform, and subject to the direction and instruction of superiors. And the cost is far from being equal to the amount of work done and results produced. As a matter of fact, the promotion costs of the Program have been just about one-tenth of one per cent of the money the Treasury has received for Defense Savings Bonds.

I shall not undertake to compare the total percentage cost of the sale of Defense Savings Bonds and Stamps with that for the various Liberty Loan issues in World War I. As a matter of fact, such a comparison would not be pertinent, because the types of bonds now being sold as well as the methods being employed in their promotion, differ substantially from those employed in the Liberty Loan campaigns. Then, for example, no limit was placed upon the amount of bonds any individual or corporation could purchase, nor were banks of deposit forbidden to purchase bonds, as now is the case; an individual, corporation, or bank could purchase \$100 or \$10,000,000, if desired. The Liberties, being mostly bearer bonds, had no clerical costs of registration, etc. Then, as now, there was much printed material, pamphlets, and other promotion items for general circulation among the people. But the methods for its distribution differed from those now used by the Defense Savings Staff.

The securities the Treasury is now selling seem better adapted to the interests of the purchasers. The Liberties were negotiable. They were quoted on the stock exchanges, and fluctuated in price, at one time going as low as 84. Defense Savings Bonds are not transferable, but the Treasury will redeem them at the full amount paid, plus accrued interest. This insures the bondholder against a depreciation in the money cost of the bond.

The most important of the differences between the Liberty Loans and the Defense Savings Program, however, is this: The Liberty Loan Campaigns were primarily fund-raising drives. Five in number, each had a total amount to be sold; a time limit within which the goal must be reached, and a definite quota assigned each district, State, county and city. The present Program has none of these characteristics. It has no "drives," no "quotas," no time limit except that of the National need.

Defense Savings Bonds afford the holder both the opportunity to create a personal financial back-log, and to help check inflation. Equally important, their continuing sale to the people is of the highest consequence to the Nation's success in the all-out fight for victory.

I trust that the foregoing affords you the information you desire concerning the Defense Savings Program. After you have examined it, please advise me if there may be any further data on the subject that we can furnish you.

Very truly yours,

(Signed) S. W. Woodruff, Jr.

Secretary of the Treasury.

By hand  
July 1-30  
5/19/42

Honorable Anthony J. Dimond,  
Delegate from Alaska,  
The House of Representatives,  
Washington, D. C.

Copy to W.M.C.  
File in Thompson



# **THE PLEDGE CAMPAIGN**

**Information and Suggestions to Chairmen and Administrators,  
State and Local Committees of the Defense Savings Staff**

**PLEASE READ CAREFULLY**



**Defense Savings Staff  
United States Treasury Department  
Washington, D. C.**

## Foreword

**WE ARE A NATION AT WAR.** Our lives, our liberty, our sacred honor are at stake. Dictatorships of extraordinary ruthlessness have invaded our outposts and imperiled our security and way of life. Americans everywhere have sprung to the Nation's defense, and are girding for the struggle.

Manpower is being mobilized for our armed forces. Our industries are mobilizing the tools for war. The United States Treasury is mobilizing money, the indispensable "sinews of war."

In this essential work, the Defense Savings Staff has the responsibility—and the opportunity—of conducting a great America-wide Canvass to recruit dollars from the people to preserve, protect, and defend the Nation. This great program is now ready to be launched throughout the Nation. It will be carried to every city and town, every village and hamlet, every group in our population. From everywhere there will be ready response—for we will be striking a blow for our country. That we are ready to strike this first great blow of the war is a tribute to the efforts you men in the field have put forth in the past few months organizing, enlightening, and preparing your workers for a task now indispensable in the vast war efforts of our united people.

HENRY MORGENTHAU, JR.,  
*Secretary of the Treasury.*

## IMPORTANT

It is recognized that States with many large firms requiring a vast army of volunteers in the contact, installation and follow-up on Payroll Savings may have a problem as to when their canvass shall take place.

The Pledge Card Canvass can be used to stimulate participation in Payroll Savings Plans and to create additional requests for such plans. If, despite these considerations, the State Administrator and State Chairman conclude that the adoption of the Pledge Card Campaign at this time would in any way confuse or delay their Payroll Savings work, they should select a later date.

Discretion as to *how the canvass shall be conducted*, as well as when it shall take place, will be left to the State Administrator and State Chairman.

It is hoped, however, that most States will avail themselves of this program at an early date.

★ ★ ★ ★

This pamphlet is issued to give detailed suggestions as to how the objectives of the Pledge campaign can be reached promptly and successfully. The suggestions it contains are designed to be of assistance to the field force of the Defense Savings Staff in planning, programming and administering a Nation-wide canvass of all persons of regular income, to promote savings for defense.

The purpose of the canvass is to secure a signed Pledge of cooperation from every receiver of regular income in America—a Pledge assuring that each person gainfully employed will systematically buy Defense Bonds for the duration of the war, either through Pay-roll Savings Plans, bank draft plans, or some other form of systematic investment. Tens of millions of Americans should sign these pledges.

In general, the information and suggestions contained in this booklet are believed to be applicable to most of the local problems likely to be encountered. It is recognized, however, that the types of committee organization vary among the States and that in almost every locality there exists a difference in local conditions to be met.

It is felt, therefore, that the field force supervising the canvass should regard the instructions herein as suggestions rather than inflexible orders. They can and should be adapted or modified to meet the individual communities' needs.

## The Purposes of the Pledge Campaign

THE TREASURY DEPARTMENT BELIEVES that this nation-wide canvass will serve the following purposes:

1. To secure, from every person in the United States who receives regular income, a signed agreement to purchase Defense Bonds under a systematic and continuing plan which, irrespective of all other means of financing the war, is absolutely vital to our armament program, our fiscal program and our economy now, as well as during the post-war period.
2. To obtain a comprehensive record of the number of persons who, prior to the canvass, were pursuing a systematic plan of buying Defense Bonds, and the extent to which they intend to pursue the plan. To ascertain from those who have not already embarked on a systematic plan of buying Defense Bonds the amounts they will regularly lend to the Government for the duration of the war.
3. Through the effective method of personal approach, to carry information concerning Defense Bonds to every person in the nation receiving regular income. It is believed that the campaign's promotional value alone will justify the effort devoted to it. Equally important with these goals are certain collateral objectives which the Pledge campaign can accomplish:
  - a. It will serve as a sort of trial run for our entire organization working together at top speed on a common problem.

Weak spots in State and local committees may be revealed and at the same time strengthened under the pressure of doing a specific task in a limited time.

Communities in which no Defense Savings Committees now exist will necessarily have to complete their organization immediately.
  - b. It has been one of the objectives of the Defense Savings program from

the beginning to so extend our organization that it will reach into every nook and cranny of the Nation. It has been our purpose to enlist the cooperation of outstanding citizens, not only in every State and local community, but among every group of people who might possibly buy Defense Bonds and Stamps according to some systematic plan.

It is not enough to present our program over the radio, in the press, and through other channels of publicity. Important as this publicity is, the ultimate success of the Defense Savings program will depend upon the person-to-person promotional work that is done from day to day, week to week, and month to month for the duration of the war. To carry on this "grass roots" promotional activity, it is vitally necessary that Defense Savings Committees or Defense Savings representatives be appointed to take responsibility for a limited number of people and to see to it that they invest as much of their current earnings as possible in Defense Bonds and Stamps every week or month throughout the year. For example, in every factory, department store or other place of business, committees or agents should be designated who can apportion the total personnel among themselves so as most efficiently and continuously to carry on the person-to-person promotional work that is so vitally necessary.

Ideally, this might mean a Defense Savings Committee or Agent for every 10 or 20 workers in a plant; for every 15 or 20 farmers, and for a similarly limited number of teachers, doctors, lawyers, salesmen, employers, and every other wage earning and income-receiving group.

Ideally, too, such committees and such agents should be recruited from among the group for which they have responsibility. Thus, a Defense Savings Committee, to reach every lawyer, should be made up of members of that profession. The Defense Savings Committee to promote the sale of Defense Bonds among workers in mines and factories should likewise be composed of men who themselves are employed in those mines and factories, and hence are in daily association with their fellow employees. Committees so composed will not only be in a position to carry on a continuous promotional effort, but because they enjoy the friendship and confidence of those to whom they appeal, their efforts are more likely to be successful.

The Pledge campaign should serve as an ideal vehicle for calling into existence and extending this type of organization. If this is done, we shall not only insure success for the Pledge campaign itself, but we shall have an organization which can follow through to the end that these Pledges may be fulfilled.



## The Pledge

The Pledge itself is printed below. It should be read with great care by everyone engaged in setting up, administering or supervising the canvass.

This Pledge is the foundation of the Pledge campaign. It is of the greatest importance, therefore, that all concerned with presenting it to the people shall have a thorough understanding of its character.

Inspection of the Pledge itself will reveal the following points:

1. The Pledge card is *not* an order form. It does *not* constitute a formal legal contract on the part of the Pledgor. It is a definite moral obligation on the part of the person who signs it, to purchase Defense Bonds on a regular plan.
2. The Pledgor agrees to carry on a systematic purchase program for the duration of the war, or as long as he is financially able to do so.

3. Four different plans for regular purchase of Defense Bonds are listed on the Pledge card. The Pledgor is to check the plan which he will use, or is using.
4. If, prior to signing, the Pledgor has already been following a systematic Defense Bond purchase program, the formal signing of the Pledge does not mean that he is adding a second purchase program to that which he had already undertaken. The Pledge form provides an opportunity for the Pledgor to indicate that he is following a definite plan at the time of signature and his copy will be acknowledgment thereof.
5. The Pledge is a *confidential* agreement and under no circumstance will the information which it contains be disclosed either to other Pledgors or to the general public.

To provide the Pledgor with tangible evidence of his participation in financing defense, stickers will be provided for display on automobile windshields, doors and windows of dwellings, shops, etc. This sticker, designed by the Art Department of the Defense Savings Staff, will be an effective and appealing reproduction of the Minute Man of the Revolution, with the wording "We are buying Defense Bonds and Stamps." It is expected that this sticker will aid greatly in encouraging the enrollment of Pledgors.

## Suggestions to State Chairmen and Administrators

In order to conduct the Pledge campaign certain important steps should be taken *at once* by State Chairmen and State Administrators. Among these are the following:

1. If the set-up of city, town, county or other local committee organizations is incomplete in any State, the formation of such committees at the places unorganized or only partially organized should be undertaken and completed immediately. A review of existing committee organizations should be made with a view to bringing them to war strength. No effective canvass can be carried on where the organization is inadequate or incomplete.
2. State Chairmen and State Administrators should be sure that each local committee now includes representatives from each major social, professional and economic group of the community. Only by having a local committee, the membership of which represents a good cross-section of community influences, can appropriate canvass workers, methods and coverage be assured.

U. S. Treasury Department  
Defense Savings Staff

### PLEDGE FOR REGULAR INVESTMENT IN DEFENSE SAVINGS BONDS

NOTE—This is not an order form. The Signer will buy Defense Savings Bonds by one of the methods listed below.

To aid the National Defense, I pledge that,

I will invest the sum of \$\_\_\_\_\_ in Defense Savings Bonds (or Stamps) each

I will buy these Bonds:

From a post office, bank, or other sales agency.

By mail from the Treasurer of the United States, Washington, D. C.

Under a Pay-Roll Savings Plan (or other similar arrangement for regular purchasing) in effect at my place of employment:

(Employer's name) \_\_\_\_\_ (Employer's business address) \_\_\_\_\_

Through a regular purchase plan installed by the following organization:

(Name of organization) \_\_\_\_\_ (Address) \_\_\_\_\_

If you are already purchasing Defense Bonds systematically, please indicate the type of plan when signing this agreement. Also check here:  week  month

I will faithfully fulfill this pledge for the duration of the War or so long as I am financially able to do so.

FOR DEFENSE BUY UNITED STATES SAVINGS BONDS AND STAMPS

(Print) \_\_\_\_\_ (Given name) \_\_\_\_\_ (Middle initial) \_\_\_\_\_ (Last name) \_\_\_\_\_

\_\_\_\_\_ (Street and number) \_\_\_\_\_ (City) \_\_\_\_\_ (State) \_\_\_\_\_

\_\_\_\_\_ (Date) \_\_\_\_\_ (Signature) \_\_\_\_\_

(Name of Organization and Agent Enclosing Pledge) \_\_\_\_\_

D. S. S. 28

3. Steps should be taken to insure that each local committee meets promptly, with full attendance of members arranged in advance. Definite plans should be made at such meetings for a thoroughgoing Pledge campaign for the community concerned, along the lines previously and subsequently suggested.
4. Each State Chairman and State Administrator should make sure that an adequate supply of Pledge cards is available for the use of each local committee.
5. Local committee chairmen and other canvass supervisors should have impressed upon them that *under no condition* are the solicitors to accept from Pledgors money to be used for the purchase of Bonds or Stamps, or in part payment therefor. Persons indicating the desire to purchase immediately should be referred to regular outlets. Canvassers also should be cautioned not to leave blank Pledge cards with a prospect, for later signature, save in exceptional circumstances. A repeat call by the canvasser is much preferable.
6. Full advantage should be taken of the cooperation offered by the many organizations and groups which have volunteered their help, and that of their offices, staffs, and members, to the Defense Bond Program. Among such organizations are:

American Legion  
 American Legion Auxiliary  
 General Federation of Women's Clubs.  
 Veterans of Foreign Wars  
 Boy Scouts  
 National Association of Life Underwriters  
 American Association of Life Insurance Presidents  
 American Bankers Association  
 U. S. Chamber of Commerce  
 Investment Bankers Association  
 National Electrical Manufacturing Association  
 Democratic National Committee  
 Republican National Committee  
 National Association of Mutual Savings Banks  
 Labor Unions  
 Women's Organizations

and many others known to local committees.

7. It is important that State Chairmen and Administrators give local chairmen careful and detailed instructions in regard to the handling of signed Pledge originals and duplicates. Local chairmen should make plain to canvassers and their immediate supervisors the need for exercising great care in preserving these signed Pledges and in forwarding them to the designated officer at the central office of the local committee.
8. The Pledge is in triplicate. The original signed Pledge is for the records of the Treasury Department, at Washington. The duplicate is for local record; it is either to be retained by the local committee, or sent to State headquarters. In each State the State Administrator will determine which of these plans for keeping the duplicate Pledge will be used. The third copy is to be retained by the Pledgor, as a record of his participation. It can be readily displayed by the Pledgor in cases where he is solicited more than once.
9. A designated officer at the central office of the local committee should be instructed to transmit the original Pledges to the Field Director, Defense Savings Staff, Washington, D. C. In those States in which each local committee keeps the signed Pledge duplicates, proper facilities for filing these must be provided. Where this plan is employed, complete report of Pledges should be made to the State Administrator at the end of each week, or at such other intervals as may be stipulated by him. This report should set forth the number of Pledges secured, the number of originals forwarded to Washington, and the location of the files containing the duplicates. In those States in which the signed Pledge duplicates are to be forwarded to the State Defense Savings Staff headquarters, local committee chairmen should see to it that they are forwarded there with reasonable promptness, and in accordance with the desires of State Headquarters.
10. The State Chairman and Administrator in each State should urge the chairmen of local committees to arrange as soon as they can do so, suitable space to be used in the enrollment, instruction and headquarters for canvassers. In most communities, courtrooms, schoolrooms, city hall quarters, etc., should be available for assembly or meeting purposes.
11. State Chairmen, State Administrators and staffs will find it highly advisable to order the printed literature needed for the campaign as soon as possible. Specifically, orders should be placed early in the preliminary phases of the program for the following: (1) *The Pledge Campaign—Suggestions to Chairmen, Administrators, State and Local Committees*; (2) *Handbook for Canvassers*; (3) *Stickers*.



12. In each State, the State Chairman and State Administrator should lay careful plans for the most effective possible publicity and promotion campaign prior to and during the actual canvassing. The importance of the Pledge campaign should be brought to the attention of the directing heads of newspapers, radio stations, and motion picture theaters. Their cooperation should be solicited for a planned and sustained program strong enough to launch the activity impressively in each part of the state. Speakers Bureaus of all local committees should have Pledge card talks of three or four minutes duration presented at every meeting and public gathering in every community for a period of at least two weeks before the start of the canvass. Schools and labor organizations should likewise be visited by speakers, or announcements arranged for, so that no group is overlooked.

The Trade (Retail and Wholesale) Committees should request every merchant using any medium of advertising to tie suitable copy into his message urging all-out support to the Pledge canvass.

Every effort should be made to promote programs of a State-wide nature—such as State-wide broadcasts, billboard tie-ins, street car and bus cards, etc.—so that the State is blanketed with Pledge card information before the canvass begins. If this is well done, a good part of the job will have been accomplished to insure public acceptance and support.

### Method of Canvass

1. It is not intended to lay down any hard and fast rules for the conduct of the canvass throughout the Nation. In each State, the responsibility for the success of the program will rest with the State Defense Savings organization, including the local and county committees. These groups will be expected to design methods to meet the varying problems and conditions found in the different local communities. While it is not intended that the Pledge canvass start throughout the Nation simultaneously, it is suggested that the campaigns be State-wide unless some exceptional condition should prevent all parts of the State from beginning at the same time. The date for each State's program shall be left to the discretion of the State Chairman and State Administrator. Thoroughness in planning and conducting the campaign is more to be desired than speed.

2. The first step in the organization is to arrange a meeting with the local committee heads, or a series of meetings throughout the State with all members of the local committees, including any additional permanent appointees that are necessary to give you full representation of every section of the State. Included, too, should be representatives or heads of any labor, social, civic, commercial, or patriotic groups that are not now represented on your local com-

mittees. You may then decide to set up special Pledge Card Committees, or use your local organization as a whole for a Pledge Card Committee. The so-called Pledge Card Committee in each community (city, town, county, parish, or district) would then set about to district its area and secure workers. The number needed will depend on the geographic area and the population involved. The organizations listed in Section 6 of "Suggestions to State Administrators" (page 6) have recently offered their services to the Defense Savings Program. In addition there are many groups, such as the D. A. R., Rotary, Kiwanis, Lions; fraternal orders such as Masons, K. of C., I. O. O. F., Elks, Moose; professional associations, such as medical societies, bar associations, numerous neighborhood and community clubs, citizens, associations, Labor Union Auxiliaries, Parent-Teacher organizations, and numerous women's clubs. All these can be called upon to take part.

The following suggestions for the actual conduct of the canvass are offered for your serious consideration:

#### a. Group-Occupation Canvass.

This canvass would be conducted by having a committee set up to handle each of the major occupational groups which, together, include a majority of the people with regular income in the Nation. This committee would contact every person within its group at his place of business or employment. In towns and cities where Community Chest, community drives, or centralized annual charity drives are held, similar plans of contact with the employee at his or her place of employment have been successfully carried out. In every factory, store, office or other place of business, committees or agents would be designated within the firm to carry out the Pledge Canvass. These committees could then serve as permanent Defense Savings Committees in these places and among these groups. A list of such groups and places of employment, showing the number of workers in each, is available in every town and city. To understand how the "Group-Occupation Canvass" can reach most of the people with regular income without unnecessary duplication, we have but to study the following occupational statistics from the United States Census:

(Figures taken from Statistical Abstract of the United States)

Manufacturing and Mechanical Industries . . . . .	14,110,652
Includes such groups as:	
Carpenters . . . . .	929,426
Manufacturing Foremen . . . . .	338,504
Mechanics . . . . .	638,253
Painters, Glaziers . . . . .	528,931
Clothing Industries . . . . .	488,909
Food Industries . . . . .	224,416
Iron, Steel, Machinery . . . . .	651,398



<i>Transportation and Communication</i> . . . . .		3,843,147
Includes such groups as:		
Telephone Operators . . . . .	248,884	
Mail Carriers . . . . .	121,233	
Truck and Tractor Drivers, Draymen and Teamsters . . . . .	1,083,642	
(Not including drivers for bakeries, stores, and laundries, which are included under <i>Trade</i> .)		
<i>Trade</i> (All retail, wholesale and jobbing establishments) . . . . .		6,081,467
Includes such groups as:		
Salesmen, Saleswomen, Clerks . . . . .	2,470,994	
Retail Dealers—including managers, su- perintendents, and small dealers . . . . .	1,703,522	
<i>Clerical</i> . . . . .		4,025,324
Includes such groups as:		
Stenographers, Typists, Bookkeepers, Cashiers, Accountants, Messengers, Office Help, and Unclas- sified Clerks.		
<i>Public Service</i> . . . . .		2,749,438
Includes such groups as:		
Municipal, county, State, and Federal, exclusive of military and not otherwise classified—such as clerical, etc.		
<i>Professional</i> . . . . .		3,253,884
Includes such groups as:		
Doctors . . . . .	153,803	
Lawyers, Judges, and Justices . . . . .	160,605	
Teachers . . . . .	1,044,016	
Nurses . . . . .	294,189	
Dentists . . . . .	71,055	
Clergy . . . . .	148,848	
Technical Engineers . . . . .	226,249	
Musicians and Music Teachers . . . . .	165,128	
<i>Forestry, Fishing and Mining</i> . . . . .		1,234,792
Includes such groups as:		
Coal Mine Operatives . . . . .	621,661	
Lumbermen, Raftsmen and Woodchop- pers . . . . .	162,233	
<i>Agriculture</i> . . . . .		9,562,059

Persons employed in Manufacturing and Mechanical industries, Transportation and Communications, Trade, Forestry, Fishing and Mining, and Clerical groups total nearly 30,000,000. Practically all of these can be reached at their place of employment through a systematic block-to-block or occupational canvass, by committees or agents, each responsible for a limited number of persons. Some groups can best be reached through arrangement with their central headquarters or through their central organization. Thus, mail carriers could be reached at the post office or central mail depots by committees or agents designated by the Postmaster or by an official of their own organization. Similar arrangements might be made in the case of Telephone Operators, Railway Employees, and Mine Workers.

It would be possible, in like manner, to reach all public and governmental employees. Professional groups, such as Teachers, Doctors, Lawyers, Dentists, and Nurses can most effectively be canvassed through committees of their own professions.

#### b. *Rural Canvass.*

The United States Department of Agriculture has volunteered to handle the Pledge campaign among all farmers and ranchers in every State in the Nation. The rural canvass will be conducted through the active cooperation of the State and County U. S. D. A. War Boards, which are composed of representatives of most of the governmental Agriculture agencies operating in the States and counties. The Chairmen of the War Boards are the ranking Agriculture Adjustment Administration officials, in each State and county. The AAA has made one request of the Defense Savings Staff, namely, that these Agricultural War Boards be given the exclusive responsibility for the rural canvass so that there will be no conflict of duties, or duplication of effort by other farm organizations.

*It is very important that each State Administrator contact the State Chairman of the U. S. D. A. War Board and arrange for proper contact between the local Defense Savings Chairman and the County U. S. D. A. War Chairman. Together they can work out the details of the canvass, distribution of cards and literature, as well as the collection of cards after the canvass.*

Thus, through the "Group-Occupation" and Rural Canvass, 44,860,763 persons can be given an opportunity to sign a Pledge Card. If well planned and conducted, such a canvass need not involve any serious duplication.

#### c. *House-to-House Canvass.*

The successful carrying out of the "Group-Occupation" and Rural Canvass would still leave between 10 and 15 million people that had not been given an opportunity to sign a Pledge. Each and every home in every community could

be visited by a canvass worker and efforts made to obtain Pledges from all persons with income who have not already been reached—such as, many members of the families of numerous people already pledged, who have income available and consequently should be given an opportunity to sign a Pledge. Only in this way can everyone be reached. The duplication of this effort can, at worst, be charged to effective promotion for the Defense Savings Program.

