

Treasury Department **190**  
Division of Monetary Research

Date..... June 8 ..... 19 42

To: Miss Chauncey

Please ask the Secretary if  
he wants Mr. Casaday to continue to  
study this problem and report on it --  
or should he stop.

*noted by White 7-18*

H.D.W.

*White have  
Casaday discontinue  
his study on War Bonds  
MR. WHITE in England.  
Branch 2058 - Room 214  
All him Sam pleased. 10/1/42*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE June 5, 1942

TO Mr. White  
FROM Mr. Hoflich

Subject: Report from Mr. Casaday on the British Voluntary Savings Campaign.

As indicated by the appended cable, Mr. Casaday has visited a Royal Ordnance factory "somewhere in England", employing 20,000 people in three eight-hour shifts. The factory is in a rural district and comprises more than a hundred separate buildings widely dispersed on a site of several hundred acres. About 2,000 workers live on the premises, and the remaining 18,000 commute from surrounding towns.

The following are highlights of the cabled report on the War Savings campaign in this plant:

1. The savings campaign among the workers here is not very effective, and it is felt that a large amount of savings is still untapped.
2. The chief difficulty encountered is to make contact with the individual workers, due to the dispersal of the buildings, the short lunch period, and the rush to get seats on buses at the end of each shift.
3. A savings headquarters has been established on the premises, staffed by six full-time women workers paid by the Government-owned company operating the factory. There are 50 collectors, mostly part-time factory operatives, all fully paid by the operating company. Suitable voluntary campaign workers cannot be obtained in this isolated district.

Collecting may be done at the bench on company time, at the canteens during the lunch period, near the gates used by workers, or near the pay windows on payday. None of these methods is satisfactory, as in each instance the workers are busy or in a hurry to get away.

4. Stamps constitute the chief savings vehicle, and some certificates are sold.
5. A payroll deduction plan has not been introduced, because of (a) lack of clerical help, (b) frequent shifting of workers from one shop to another, and (c) the physical difficulty of handling the Post Office savings books in which deductions would be entered.
6. The following ideas have been suggested to make possible the inauguration of a successful payroll deduction plan:

Division of Monetary  
Research

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- a. Increase the staff of the plant savings headquarters, and the number of part-time collectors.
- b. Have collectors bring in books for entering, but mail them back to the workers.
- c. Form savings groups on buses.
- d. Induce the Post Office to establish branches on the premises to handle deductions for workers.
- e. Use the plant loudspeaker system for propaganda purposes.

(Cable no. 3124, London, June 4, 1942)

PH

PLAIN

London

Dated June 4, 1942

Rec'd 7:36 p.m.

Secretary of State,  
Washington.

3124, Fourth

FOR SECRETARY OF THE TREASURY FROM CASADAY  
Department's 1730, April 22 and Embassy's  
2281, April 30, 2391, May 5, 3001, May 27 and 3056,  
June 1.

A visit was made to a Royal Ordnance factory  
"somewhere in England" employing 20,000 people in  
three eight hour shifts. The isolated site of the  
factory and the dispersal of buildings on the site  
made necessary by the danger of air attack have  
created unusual difficulties, by no means completely  
solved as yet, for the promotion of an effective  
savings campaign.

The factory is in a rural district. About 2,000  
workers live on the premises in Government hostels  
but the remainder commute from surrounding towns  
in Government chartered buses. The site comprises  
several hundred acres and more than a hundred separate  
buildings,

-3-#3124, Fourth from London.

going wage scale by the operating company. Collecting may be done at the bench on company time or at the canteens during lunch period or near the gates at clocking time or near the pay windows on payday. None of these methods is very satisfactory as in each instance the workers are busy or in a hurry to get away.

The principal savings vehicles are stamps and some certificates. There is no deduction from pay scheme in this factory although in ordinary more compact places of employment it is considered desirable to institute such a scheme as the first step and to supplement it by personal contact and sales of stamps. There are several reasons for the failure to establish a deduction from pay plan in this factory. First the company feels it cannot undertake the extra clerical work involved until it is able to acquire some Hollerith machines which it has been unable to do as yet. An added complication is said to be that workers are frequently shifted from one shop to another sometimes at their own request but often as a matter of company policy both to avoid the contraction of industrial disease incident to certain processes and to familiarize workers with all processes in the event of emergency. When a  
shift

-4-#3124, Fourth from London.

shift is made it may entail not only a different and sometimes distant workplace but also different rates of pay and a different work period and it is said that a week or two may be required for the company accounting office as at present staffed to "catch up" with the change and properly record it.