The house-to-house canvass will call for a well laid-out plan of organization and will require the help of thousands of workers in the metropolitan areas and hundreds in the less populous towns and cities. These workers can be secured from many sources, but the list of organizations suggested (page 6) should be very helpful. Districting of towns and cities can be worked out by the local committees with the aid of precinct leaders, experienced Red Cross workers, election officials, etc. Workers should be gathered together in each of the many districts for guidance and instruction and the distribution of pamphlets, Pledge card and sticker supplies. You may have as many workers as one or two to each block in every town and city. With the thousands of offers of cooperation that have reached the Secretary from heads of innumerable organizations (see Section 6 of "Suggestions to State Administrators"), it is not anticipated that obtaining workers will be a problem, but that the big task will be to organize and utilize their efforts.

d. "Clean-up" Canvass.

Another suggestion that might be used to augment your other canvass activities is the staging of a clean-up "M" Day, or days, to be held throughout the State. At such time, some central locations—such as schools, city halls, civic auditoriums, precinct polling places, etc.—could be kept open for volunteer Pledge-signing by anyone not reached by the Group-Occupation, Rural, or House-to-House Canvassers. With the cooperation of Governors and Mayors, some public celebration might be held in conjunction with such an effort if the number of Pledges already received indicated that many had still not signed. This would serve as an added opportunity for anyone who, for any reasons including lack of understanding, had not signed earlier in the campaign. A further suggestion for "clean-up" activities would be to form special committees in every organized club, group, society and association for a recheck of their own membership."

### **Conclusion**

It is the confident belief and expectation of the Treasury Department that the vast, Nation-wide field organization which has been engaged in furthering national defense through the promotion of regular purchase of Defense Bonds and Stamps will move into this new project with assurance and pride. The success which has characterized its earlier efforts affords a basis for complete confidence in the outcome of this new campaign.

Today, patriotic devotion and pride of Government is surging over the land. Americans everywhere are ready to do their utmost to bring victory. This Pledge will offer millions of our people the opportunity and the privilege to help save America, and to help secure their own future at the same time. The Defense Bond Program opens wide the path to participation in a program which will help to make sure that "Government by the people shall not perish from the earth."

R. W. SPARKS,  
*Field Director,*  
*Defense Savings Staff.*



239

COPY SENT TO MRS. MORGENTHAU  
2/20/42



240

TREASURY DEPARTMENT  
WASHINGTON

February 16, 1942.

MEMORANDUM FOR THE SECRETARY:

Herewith I give you a memorandum regarding the erection of murals in additional railway stations.

We are going ahead with Kansas City.

GRAVES.

TREASURY DEPARTMENT

241

INTER OFFICE COMMUNICATION

DATE 2/12/42

TO Mr. Graves

FROM Mr. Mahan

KANSAS CITY MURAL

Occupies most prominent space in Kansas City Terminal. Center panel, 40 feet by 50 feet. Soldier and Sailor, approximately 33 feet high. Will cost between \$12,000 and \$15,000 at the outside.

OTHER RAILWAY STATIONS

We have checked 22 railway stations including Washington, Los Angeles, San Francisco, Chicago, St. Louis, and New Orleans. In no case is it practical to build a mural on the same scale as Kansas City. Smaller murals might be constructed in St. Paul, Buffalo and South Station, Boston. But it is our feeling that murals at these points would not be sufficiently impressive to justify their erection.

Accordingly, we are proposing a demountable outdoor mural which might be displayed in Washington and then moved to other locations such as Boston, Chicago, Detroit, Los Angeles, San Francisco.

SUGGESTED OUTDOOR MURAL

As indicated by the color sketch, this would be a triangular tower displaying 3 outside murals similar to Grand Central with approximately 30 photographic murals, showing resources of the United States and its people, around the base below the main panel. This tower would be approximately 75 feet high and 75 feet wide across the base. The interior would house 3 large inside murals and approximately 40 information panels showing Army, Navy and Civilian war effort together with war materials and their cost. The interior would also house 3 Defense Bond and Stamp booths visible from the exterior.

Approximate cost, \$60,000 to \$65,000.



RAILROAD STATIONS CHECKED

1  
Washington  
Los Angeles  
San Francisco  
Chicago (Union & Northwestern)  
St. Louis

New Orleans  
Boston (South Station)  
Detroit  
Pittsburgh  
Cleveland

Buffalo  
Seattle  
Dallas  
Portland  
San Antonio

Fort Worth  
St. Paul  
Omaha  
Denver  
Houston

Atlanta  
Jacksonville



243

## TREASURY DEPARTMENT

WASHINGTON

February 18, 1942.

MEMORANDUM FOR THE SECRETARY:

I am planning, unless you have some objection, to be in Chicago Friday and Saturday of this week (February 20 and 21), to meet with the people of our Illinois and Michigan Defense Savings organizations.

From Chicago I intend to go to Jacksonville, Florida, to attend a similar meeting of representatives of our organization in Florida, Georgia, Alabama, Tennessee, and North and South Carolina. This meeting will occur next Tuesday and Wednesday (February 24 and 25).

If I make these trips, I will be absent from Washington from Thursday evening, February 19, to Friday morning, February 27.

  
GRAVES.

244

Daily changes in the stock of Series E savings bonds on hand <sup>1/</sup>  
(In thousands of pieces)

	: Number of : pieces sold : : this day :	: Number of pieces : manufactured : this day :	Stock on hand at close of day	IBM deliveries this day
Feb. 3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-
14	87	none-closed	18,807	-

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

February 16, 1942

<sup>1/</sup> Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.



UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Twelve Business Days of February and January 1942 and December 1941  
 (February 1-14, January 1-14, December 1-13)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Office	\$ 48,872	\$ 76,833	\$ 25,353	-\$ 27,961	\$ 51,480	- 36.4%	203.1%
Series E - Banks	184,639	208,339	47,376	- 23,700	160,963	- 11.4	339.8
Series E - Total	233,511	285,171	72,729	- 51,660	212,442	- 18.1	292.1
Series F - Banks	29,546	31,088	9,424	- 1,542	21,664	- 5.0	229.9
Series G - Banks	147,160	124,732	61,650	22,428	63,082	18.0	102.3
Total	\$410,218	\$440,991	\$143,803	-\$ 30,773	\$297,188	- 7.0%	206.7%

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

February 16, 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

Daily Sales - February 1942

On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
Total	\$ 48,872	\$184,639	\$ 29,546	\$147,160	\$361,345	\$233,511	\$ 29,546	\$147,160	\$410,218

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

February 16, 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.

## TREASURY DEPARTMENT

247

## INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 16, 1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending February 14, 1942.

Summary

(1) Weekly business indexes after allowance for seasonal factors have declined somewhat from the record high levels attained in the latter part of January. Due largely to a contraseasonal drop in freight carloadings arising in part from the curtailment of automobile production, the New York Times index of business activity dropped 3.0 points to 136.4 during the first week in February. Barron's index of business activity during the same period declined 1.7 points to 142.8.

(2) The trend of commodity prices has flattened out recently. The BLS index of basic commodity prices held virtually unchanged last week. In the previous week the all-commodity index declined 0.2 percent to 95.7. At this figure, the index stood 27.6 percent above the pre-war level of August 1939.

(3) The cost of living again rose sharply last month. The BLS index of living costs for January is estimated to have risen 1.3 percent above the previous month. The greatest rise occurred in clothing costs, 2.9 percent, while a rise of 2.7 percent in food costs was sharper than in any month since last June.

(4) The gain in department store sales over year-earlier levels has narrowed considerably since the middle of last month. Sales in the first week of February were 20 percent above year-earlier levels as compared with an extreme gain of 45 percent in the week ended January 17. Retail prices of typical department store items at the end of January were 17 percent higher than on the corresponding date in 1941, rising 1.8 percent during the month.

(5) Steel ingot capacity of the United States during 1941 increased 4,418,000 net tons to 88,570,000 net tons, a gain of 5.3 percent. This compares with a gain of 3.1 percent during 1940. Pig iron capacity last year increased 4.8 percent to over 60,000,000 net tons.



Business activity slackens moderately

Business activity in the early part of February has shown some signs of moderate slackening, after rising to new high levels on a seasonally-adjusted basis in the latter part of January. Thus the New York Times adjusted index of business activity turned downward in the last week of January after having advanced to a record high in the week ended January 24. Largely due to a sharp decline in the first week in February, the index at the end of the two-week period was down 3.2 points from its recent high and stood at 136.4. (See Chart 1.) A somewhat similar trend has been shown by Barron's index of business activity, which declined 1.7 points in the first week in February to 142.8, after rising to a new high in the last week in January.

Conversion of automobile industry retarding factor

The decline in the New York Times index in the first week of this month was due principally to a contraseasonal decline in freight carloadings. However, this decline in turn was due partly to the sharp drop in automobile output, as manufacturers virtually ended production of passenger cars.

The Purchasing Agents Association of Detroit reported last week that in the Detroit area general business conditions were not as good as a month earlier, due to the curtailment in automobile production. The Association guessed that business in the area would be on the downgrade for from 4 to 6 months. It was admitted, however, that there were many differences of opinion as to how long it would take the automobile industry to transfer to full war-time production. The Detroit Board of Commerce has reported that factory employment in the Detroit manufacturing district at the end of January was 350,000 as compared with 420,000 a year earlier. Nevertheless, the WPB official in charge of converting the automobile industry to war production has predicted a shortage of labor in the area before the end of the year. Recently the President of the General Motors Corporation stated that the company expected to employ 272,000 workers by next December and 325,000 by June 1943, in contrast with the 235,000 peak of peace-time employment.

Commodity prices show little change

Commodity prices have tended to hesitate during the past several weeks, following sharp gains in December and the first half of January. (See lower section of Chart 2.) The BLS

index of basic commodity prices last week held practically unchanged, while the all-commodity index in the previous week (ended February 7) receded 0.2 percent to 95.7. At that figure, the all-commodity index stood 27.6 percent higher than the August 1939 pre-war level.

The all-commodity index, nevertheless, has gained sharply since our entry into the war. (See upper section of Chart 2.) The index of 95.7 for the latest week represents a gain of 3.8 percent since the week before the Pearl Harbor attack.

#### Cost of living sharply higher

The sharp rise in wholesale commodity prices has been quickly reflected in the cost of living, which in January showed one of the largest increases since the beginning of the war. The BLS cost-of-living index for January (as estimated from the published Conference Board index) is expected to show a gain of 1.4 percent over December and 13.6 percent over the pre-war level of June 1939. (See Chart 3.)

Clothing costs showed the sharpest increase in January, advancing 2.9 percent during the month, with increases in the retail prices of men's clothing being particularly pronounced. The index of food costs resumed its steep climb with a rise of 2.7 percent, the sharpest since June 1941, which carried it 24.1 percent above the June 1939 pre-war level.

#### Price changes for individual basic commodities

Prices of agricultural commodities were influenced somewhat last week by efforts of the farm bloc in Congress to formulate legislation which would partially nullify present attempts of the Price Administrator, in cooperation with the Secretary of Agriculture, to keep farm prices under control. Despite OPA warning of a presidential veto on restrictive legislation of this nature, a move is reported under way to attach a rider to the OGD appropriations bill prohibiting the sale of farm products below parity prices by any Government agency.

Price changes for individual basic commodities since December 6, just before our entry into the war, are shown in Chart 4, lower section at right. Among the 12 basic food-stuffs, it will be noted that hog prices have shown the large advance of 26.9 percent since December 6, followed respectively by lard, barley and corn. Among the raw industrial materials, flaxseed shows the largest gain, 24.7 percent. Nine of the materials in this index which are under price restrictions have shown no price change since December 6.



At the left of Chart 4, lower section, a longer time comparison shows the price change for each commodity since the pre-war August 1939 level. It will be noted that cottonseed oil heads the list in the foodstuffs group, with a rise of 151.7 percent, while shellac shows the maximum gain among the raw industrial materials, 233.3 percent. The large increases shown by most agricultural products are particularly outstanding.

#### Hog prices continue sharp advance

With hog prices at their highest levels for this season in 16 years, there is talk of the possibility of a price ceiling on pork products. Allowing for seasonal adjustment of the parity price, as prescribed in the price control act, the farm price for hogs may now be very close to 110 percent of parity. Several problems stand in the way of a ceiling, however. There is hesitancy to take any action that would disturb production incentives needed for filling the huge war-time pork requirements. Moreover, it is possible that the prospective seasonal increase in marketings beginning in March will result in lower prices.

#### Planting of acreage allotments to be enforced

Statutory powers of the Department of Agriculture, which in the past have been used to force compliance with lower production objectives, will be used this year to enforce planting of higher 1942 acreage allotments to ensure ample supplies of certain crops, it has been announced. Deductions in benefit payments will be made in the case of peanuts and potatoes if the grower plants less than 80 percent of his allotment. In the case of rice, ten times the payment rate will be deducted for every acre under the full allotment. This is the first instance of the Department's using deductions from benefit payments with the aim of increasing rather than decreasing production.

#### Increase in steel capacity

During the past week, the American Iron and Steel Institute announced that steel ingot capacity of the United States at the end of 1941 was 88,570,000 net tons, a gain of 4,418,000 net tons, or 5.3 percent, during the course of the year. This gain compares with an increase of 3.1 percent in 1940. The most notable gain during 1941 occurred in electric furnace steel capacity, which was expanded 45 percent.

In 1941, 5 new blast furnaces went into operation and 5 old furnaces were rebuilt and put into service. As a result, pig iron capacity increased 4.8 percent to over 60,000,000 net tons during the course of the year.



Pig iron production in January fell below the record levels of the previous month, although the decline was less than 1 percent. Steel ingot production in January also slipped moderately below that of December, although the month's output was still the fourth highest on record.

Despite the recurrent complaints of the shortage of scrap, weekly steel operations have been reported at above 96 percent of capacity since the beginning of the year, and last week moved up 0.5 point to 98.2 percent. (See Chart 5.) However, these operating rates have somewhat overstated the situation, since they have been calculated on the basis of capacity existing at the middle rather than the end of 1941.

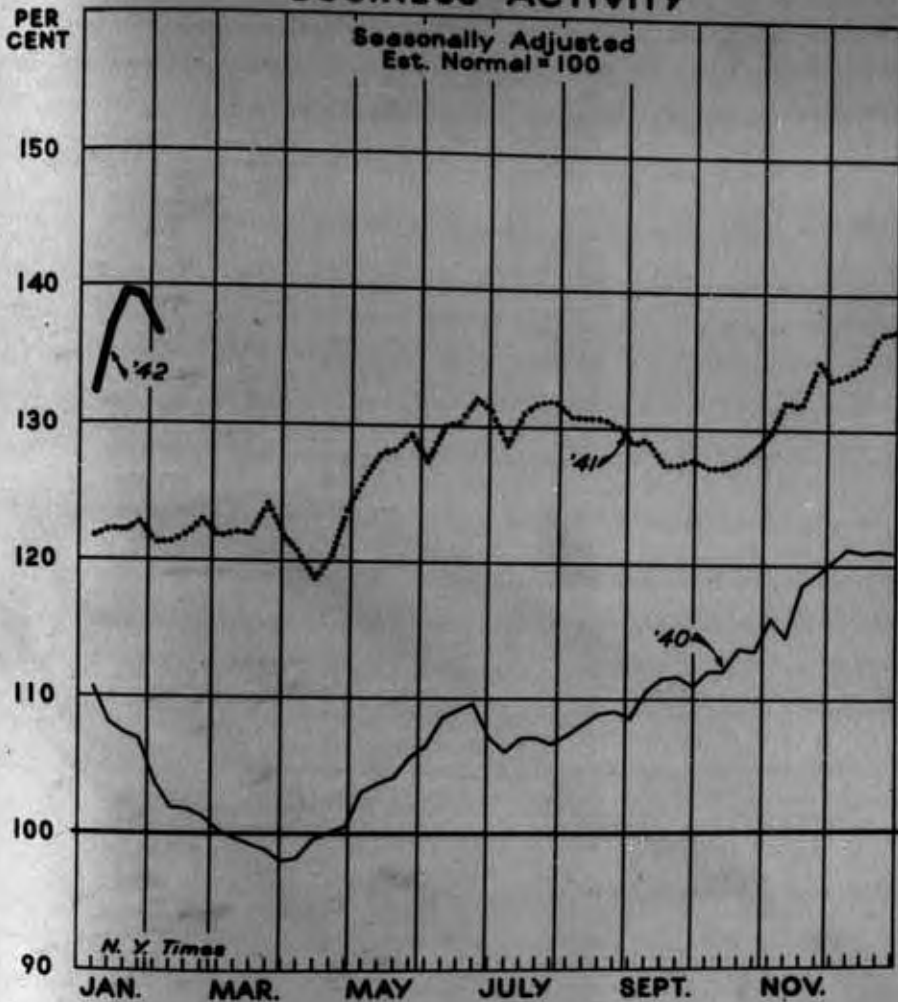
During the second half of 1941, the country's steel ingot capacity was increased by more than 2,400,000 net tons, or 2.8 percent. Thus, calculated on the basis of year-end capacity, January steel ingot output actually averaged 94.7 percent, whereas the previously reported weekly operating rates, based on mid-1941 capacity, averaged slightly over 97 percent of capacity. During the current week, steel operations are scheduled at 96.2 percent of capacity (revised basis), as compared with 95.5 percent in the previous week. On a tonnage basis, output scheduled for the current week represents the second highest on record.

#### Department store sales gain narrowing

The gain in department store sales over year-earlier levels has narrowed considerably since the middle of last month. In the first week in February, sales ran 20 percent above year-earlier levels, as compared with 29 percent in the previous week, and no less than 45 percent in the week ended January 17. Figures for last week's sales are not yet available, but a leading trade source reports that the pace of retail sales in general was not as fast as in the previous week.

In line with preliminary estimates, the Federal Reserve Board's adjusted index of department store sales for January rose to a record high of 138, or 4 points above the previous peak reached last August. At the same time, the retail price of department store items as measured by the Fairchild Publications index rose 1.8 percent during the month, showing the sharpest rise since last September. As a result of this further rise, prices at the end of January were 17 percent above year-earlier levels. If allowance is made for this rise in prices, it will be seen that the sales gain in the first week in February (20 percent) represented only a minor increase in the volume of goods sold over that of the previous year.

### BUSINESS ACTIVITY

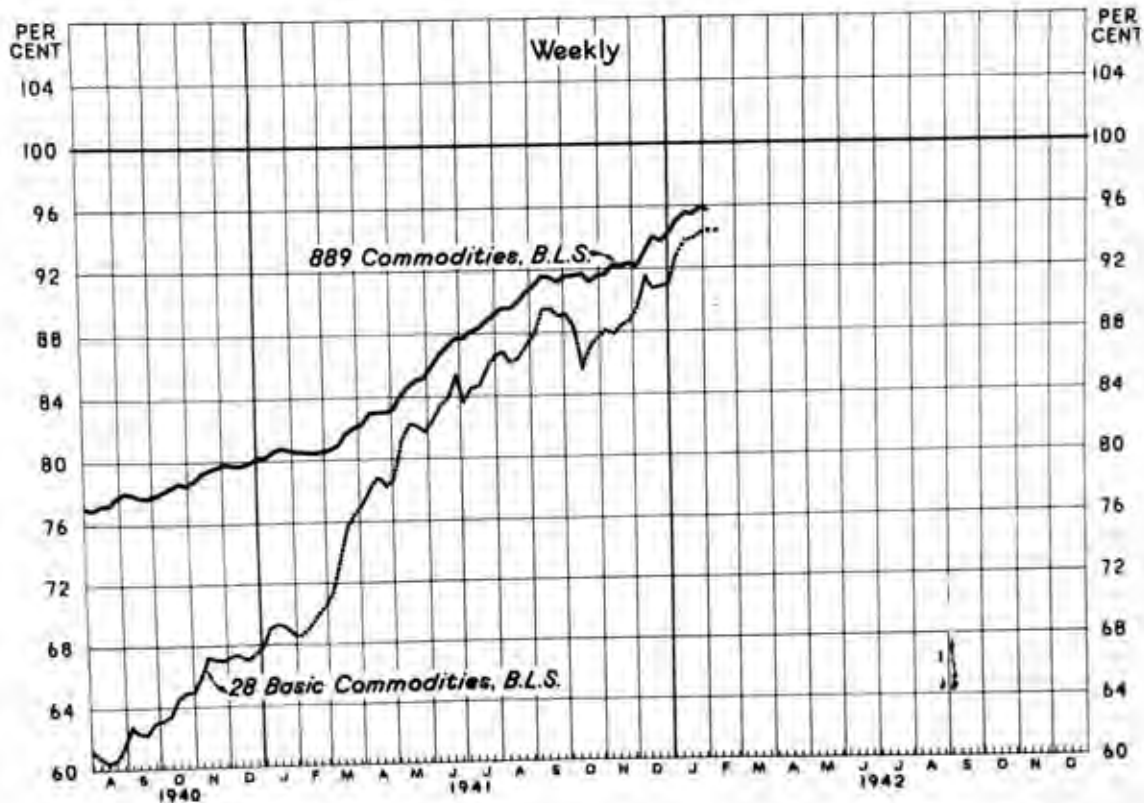
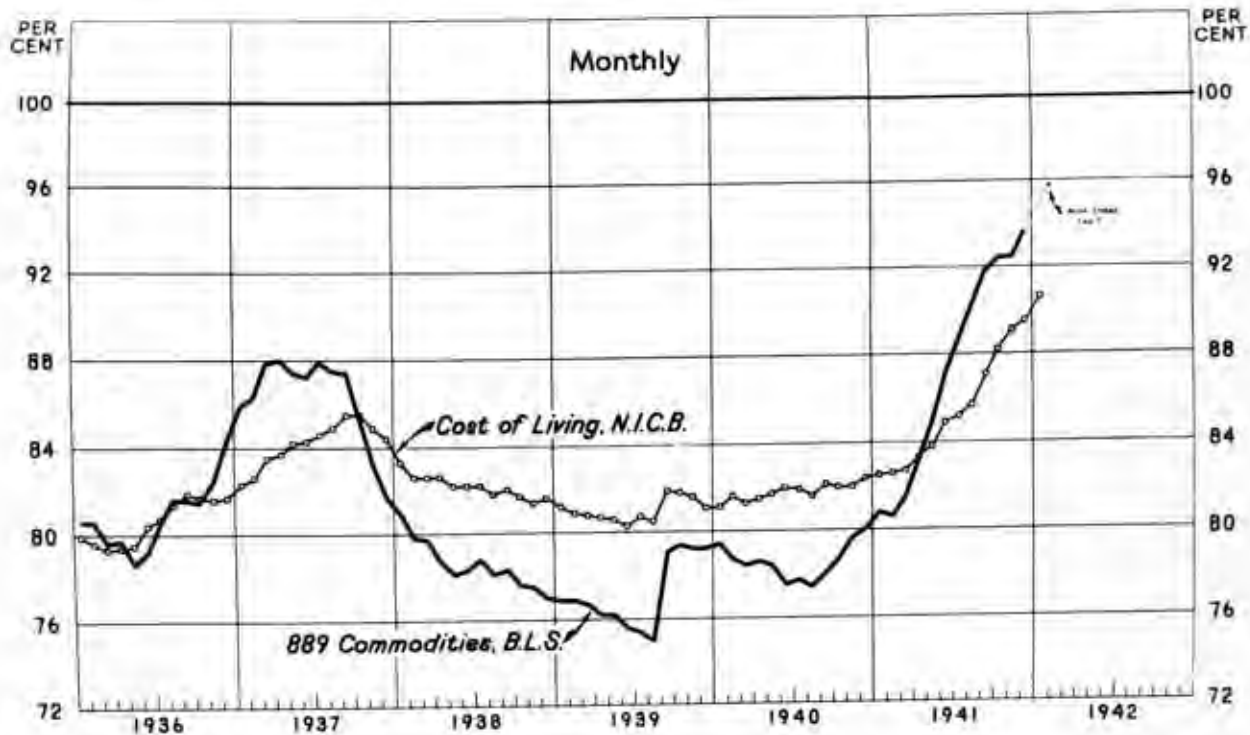


Office of the Secretary of the Treasury  
Division of Research and Statistics

C-410-A

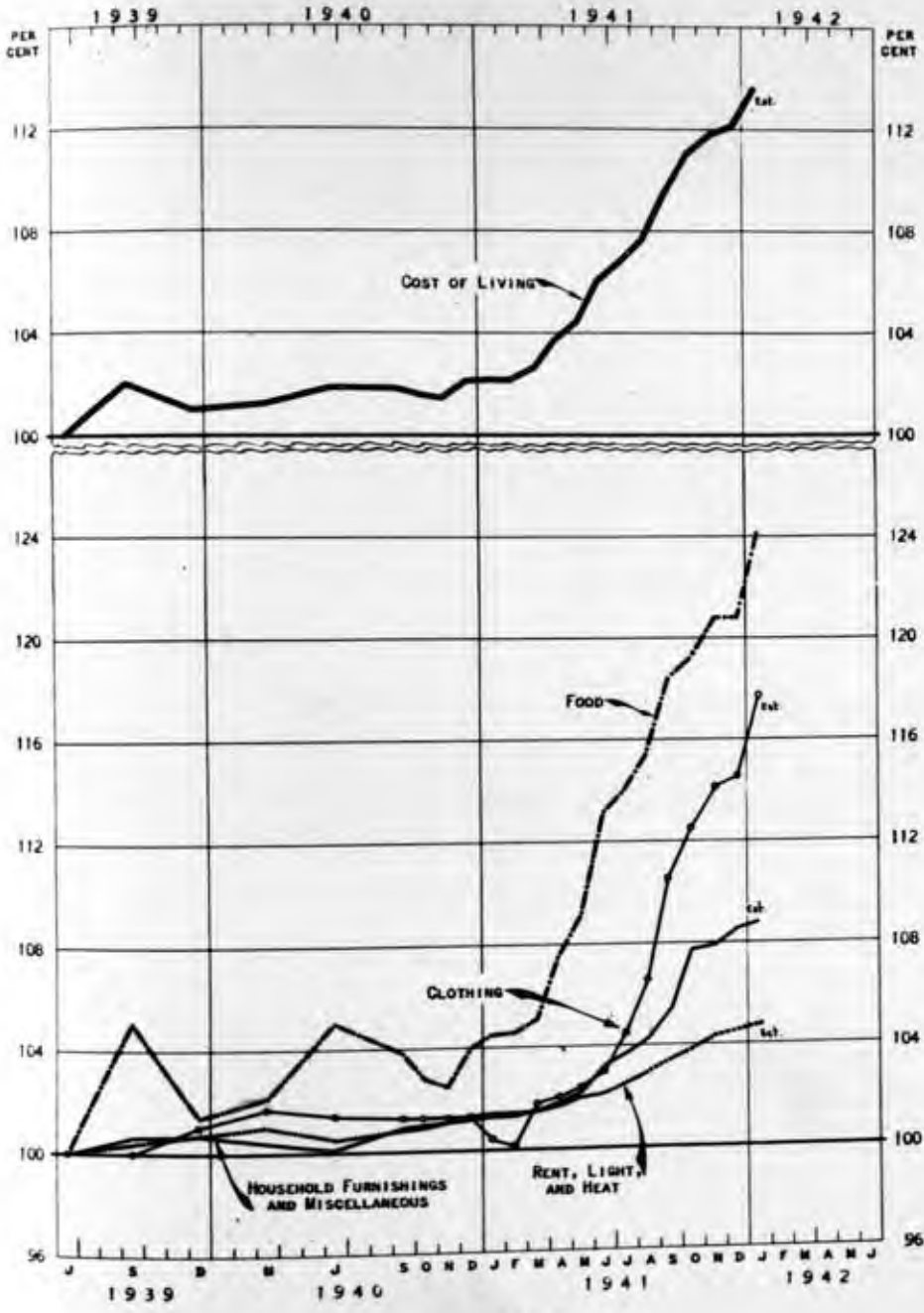
# COMMODITY PRICES AND COST OF LIVING

1926=100





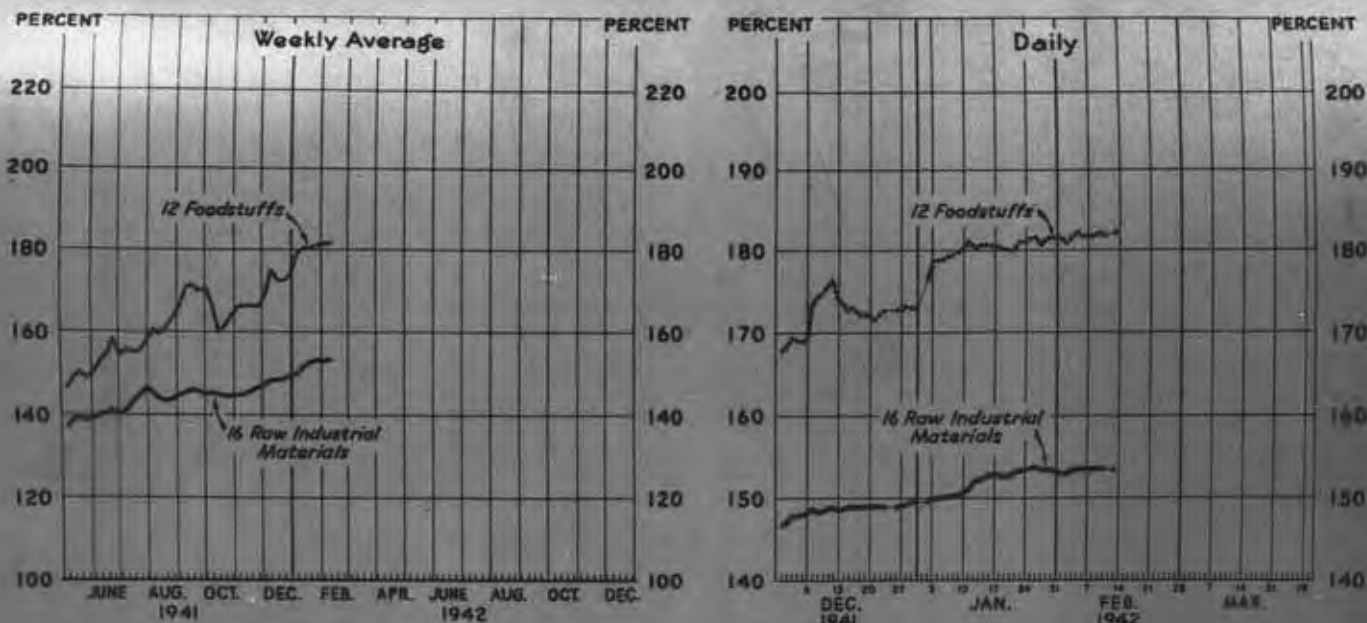
**COST OF LIVING AND SELECTED ITEMS**  
 JUNE 1939 = 100



SOURCE: B.L.S.

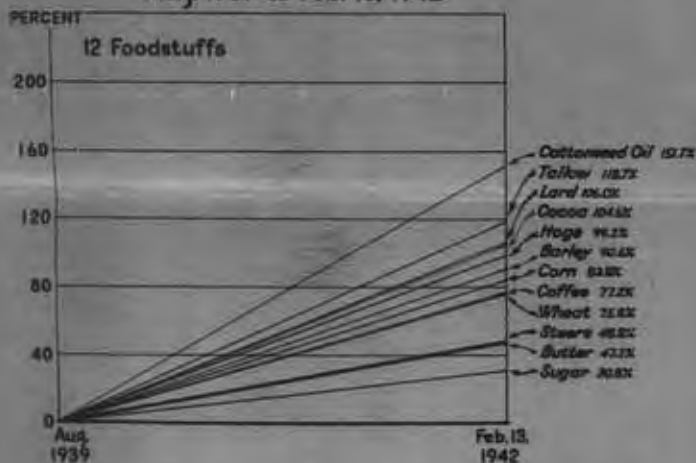
# MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

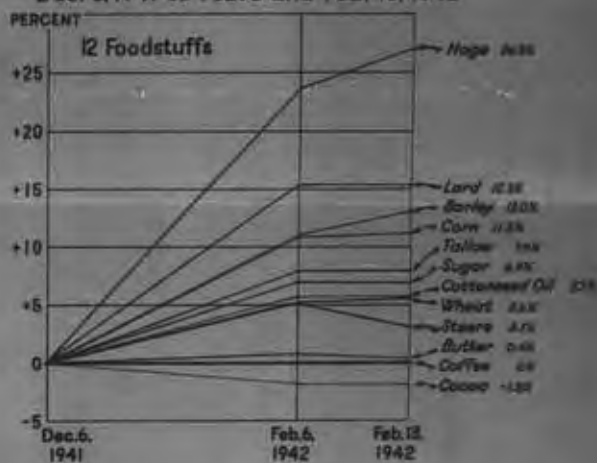


## PERCENTAGE CHANGE FOR INDIVIDUAL COMMODITIES

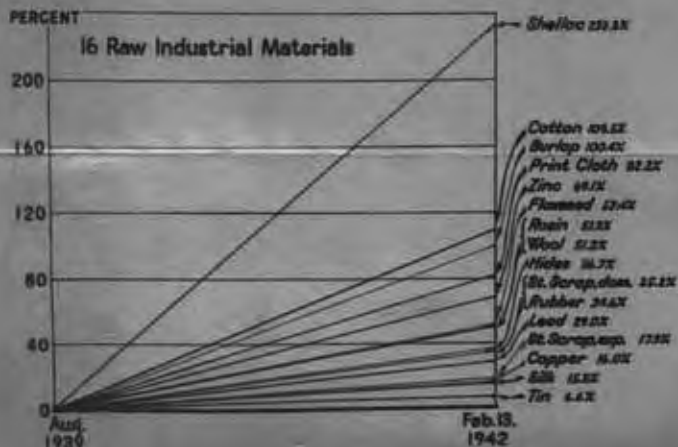
Aug. 1939 to Feb. 13, 1942



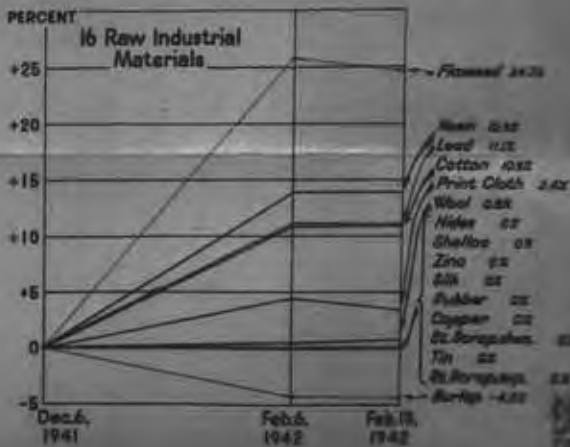
Dec. 6, 1941 to Feb. 6 and Feb. 13, 1942



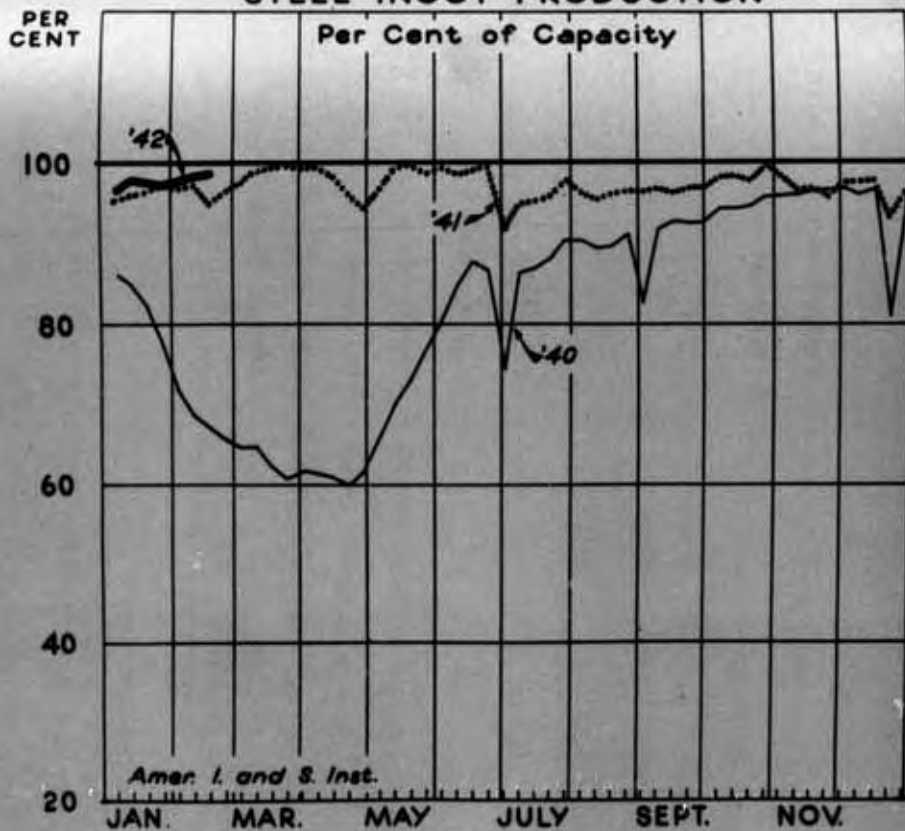
Aug. 1939 to Feb. 13, 1942



Dec. 6, 1941 to Feb. 6 and Feb. 13, 1942



# STEEL INGOT PRODUCTION





TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

357  
2

DATE February 16, 1942

TO Secretary Morgenthau  
FROM Mr. White

ADW

I am enclosing a statement of the gold and dollar assets of the United Kingdom and the dollar receipts and expenditures of the Sterling Area which was submitted to the House Appropriations Committee holding hearings on the new Lend-Lease Appropriation.

1. The Treasury was not asked to appear before the Committee, but the Committee asked for a statement for the record similar to that presented by Mr. Bell in September.
2. You may be particularly interested in the paragraph underlined in red. Mr. Bell and I thought it unwise to include this statement, but the British officials insisted upon it, stating that it had been written in London.
3. You will note that, excepting for the paragraph at the bottom of Page 1, there is no mention of any non-recurrent receipts, nor of any payments on the part of the United States for or by American troops abroad.
4. Later information received from the British indicates that the figure for E.P.M. payments due from February 1 to May 1 should be about \$15 million higher, or \$200 million, and that payments due after May 1 should be about \$15 million higher, or \$352.

Estimated Dollar Expenditures and Receipts of  
British Empire, excluding Canada and Newfoundland, <sup>1/</sup>  
February 1, 1942 to May 1, 1942  
(These figures are British Treasury Estimates)

(In millions of dollars)

Dollar Expenditures

A. Payments to the United States by the United Kingdom:	
1. On British Purchasing Mission commitments (Including administrative expenses) - net . . . . .	\$ 185
(In addition \$337 million will fall due after May 1, 1942 on B.P.M. commitments now outstanding)	
2. For shipping, interest, film remittances, etc. . . . .	40
3. For other goods and services, urgent or ineligible for Lend-Lease . . . . .	50
	\$ 275
B. Payments to the United States by rest of Sterling Area (principally Empire countries) . . . . .	
	110
C. Payments to areas outside U.S. requiring gold or dollars . . . . .	
	25
Total dollar requirements . . . . .	\$ 410

Dollar Receipts

A. Receipts from the United States by the United Kingdom:	
1. From merchandise exports . . . . .	\$ 25
2. From shipping and interest . . . . .	20
3. From other items . . . . .	20
	\$ 65
B. Receipts from the United States by rest of Sterling Area (principally Empire countries):	
1. From merchandise exports . . . . .	\$ 80
2. From shipping, interest, etc. . . . .	20
	\$ 90
C. Unidentifiable receipts of Empire countries <sup>2/</sup> . . . . .	
	15
Total dollar receipts . . . . .	\$ 170
Total dollar deficit of Sterling Area (principally British Empire), February 1, 1942 to May 1, 1942 . . . . .	
	\$ 240
Total dollar requirements . . . . .	\$ 410

In presenting these figures the British Treasury made the following statement with respect to acquisitions of gold: "It is not practical to make a close estimate of gold production. Some of the smaller sources of supply are close to the fighting zone. The availability of all newly-mined gold is affected by shipping conditions. In any case British holdings of gold and U.S. dollars are not held solely or specifically against our liabilities in the United States but constitute a partial cover for obligations and responsibilities of great magnitude and world-wide character. Gold currently acquired differs from our original stocks in that it can be acquired only by further increasing our overseas indebtedness."

There are some other dollar receipts that the British Treasury will receive during the next three months, but we cannot now know definitely how much they will amount to. They include dollar payments for wool already stored here and some other receipts on adjustment of existing contracts.

- <sup>1/</sup> These figures also include the gold and dollar expenditures and receipts of non-British members of the Sterling Area — namely, Egypt, Anglo-Egyptian Sudan, Iraq, Belgian Congo, Ruandi-Urundi, Faroe Islands, Free French territories in Africa and Oceania, Syria and Lebanon. The gold and dollar expenditures and receipts of these areas are small.
- <sup>2/</sup> This is a residual item. It may represent in part capital items, but probably reflects also such items as gifts.

- 2 -

## CONFIDENTIAL

Changes in British Gold and Dollar Exchange Assets,  
January 1, 1941 to January 31, 1942(Excepting where noted, these are British Treasury figures)  
(In millions of dollars)

	Jan. 1 1941	Sept. 1 1941	Jan. 31 1942	Decrease (-) or Increase (+) Sept. 1, 1941 to Jan. 31, 1942
Gold . . . . .	292	151	413	+ 262
Official dollar balances . . . . .	54	54	55	+ 1
U. S. securities . . . . .	616	372*	348*	- 24
Direct and miscellaneous invest- ments in U.S., including trusts for U.K. beneficiaries . . . . .	900	785**	785**	-
<b>Total</b>	<b>1,862</b>	<b>1,362</b>	<b>1,601</b>	<b>+ 239</b>
Deduct securities and direct investments lodged or to be lodged against the British loan of \$425 million from the R.F.C. (\$350 million of this loan has been received, and \$75 million is to be received.) . . . . .	-	500	500	-
<b>Total, adjusted for collateral lodged or to be lodged against the R.F.C. loan . . . . .</b>	<b>1,862</b>	<b>862</b>	<b>1,101</b>	<b>+ 239</b>
Private dollar balances . . . . . (This figure is taken from U.S. Treasury data.)	305	310	310	-

\* This figure includes the \$205 million of securities pledged against the R.F.C. loan.

\*\* This figure includes the \$295 million of direct investments pledged against the R.F.C. loan and the \$200 million of branches of British insurance companies whose earnings are assigned to the R.F.C. loan.



CONFIDENTIAL

British Gold and Dollar Exchange Assets  
as of January 31, 1942

(excepting where noted, these are British Treasury figures)

(In millions)

## AVAILABLE DOLLAR ASSETS

1. <u>Gold</u> . . . . .	\$ 413
(In addition, the British hold \$52 million of gold scattered in various parts of the world.)	
2. <u>Official dollar balances</u> . . . . .	55
3. <u>U.S. securities</u> . . . . .	143
(Of these securities the British estimate that only \$85 million is readily marketable.)	
Total - available dollar assets . . . . .	<u>\$ 611</u>

## OTHER DOLLAR ASSETS

1. <u>Private dollar balances</u> . . . . .	\$ 310
(This figure is taken from U.S. Treasury data. The British state these private balances are at a minimum necessary to the conduct of business and thus not available to the Government.)	
2. <u>Assets pledged against R.F.C. loan</u> . . . . .	500
U.S. securities . . . . .	\$ 205
Direct investments . . . . .	295
3. <u>Branches of British insurance companies</u> . . . . .	200
(The earnings of these companies are assigned to R.F.C. loan)	
4. <u>Trusts in U.S. held for U.K. beneficiaries</u> . . . . .	290
(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan, including branches of British insurance companies whose earnings are assigned to R.F.C. loan, and with Viscount and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January, 1941. There are in addition some small investments in U.S. enterprises which, because of their size, the British regard as virtually unsalable.)	

FEB 16 1942

Dear Dr. Kung:

I am glad to receive your letter of January 14, 1942, transmitted to me in person by Mr. Fox. It is indeed welcome during these trying times to receive a note from one with whom I have had over a period of years uninterrupted friendly relations. Your kind words about Mr. Fox are appreciated and I hope that he may continue to be of service to your Government.

The wholehearted and enthusiastic response of the American people and their elected representatives to your appeal for a loan of \$500 million bears witness to the high prestige and confidence your country enjoys in the United States. Now that the necessary Congressional and Presidential approval of the financial aid has been obtained, it is possible to proceed with the further arrangements. I am sure that they will be consummated quickly and happily for both parties, for China and the United States have only mutual interests and aims — the strengthening of China and the destruction of the corruptive forces of Japanese Militarism, German Nazism and Italian Fascism.

I understand that Mr. Fox has brought back a large volume of basic financial and economic data, the accumulation of which you were good enough to facilitate. These should prove helpful in our arrangements with China. During the discussion in which we shall very soon engage, I am sure that a number of opportunities will arise for an exchange of views as to what possible monetary, financial and economic measures might be taken which would contribute to meeting China's economic problems.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. H. H. Kung,  
Ministry of Finance,  
Chungking, China.

*Y. M. C. File  
via Diplomatic pouch  
via Dr. Kung*

HDW:AMF:JSE:dmb  
2-12-42

FILE COPY

Chungking, January 14, 1942.

The Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
United States Treasury,  
Washington, D.C., U. S. A.

Dear Mr. Secretary,

The opportunity for writing to friends in the United States is all too rare at a time when regular communications between your country and mine have been temporarily severed. Therefore it is a real privilege to be able to take advantage of Mr. Fox's visit to send you a brief note.

I deeply appreciate both the letter and the spirit of the message you were kind enough to send me through Mr. Fox. You have always demonstrated your friendship to China both in fair weather and foul. The agreement I had the honor of signing with you in July 1937 on the eve of the Japanese undeclared war of aggression set the tone for the cordial relations that have existed between the U.S. Treasury and the Chinese Ministry of Finance right through the years of China's travail. Throughout this period you have shown a sympathetic and helpful understanding both in word and in deed of China's problems. The close ties of friendship that bound our countries in the past have now been cemented in blood. I share with you the profound conviction that this war can terminate only in one way -- the utter and complete defeat of the Axis powers and the establishment of permanent peace in full accord with the principles of the Atlantic Charter, and the historical agreement of New Year's Day.

The economic and financial difficulties confronting all belligerent countries are particularly acute in the case of China which since the middle of 1937 has had to finance a costly and onerous war without being able to call on the resources of her richest and most developed provinces. While the outbreak of the Pacific war on December 7th assured China of ultimate victory, the immediate effect was at least for the time being to aggravate our economic situation. Our confidence in our ability to survive through the trying period ahead without economic collapse is strengthened by



- 2 -

The Honorable Henry Morgenthau, Jr.

the knowledge that now no less than in the past you will show a responsive awareness of my country's needs.

Owing to the difficulties in the way of normal communications, I am joining the Generalissimo in asking Mr. Fox to make a quick trip to Washington to be of whatever assistance he can to you with respect to the financial and economic problems of China. In the course of my association with Mr. Fox I have learned to respect him for his sincerity and his independent and outspoken judgment. His warm heart and cool head have made his advice and opinions all the more valuable. Your selection of him is typical of your wisdom in choosing the right man for the right place.

The Generalissimo and I have both acquainted Mr. Fox regarding the necessity of an immediate loan to China. He will, I am sure, be able to inform you of the military, economic and financial conditions and needs now prevailing in China and will explain to you, proposals of how we in China think these needs may be met in attaining a speedy and effective victory over our common enemy.

Through my own personal experience I know how great are the burdens and responsibilities of your office, especially at this time, but I should welcome any concrete or specific suggestions you may care to make with respect to possible monetary, fiscal and economic measures that might contribute to the improvement of our economic situation.

I sincerely hope that you are in the best of health. With kindest personal wishes and regards,

Cordially yours,

  
H. H. Kung

FEB 16 1942

Dear Generalissimo Chiang:

I read with great interest your letter of January 14, 1942, transmitted to me in person by Mr. Fox. The unanimity and promptness with which my Government responded to the appeal for financial assistance is evidence that your confidence in the support of the United States is well founded. It also demonstrated that the American people have faith in the Chinese people and know that you and your Government will continue to play a vital part in the common effort against our foes.

I wish you to know that here in the United States Generalissimo Chiang Kai-shek is looked upon as the personification of the heroism and courage of the Chinese people who, under the most difficult circumstances and at tremendous odds, have successfully defended their country against invasion. No one doubts in the United States that your leadership has secured for China the unity of purpose and will, without which China would have fallen victim to the Japanese aggressor. Moreover, the people of the United States clearly understand that China's unceasing resistance will not only bring freedom and independence to itself, but will play a major part in achieving victory and peace for free men everywhere.

Sincerely yours,

[Signed] H. Hergenthal, Jr.

Secretary of the Treasury.

Generalissimo Chiang Kai-shek,  
Headquarters of the Generalissimo,  
Chungking, Szechuan,  
China.

*n.m.c. Files  
Via Diplomatic pouch  
cc. La White*

HDW:AMF:JSV:dmg  
2-12-42.

FILE COPY

HEADQUARTERS OF THE GENERALISSIMO  
CHINAChungking, Szechuan  
14 January, 1942

Dear Mr. Secretary,

I have requested Mr. Fox to inform you in person of China's present financial and economic realities and needs. Throughout these critical years your support of China's cause has been most enthusiastic and sympathetic. You are now naturally more than ever concerned with our problems and difficulties, especially at the moment when our interests and destiny are absolutely identical.

If China's finance and economics fail to be improved and strengthened, our power of resistance against Japanese aggression will be so adversely affected that the entire war front of the allied Powers will inevitably suffer. My Government and people earnestly hope that your Government will give us the speediest and most effective assistance, and that, in compliance with my request and in accordance with the plan prepared by our Minister of Finance, you will exert your utmost to procure the desired loan for China. In view of actual war-time requirements this loan is not large.

I feel certain that in his verbal report Mr. Fox will enter fully into the military, financial and economic situations in China, and will explain in detail what bearing they have in the attainment of our common victory.

With best wishes,

Yours sincerely,

正 中 蔣

Chiang Kai-shek

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



## TELEGRAM SENT

NMC  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
agency. (BR)

February 16, 1942

1 p.m.

AMEMBASSY,

CHUNGKING (CHINA)

104

Department's 101, February 14, 2 p.m.

Repeat appropriate parts to Kunming for information  
that Treasury checks can be negotiated through the  
Central Bank of China.

HULL  
(FL)

FD:FL:BlcB

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Y

267

DEPARTMENT OF STATE  
WASHINGTON

February 16, 1942

In reply refer to  
PI 81B.01

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a paraphrase of telegram no. 44, dated February 11, 1942 and a copy of telegram no. 45, dated February 12, 1942, both from the United States High Commissioner to the Philippine Islands. These messages relate to the regime which it is reported has been set up in Manila under Japanese auspices.

Enclosures:

Telegram no. 44,  
February 11, 1942.

Telegram no. 45,  
February 12, 1942.

Copy:ec:2-16-42

C  
O  
P  
Y

268

PARAPHRASE OF TELEGRAM RECEIVED

FROM: U. S. High Commissioner, Fort Mills (Manila), P.I.  
TO: Secretary of State  
No.: 44  
DATE: February 11, 11 p.m.

Report is given in telegram 45 which follows on the regime which the enemy has set up at Manila. If it is possible, we will send details by mail. If you wish, we can amplify by telegram.

All efforts by the regime set up by the enemy to obtain exchange either directly or through third countries should be blocked and all possible steps should be taken to that end. It would seem prudent to guard against representation of either the Treasurer of the Philippines or the Commissioner of Finance as part of the unblocked Commonwealth Government, since the Treasurer may serve under the Commissioner of Finance.

SAYRE

811B.01/460

Copy:ec:2-16-42



EJ

(Manila)

Fort Mills via N.R.

Dated February 12, 1942

Rec'd 7:30 p.m., 13th

Secretary of State,

Washington.

45, February 12, 1 a.m.

FOR INFORMATION INTERIOR, TREASURY and other interested  
Departments.

Central Government reportedly set up in Manila under  
Japanese auspices.

One Council of State. According MANILA TRIBUNE January  
25th 30 prominent Filipino political leaders signed document  
January 23 addressed to Japanese military commander constituting  
themselves provisional Council of State as follows:

"In response to the message of Your Excellency as Commander-  
in-Chief of the Imperial Japanese forces, on the 8th of January,  
1942, through Honorable Jorge B. Vargas, we have duly and respectfully  
taken note contents thereof and respectfully express our gratitude  
for Your Excellency's words of solicitude over the welfare of our  
people.

We beg to inform Your Excellency that, in compliance with  
your advice, and having in mind the great ideals, the freedom and  
the happiness of our country, we are ready to obey to the best of  
our ability and within the means at our disposal the order issued

by the Imperial Japanese forces for the maintenance peace and order and the promotion of the well being of our people under the Japanese military administration. Consequently, we have constituted ourselves into a Provisional Philippine Council of State and we are immediately proceeding to draft our articles of organization in line with Your Excellency advice". Document signed by Jorge B. Vargas, Yulo, Paredes, Laurel, Aquino, Sison, Alunan, Recto, Rococo, Guinto, Rodriguez, Baluyut, Marabut, Aguinaldo, Madrigal, Fernandez, De Las Alas, Quirino, Zulueta, Tan, Lavidas, Tan, Lavidas, Avencena, Unson, Rocas, Sabido, Arranz, Hernandez, Ozamiz, Navarro and Perez. Four persons requested to sign document failed to do so namely Jose Fabella, Alfonso Mendoza, Jose Veloso and Prospero Sanidad.

Two. Executive Commission. According MANILA TRIBUNE January 28th an Executive Commission was organized under order no. one of Commander-in-Chief of Japanese expeditionary forces and members Area Vargas Chairman, Aquino Commissioner Interior, De Las Alas Finance, Laurel Justice, Alunan Agriculture-Commerce, Recto Education Health Public Welfare, Paredes Public Works and Communications, Sison Auditor General, Marabut Executive Secretary to Commission. Yulo is reported as Chief Justice of Supreme Court.

Three. Vargas in broadcast over KRRH Manila January 31st is reported to have said inter alia "In dealing occupied territory Japanese High Command has expressed deep desire follow benign and liberal policy predicated on willingness of people to cooperate with military administration in reestablishment peace and order and to that end has set up national civil administration intended among other things

to temper rigors of martial law. Fact that High Command has seen fit that civil government be run by Filipinos under control of Japanese army should be cause for gratification on part of our people. We cannot escape inexorable fact that fortunes of war have placed those of us in occupied territories outside protection of United States and at mercy of Japanese military. We must have trust in the justice and fairness of the Japanese people. The illustrious Premier General Tojo of Japan in a special pronouncement promised us independence with honor. It is imperative therefore that we should refrain from committing acts which are detrimental or inimical to the interests of the Japanese forces".

Four. Aguinaldo recently broadcast from Manila an appeal to General MacArthur to surrender saying in part Japan had promised Philippines independence with honor.

SAYRE

JRL



Treasury Department  
Division of Monetary Research

272

Date... 2/18/42 ..... 19

To: Miss Chauncey

The appended cables are  
for your files.

MR. WHITE  
Branch 2058 - Room 214†

DEPARTMENT OF STATE  
WASHINGTON

February 16, 1942

In reply refer to  
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 47, dated February 16, 1942, from the United States High Commissioner, Manila (Fort Mills), Philippine Islands, regarding a request of the Commonwealth Government for delivery of 19,300,000 pesos in the custody of the High Commissioner.

Enclosure:

From United States Commissioner  
Manila, no. 47, February 16, 1942.

60,3:vw:2-16-42

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274

PARAPHRASE OF TELEGRAM RECEIVED

FROM: U.S. High Commissioner, Manila, Fort Mills, via N.E.

DATE: February 16, 1942, 1 a.m.

NO. : 47.

The following is for the Treasury:

No. 23. I have been requested by the Commonwealth Government here, which thinks that the Philippine paper currency which is at its disposal may prove insufficient, to make available to the Commonwealth Government for the purpose of meeting its current expenditures the 19,900,000 pesos, which as reported in my radio 12 of January 20, I accepted in my custody or account members of Manila Clearinghouse Association. I suggest that you debit dollar equivalent of 19,900,000 pesos to the Philippine Governor General fund account in the United States Treasury and set up a credit for account of members of Manila Clearinghouse Association for like amount. Upon receipt of your approval I shall deliver the above mentioned currency to the Philippine Government here. It is urgent that I receive a reply immediately.

SAYRE.

Copy:bj:2-16-42



C A B L E

From: Bern

Dated: February 16, 1942

To: Federal Reserve Bank  
of New York, New York

No. 5

In order to proportionate better our holdings of gold and devisen we beg you to earmark for our special earmarked gold account with you approximately \$20,000,000 fine gold debiting equivalent to the account of our Zurich office value today. Please cable details both parties.

Banque Nationale Suisse

(Rec'd from FRB, N. Y. - Feb. 16, 1942 - 12:35 p.m. - 1c)

TREASURY DEPARTMENT

276

INTER-OFFICE COMMUNICATION

DATE February 16, 1942

TO Secretary <sup>Chauncey</sup> Morgenthau  
 FOR  
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£47,000
Purchased from commercial concerns	£25,000

Open market sterling held at 4.03-3/4, with no reported transactions.

The Canadian dollar, which had improved to 11-1/4% discount by the end of last week, reacted to close at 11-5/8% today. A week ago the quotation was 11-3/4%.

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

Argentine peso (free)	.2359
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Venezuelan bolivar	.2800
Uruguayan peso (free)	.5295
Cuban peso	9/32% premium

We sold \$19,950,000 in gold to the Swiss National Bank, which was added to its earmarked account. Of the gold used in this transaction, \$10,000,000 was purchased by us from the General Fund through the New York Assay Office.

No new gold engagements were reported.

In London, both spot and forward silver were priced at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

277

BRITISH EMBASSY  
WASHINGTON, D.C.

February 16th, 1942.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.



BRITISH MOST SECRET

(U.S. SECRET)

PTCL No. 55

Information received up to 7 A.M., 15th February, 1942.

1. NAVAL

One of H.M. corvettes was torpedoed off HALIFAX on the 14th.

MEDITERRANEAN. One of H.M. submarines reports sinking a 5,000 ton ship in a southeast bound convoy north of CEPHALONIA on the 1st and damaging a trawler by gunfire south of CORFU on the 3rd. Another submarine has reported that she sank a merchant vessel of about 4,000 tons and a third submarine hit and considers she sank a 2,500 ton ship in ballast on the 8th. The convoy to MALTA was again attacked by aircraft yesterday. One 7,000 ton merchant vessel was sunk and another of similar tonnage was damaged and had to be sunk by our forces, the crew being rescued.

On the 14th, an 8,000 ton British merchant vessel was torpedoed southwest of NEWFOUNDLAND and a small British ship was shelled by submarine and set on fire off TRINCOMALEE. A 5,000 ton British ship and an 8,000 ton Dutch tanker and four other ships were hit by bombs in an attack on a convoy from PALEMBANG to BATAVIA. The first two ships are probably total losses.

2. MILITARY

LIBYA. During the past week the enemy has concentrated his forces in the forward area in two main groups, a northern group in the MARTUBA-IMMI area and a southern group about LEXILI.

SINGAPORE. No further information has been received.

BURMA. Severe fighting has been taking place in the PAAN area where a Baluch regiment was attacked by superior forces and surrounded after three days' hard fighting. Three British officers and 100 Indian other ranks have so far returned. The position is now quiet. No further enemy advance on THATON from the south.

RUSSIA. Russian attacks are continuing against stiff enemy resistance in the DONETS sector.

3. AIR OPERATIONS

WESTERN FRONT. 13th/14th. Sixty three tons of bombs were dropped on COLOGNE and eighteen on HAVRE. Ten aircraft bombed AACHEN. Few results were seen owing to cloud.

14th/15th. 114 aircraft were sent out, MAINHEIM 98, HAVRE 16.

Two are missing.

- 2 -

LIBYA. 13th. Our fighters carried out a number of patrols in the GAZALA and TOBRUK areas. One enemy aircraft was destroyed, three probably destroyed and three damaged. We lost six Fighters, two pilots safe. There was a considerable increase in enemy bombing and machine gun attacks on our troops in the GAZALA and MADDELENA areas but our casualties were few.

MEDITERRANEAN Area. On the 12th/13th a Liberator bombed SALAMIS submarine base where bursts were seen in the dockyard, and fifteen Wellingtons bombed the harbour and aerodrome at HERAKLION.

13th/14th. Naval aircraft attacked a 3,000 ton merchant vessel on a westerly course off TRIPOLI (L). The ship was left stationary and listing. Wellingtons bombed CATANIA aerodrome (SICILY) and caused a number of explosions among aircraft. On the 14th, thirty-three enemy aircraft attacked TAKALI aerodrome (MALTA) where buildings were seriously damaged.

BURMA. 14th. Blenheims and fighters attacked dumps near PAAN and jetties at MARTABAN with good results.

280  
BRITISH EMBASSY  
WASHINGTON, D.C.

16th February, 1942.

PERSONAL &  
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.

United States Treasury,

Washington, D.C.



BRITISH MOST SECRET

(U.S. SECRET).

OPTEL NO. 54.

Information received up to 7 A.M. 14th February 1942.

1. NAVAL.

The German Battle Cruisers and Cruiser have not been located since they were last reported off the Texel on 12th evening. Reference OpTel No. 48. The Free French Corvette has now sunk East of Newfoundland. A convoy for Malta, which left Alexandria on 12th escorted by an Anti-aircraft Cruiser and seven destroyers, was repeatedly bombed on 13th, one merchant vessel being damaged and escorted into Tobruk.

2. MILITARY.

LIBYA. Except for normal patrolling, there was no ground activity in the forward area.

SINGAPORE. No further information has been received.

BURMA. Enemy took Mataban mainly by sea landing well behind the town, combined with land attack from the South. A company of the K.O.Y.L.I. got to close quarters with enemy on East side of Mataban and charged. Enemy fled and suffered considerable losses. 12th. Heavy fighting has again broken out in the area Yinnyeiv-Paan, where the situation is obscure. A Baluch Regiment is engaged in heavy fighting at Paan.

PERSIA. Fighting has started between Persian troops and Kurdish rebels in Kurdistan. The Kurds have captured the Persian garrison of Sakis.

3. AIR OPERATIONS.

Western Front. 12th. Aircraft from two R.C.A.F., one R.A.A.F. and one R.N.Z.A.F. Squadrons took part in the operations over the straits. One R.A.A.F. aircraft was lost. 13th. Our fighters carried out six offensive sweeps, involving 199 aircraft, over the straits of Dover area. One 200-ton vessel off Ostend was damaged by machine gun fire and one Heinkel was shot down. Two Spitfires were lost. 13/14th. 85 bombers were sent out: Cologne 30, Havre 28, Aachen 18. All returned safely.

LIBYA. 12th. Hurricanes intercepted 30 German dive bombers with fighter escort which were approaching Tobruk, forcing the majority to jettison their bombs. Three dive bombers and one fighter were destroyed and a further two aircraft were probably destroyed. Two Hurricanes were lost but one pilot is safe. A Heinkel was destroyed over Herak Matruh. 12/13th. Six Malta Wellingtons attacked Tripoli (L), causing an extensive fire in the Harbour area.

MALTA. 13th. A total of 68 fighters and bombers attacked the island. Two hits on the Submarine base caused casualties amongst service personnel and there were further casualties at Takali Aerodrome.

MEDITERRANEAN. 12th. A Maryland on reconnaissance, attacked by two Messerschmitts, shot down one of them.

RESTRICTED

G-2/2657-220: No. 633 M.I.D., W.D. 11:00 A.M., February 16, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: General increase reported in Infantry, Artillery and Air action. To the south: no changes reported. Singapore: Prime Minister Churchill reports that Singapore has fallen. There are indications that British evacuation was negligible, with large casualties resulting. Burma: In heavy fighting northeast of Thaton, the British were forced to withdraw. The Japanese are thus approaching the head of the Gulf of Martaban. British and American air units support ground troops effectively in some areas. R.A.F. planes attacked the Pa-an and Martaban areas. Australasia: An enemy concentration in the New Britain area is believed to threaten Port Moresby and the northeast coast of Australia.

II. Eastern Theater.

Fighting continues at various points along the front. Although officially there is no reported change in the situation, press reports indicate deep penetration in the direction of VITEBSK and south of KHARKOV.

III. Western Theater.

The Air Ministry announced that R.A.F. planes last night bombed Mannheim and other Rhineland points, as well as docks at Le Habre, Dunkerque and Ostend.

IV. Middle Eastern Theater.

Ground: No major changes. Considerable Axis activity in rear area of MeKili-Timimi sector is noted from press dispatches.

Air: Axis aerial bombardment of Malta is decreasing. Both Axis and Royal Air Forces are extending their attacks to include ground troops in Cyrenaica. The British Middle East Command claims the R.A.F. destroyed almost entirely a formation of 30 Axis planes.

RESTRICTED

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, February 17, 1942,  
2/16/42

Press Service  
No. 30-36

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated February 18 and to mature May 20, 1942, which were offered on February 13, were opened at the Federal Reserve Banks on February 16.

The details of this issue are as follows:

Total applied for - \$342,087,000  
Total accepted - 150,012,000

Range of accepted bids: (Excepting one tender of \$65,000)

High	- 99.950	Equivalent rate approximately	0.198 percent
Low	- 99.929	" " "	0.281 "
Average		" " "	
Price	- 99.933	" " "	0.263 "

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the labor power of these men on the non-essential tables of a day room by when there is real work to be done; not man we should maintain every bureau in the Government at its full prewar strength, merely because they all claim some connection with the war effort. Certainly if the administration has not learned that it is not just another "social experiment" it is time that Congress and the people made it unmistakably clear.

**FISCAL DEFICIENCY APPROPRIATIONS**

The Senate resumed the consideration of the bill (H. R. 6548) making appropriations to supply deficiencies in certain appropriations for the fiscal year ending June 30, 1942, and for prior fiscal years, to provide supplemental appropriations for the fiscal year ending June 30, 1942, and for other purposes.

The PRESIDING OFFICER. The question is on agreeing to the first amendment reported by the committee.

Mr. DOWNEY. Mr. President, I will detain the Senate but very briefly on a matter concerning which, to some extent, I have already expressed myself—a matter which concerns one of our great national characters, Donald Duck. As the Senate knows, the House of Representatives struck out of the pending measure the item of \$20,000 which was to enable the Treasury to cover the expense of producing and distributing this film.

Mr. President, I wish to say that I have not always been in agreement with Mr. Morgenthau upon his economic and financial theories, but I think it is generally believed that Mr. Morgenthau has handled the collection of income taxes, as well as the sale and distribution of Treasury bonds and stamps, in a most able and efficient manner. Even though the Congress frowns upon the action of the Treasury Department in calling in the services of Walt Disney to help advertise Treasury taxes, the American people know that Mr. Morgenthau performed a most wise and valuable public service in what he did, because, as a matter of cold business, the \$20,000 expended by the Treasury Department in the production of this film will pay for itself hundreds of times over. Doubt it not!

Mr. President, I have seen the Donald Duck film. I have heard members of the audience discussing it after viewing it. It is a film not only popular with Americans but one that has caused them to accept more heartily the income-tax law; it has brought to their realization the fact that income taxes have to be paid and has, undoubtedly, expedited their payment. Consequently, Mr. President, I want to go on record very positively in declaring my belief that the Treasury Department was entirely justified in arranging for the production of the film; that it was money well spent, and that the hysteria generated here in Congress against the Treasury Department because of this film is most unfortunate.

While the newspapers of America do not appear to be very popular with the Senate and with the other House of Congress today because of their treatment of the retirement proposal, I want to say

that almost every newspaper in the United States has reviewed the Donald Duck film and has applauded it. I should like to read for only three or four minutes a few of the comments that were made by some of the great newspapers of America on the Donald Duck film. I shall read, principally from New York newspapers, but I might say that in practically every city in the United States newspaper reviewers have recognized the worth of the Donald Duck film and have endorsed the action of the Treasury in sponsoring it. Let me first read a comment from the New York Times of February 8, instant, by Bosley Crowther:

It is an excellent bit of propaganda toward a good natured acceptance of a heavy burden on the part of the people. Indeed, it is the most effective of the morale films yet released by the Government.

The New York Herald Tribune of February 8, 1942 (Thornton Delehanty), expressed the following opinion:

Walt Disney's first production for the Treasury Department should go an incalculable way toward easing the grief and dismay with which the public customarily views its income tax.

The Chicago Tribune (Ashton Stevens, dramatic critic) had this comment:

When a movie laughs you into making out an income-tax return—and borrowing money to pay it on the line, that isn't just peculiar propaganda—that's magic that partakes of the miraculous. That, in a word, is Walt Disney's *The New Spirit, Laugh As You Pay* might have been a better title, but anyway, Disney's Donald has certainly made a glorious reverse action out of the old game of duck your income tax. He has reversed the national bellyache into a national belly-laugh.

The New Yorker, on the first page of its Talk of the Town section, February 7, 1942, has this encomium:

A friend of ours who reviews movies for a living strolls into the hotel lobby . . . grinning all over. He told us he'd just been to see the much-talked-of film in which Donald Duck pays his income tax. "Good!" we asked indulgently. "Definitely recommended" he said. . . . We agreed that a Nation whose Treasury Department could sponsor a Donald Duck production could never lose a war of nerves.

The New York Post, February 11, 1942:

A spectacle to make the worst grocer in the world laugh is Congress jumping up and down like Donald Duck on Donald Duck. These indignant Congressmen pride themselves on being realistic, hard-headed men, men who want no nonsense but speak the language of our leaders of industry. They pride themselves, also, on being experts on how to tell the people and sell the people. But before they finally burst a blood vessel we'd like to point out two things. First, that the \$20,000 Treasury-financed Walt Disney film has been widely recognized as a great job of bringing home to the people, including many who have never had to think about it before, that the income tax is not just an invention of the devil, but a necessary and bearable duty of citizenship. Second, that the hardest-headed and most realistic businessmen spend sums which make \$20,000 look like chicken feed on cartoons, comics, and funny men when they have something to sell the people. That's not hoodwinking, Congressmen, that's advertising. That's business-like administration. You've been seeing for it—remember?

The Washington Post, February 8, 1942:

It goes the government down into the important business of teaching the great public lesson. As a result, the New York Times is a great admirer of it. It would be a pleasure to see the Treasury Department's . . . . .

I took, three years of the great, today national advertising street of America, its location on the New York Ave. F. . . . .

The picture, which is a picture of a . . . . .

Yes, Mr. President, Walt Disney in his Donald Duck film, produced probably the cleverest and most ingenious piece of propaganda the American people have ever had. He volunteered his services, working day and night to meet his deadline, with no profit or compensation to himself. And he gave us a film, which from a straight money standpoint, is worth 10 times its cost. Yet the House of Representatives had to single out that particular item of disbursement by the Treasury Department, castigate and condemn it, and strike it from the pending appropriation bill!

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. DOWNEY. Yes; I yield.

Mr. BARKLEY. I merely wish to say that a week ago last Saturday I had an opportunity to go to a movie, and I saw this Donald Duck production. When I saw it, I did not realize that it was a Treasury production, nor that it was being sponsored by the Treasury.

Whenever we go into a movie-picture show, we are usually disappointed unless they have two pictures. One sometimes is the main feature, and another is a subsidiary, a substitute, or a complement. Sometimes we are not satisfied unless there are two main features.

This particular theater happened to be in Chicago. It is one of the largest moving-picture auditoriums in the city. It was crowded with people, and this picture was thrown on the screen. I do not believe the audience at first realized the object of the picture, because it is very cleverly done, and it is a good picture. It has a good many laughs and a good deal of amusement in it to keep the audience in good humor, while at the same time impressing on the audience the importance of paying income taxes, and paying them promptly.

The picture concluded with the very serious and impressive lesson of the need of the Government for money, and the need of the Government for money at once. Many of the income-tax forms were thrown on the screen, and men and women were shown exactly how to make out their income-tax returns. It especially appealed to those within incomes

*Continued next p.*



of less than \$3,000, showing in the various instances how much the tax would be—in one case twenty-eight dollars and some cents; in another thirty-three dollars and some cents. When the picture was finished, the great audience broke out in loud applause for the lesson which the picture had impressed upon them of the need of the payment of taxes and the prompt payment of taxes.

I did not know until I got back to Washington a few days later, and discussion had occurred elsewhere, that it was a film that had been sponsored by the Treasury Department. I am frank to say that while there is nothing in this bill about it, and I suppose nobody is going to attempt to restore it—I certainly am not, and I do not understand that the Senator from California proposes to do so—if the film cost \$30,000, as I have been informed that it did, the mere out-of-pocket cost, nothing for compensation for putting it on or for the theaters that show it, I believe it certainly is worth that much money to the American people.

Mr. DOWNEY. I thank the Senator for his comments.

Mr. McCARRAN. Mr. President—

Mr. DOWNEY. I yield to the Senator from Nevada.

Mr. McCARRAN. I understood the able Senator from California to make the statement that Mr. Disney received nothing for his production. The testimony of the Secretary of the Treasury before the Senate committee is that the picture cost the Federal Treasury \$30,000, \$40,000 of which went to Mr. Disney, and \$40,000 to the producer of the technical color. That is the statement of the Secretary of the Treasury.

Mr. DOWNEY. Evidently there is some misunderstanding between the distinguished Senator from Nevada and myself. I meant to say that Mr. Disney received no profit on the picture, and nothing for his own services. He was paid \$40,000, which did not equal his studio's cost of producing this particular film. I did not mean to intimate that Mr. Disney had paid from his own pocket the wages of his workers in producing this picture. What I did mean to say, and what I am sure is a fact, because I have had it from many sources, is that Mr. Disney personally received nothing for the picture, no compensation, no salary. His company was paid \$40,000 to handle operating expenses. Then the Government is compelled to put up another \$40,000 to get, I believe, a thousand copies of the film from the original picture, which are now being shown over the United States; and the requests are coming in so fast from many thousands of picture houses in the United States that the Treasury is not able to have the films printed fast enough.

Mr. McCARRAN. The Senator appears not to have understood my statement. The statement of the Secretary of the Treasury, made before the Senate Appropriations Committee, is that the picture cost the Treasury \$30,000, \$40,000 of which went to Mr. Disney, and \$40,000 to the party that furnished the technical color. So, however it may be twisted around, it makes an difference; it cost

the Treasury of the United States \$80,000. There is no use in getting away from that fact.

Mr. DOWNEY. Mr. President, I have no wish to get away from that fact. The Treasury of the United States, for \$80,000—which did not include any profit or compensation to Mr. Disney personally, but merely covered the cost of the film and out-of-pocket money in its production—got for that \$80,000 publicity for our income-tax program that could not have been purchased through newspaper advertising columns or by speeches of Congressmen or otherwise for \$500,000. Yet it did cost the Treasury of the United States \$80,000 to reach in a very persuasive way 85,000,000 of our citizens. But advertising experts and newspapers and the American people generally are, I think, almost a bull in declaring that it was one of the soundest investments the Government has yet made.

Mr. President, my only reason for occupying the time of the Senate on this particular matter is that this fight against the Treasury Department on the Donald Duck film and on Walt Disney's contribution to our defense effort was initiated largely by representatives of the State of California; and I rise here merely to assert that I know the people of our State believe Mr. Morgenthau and the Treasury Department are to be complimented, not reviled, for obtaining this Donald Duck film. Californians are grateful to Mr. Disney for having lent his great genius to the production of this film in the interests of our national defense.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Committee on Appropriations on page 2, line 2, which will be stated again.

The CHIEF CLERK. Under the heading "Title 1—General Appropriations—Legislative," on page 2, after line 3, it is proposed to insert:

#### SENATE

To enable the Secretary of the Senate to expend from the appropriation for salaries of officers and employees of the Senate, fiscal year 1942, the necessary amounts from March 1 to June 30, 1942, to increase from \$7,480 per annum to \$8,000 per annum, the salary of the teller of the Senate holding from so long as the position is held by the present incumbent.

The amendment was agreed to.

The next amendment was, under the subhead "Government Printing Office," on page 3, after line 16, to strike out:

Working capital: For an additional amount for working capital, fiscal year 1942, including the objects and subject to the conditions and limitations specified under this heading in the Legislative Branch Appropriation Act, 1942, \$2,500,000; *Provided*, That this sum shall be returned to the Treasury as an unexpended balance not later than December 31, 1942.

And in lieu thereof to insert:

Working capital and congressional printing and binding: For an additional amount for working capital and congressional printing and binding, fiscal year 1942, including the objects and subject to the conditions and limitations specified under this heading in the Legislative Branch Appropriation Act, 1942, and including an additional amount of \$100,000 for the printing, binding, and dis-

tribution of the *United States Digest* in accordance with the act approved July 20, 1941, 44 U. S. C. 301-317, \$1,700,000; *Provided*, That of this sum \$2,000,000 shall be returned to the Treasury as an unexpended balance not later than December 31, 1942.

The amendment was agreed to.

The next amendment was, on page 4, after line 3, to insert:

General expenses, Office of Information and Documents: For an additional amount for general expenses, Office of Information and Documents, fiscal year 1942, including the objects and subject to the conditions specified under this heading in the Legislative Branch Appropriation Act, 1942, \$100,000.

The amendment was agreed to.

The next amendment was, under the heading "Executive Office of the President—Office for Emergency Management," on page 4, after line 17, to strike out:

Civilian defense: To enable the Director of Civilian Defense, under such regulations as the President may prescribe which regulations may provide exemption from the requirements of section 3709 of the Revised Statutes, to carry out the provisions of the act entitled "An act to provide protection of persons and property from bombing attacks in the United States, and for other purposes," approved January 27, 1942 (Public Law 412), fiscal year 1942, \$100,000,000, to remain available until June 30, 1942, of which not to exceed \$3,000,000 shall be available for all administrative expenses, including printing and binding and personal services in the District of Columbia; *Provided*, That no part of this appropriation shall be used to pay any person in the Office of Civilian Defense unless such person is directly employed in the administration of such act of January 27, 1942; *Provided*, That no part of the funds appropriated herein may be used for the employment of persons, the rent of facilities or the purchase of equipment and supplies to promote, produce, or carry on instruction or to direct instruction in physical fitness by dancers, tea dancing, street shows, theatrical performances, or other public entertainments.

And in lieu thereof to insert:

Civilian defense: For emergency fire fighting, including pumping units, hose, equipment for training and outfitting auxiliary corps and air-raid wardens, expenses of procurement, inspection, maintenance, and administration, \$57,217,971; protective clothing, steel helmets, arm bands, including administration \$7,508,548; emergency medical supplies and equipment, \$1,400,200; and gas masks and creation of facilities for manufacture of gas masks, \$20,285,084; fiscal year 1942, in all, \$109,660,000, to remain available until June 30, 1942, of which not to exceed \$5,000,000 shall be available for all administrative expenses, including printing and personal services in the District of Columbia, to enable the Director of Civilian Defense, under such regulations as the President may prescribe which regulations may provide exemption from the requirements of sec. 3709 of the Revised Statutes, to carry out the provisions of the act entitled "An act to provide protection of persons and property from bombing attacks in the United States, and for other purposes," approved January 27, 1942 (Public Law 412); *Provided*, That no part of this appropriation shall be available to pay the salary of any person at the rate of \$4,500 per annum or more unless such person is approved by the President, by and with the advice and consent of the Senate; *Provided* further, That no part of this appropriation shall be used to pay any person in the Office of Civilian Defense unless such person is directly employed in the administration of such act.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 17, 1942

TO Secretary Morgenthau  
FROM Mr. Haas

1. Attached to this memorandum are tables showing (1) the number of agents qualified to issue Defense Savings Bonds, Series E, at the close of business on February 14, classified by type of agent, by Federal Reserve Districts, and (2) the number of such agents on selected dates since May 7, 1941.

2. There were 19,756 agents other than post offices qualified to issue Series E savings bonds, on February 14, an increase of 273 since February 7.

3. On February 14, there were 552 corporations qualified to issue Series E savings bonds on payroll allotment plans in accordance with the instructions contained in your telegram of December 27 to the Federal Reserve Banks. This represented an increase of 95 corporations over last week.

Attachments



Classification of the number of agents qualified to issue  
Series E Savings Bonds, on February 14, 1942

	Banks	Building and loan associa- tions	Credit unions	Other corpora- tions <sup>1/</sup>	Invest- ment industry	All others <sup>2/</sup>	Total
Corporations and Associations:							
Federal Reserve District of:							
Boston	830	236	212	22	-	12	1,312
New York	1,168	253	382	46	10	50	1,909
Philadelphia	844	106	109	135	-	-	1,194
Cleveland	1,169	373	328	40	6	1	1,917
Richmond	1,024	187	127	27	7	1	1,373
Atlanta	1,018	154	175	23	-	-	1,370
Chicago	2,332	467	216	151	15	14	3,195
St. Louis	1,361	149	60	32	8	2	1,612
Minneapolis	1,282	57	66	3	-	3	1,411
Kansas City	1,762	182	157	9	2	34	2,146
Dallas	851	119	216	49	3	3	1,241
San Francisco	<u>550</u>	<u>232</u>	<u>273</u>	<u>15</u>	<u>3</u>	<u>3</u>	<u>1,076</u>
Sub-total	14,191	2,515	2,321	552	54	123	19,756
Post offices	-	-	-	-	-	-	<u>17,604</u>
Grand total	<u>14,191</u>	<u>2,515</u>	<u>2,321</u>	<u>552</u>	<u>54</u>	<u>123</u>	<u>37,360</u>

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

February 17, 1942

- <sup>1/</sup> In accordance with telegram of December 27, 1941.  
<sup>2/</sup> Except post offices.

286

Number of agents qualified to issue Series E  
Savings Bonds, May 7, 1941  
to date

Type of agent	1941		1942					
	May 7	Sept. 30	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	
Commercial and savings banks.....	7,676	11,571	13,966	14,037	14,097	14,155	14,191	
Building and loan associations.....	739	1,481	2,268	2,365	2,434	2,476	2,515	
Credit unions.....	8	389	1,736	1,911	2,080	2,229	2,321	
Other corporations <u>1/</u> .....	-	-	118	240	351	457	552	
Investment industry.....	-	-	-	10	37	48	54	
All others.....	<u>7</u>	<u>27</u>	<u>30</u>	<u>54</u>	<u>99</u>	<u>118</u>	<u>123</u>	
Total other than post offices.....	8,430	13,468	18,118	18,617	19,098	19,483	19,756	
Post offices.....	<u>15,812</u>	<u>16,429</u>	<u>17,140</u>	<u>17,140</u>	<u>17,123</u>	<u>17,604</u>	<u>17,604</u>	
Grand total.....	<u>24,242</u>	<u>29,897</u>	<u>35,258</u>	<u>35,757</u>	<u>36,221</u>	<u>37,087</u>	<u>37,360</u>	

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

February 17, 1942

1/ In accordance with telegram of December 27, 1941.

Number of agents in Other Corporations and Investment Industry  
 qualified to issue Series B Savings Bonds, by Federal Reserve  
 districts - January 10 to date. 1/

Date	Atlanta	Boston	Chicago	Cleveland	Dallas	Kansas City	Minne- apolis	New York	Phila- delphia	Richmond	San Fran- cisco	St. Louis	Total
Other Corporations													
Jan. 10	4	-	8	-	-	-	-	-	-	-	-	-	12
17	12	-	27	-	1	-	-	4	65	8	-	1	118
24	15	2	61	22	13	-	1	21	83	15	4	3	240
31	17	14	90	28	27	1	3	32	101	19	8	11	351
Feb. 7	20	19	115	33	42	5	3	41	124	23	14	18	457
14	23	22	151	40	49	9	3	46	135	27	15	32	552
Investment Industry													
Jan. 24	-	-	5	-	-	2	-	1	-	2	-	-	10
31	-	-	10	3	-	2	-	7	-	6	1	8	37
Feb. 7	-	-	13	6	-	2	-	9	-	7	3	8	48
14	-	-	15	6	3	2	-	10	-	7	3	8	54

1/ Other Corporations authorized as of December 27, 1941 and Investment Industry as of January 17, 1942.

*Frank*



Daily changes in the stock of Series E savings bonds on hand <sup>1/</sup>  
(In thousands of pieces)

	: Number of : pieces sold : this day :	: Number of pieces : manufactured : this day :	: Stock on hand : at close of : day :	: IBM : deliveries : this day :
Feb. 3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-
14	87	none-closed	18,807	-
15	none-closed	none-closed	18,807	-
16	363	535	18,979	2,500

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

February 17, 1942

<sup>1/</sup> Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Thirteen Business Days of February and January 1942 and December 1941  
 (February 1-16, January 1-15, December 1-15)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Offices	\$ 54,614	\$ 83,277	\$ 32,538	-\$ 28,663	\$ 50,739	- 34.4%	155.9%
Series E - Banks	<u>207,044</u>	<u>224,935</u>	<u>59,055</u>	- <u>17,891</u>	<u>165,880</u>	- <u>8.0</u>	<u>280.9</u>
Series E - Total	261,658	308,213	91,594	- 46,555	216,619	- 15.1	236.5
Series F - Banks	32,759	33,331	10,446	- 572	22,885	- 1.7	219.1
Series G - Banks	<u>160,908</u>	<u>138,014</u>	<u>66,112</u>	<u>22,894</u>	<u>71,902</u>	<u>16.6</u>	<u>108.8</u>
Total	<u>\$455,324</u>	<u>\$479,558</u>	<u>\$168,151</u>	-\$ <u>24,234</u>	<u>\$311,407</u>	- <u>5.1%</u>	<u>185.2%</u>

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

February 17, 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

Daily Sales - February 1942  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
Total	\$ 54,614	\$207,044	\$ 32,759	\$160,908	\$400,711	\$261,658	\$ 32,759	\$160,908	\$455,324

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

February 17, 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.



TREASURY DEPARTMENT

292

INTER OFFICE COMMUNICATION

DATE FEB 17 1942

TO Secretary Morgenthau

FROM Mr. Foley

For your information

Relative to your work as a member of the Joint Committee on Reduction of Nonessential Federal Expenditures.

There is attached a memorandum analysing S. 1481, a bill "To provide for the recognition of the services of the civilian officials and employees, citizens of the United States, engaged in and about the construction of the Panama Canal", which is now pending before the House Committee on Merchant Marine and Fisheries. An investigation reveals that executive hearings by the Committee will probably be held the last of this month or the first of next month.

The bill proposes payment of annuities to civilian workmen and widows of such workmen who were employed in the construction of the Panama Canal. The Civil Service Commission estimate of the first annual cost is \$1,639,000, and of actual aggregate cost is \$14,000,000. Other estimates place the initial annual cost at \$500,000 or less.

8-1-7-

MEMORANDUM

Re: S. 1431, a bill "To provide for the recognition of the services of the civilian officials and employees, citizens of the United States, engaged in and about the construction of the Panama Canal."

Status - Introduced May 3, 1941 by Senator Pepper for himself and for Senator Clark; referred to the Committee on Inter-oceanic Canals; reported without amendment July 22, 1941; (S.Rep. No. 574); passed by unanimous consent in the Senate September 17, 1941; referred to the House Committee on Merchant Marine and Fisheries September 19, 1941; returned to the Senate September 24, 1941 at its request dated September 22, 1941; On February 5, 1942 a motion to reconsider the Senate vote on passage of the bill lost; rereferred to the House Committee on Merchant Marine and Fisheries February 9, 1942 where the bill is now pending.

Features - Provides for payment of annuities ranging from 40 to 60 percent of base pay for such civilian employees as worked on the Isthmus of Panama for three years or more in the construction of the Panama Canal. The annuities are also payable to workmen's widows who resided on the Isthmus of Panama for at least one year during the construction.

Estimated cost - The Civil Service Commission estimated in a letter dated September 23, 1941 (printed in Congressional Record of February 5, 1942, page 1072 and 1073) that on the basis of the American Experience Table of Mortality eligibles would number 2,185 with an initial annual cost (\$750 average benefit) approximating \$1,639,000, with actual aggregate approximating \$14,000,000 (the 2,276 figure of eligibles was an estimate of November 4, 1940).

Senator Pepper (Congressional Record February 5, 1942, page 1004) indicates his belief that estimate of those who have best knowledge of the subject placed the first year's cost at \$500,000, or less. The Senate Committee Report (page 10) states:

"The proponents of this bill, after three and one-half years of careful study and canvass in an attempt to locate all possible beneficiaries under this bill are convinced that the maximum number of eligibles is less than 1,000. The first year's cost on this basis would be only about \$750,000, or less than half of the amount estimated by the Civil Service Commission."

- 2 -

It is contended the American Experience Table of Mortality is probably inapplicable in this instance by reason of the widely-known unsanitary and unhealthy conditions during construction of the Canal.

NOTE: In the letter from Harry B. Mitchell, President of the Civil Service Commission (Congressional Record February 5, 1942, page 1072, 1073, also mentioned above) it is stated: "The Bureau of the Budget advises that the enactment of the proposed legislation would not be in accord with the program of the President."



295

Read by  
Kuhn + Odgaard  
2/18/42  
~

WAR DEPARTMENT  
WASHINGTON

February 17, 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

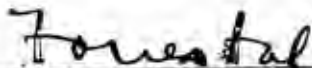
Your attention is invited to the attached memorandum from the Provost Marshal General dated February 11, 1942, subject: The General Aniline and Film Corporation Subsidiaries and Affiliates.

We agree with the recommendation of General Gullion and suggest that the necessary steps be taken to secure a competent manager of known loyalty to be placed in charge of the corporation. The actual discharge of individuals who are known to be or suspected of being subversive can be accomplished through the recent procedure set up in this office and agreed to by the Secretary of the Navy. It is believed that it will be necessary for a new manager to gradually replace the technical experts employed by the General Aniline and Film Corporation with loyal Americans possessing the requisite technical qualifications.

Sincerely yours,



ROBERT P. PATTERSON  
Under Secretary of War



JAMES V. FORRESTAL  
Under Secretary of the Navy

CONFIDENTIAL

297

February 11, 1942

Emergency Operations Division  
PMO 004.4 (General Aniline & Film Corp.)

MEMORANDUM for The Under Secretary of War.

Subject: The General Aniline and Film Corporation Subsidiaries  
and Affiliates.

1. Reference is made to memorandum from this office dated January 17, 1942, which contained remarks and recommendations designed to eliminate the dangerous situation existing by reason of the sympathies and activities of the personnel of the above referred to corporation and its divisions. Discussions have been recently held by this office with the Office of the Assistant Chief of Staff G-2, the Office of Naval Intelligence, and the Office of the Secretary of the Treasury. Complete reviews of all reports on this matter, which were obtained from the records of the Office of the Assistant Chief of Staff G-2, have been accomplished.

2. The reports contain definite information indicating that all of the companies mentioned are either subsidiaries of or are closely allied by interlocking directorates with the I. G. Farbenindustrie, the German Dye Trust. It appears that ninety-eight percent of the stock of this company has been held by alien enemies. It is understood that the stock is now being vested, by executive order, in the Secretary of the Treasury.

3. Prior to the action of the Treasury Department freezing the funds of this corporation, the chief executives, administrative officials and minor technicians were and in most instances still are persons of more than doubtful loyalty. This has been remedied in some degree by the recent appointments of American citizens to the executive offices of the principal company. The personnel of this corporation have had complete and uncensored access to films from which photographs of many instruments, vehicles and fort sites vital to the War effort of the United States have been and are being made. It is obvious that duplicates of these photographs could have been made and it is logical to assume that they were made and furnished to agents of the enemies of the United States. This corporation has sold or leased to government agencies,

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Army posts and manufacturing plants engaged in manufacturing material and equipment for the government, many machines used in photographic processes. Representatives of this corporation have constantly visited plants, posts, experimental laboratories, and printing grounds ostensibly for the purpose of servicing these devices and in connection with the sale of their products. It is also logical to conclude that these representatives ostensibly on a service or sales mission have used the visit as an opportunity to obtain military information otherwise not available to them. In their own reports taken from their files statements are contained which reveal valuable military information. A typical statement is contained in their report dated December 5, 1941, "had to spend over four hours here. This camp now has eight courtyards open. Three thousand men are leaving the eighteen of this month for foreign service. This number will be replaced by selectees immediately."

4. Another consideration is that thousands of American citizens, including many in the Military Service some of whom are stationed at outlying vital bases, send in their films to this corporation for development and printing. It is also logical to conclude that these films or reprints therefrom have been and are being used for purposes other than that intended. At least, such possibilities exist. It therefore appears that immediate action should be taken in this regard. The General Aniline and Film Corporation is also engaged in the manufacture of dyes for woolen goods which are used in Army Service uniforms.

#### RECOMMENDATION

It is the view of this office that prompt and effective action should be taken to eliminate this potential source for espionage and possible sabotage. It is recommended therefore:

1. that the Secretary of the Treasury take immediate action with the view of selecting a competent manager of known loyalty to be placed in charge of the corporation, and likewise competent managers for all divisions and subsidiaries. It is contemplated of course that the new managers will take immediate steps to divorce German or any other alien or individual interests from the corporation and its affiliates. It should be understood, however, that these recommendations have no application to the recently appointed executive officers referred to above.
2. that where reasonable grounds exist for doubting the loyalty or suspecting subversive activities or connection on the part of employees that they be discharged and replaced by proper persons or in the event it is not practicable to replace technicians holding key positions, it is recommended that they be

CONFIDENTIAL

299  
*Handwritten marks*

allowed to remain and be kept under full surveillance. It is recommended further that during the process of replacing the questionable and unsatisfactory personnel that instructions be issued by the War Department to all concerned that all orders for work or service with this corporation, its divisions and subsidiaries be restricted to unclassified matters and to items from which secret military information cannot be obtained; and that orders for work and service of a classified nature shall not be given to this corporation until authorized by the Under Secretary of War.

g. It is understood that the Office of the Assistant Chief of Staff G-2 (Safeguarding Military Information Section) is now studying the question of proposed legislation to prohibit the taking of any photographs which might reveal information vital to the War effort; likewise, the revision of the Army regulations to accomplish this same purpose. In the opinion of this office pending the completion of this study and action thereon, other prompt steps should be taken. It is therefore suggested that photographs by civilians on military reservations or facilities vital to the War effort be prohibited except where expressly authorized by the War Department. Further, that all military personnel be prohibited from taking photographs of military installations or facilities vital to the War effort except where expressly authorized by the War Department.

d. that the Secretary of the Treasury take any further action he may deem necessary or appropriate.

Allen W. Gullion,  
Major General, U. S. A.,  
The Provost Marshal General.

Incls

Memo to FBI from A.C. of S. G-2  
Form 1593 photostat  
Ltr. of 2-3-42

CONFIDENTIAL

- 3 -

Regraded Unclassified

**CONFIDENTIAL**

300

MID 004.4

**Subject:** General Aniline and Film Corporation, Subsidiaries and Affiliates.

**To:** The Provost Marshall General, War Department, Washington, D. C.

1. Reference is made to your memorandum dated January 17, 1942, to the Office of the Under Secretary of War, regarding the General Aniline and Film Corporation. The following additional information is transmitted:

a. General Aniline and Film Corporation, Binghamton, New York is a corporation chartered in the United States, which has many German ties, both financial and personnel with the I. G. Farbenindustrie, the German Dye Trust. The General Aniline and Film Corporation has the following subsidiaries and affiliates doing business in this country, many of which handle Confidential Government Contracts, and employ persons in their plants of doubtful loyalty to the United States:

(1). Agfa Raw Film Corporation, Hollywood, California. Wholly owned subsidiary, engaged in the marketing of raw film. It is incorporated under the laws of California with an authorized capital of 1,000 shares of no par common stock.

(2). Agfa Film Products Incorporated, New York, New York. Wholly owned subsidiary, incorporated under the laws of New York; has an authorized capital of 10 shares of common stock at \$100.00 par value. Reported to be inactive at present.

(3). Alba Pharmaceutical Company, New York, New York. 3200 shares of common stock, 200 shares owned by parent corporation.

(4). Collway Color Incorporated, Patterson, New Jersey. Wholly owned subsidiary, has a capitalization of \$2000.00.

(5). The General Aniline Works, Incorporated, Agfa-Ansco Incorporated, and Osalid, Incorporated merged with General Aniline and Film Company and operate as divisions of its business.

**CONFIDENTIAL**



(6). General Dyestuff Corporation. 600,000 shares Capital Stock outstanding earning \$67.00 annually; its approximate assets are \$6,000,000. It is reported that this corporation has been constant applicant for the purchase of control of General Aniline and Film Corporation, and that its application has been twice denied on the grounds that it is not a suitable purchaser.

(7). Synthetic Nitrogen Products Corporation. Formed in 1927 at which time the majority of its stock was held for the benefit of I. G. Farbenindustrie. In 1929 this corporation was absorbed by a New York Corporation of the same name. It is apparently reserving a large part of its \$500,000 capitalization for the I. G. Farbenindustrie. Financial history indicates that this company has been under I. G. Farbenindustrie's influence.

(8). Advance Solvents and Chemical Company. Formed in 1930 and closely allied with the Synthetic Nitrogen Products Corporation; has practically the same executive organization. Has paid substantial royalties to I. G. Farbenindustrie. Supplied companies in South America whose operations have since been blocked.

(9). Chemmyco Incorporation. Organized to provide service to licenses and patents held by I. G. Farbenindustrie; under retaining agreement with latter company since 1931.

(10). The Alinthrop Chemical Corporation. 12,300 shares of Capital Stock 50% of which is owned by General Aniline and Film Corporation, formerly held by I. G. Farbenindustrie. In 1940 this company received 28 patents from German inventors to 1 by an American inventor in New York.

(11). Plaskon Company Incorporation, Toledo, Ohio. About one-fourth of the capital stock of this corporation is owned by General Aniline and Film Corporation. In 1940 I. G. Farbenindustrie obtained more than \$5,000.00 in dividends through Hutz and Joslin, attorneys, although it has sold its shares in Plaskon to General Aniline and Film Corporation before this date. Mr. Hutz of Hutz and Joslin is the son of Rudolph Hutz, Director and Chairman of General Aniline and Film Corporation.

(12). Marion Company. Organized in 1931 as a personal holding company of D. A. Schmidt who was until very recently President of General Aniline and Film Corporation.

**CONFIDENTIAL**

302

(13). Old Shares Investment Corporation. Has acted for I. G. Farbenindustrie in transactions by which the General Aniline and Film Corporation received shares of Standard Oil Company. It was organized about 1920 by the I. G. Farbenindustrie group for the purposes of serving its banking needs. It appears that this company constitutes a system by which German Propaganda money is transferred to the United States and other countries.

(14). There are numerous German Corporations associated with General Aniline and Film Corporation through the I. G. Farbenindustrie interests.

The Agfa-Ansco Division of the General Aniline and Film Corporation devised an agents' report form for use especially in visiting Army Camps. (Form number 1593) The agents sent in these forms, a typical example of which is attached hereto, with reports on sales and the strength and personnel changes at the particular camp, post or station visited. Forms of this type were used throughout the United States, and information contained gave an analysis of our Military Strength.

b. This Corporation, its Subsidiaries, Affiliates and Associates have, among others, the following War Department contracts:

W-535-AC177765 General Aniline and Film Corporation  
\$215,709.24 2-17-41 Suppl. 3-7-41  
W-226-Ord.#80 General Aniline and Film Corporation  
\$1250.00  
W-535-AC13788 Agfa-Ansco Corporation - \$4142.34  
18 C-1 Cameras  
86 C-3 Cameras  
W-535-AC 14442 4-8-40 to Indef. Hearger contract fil  
in special file as paper number 1136.

In addition to contracts held by the corporation it services contracts as sub-contractor for other companies working on Confidential photography for the Government, and it's Ozalid Division which has installed some 3,000 installations in the United States, many of which are in use by the Air Corps and other Governmental Agencies. The prints and machines are constantly inspected and serviced by the representatives sent out from Ozalid. Many Confidential prints are on file in the laboratories of this company.

c. An analysis of the Ozalid Division, the sales branch of this corporation, shows that between 85% and 90% of the combined business is being conducted for concerns engaged in fulfilling National Defense Contracts.

**CONFIDENTIAL**



d. The corporation has numerous technicians of German descent of whom the following are deemed undesirable:

(1). Eric G. Schoder. In charge of laboratories of Agfa-Ansco Division of General Aniline and Film Corporation in which capacity he has access to confidential films; came to the United States in 1918 and states that he has applied for first and second papers. Was admitted to the United States by Labor Department as a technician. Has financial resources in Germany. Mother, father and two sisters reside in Germany. Located on 5th floor Agfa-Ansco Division, 244 West 55th Street, New York City. Home address - 2040 150th Street, White Stone, Long Island, New York. Wife - Helen, a German citizen is suspected of being a German Agent. Schoder is intimately associated with the German faction in this concern.

(2). Eugene Kaiser (Eugene Wilhelm Kaiser). Schoder's assistant in the Laboratories. Takes full charge of all films passing through the Laboratory. Born - Stuttgart, Germany 1905 - - Immigrated, January 1926; Naturalized, December 13, 1932. Father, mother and three brothers living in Germany.

(3). Otto Wiederman, new branch, Agfa-Ansco Division General Aniline and Film Corporation, 245 West 55th Street, New York, N.Y. Born - Gleesen, Germany March 7, 1912. Father, mother and two sisters living in Germany. Residence - 461-89 43rd Street, Woodside, Long Island, New York.

(4). Falter Knäfel, New branch, Agfa-Ansco Division, General Aniline and Film Corporation, 245 West 55th Street, New York, N.Y. Born - Mosback Baden, Germany, March 21, 1899. Mother, sister and brother living in Germany. Brother employed as chemist in Agfa-Ansco Film Company in Germany. Visited Germany 1929 - 1930.

(5). William Ratcke, New Branch, Agfa-Ansco Division, General Aniline and Film Corporation 245 West 55th Street, New York, N.Y. Born - Germany, January 8, 1898. Father, mother (step-mother) and one brother living in Germany.

(6). K. H. Royter (formerly spelled Reuter) Osald Division (Commercial Department) of General Aniline and Film Corporation, Binghamton, New York. Heads Nazi Groups in Binghamton and Johnson City. Has charge of receipt and distribution of all mail at the plant.

(7). W. Beese, manager of the paper coating department at the Agfa-Ansco Division of General Aniline and Film Corporation, Binghamton, New York. Apparently cooperates with Royter and has made statements that he could not "Bear Arms" against his homeland, Germany.



(8). George Schonewaser. Manager of the coating department in Detroit. A member of the Detroit Bund. Friend of Beese and Royter who tried very hard to have him sent to the West Coast. X

(9). H. Weichardt. Brought to the United States by F.W. VonMeister, who was expelled from the corporation by the Treasury Department, is an assistant in the Ozaphane Department of Osalid Division at Binghamton, New York. Is listed as a physicist, but appears not to be one by training or experience. He is entrusted with the Most Confidential developments and research work. Has worked on Bolling Field Color Film. X

(10). Dr. Echler, Dr. Werner Sachs and Dr. Alexowicz of the production division of Agfa-Ansco are competently trained technical men of German background. They are graduates of German Universities and were German Officers in the last World War. Dr. Alexowicz and his wife, an alien, are of East Prussian origin. They are flying enthusiasts and last spring made an extensive airplane trip through the south and southwest making photographs of landing fields. Dr. Werner Sachs has an automatic attachment on the dashboard of his automobile to enable him to photograph objects without attracting attention. X

(11). Dr. Hoerlin, research physicist in Agfa-Ansco, is an alien of German extraction - has made several undefined exploratory expeditions to South America at which times he took numerous photographs which were held up by customs authorities and made the subject of censorship. His duties at Agfa-Ansco appear to be somewhat "A Mystery" to his associates and no one appears to know exactly what he does there. X

(12). Fritz Wenzel. In the Production Division of Agfa-Ansco, took a trip into Canada in 1940 and made extensive pictures of the Atlantic Seaboard cities. His photographs were censored by Customs Authorities. Informants claim they have seen in his possession detailed aerial photographs of American cities. Mr. Wenzel has been the subject of an investigation by F.B.I. X

(13). Edward V. Brewer. General Field Manager of the Osalid Division, an intimate of VonMeister (Treasury Suspension - January 13, 1942), gave information concerning Royter, Beese, Schonewaser and Weichardt (Ref. "d" (6),(7),(8) and (9)). Brewer has in the past given false information concerning both date and place of his birth. He has claimed to be a former member of the 23rd Sikhs Regiment. When, in fact, there never has been such an organization. Brewer professes loyalty to the United States and criticized the use of German personnel in the Osalid Division. At present he is being considered for indictment for Federal Income Tax evasion, and is known to have been arrested for illicit liquor trafficking. X

2. This Division has taken the following action in this case:

(1). Advised the Chief of the Air Corps that it was undesirable to furnish Agfa-Ansco Division, the General Aniline and Film Corporation any classified information, and recommended that no contracts for classified items be awarded that corporation until the undesirable situation existing there has been corrected.

(2). Advised Signal Corps to seek additional sources of necessary photographic and communication supplies now furnished by the General Aniline group.

3. Since the above named persons represent a great potential danger to the war effort, either by espionage or direct sabotage, this Division recommends that:

(1). The management of the General Aniline and Film Corporation be requested to cease employment of the above named and other persons of questionable allegiance to the United States.

(2). Any of the above-named persons who cannot be discharged because of their necessity to the efficient operation of certain processes, be kept under full surveillance while at work.

(3). All military and private facilities engaged in war production be advised to withhold from the General Aniline and Film Corporation and its Subsidiaries and Affiliates any information and contracts until the danger is satisfactorily eliminated.

(4). That the Federal Bureau of Investigation and the Treasury Department be advised of the action taken.

For the A. C. of S., G-2:

RALPH C. SMITH,  
Colonel, General Staff,  
Executive Officer, G-2.

CONFIDENTIAL

306

HEADQUARTERS SECOND CORPS AREA  
OFFICE OF ASSISTANT CHIEF OF STAFF, G-2  
GOVERNORS ISLAND, NEW YORK

HCG/ptl

February 3, 1942

Subject: FORM 1593 - AGFA-ANSCO COMPANY 0044

To: Assistant Chief of Staff, G-2  
War Department  
Washington, D. C.

1. The attached photostats are copies of form filled in by salesmen for the AGFA-ANSCO COMPANY who visit Post Exchanges throughout the United States.

2. It may be seen from this that considerable military information is accumulated and shown on this form, and placed in hands that can misuse it. It is recommended that salesmen visiting Post Exchanges be prohibited from transmitting information as to personnel and movements of troops. Records of this office indicate that the AGFA-ANSCO COMPANY has contained many subversive elements among its personnel who are in a position through these reports to amass data and keep close track of all military movements and units in the United States.

3. This is transmitted for your information.

For the A. C. of S., G-2

*F. J. Pearson*  
F. J. PEARSON  
Colonel, G. S. C.  
Executive Officer, G-2

RECEIVED  
FEB 4 2 48 PM '42

1 Incl.  
photostat of form

1p 3'c 1 Encl. 3c

79 M. J. D. 004.4 Agfa-Ansco Company  
2-3-42

CONFIDENTIAL



Camp Name Camp Hulén

Date 12-5-41

Acc't No. DAC 042

Address Palacios, Texas

Exchange Officer or Steward Major Thompson

307

Number of canteens Eight

Number of soldiers 15,000

Not direct Agfa, thru whom is it purchased:

E. K. direct here? Yes If not who supplies it?

How often does this exchange order: Once each month

Complete detailed information concerning contact: i.e. Time spent, individuals contacted, how often are contacts necessary, etc.

Had to spend over four hours here. This camp now has eight canteens open. Three thousand men are leaving the eighteen of this month for foreign service. This number will be replaced by selectees immediately. Major Thompson is to be relieved in two weeks as Post Exchange Officer. Fortunately M. L. Parkinson (Stuart) likes our products very much and I do not think this change will affect our standing at the camp.

Mr. Parkinson is favorable toward our products. He checks our stock each week in each canteen and sends out film from warehouse. He makes employees check Ek stock once a month. Employee then has to make up Ek order, they dislike doing this so most of the time they let the Ek stock run out completely.

Can advertising materials be used in this camp? Yes If so what type? Display Cards

Amount of Order- \$ 292.50

L.J.Gantt

to attach copy of your order for Bing files!

FEB 17 1942

Dear Mr. Stettinius:

I am in receipt of your letter of the 12th enclosing a letter dated February 10 addressed to Mr. Mack, and a copy of a letter from Mr. Lukashov addressed to you, dated February 5, all of which have been given attention.

I am informed by the Procurement Division that since the inception of the Russian program, we have been supplying the Amberg Trading Corporation, at Mr. Rostarchuk's request, a list daily to cover all contracts executed for their account. The list shows requisition number, contract number, name of supplier and dollar value. This list also indicates whether purchase is partial or final against the requisition. For the past week we have been sending them a list of all requisitions for Russia cleared by the War Production Board for purchase.

If this is not sufficient we should be glad to endeavor to give them any further information and data they desire.

Sincerely yours,

D. W. BELL

Acting Secretary of the Treasury

Mr. E. R. Stettinius, Jr.  
 Administrator  
 Office of Lend-Lease Administration  
 615 22nd Street, Northwest  
 Washington, D. C.

CC:blb 2/16/42  
 W.S.  
 1

*File in C.*  
 By Messinger Brown 10:40 am  
 Copy to Bell + Savage +  
 Thompson

309

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

E. R. Stettinius, Jr.  
Administrator

February 12, 1942

2/16  
WA

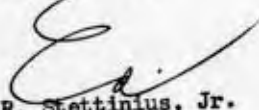
Honorable Henry Morgenthau  
Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary,

I am enclosing herewith a self-explanatory memorandum with enclosures addressed to Mr. Clifton Mack. You will note it pertains to requests for information made by Mr. K. I. Lukashov.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.



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

310

M E M O R A N D U M

February 10, 1942

TO: Mr. Clifton Mack  
FROM: E. R. Stettinius, Jr.  
SUBJECT: Contract and Payment Data on Procurement for  
Russia

1. Attached is a letter dated February 5, 1942  
from K. I. Lukashov, President of Amtorg.

2. Would it be possible for the Treasury Department to supply to us for the Russians the contract and payment data requested?

3. If that information is supplied, we do not believe it would be necessary to furnish the copies of contracts which you note is also requested.

Attachment



## AMTORG TRADING CORPORATION

New York

February 5, 1942

Mr. Edward R. Stettinius, Jr.  
Lend-Lease Administrator  
515 - 22nd Street, N. W.  
Washington, D. C.

Dear Mr. Stettinius:

During the recent conference with you on February 3rd the main point on your agenda was the question of allocating funds in addition to the \$1,000,000,000.00, because your estimate indicated that requisitions filed up to February 1st totalled over \$1,000,000,000.00.

I attempted to clarify this matter through a careful study of the records of Amtorg pertaining to this subject. However, I regret to say I did not find sufficient information available regarding this, due to lack of documents concerning the allocation of our orders by the various procurement agencies.

In order that we may set up more detailed records of Lend-Lease operations, specifically pertaining to expenditures of funds, I would appreciate it if the Lend-Lease Administration, as well as the various government divisions which are concerned with the placement of our orders, would submit to us the following information and documents.

1. Requisitions submitted by Amtorg to the Lend-Lease Administration, approved by the latter and transmitted by them to various governmental procurement agencies, as of December 1, 1941, January 1, 1942, February 1, 1942, and in the future as of the first day of each month, information to comprise the following details:
  - a. Name of the Procurement Agency
  - b. Requisition No.
  - c. Total amount of said requisition
  - d. Total amount of all requisitions at each Department or Procurement Agency
2. Contracts which have been awarded by the various procurement agencies, this information to be submitted as of the first day of each month and to comprise the following details:

- 2 -

- a. Name of the Procurement Agency
  - b. Requisition No.
  - c. Contract or Quotation No.
  - d. Total amount of the contract or quotation
  - e. Total amount of all contracts at each Department or Procurement Agency
3. Payments made covering materials and equipment delivered or in process of delivery, against land-lease allocation, information to comprise the following details:
- a. Name of the Procurement Agency
  - b. Requisition No.
  - c. Contract No.
  - d. Total amount of payments made on said contract or quotation (in connection with contract or without)
  - e. Total amount of payments made by each Department or Procurement Agency

We would like to receive the above mentioned information, in duplicate, every tenth day of the month.

In addition to the aforementioned, it would be desirable that you direct the Procurement Divisions of the various Government Departments to submit to us, within a week's time after signing of same, copies of all contracts. In those cases where it is not possible to furnish us with copies of contracts, we should have other information giving particulars of the order, such as quotation or copy of an order pertaining to the delivery of materials, etc. As to the shipping documents and invoices, it is desirable that these be furnished to us in the quantity of copies agreed upon with the different Procurement Divisions.

As previously mentioned herein, this information is of extreme importance to us. Therefore, it is very desirable that we have this information at our disposal as soon as possible, particularly since the Soviet Government has requested me to submit information as to the status of expenditures from the Land-Lease fund of \$1,000,000,000.00 allocated to the U.S.S.R., as of February 1st, 1942.

Sincerely yours,

SECRETARY OF DEFENSE

/s/ K. I. LUKASHOV

K. I. Lukashov  
Chairman of the Board and President



313 2/15  
2:15

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

E. R. Stettinius, Jr.  
Administrator

*rec'd fish*

February 17, 1942

MEMORANDUM

To: The Honorable Henry Morgenthau  
From: E. R. Stettinius, Jr.  
Subject: Executive Reports

Transmitted herewith, for your information, are copies of the latest Executive Reports on Lend-Lease operations.

Attachment

SECRET

Office of Lend-Lease Administration  
**STATEMENT OF ALLOCATIONS AND OBLIGATIONS**  
 Weekly Report as of February 15, 1942

Appropriation Category	Adjusted Appropriations Feb. 15, 1942	Allocations		Obligations
		Feb. 15, 1942	Feb. 8, 1942	Feb. 8, 1942
Ordnance and Ordnance Stores	\$ 2,033,354,289	\$ 1,992,656,104	\$ 2,111,983,528	\$1,253,610,199
Aircraft and Aero. Material	2,877,000,000	2,836,232,388	2,832,250,860	2,032,879,086
Tanks and Other Vehicles	971,100,000	958,085,045	934,413,181	548,074,640
Vessels and Other Watercraft	1,657,500,000	1,630,372,400	1,629,052,000	1,186,788,586
Misc. Military Equipment	466,500,000	455,511,922	454,299,741	123,378,407
Production Facilities	1,051,313,824	1,041,585,513	1,008,052,689	598,006,235
Agric. and Indust. Commod's	3,259,481,887	2,726,436,696	2,558,806,514	1,576,129,021
Servicing, Repair of Ships, etc.	310,750,000	297,147,333	297,019,833	190,037,374
Services and Expenses	325,000,000	277,956,520	266,839,944	65,057,782
Administrative Expenses	20,000,000	8,033,352	8,033,352	2,948,730
<b>Total</b>	<b>\$12,972,000,000</b>	<b>\$12,224,017,273</b>	<b>\$12,100,751,642</b>	<b>\$7,576,910,060</b>

Procuring Agency	Adjusted Limitations Feb. 15, 1942	Allocations		Obligations
		Feb. 15, 1942	Feb. 8, 1942	Feb. 8, 1942
War Department	\$ 6,683,182,280	\$ 6,584,474,220	\$ 6,596,248,601	\$3,911,601,349
Navy Department	2,668,250,552	2,602,053,298	2,577,651,096	1,618,364,093
Maritime Commission	1,126,915,100	1,104,796,500	1,104,669,000	871,052,681
Treasury Department	932,032,691	930,461,235	826,160,062	515,174,739
Department of Agriculture	1,511,137,076	1,001,412,076	995,202,939	660,074,216
Other	819,944	819,944	819,944	642,982
<b>Total</b>	<b>\$12,922,337,643</b>	<b>\$12,224,017,273</b>	<b>\$12,100,751,642</b>	<b>\$7,576,910,060</b>

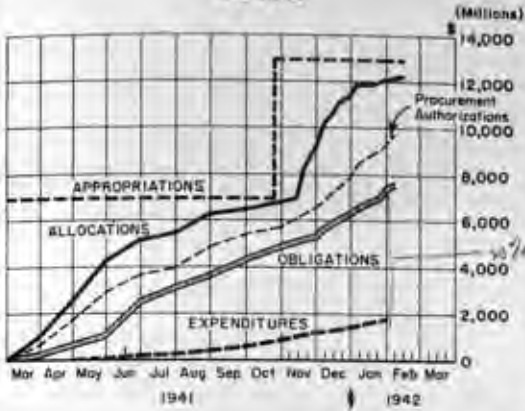
Funds for freight and other necessary charges are not included in obligations.

"THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE SPIONAGE ACT, U.S.C. §§ 21 AND 22. THE TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW."

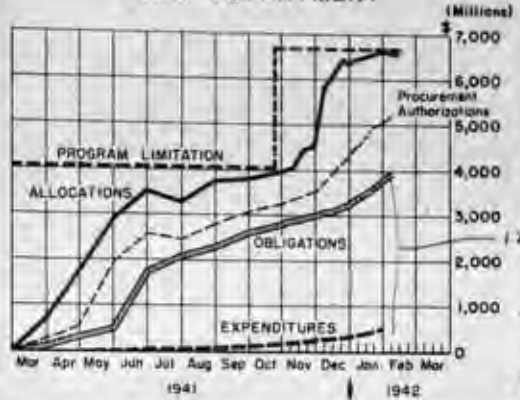
SECRET

# LEND-LEASE FUNDS

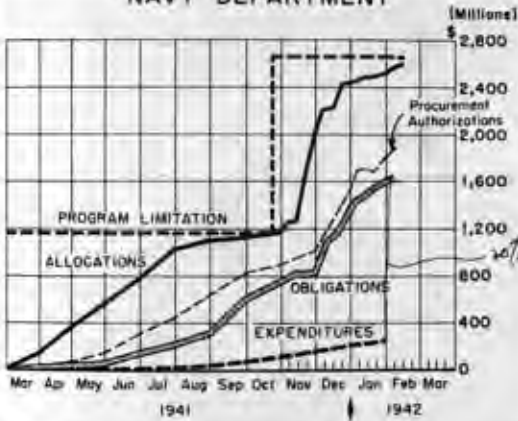
TOTAL



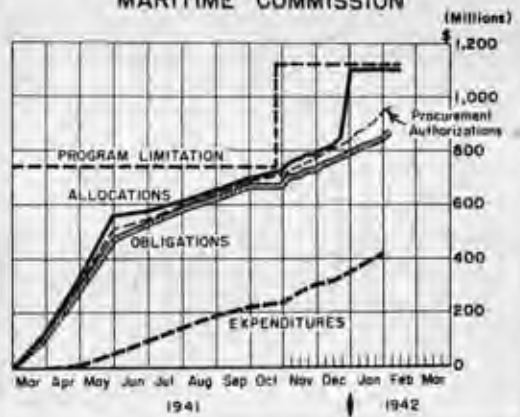
WAR DEPARTMENT



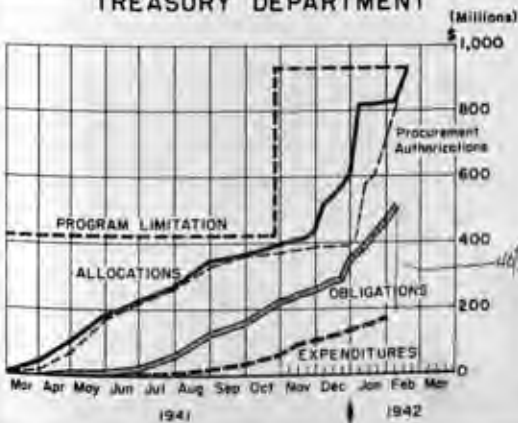
NAVY DEPARTMENT



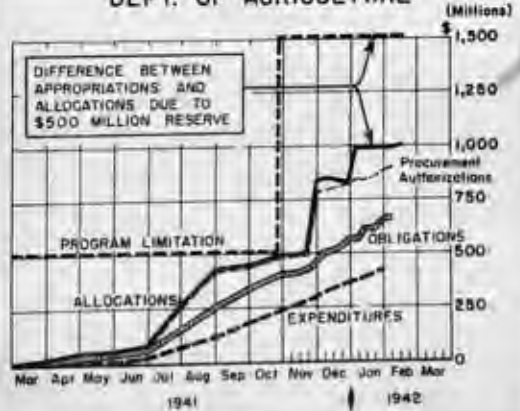
MARITIME COMMISSION



TREASURY DEPARTMENT



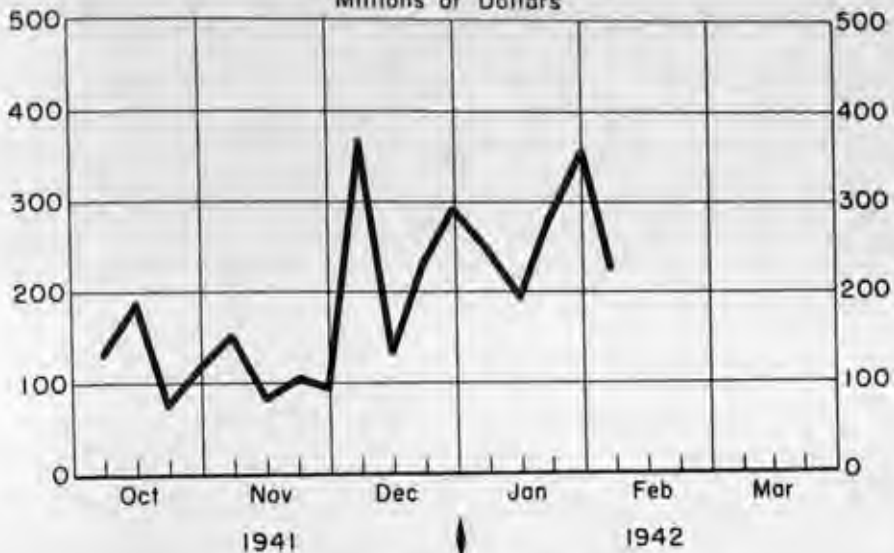
DEPT. OF AGRICULTURE





SECRET

TOTAL AMOUNT OF FUNDS OBLIGATED  
IN EACH WEEKLY PERIOD  
Millions of Dollars



AMOUNT OF FUNDS OBLIGATED, BY WEEKLY PERIODS  
Thousands of Dollars

	Jan. 9-15	Jan. 16-23	Jan. 24-31	Feb. 1-8
<b>APPROPRIATION CATEGORY</b>				
Ordnance and Ordnance Stores	8,053	63,714	100,255	21,087
Aircraft and Aero. Material	36,978	32,321	29,139	51,075
Tanks and Other Vehicles	9,608	49,789	48,720	24,210
Vessels and Other Watercraft	11,490	4,895	12,999	13,619
Misc. Military Equipment	2,501	7,371	13,872	9,814
Production Facilities	36,424	9,541	13,608	9,739
Agric. and Indust. Commod's	81,138	50,862	130,864	75,909
Servicing, Repair of Ships, etc.	3,010	46,698	31	4,427
Services and Expenses	3,821	21,769	4,068	16,877
Administrative Expenses	116	233	89	185
<b>Total</b>	<b>193,139</b>	<b>287,193</b>	<b>353,645</b>	<b>226,942</b>
<b>PROCURING AGENCY</b>				
War Department	87,667	145,543	204,084	132,155
Navy Department	32,293	87,206	51,457	13,669
Maritime Commission	6,241	16,043	12,343	27,609
Treasury Department	20,319	38,368	34,729	53,470
Department of Agriculture	46,570	1	50,989	30
Other	49	32	43	9
<b>Total</b>	<b>193,139</b>	<b>287,193</b>	<b>353,645</b>	<b>226,942</b>

Office of Lend-Lease Administration

## TREASURY DEPARTMENT

317

## INTER OFFICE COMMUNICATION

DATE February 17, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Feb. 9	-	-	5,000	3,568
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	1,500	1,500
14	-	-	-	-
	-	-	6,500	5,068
Sales from Feb. 22, 1940 to Feb. 7, 1942	<u>9,847,610-1/6</u>	<u>281,858,763</u>	<u>45,641,016</u>	<u>37,468,648</u>
Sales from Feb. 22, 1940 to Feb. 14, 1942	<u>9,847,610-1/6</u>	<u>281,858,763</u>	<u>45,647,516</u>	<u>37,473,716</u>

## TREASURY DEPARTMENT

318

## INTER OFFICE COMMUNICATION

DATE February 17, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

## STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the various vesting orders since February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Feb. 9	-	3,568	3,568	
10	-	-	-	
11	-	-	-	
12	-	-	-	
13	-	1,500	1,500	
14	-	-	-	
		<u>5,068</u>	<u>5,068</u>	
Sales from Feb. 22, 1940 to Feb. 7, 1942	<u>281,858,763</u>	<u>37,468,648</u>	<u>319,327,411</u>	
Sales from Feb. 22, 1940 to Feb. 14, 1942	<u>281,858,763</u>	<u>37,473,716</u>	<u>319,332,479</u>	319,332,479
\$ proceeds of non-vested securities sold Feb. 2, 1942 - Feb. 9, 1942			700,000	
\$ proceeds of non-vested securities sold Sept. 1, 1939 - Jan. 31, 1942			<u>242,200,000</u>	
\$ proceeds of non-vested securities sold Sept. 1, 1939 - Feb. 9, 1942			<u>242,900,000</u>	<u>242,900,000</u>
		GRAND TOTAL	<u>562,232,479</u>	
Jan. 7, 1942 - Cash Dividend on 156 Shares				\$ 61
Jan. 9, 1942 - Partial Liquidating Dividend				125
9 Units sold from Aug. 18, 1941 - Feb. 14, 1942				42
11 Shares Stock Dividend sold Aug. 18, 1941 - Feb. 14, 1942 for				123
56,007 Rights sold from July 24, 1941 - Feb. 14, 1942 for				102,938




For Miss Chauncey

TREASURY DEPARTMENT  
OFFICE OF THE SECRETARY

February 17, 1942.

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended February 4, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.



dm:2/17/42

COPY

FEDERAL RESERVE BANK  
OF NEW YORK

February 13, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended February 4, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,  
Vice President.

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

Enclosure

Copy:vw:2-16-42

## ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In Millions of Dollars)

Week Ended February 4, 1942

Monthly  
Statement

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE								
	DEBITS			CREDITS					Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (GDS) (b)	Other Credits (c)	Total Debits		Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits			
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(a)	416.6(e)	449.7	1,095.3(b)	900.2	195.1(e)	+229.0		
War period through December, 1940	2,792.3	1,425.6	1,366.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1		
Second year of war (8/29/40-8/27/41)**	2,209.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1		
1941																	
Aug. 28 - Oct. 1	140.8	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2		
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-		
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7		
Dec. 4 - Dec. 31	88.4	69.4	18.8	51.2	-	-	51.2	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4		
1942																	
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2		
WEEK ENDED:																	
Jan. 14	30.2	22.9	7.3	24.8	-	0.5	24.3	- 5.4	-	-	-	0.1	-	0.1	+ 0.1		
21	24.4	16.8	7.6	10.2	-	-	10.2	- 14.2	-	-	-	0.1	-	0.1	+ 0.1		
28	21.3	15.8	5.5	22.8	-	-	22.8	+ 1.5	0.1	-	0.1	-	-	0.1	-		
Feb. 4	27.9	19.0	8.9	17.8	-	-	17.8(f)	- 10.1	-	-	-	-	-	-	-		

## Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 40.7 million

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

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

(See attached sheet for other footnotes)

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

Week ended February 4, 1942

\$ -

million

Cumulation from July 6, 1940

\$162.7

million



- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes:  
\$5.3 million transferred from account of Commonwealth Bank of Australia;  
\$7.0 million transferred from New York accounts of British authorized banks.

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

Week Ended February 4, 1942 Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	304.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1, 1941	23.1	-	23.1	22.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29, 1941	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3, 1941	52.8	0.1	52.7	32.5	19.3	-	-	17.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31, 1941	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
Jan. 1 - Jan. 28, 1942	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
<b>WEEK ENDED:</b>																
Jan. 14	9.2	-	9.2	7.4	5.4	-	-	2.0	- 1.8	2.1	-	2.1	0.6	-	0.6	- 1.5
21	12.0	-	12.0	7.5	6.1	-	-	1.1	- 4.5	1.2	-	1.2	1.6	-	1.6	+ 0.4
28	11.3	-	11.3	16.7	15.4	-	-	1.3	+ 5.4	0.5	-	0.5	8.4	-	8.4	+ 7.9
Feb. 4	7.6	-	7.6	8.7	0.5	-	-	8.2	+ 1.1	6.5	5.3	1.2	0.7	-	0.7	- 5.8

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

Through February 4, 1942 7.8 million

\* For monthly breakdown see tabulations prior to April 23, 1941.  
\*\* For monthly breakdown see tabulations prior to October 8, 1941.

TREASURY DEPARTMENT

324

INTER OFFICE COMMUNICATION

DATE February 17, 1942

TO Mr. White

FROM Mr. Friedman

Subject: Digest of report by Mr. Fox to the Secretary of the Treasury on China's financial and economic conditions.

1. China has made financial and economic progress during the last year despite further intensification of its economic difficulties.
  - (a) The land tax has been nationalized and converted into a tax in kind. The Government has been able as a result of this reform to avoid recourse to borrowing to purchase food for the army and civilians, and, at the same time, to exercise more thoroughgoing and effective control over the distribution and price of food. The price of food is of particular importance in China's economy since it is the largest ingredient of the price structure. The Government food requirements are amply provided for the year October 1941 to September 1942 and the prospects for the 1942 harvest appear to be favorable.
  - (b) The provincial revenues have been handed over to the National Treasury.
  - (c) Control of money and credit has been made more effective.
  - (d) The method of collecting taxes has been improved.
  - (e) The rate of interest charged by the four Government Banks for advances to the Government has been reduced from 7 percent to 5 percent.
  - (f) Machinery has been instituted for the continued importation of essential goods from Occupied China and this trade is still continuing.



Division of Monetary  
Research

- (g) Industrial and mineral production in China is increasing. New industrial centers are arising which are increasing the flow of goods vital to the needs of the war effort and civilian population. The report stresses the desirability of increasing production and refraining from any deflationary measures.
- (h) Measures have been taken to control prices but unfortunately the mechanism for supervision and investigation is still rudimentary. Hope is expressed that the recent establishment of the Price Stabilization Administration will result in a definite amelioration in the price situation.
3. Mr. Fox outlines the history of the proposed loan to China. This information has already been received by the Treasury through Mr. Fox and other channels.
4. Mr. Fox suggests that if a loan is given, about one-half of it should be made available to China immediately. The remainder should be made subject to Executive approval following recommendations by two standing committees of five members each. One committee should be located in Washington, D. C. and consist of three Americans and two Chinese, headed by the Secretary of the Treasury, and the other, in Chungking, and consist of three Chinese and two Americans, to be headed by the Minister of Finance.
5. According to the Generalissimo, the loan will be used as follows:
- (a) About 50 percent as a reserve against note issue.
  - (b) About 30 percent as a sinking fund for internal loan.
  - (c) About 20 percent as a guarantee fund for savings certificates.
6. Mr. Fox outlines the possible uses of the loan to China:
- (a) Reserve against note issue.
  - (b) Guarantee of loan and savings certificates to absorb fapi.
  - (c) Finance imports from India and the Northwest.
  - (d) Loans to finance internal small scale industrial production and agricultural production.

## SECTION I.

What Financial and Economic Progress has Been  
Made in China in the Last Year?

The year 1941 witnessed a further intensification of China's economic difficulties. The mounting budgetary deficit due to the enormous burden of waging war and simultaneously carrying on essential reconstruction enterprises and acute shortage of goods arising from the loss of China's richest provinces, and the growing difficulties in the way of maintaining foreign trade were together largely responsible for the alarming rise in prices. China's main economic problem now is to retard the accelerating rate of increase in prices by increasing the supply of essentials whether by import or expanding internal production, by at least partially rectifying the budgetary deficit by augmenting revenues and by non-inflationary borrowing, by the optional distribution of all available goods, and by stricter control of prices and hoarding. The immediate impact of the spread of the World War to the Pacific in December 1941 on the economic situation in China has been to aggravate China's economic crisis.

Yet in spite of the bleakness of the overall picture, 1941 provided certain encouraging signs of economic progress, significant not only in themselves, but perhaps even more so as examples of the determination to adopt measures and reforms on the lines just indicated. These accomplishments are all the more encouraging because they were achieved in the face of the tremendous obstacles imposed both by wartime conditions and emergencies and by the predominantly particularistic regional character of the Chinese economy, which makes the introduction of unified and centralized controls so difficult of attainment.

Some of the important positive measures of progress in the financial and economic spheres are listed and briefly discussed below.



(1) Nationalization of the land tax and its conversion into a tax in kind.

This reform was initiated after the Third National Financial Conference in June 1941. It has turned out to be perhaps the outstanding success of the Ministry of Finance in 1941. The land tax which was previously in the hands of the provincial and district governments and which was collected on a heterogeneous basis, sometimes in kind and sometimes in money, has been taken over by the Ministry of Finance and put on a comparatively uniform basis. The result is that the tax has become incomparably more productive and that the Government has obtained direct ownership of a very substantial portion of its natural food supply. In this way the Government has been able to avoid having recourse to borrowing to purchase food for the army and civilians which would have swollen the budgetary deficit still further, and at the same time to exercise more thoroughgoing and effective control over the distribution and price of food. As the price of food is much the largest ingredient of the price structure, ability to have some control over the price of food is of crucial importance.

The collection of land tax has on the whole come up to expectations and has proceeded fairly smoothly. Collection in Szechuan which is expected to yield almost a quarter of the total has come up to a 100 percent of estimates. Kiangsi has already yielded 70 percent of estimates. Collections for the fiscal year are still continuing in other provinces while only a few provinces are falling below expectation.

Coupled with the land tax reform should be mentioned the Government purchase of foodstuffs at fixed prices. The former is estimated to make over 25 million piculs (1 picul = 110 lbs.) and the latter nearly



37 million piculs of rice and wheat available to the Government, of which about 41 million piculs will be used to feed the army and for storage and about 21 million piculs to supply Government food requirements, and adjust market conditions. Thus Government food requirements are amply provided for for the year October 1941 - September 1942; in addition the existence of substantial stores of food in the main consumption years enables China to face the food situation which is the key sector of the Chinese internal economy with equanimity.

It should be pointed out that the 1941 harvest was much better than that of 1940. Prospects for the 1942 harvest appear to be favorable.

(2) Consolidation of Provincial Revenues and Expenditures Which are now embodied in the national budget.

In accordance with the resolutions adopted by the Ninth Plenary Session of the Central Executive Committee of the Kuomintang and the Third National Financial Conference, the necessary preparations for consolidation were taken in 1941. On January 1, 1942 the provincial revenues were handed over to the National Treasury. The three main sources of provincial revenue had been the land tax, the business turnover tax, and the provincial transit tax. The first had already been taken over by the Ministry of Finance. As for the second, it will be handled in the future by the Direct Tax Administration of the Ministry of Finance. The multiplicity and complexity of provincial transit taxes has contributed both to the rise in prices and to delays in transportation. They are now being simplified and will be administered largely by the Consolidated Tax Administration. The interport duties under the Customs Administration are also being simplified so that, wherever possible, one tax and one tax only will have to be paid on interport movements of goods.

As far as provincial expenditures are concerned, the Central Government is already handing out monthly allocations to the provincial Governments. The Central Government is also increasing the subsidies to the District Governments.

(3) Control of money and credit.

- (a) For the first time real and effective exchange control has been established, thanks largely to the work of the Stabilization Board of China and the cooperation of the United States and British Foreign Funds Control. With the establishment of effective exchange control must be associated the stabilisation of the external value of the yuan and a greater ability to regulate and supervise foreign trade.
- (b) Control over the four Government banks has been tightened.
- (c) Similarly supervision of the commercial banks has been increased. There had been too great an increase in the number of commercial banks which it became necessary to curb.

(4) Collection of taxes.

The Ministry of Finance has instituted a system whereby inspectors from the Ministry travel up and down the country to ensure the regular and efficient collection of taxes. Their work has already resulted in some improvement. Inefficient tax officials have been fired and venal officials arrested. The Ministry has also instituted schools for training new and raising the efficiency of old tax officials. But there is still considerable room for improvement in the sphere of tax collection.



(5) Limiting expenditures

The chief economy achieved has been the reduction in the rate of interest charged by the four Government banks for advances to the Government from 7 percent to 5 percent. In this connection it may be worthwhile calling attention to the possibility of reducing the cost of Government borrowing still further by making the income tax on income from interest progressive. As the most important source of income from interest is the holding of Government securities, and as the four banks are the chief holders of such securities, the effect would be to increase the amount of income tax the four banks would have to pay and to achieve a further reduction in the net cost of financing the Government debt. China cannot now afford to curtail her military expenditures or her expenditures on reconstruction enterprises engaged in the production of essentials. Such economies would be the worst kind of false economy; the last thing China should do now is to curtail her military effort or to reduce her capacity to produce. The only cases in which economies may be feasible are those involving long-range enterprises which it may no longer be possible to carry through owing to military strategic developments and to the cutting off of supplies of essential materials.

(6) Imports from occupied China.

A most effective form of economic warfare has been conducted by the Smuggling Prevention Administration of the Ministry of Finance through the delicate machinery it has instituted and supervised for the continued importation of essential goods from occupied China. This clandestine trade is still continuing. Only recently 20,000 pieces of goods arrived in Chungking which were smuggled out of Shanghai via the enemies' lines.



(7) Expanding production

Perhaps the most heartening sign in all the Chinese economic scene is the indomitable will and initiative shown by private and Government-controlled enterprise in pushing industrial and mineral production both. In the face of all sorts of hardships, shortage, and difficulties Free China has stimulated the production of goods which had either never been produced before or only on the very smallest scale. New industrial centers are arising which are turning out if only on a small scale by Western standards an increasing flow of goods vital to the needs of the war effort and of the civilian population. I myself personally visited many factories in Kunming and Chungking and was particularly impressed by the Central Machine Works in Kunming and by two iron and steel mills and a paper mill in the vicinity of Chungking.

The production of coal, iron, gasoline and petroleum production, electrical machinery, machine tools and some military equipment, and cotton yarn to name but a few products has shown substantial increases in 1941. The total output of China's mines and factories may be small, but it is making a vital contribution not only to the war effort but also to China's post-war construction. And it is increasing and continuing to increase. It would be a tragedy if the flow of goods were curtailed through lack of funds or misguided and ill-timed efforts at economy resulting from a deflationary movement recently instituted.

(8) Price control.

It is in this sphere that most progress remains to be achieved. Where price control has been enforced by punishment of hoarders and

speculators, the effects have usually been salutary, but unfortunately the mechanisms for supervision and enforcement of price control are still rudimentary. It is to be hoped that the recent establishment of the Price Stabilisation Administration will result in a definite amelioration of the price situation.

SECTION II.

333

Loan to China.

Since early December there has been much discussion in Chungking of a loan to China, Sir Otto Niemeyer supported by the British Ambassador taking the lead and finally approaching the American Ambassador in the matter. Sir Otto Niemeyer offered to the Minister of Finance a loan of 10 million pounds Sterling and gave assurances that an American loan would also be forthcoming. He suggested customs receipts as collateral for such a loan. This proposition was immediately turned down and has created much resentment in high official circles. Because of this unfortunate suggestion one often hears now in connection with a discussion of a loan that the "colonial attitude" will not be tolerated. Sir Otto Niemeyer and the British Ambassador, failing to make headway with the Minister of Finance, then solicited the support of the American Ambassador in taking up the question of a loan directly with the Generalissimo. When the American Ambassador would not join in such a project, Sir Otto Niemeyer and Sir Archibald Kerr Clark Kerr themselves discussed the subject of a loan with the Generalissimo. They were told that the military, financial, and other requirements of China were such as to require a loan from Great Britain of 100 million pounds Sterling and that not a lence less than this amount would do. The Generalissimo has indicated that Niemeyer immediately responded that the amount was entirely too large but that they would be willing to make a loan of such a size as the Chinese could actually use. Soon thereafter the Generalissimo asked the American Ambassador to call and discussed the subject of an American loan of 500 million United States dollars. The American Ambassador is supposed to have expressed himself in favor of a large loan to China, not only of 500 million U. S. dollars but one even of



600 million U. S. dollars, <sup>ing</sup> point/out, however, the many difficulties which might arise in making such a large loan. Apparently, so unlike the Niemeyer-British Ambassador visit - a favorable impression was left by the Gauss visit. The Generalissimo and the Minister of Finance have since concentrated on an American loan of 500 million U. S. dollars stating that the negotiations of a British loan would be taken up after the American negotiations have been completed. They both insist too that the loan must be viewed as a military necessity and that the loan must not only be large but that the negotiations must be completed at a very early date. The American Ambassador, skeptical about a Chinese loan at first, has since become completely reconciled to a large loan as a political necessity, insisting, however, that proper safeguards and restrictions must be imposed. It has become increasingly evident each week that it will be practically impossible to impose any restrictions and that, if the full psychological effect of a loan is to be had in China, the loan must not only be very large but of such a nature to show complete confidence in China. The latter is even more important than the former.

There has been some talk of utilizing the unused funds of the Stabilization Board, some 55 million U. S. dollars and 2 million pounds Sterling, for the general purposes proposed for the loan. This suggestion is based on a misconception that China will be cut off from all foreign trade. It is a proposal that should not be taken too seriously. Rather than liquidating the Board, it would be desirable to show confidence in the Stabilization Board by increasing its assets and thus provide for the day when imports into China will increase and a vehicle will be needed for controlling China's foreign trade and foreign exchange. By strengthening the Board an attractive feature could be provided for a bond issue or the issuance of savings

certificates, for thus it would be made possible to have the bonds or certificates paid off in foreign exchange and to have it appear that issues have the backing of the Board.

Assuming that a loan to China will require Congressional approval and assuming that the amount be at least 500, and preferably 750, million U. S. dollars, 200 to 300 million U.S. dollars of this amount would be made available to China immediately upon approval of the loan measure by the Chief Executive of the United States. The remainder would be made subject to Executive approval following recommendations by two standing committees of five members each. One committee is to be located in Washington, D. C., and to consist of three Americans and two Chinese; and the other in Chungking, China, to consist of three Chinese and two Americans. These committees should be headed by the Secretary of the Treasury of the United States and the Minister of Finance. This suggested procedure would show confidence in China by making immediately available a large sum, 200 to 300 million U. S. dollars, and at the same time provide an effective medium for carefully examining proposals for the use of funds and for imposing necessary restrictions and safeguards. Such restrictions would be self-imposed in that the Committees, of which Chinese constitute one-half the membership, would impose the safeguards, if any. This would be much preferable to having the very same safeguards imposed by the United States as a prior condition of the loan. The creation of the two suggested committees would provide a vehicle for scrutinizing the use of the initial funds of 200 to 300 million U. S. dollars even if no check was imposed on the use of this sum. It would be tacitly understood that, if there were any questions raised with respect to the initial fund, the committees would be inclined to scrutinize more closely



subsequent proposals. Furthermore, the existence of such committees and their opportunity for scrutinizing all proposals for the use of the funds would serve to instill general public confidence in the uses to which the funds were applied. The committees should be able to function smoothly and be flexible enough not to interfere with the legitimate uses to which the funds are to be put.

The loan requested of the United States and Great Britain by the Chinese Government is to be used, according to the Generalissimo, as follows:

- (1) The largest portion (50%) of the proceeds to be used as a reserve against note issue.
- (2) Another portion (30%) as a sinking fund for an internal loan.
- (3) A portion (20%) as a guaranty fund for savings certificates; both (2) and (3) to be issued in foreign currencies.

A large sum could in my opinion effectively be employed as small loans for increasing industrial and agricultural production.

There has been much talk lately, especially from British sources, of insisting on the submission by the Chinese Government of a complete plan before a loan is made to China. This involves a mistaken notion that the loan is in the nature of a commercial loan and is apt to involve the United States, should it take a similar view, in political factions and controversies. It would appear to be wiser to assume that China is a worthwhile risk and deservant of a large political loan. The United States could then take the initiative and propose some such plan as is here suggested. This plan would give China assurance of America's confidence in her as a good risk while providing an opportunity for indirectly checking the uses to which the funds are to be



put while not antagonizing China because of its insistence that no restrictions are to be imposed on a loan. This would provide a better vehicle for protecting the funds and introducing the opportunity for safeguards than would the best plan that China itself could introduce.

## SECTION III.

## Possible Uses of a Loan to China.

A rough sketch of the uses to which a loan could be put in China is of interest. The amounts to be devoted to the various purposes cannot obviously be determined with any degree of accuracy, but a general plan can be fairly well worked out. The uses for which a loan to China could be employed are as follows:

(1) Reserve against note issue

Currency regulations in China require the legal tender to have a backing of 100 percent, 60 percent in cash and 40 percent in securities. The cash reserve consists of gold, silver, foreign exchange, short-term commercial paper, commodity and warehouse receipts and investments in productive enterprises. The securities reserve consists of Government bonds or bonds guaranteed by the National Government. At the end of December 1941 the note issue amounted to a little over 15 billion Chinese dollars, the cash reserve consisting of about 50 percent of the note issue. The deficit for 1942 is expected to amount to CN\$ 8 to 12 billion. With the best of conditions prevailing the note issue at the end of 1942 will probably amount to CN\$22 to 24 billion. It is held in high financial circles in China that to maintain an adequate reserve of foreign exchange for this large note issue will require a fund of 300 to 350 million U. S. dollars.

(2) Guaranteed loan and saving certificates to absorb fapia

The Chinese Government could issue U. S. Dollar-backed bonds paying 5 percent interest per annum to be redeemed beginning with four or five years from now or immediately after the end of the war at the current official rate of exchange. If necessary, the bonds can be issued a little below par, say at 95.98. The bonds would have the guarantee of the

U. S. Treasury and could be made redeemable through the Stabilisation Board of China.

How much fapi the bond will absorb is not definitely known. It ought not to be less than  $1\frac{1}{2}$ -2 billion in the first year and may well be more, and if the war continues for another year a similar sum can be expected in the second year. Subscriptions on this scale will have a two-fold beneficial effect on prices:

- (a) The Government will have to borrow less internally to finance its internal deficit. While the bond issue will affect the amount the Government has to borrow but not the amount to be spent, nevertheless -

1 - Saving will be encouraged by the provision of an attractive saving medium and excess fapi in circulation will flow back to the Government.

2 - Confidence will be less adversely affected and may even be strengthened by the reduction in the size of the internal budgetary deficit.

- (b) People now finding goods the most attractive hoarding medium will be encouraged to disgorge their hoards, thus increasing the supply of goods on the market.

If the subscriptions to the bond issue amount to CN\$2 to 4 billion in one year, it will account for not less than three months' deficit, and require the earmarking of U. S. \$100-200 million in the first year. The same amounts can be anticipated in the second year.

It is planned also to issue savings certificates. This should absorb from CN41 to 2 billion of fapi in one year and require as a backing from U. S. \$50 to 100 million. The amount should be even larger the second year.



(3) Imports from India and the Northwest

(a) India.- While the Burma Road is still a bottleneck, with the improvement in traffic conditions from Lashio to Kunming, Chinese stocks in Rangoon will gradually be depleted, especially as British military authorities are calling on Chinese stocks now. Therefore steps should immediately be taken to ensure the flow of essentials from India; these essentials should consist of military supplies, gasoline, cotton yarn, chemicals, and metal goods. It is no argument that such goods are needed in India and in countries in the Middle Eastern theatre of the war, for these countries should be able to replace exports of essentials to China with imports of the same or similar essentials from the United States. And in the case of cotton yarn, India now cut off from its former Japanese market must have an export surplus.

(b) The Northwest.- It is impossible to evaluate the amount or value of goods to be obtained from Russia as two unknowns exist, firstly, the extent of transportation facilities, and secondly the effect of the war on Russia's ability to supply goods. But it is probable that Russia will be able to spare captured military goods and perhaps some cotton, gasoline, and sundries. The fact that her Far Eastern Army is not engaged should enable her to spare some military material from her existing Far Eastern stocks.

(a) and (b) together should not account for much more than \$50 million. If this estimate is too low, so much the better.

(4) Loans to finance internal small-scale industrial production and also agricultural production.- The need for both requires no stressing. The maintenance of agricultural production is vital to China's war effort; everything that can be done to strengthen China's self-sufficiency in food contributed immediately to China's war effort. With respect to small-scale

industrial production, the very fact that China is cut off to such an extent from her former supply bases makes it the more imperative to stimulate internal production. As the resources for large-scale production are not available, such production must necessarily be small-scale. Such small-scale efforts, if successful, will make it easier for China to tide over the next period especially if they are concentrated on the production of textiles, blankets and other simple essentials which do not require elaborate machinery.

Such loans clearly involve internal Government financing but, if the Government in making such loans can indicate it has a 100-percent foreign-exchange backing, possibly unfavorable psychological repercussions might be avoided. Again, because of the Foreign-Exchange backing for the loans, it would be desirable to introduce the Stabilization Board into the picture, but this might be a fairly ticklish matter.

Probably U. S. \$50 million could be profitably invested in such loans in the first year.

(5) A large sum from the United States, \$50 to \$100 million, could be effectively utilized for miscellaneous purposes, such as the readjustment of the land tenure. Steps have already been taken to improve conditions in the rural areas, and an adequate fund to help in effecting these improvements would prove extremely helpful.

Thus (2), (3), (4) and (5) would absorb about U. S. \$ 300 million, and not more than \$450 million in the first year, while (1) would require from 300 to 350 million U. S. dollars. The total amount of U. S. dollars required for the purposes outlined above is from 600 to 850 million.

TREASURY DEPARTMENT

342

INTER OFFICE COMMUNICATION

DATE February 17, 1942

TO Mr. White

FROM Mr. Friedman

Subject: Digest of cable from Ambassador Gauss dated February 14 regarding China loan.

1. Editorial reaction to loan said to be "more appreciative than enthusiastic."
2. There is general agreement that control of inflation with a view to reducing commodity prices should be the primary objective.
3. The absorption of idle capital through internal loans secured on the credits is generally favored.
4. Effective measures for price stabilization are demanded and an acceleration of production of essential commodities is advocated.
5. Among the additional proposals being made for the use of the loans are:
  - (a) Import of actual United States currency for circulation in Free China.
  - (b) Unfreezing and direct free sale of foreign exchange.
  - (c) Sale of American Government bonds in China.
  - (d) Use to encourage domestic production.
  - (e) Use as currency reserve.
6. There is as yet no evidence that a definite plan for the utilization of the American loan has been formulated.



WM  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
agency. (BR)

Chungking via N. R.

Dated February 14, 1942

Rec'd 8:50 p.m.

Secretary of State,  
Washington.

123, February 14, 9 p.m.

Editorial reaction to (?) credits has been more appreciative than enthusiastic. One leading paper advises that China should demonstrate that she merits the credits by the use she makes of them in strengthening her position and effectiveness as a partner in the United front, adding that if the loans are used to expand the national budget or as reserves for issuing notes, then not only will there be no benefit but there will be harm. Another paper cannot forego the comment that the granting of such credits four years ago would have prevented the present serious situation in the Far East. There is general agreement that control of inflation with a view to reducing commodity prices should be the primary objective. Uniformity is lacking with regard to the precise means of accomplishing this end but the absorption of idle capital through internal loans

secured

-2- #123, February 14, 9 p.m., From Chungking via N. R. <sup>344</sup>

secured on the credits is generally favored. Effective measures for price stabilization are demanded and an acceleration of production of essential commodities is advocated. Retrenchment to the point of deflation is urged by one paper but others warn against such a policy, suggesting that the idle capital absorbed should be used to encourage production.

Numerous proposals are being made in official and unofficial circles for the use of the loans, including the following: (1) import of actual United States currency for circulation in Free China; (2) unfreezing and direct free sale of foreign exchange; (3) sale of American Government bonds in China; (4) use for reconstruction projects as well as to encourage domestic production; (5) use as currency reserve. These are additional to the proposed sale of government bonds secured on foreign currency credits in order to recapture substantial sums of Chinese currency for government use.

Our information also indicates that China is going forward with proposals for state monopolies of salt, tobacco, matches and sugar.

There is as yet no evidence here that a definite plan for the utilization of the American loan has been formulated.

GAUSS

NK



DEPARTMENT OF STATE  
WASHINGTON

February 17, 1942

My dear Mr. Secretary:

I send you herewith a copy of a letter of February 16 from the Chinese Minister for Foreign Affairs together with copy of the enclosure thereto, translation of a telegram of February 15 from General Chiang Kai-shek to the President.

I have forwarded to the President the copy supplied by the Chinese Minister for Foreign Affairs of the translation of the telegram from General Chiang Kai-shek.

Sincerely yours,

Enclosure:  
From Chinese Minister  
for Foreign Affairs,  
February 16, with  
enclosure.

DEFENSE

BUY  
UNITED  
STATES  
SAVINGS  
BONDS  
AND STAMPS

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



(COPY:FE:HNS)

CONFIDENTIAL

MINISTER FOR FOREIGN AFFAIRS  
REPUBLIC OF CHINA

February 16, 1942

My dear Mr. Secretary:

I take pleasure in enclosing a translation of a telegram to the President from Generalissimo Chiang Kai-shek under date of February 15, 1942, and shall be grateful if you will be so good as to transmit it to its high destination.

I remain, Mr. Secretary,

Very sincerely yours,

T. V. SOONG

The Honorable  
Cordell Hull,  
Secretary of State of the  
United States of America,  
Washington, D. C.

TRANSLATION OF A TELEGRAM FROM THE GENERALISSIMO  
FOR PRESIDENT ROOSEVELT

DATED FEBRUARY 15, 1942

Soon after my arrival in Delhi I received your most welcome message informing me of the granting to China of the loan of \$500,000,000. I am most grateful to you for having accepted my suggestions in their entirety and without any attached conditions. On behalf of the Chinese Army and the Chinese People I wish to convey to you, and through you to the Congress of the United States as well as the American People, our deep gratitude for this timely assistance.

For four and a half years my people have suffered untold privations and distress. This loan, which you have now secured for China, will not only ameliorate the economic situation but will also raise the morale of the people in the present struggle. The loans and supplies, which we previously received from you, have enabled China to continue our war of resistance up till now. Your new gesture in granting us this timely assistance gives inspiration and encouragement to all who are fighting for freedom during the unprecedented crisis with which the world is faced.

Besides the meeting of military needs, the proceeds of the loan will be used mainly for strengthening China's  
economic

-2-

economic structure, redemption of legal tender notes, control of currency, stabilization of prices and the promotion of war production.

I wish to reciprocate most heartily your greetings and good wishes.

February 16, 1942



Treasury Department  
Division of Monetary Research

Date.....2/23/42.....19

To: Miss Chauncey

For the Secy's files.

MR. WHITE  
Branch 2058 - Room 214½

C  
O  
P  
YDEPARTMENT OF STATE  
WASHINGTON

February 17, 1942

In reply refer to  
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram No. 48, dated February 17, 1942, from the United States High Commissioner to the Philippines, Manila via N. R., transmitting a message for the Treasury.

Telegram Nos. 21 and 22 from U.S. High Commissioner were transmitted to the Secretary of the Treasury on January 16, 1942 and No. 23 on January 19, 1942.

## Enclosure:

From U.S. High Commissioner,  
Manila via N.R., No. 48,  
dated February 17, 1942.

Copy:bj:2-18-42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: United States High Commissioner, Manila, Philippines

DATE: February 17, 1942, 4 p.m.

NO. : 22

The following is for Treasury.

The U.S. High Commissioner refers to his telegrams Nos. 21, and 22 of January 16 and No. 23 of January 17.

Paper currency deposited by the following banks has been burned in the following amounts:

<u>Bank</u>	<u>Dollars</u>	<u>Pesos</u>
Bank of Philippine Islands.....	\$175,000	4,350,000
Philippine Bank Communications.....		30,000
National City Bank.....		2,421,000
Peoples Bank and Trust.....	42,985	215,000
China Banking Corporation.....		800,000
Nederlandsche Indische Handels Bank.....	13,500	58,000
Hong Kong and Shanghai Banking Corporation	49,500	498,000

The 500,000 pesos and \$50,000 originally deposited by Hong Kong Shanghai Banking Corporation have been reduced by payments to Milden and Jacoby as indicated in our telegram 20 of February 14.

We have also burned \$81,921 deposited by various individuals as reported in radios of January 7 and later; also 120 pesos deposited by Leonard Schney.

If and when circumstances permit, fuller details as to denominations and types of United States currency which have been destroyed, have been or will be mailed.

SAYRE

The words "has been burned" in the first sentence are suggested to replace an apparent garbled group meaning "Burmah".

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351

DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FD 852.5151/510

February 17, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith paraphrases of telegram no. 168, dated February 13, 1942, from Madrid, and telegram no. 99, dated February 16, 1942, to Madrid, concerning the utilization of American currency held by the Spanish Foreign Exchange Institute.

Enclosures:

1. From Madrid, no. 168,  
February 13, 1942.
2. To Madrid, no. 99,  
February 16, 1942.

Copy:bj:2-17-42

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Madrid, Spain

DATE: February 16, 1942, 10 p.m.

HO.: 99

Reference is made to telegrams no. 97, dated January 22, 1942 and no. 168, dated February 13, 1942.

The consideration of this question has been continued by this Department in conjunction with the Treasury Department and the British. The former is continuing its study of the question as a whole of foreign and American currency, securities, and other instruments of credit which are being held abroad awaiting shipment to the United States. The Treasury Department, however, is not ready to make at this time any statement of policy.

The Director of the Foreign Exchange Institute may be informed, however, that this Government does not feel inclined to intervene concerning the British refusal to grant navicerts to ships which are carrying American currency in amounts in excess of the regular needs of such ships. Our unwillingness to intervene applies not only to dollar currency now held by the Institute but also to future purchases by the Institute of such currency.

The following paragraph is for your confidential information.

The proposal made by the Exchange Institute not to purchase any more dollar notes is viewed by this Department with favor.

- 2 -

The treasury is not committed to a continuance of its previous policies regarding dollar currency brought from Spain to this country, even if shipments of currency were navicerted by the British. This Department believes it difficult if not impossible to determine whether or not the sources of the currency purchases by the Institute were legitimate. As long as the Exchange Institute can advantageously dispose of the dollar currency there is very likely to be a channel existing which will be a means of disposal of looted currency by the Axis. It is the belief of the Department that such channels should be closed as completely and as rapidly as possible.

Any comment on the foregoing which you may care to make will be appreciated by the Department.

HULL  
(RM)



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354

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid, Spain.

DATE: February 13, 1942, 10 p.m.

NO: 168.

RUSH.

Reference is made to the Department's telegram No. 35. 7 p.m., dated January 13, 1942.

In order to purchase American coal and/or wheat the Government of Spain would like to utilize the American currency amounting to \$1,500,000 now held here.

It will be appreciated if the Department advise whether the transfer of these notes be permitted for this purpose and whether commodities would be made available.

BEAULAC

Copy: vw: 2-17-42

## TREASURY DEPARTMENT

355

## INTER-OFFICE COMMUNICATION

DATE February 17, 1942

TO Secretary Morgenthau  
 FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£74,000
Purchased from commercial concerns	£25,000

Open market sterling remained at 4.03-3/4, and there were no reported transactions.

The Canadian dollar, which moved off yesterday from 11-1/4% discount to 11-5/8%, experienced a partial recovery today. The final quotation was 11-7/16%.

The Venezuelan bolivar advanced 1/4¢ to close at .2825. At the beginning of February, the bolivar was quoted at .2720.

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

Argentine peso (free)	.2357
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5295
Cuban peso	9/32¢ premium

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us stating that the New Goldfields of Venezuela, Ltd. shipped \$139,000 in gold from Venezuela to the New York agency of the Royal Bank of Canada, for sale to the New York Assay Office.

In London, both spot and forward silver were priced at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Sandy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

356

BRITISH EMBASSY  
WASHINGTON, D.C.

PERSONAL AND SECRET

17th February, 1942.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.



(U.S. SECRET)

OPTTEL No. 56

Information received up to 7 A.M., 16th February, 1942.

1. NAVAL

There were no casualties in the ship sunk by aircraft on 14th when proceeding to MALTA in convoy.

2. MILITARY

BURMA. While no fresh attacks have developed in the SALWEEN Front there are indications that the enemy are preparing an attack in the DUYINZECK THATON area.

3. AIR OPERATIONS

WESTERN FRONT. 14th/15th. Fifty-one tons of bombs were dropped on MANWHEIM and eleven tons on HAVRE, results were generally unobserved owing to cloud. No bombers are missing. Ten R.C.A.F. aircraft took part.

15th. A Hudson scored two hits on a 1,200 ton vessel off NORWAY. One Spitfire is missing from an offensive patrol.

15th/16th. Twenty-six bombers were sent to ST. NAZAIRE, results unobserved owing to cloud. Three crashed on return. Forty-three enemy aircraft were operating against this country, the majority of them being engaged against shipping and in sea-mining off NORTHUMBRELAND. One was destroyed by a Beauflight-

LIBYA. 14th. Eighteen Kittyhawks engaged more than thirty dive bombers and fighters in the ACROMA area, twenty enemy aircraft were shot down, two were probably destroyed and ten more were damaged. Our fighters suffered no losses. One Hurricane is missing from reconnaissance.

SICILY. 14th. Thirteen Wellingtons dropped a total of twelve tons of bombs on three enemy aerodromes. Four others attacked the docks at AUGUSTA and SYRACUSE causing fires and explosions.

MALTA. 15th. A total of 123 enemy bombers and fighters made three attacks on LUQA aerodrome. Nine aircraft on the ground were destroyed or damaged. A total of four enemy aircraft were shot down by fighters and A.A. fire.

4. RUSSIA. Although fighting has continued on all main sectors, general impression is that there has been very little change in alignment of front. No further information is available regarding the Russian pincer movement west of MOSCOW. Press reports of considerable Russian progress in this sector are much exaggerated. In the DONETS area German counter-attacks have been held up partly owing to thaw. Indications that Russians are reinforcing both SEVASTOPOL and KERCH. On 12th General MacFarlane reported that fighting around LENDINERAD had been very severe but Russians were confident that the city would soon be relieved.

RESTRICTED

MID 319.1 8-11-41 No. 634 M.I.D., W.D. 11:00 A.M., February 17, 1942.

SITUATION REPORT

I. Pacific Theater.

Philippines: Intermittent fighting reported along the Bataan Peninsula front. Nothing new to report from the south. Burma: British forces have withdrawn to the line of the Bilin river as Japanese forces are increased. Batavia: On February 16, Japanese aircraft carried out bombing and strafing attacks on small islands in the Soenda Strait between Sumatra and Java. Australasia: Aerial reconnaissance continues by both sides over the islands northeast of Australia.

II. Eastern Theater.

There is no change in the general situation. The Russian pressure continues. The German High Command admits a penetration of the German lines southeast of Vyasma but claim the salient has been eliminated. (A situation map will not be issued this date).

III. Western Theater.

The R.A.F. carried out raids against the enemy particularly in occupied France.

IV. Middle Eastern Theater.

Ground: Press reports from Cairo indicate a withdrawal of Axis reconnaissance detachments in the Gazala area. The British claim that there are no Axis troops south of the line through Gazala - Mekili.

Air: British claim a successful aerial attack against an Axis convoy in the Mediterranean. The Axis aerial attack on Malta has again increased in intensity. The R.A.F. carried out raids on Sicily on February 16.

V. Latin American Theater.

Enemy submarines attacked with torpedoes four tankers in the Caribbean area and shelled oil refinery installations on Curacao. No important damage to installations reported.

RESTRICTED