Then there is the physical difficulty of handling the Post Office savings books in which the deductions would be entered. If it be assumed that a successful scheme should embrace approximately half the employees there would be the problem of collecting each week 10,000 books entering the results in the plant savings headquarters records sending them to the nearest Post Office for entering and finally redistributing them to the widely scattered and shifting individual owners. At one time it was suggested that either the savings headquarters or the Post Office retain the books but the workers objected to this as it would deprive them of the ability to encash their savings at will.

The savings campaign personnel in this area are determined to overcome the difficulties here outlined and to inaugurate a deduction from pay scheme as soon as possible. The company has agreed to endeavor to obtain

-5-#3124, Fourth from London.

to obtain the necessary clerical staff and mechanical equipment if there is good prospect of the scheme's working well in other respects. Among the ideas suggested but not yet put into practice are the following: (1) Increase the staff of the plant savings headquarters to about three times its present size. (2) Increase the number of part-time collectors from 50 to about 100, each collector not only to sell stamps but also to collect and distribute the Post Office savings books weekly for approximately 100 employees. (3) Have the collectors bring in the books for entering but mail them back to the individual owners. (4) Form savings groups on the buses with a "conductress" to sell stamps and collect or distribute the books enroute much in the same way as fares are collected on buses that are common carriers. (5) Induce the Post Office to establish branches in each section of the plant and try to educate the workers to take their books there for entering the deductions. (6) Utilize the plant loudspeaker communication system for propaganda work either direct to the workshops or preferably to the canteens at lunch periods.

The problem

-6-#3124, Fourth from London.

The problem is not yet solved and campaign personnel feel that here is a large untapped source of savings. It seems certain that similar situations must exist in the United States. The shortage of manpower generally and the extra difficulty of finding suitable voluntary campaign workers in an isolated district have thus far blocked what otherwise might prove satisfactory solutions.

JRL

WINANT



PMW

PLAIN

London

Dated June 5, 1942

Rec'd 9:15 p.m.

Secretary of State,  
Washington.

3149, Fifth.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY.

Lord Kindersley on behalf of the National Savings Committee has asked Mrs. Winant to comment briefly on the role of American women both as savers and as campaign workers in the United States War Savings Campaign. There is little material available here on the subject. If the suggestion meets with your approval the Ambassador and Mrs. Winant would be very grateful if you would cable a statement setting forth the principal facts and plans pertaining to the part played by women in the American campaign. The statement would be used by the National Savings Committee here as a part of its publicity program.

WINANT

CSB

- 2 -

*Mrs Klotz please speak to me about this.*

11/14/42

'Voice of the Chief' Broadcasts

*M*

### Air Raids on Germany

"According to all the reports that have come from the bombed districts in the Ruhr, I can understand why the Party Kommune has blocked the furloughs home of the front comrades who have come from these districts. They don't want the comrades at the front to know what a botch the stinking 'home defenders' made, what unnecessary suffering and sacrifices the people had to go through as a result of these welfare (obscenity) of the home front.

"A corporal told me his furlough story. He returned to Cologne right after the bombing night. When he came to his place, it was completely cleaned out. The curtains, the utensils, everything had been stolen by the Hitler Youth for the old-clothes campaign. The story was that there was a magnetic bomb in the vicinity. It later turned out that the time-bomb story was a fake.

"Then what happened to the bomb fugitives is a sin and a shame. They are chased around from the E.S.V. (National Socialist Welfare League), then to the 'Mother and Child' outfit, then to the Children's Home--always it is 'Go there, go somewhere, go back! and nowhere are they properly treated or looked after. And everybody who complains about this brutal treatment and conscienceless inefficiency is considered a com-patriot of second-rate quality.

"There is only one way to handle the situation. London must be levelled to the ground. We must surpass the brutality of the enemy and throw all these bunglers and (obscenity) out of their cushy jobs and send them to the front or to the factories. The running of affairs at home must be in the hands of the people who can plan, of people in whom the nation has confidence."

(Federal Communications Commission, June 8, 1942)

### Vain Rommel is taking desert risks

"Man for man, the German soldiers fought and are fighting there, as only Germans can fight, reeling forward through the sand storms with a temperature of over 40 degrees Centigrade (104 Fahrenheit) or shut inside of glowing tank walls, often cut off, without water, sand in the radiator, and in the machine guns and in the provisions.

"And they endure all this, the comrades, and fall and dry up, because the unrestrained ambition of a vain, hateful Gestapo general drives them in June into a hasty desert attack.

"Almost all the men of his own staff, the men who were responsible for the victories in Africa, advised against the great summer offensive. The Chief of Staff, General Cruewell, himself, tried to the last minute to dissuade the Desert King from making his untimely summer attack.

"There were unquestionable indications that the Englishman was planning such an insane attack himself, and nothing better could have happened to Rommel. Cruewell and the others urgently advised waiting until the Englishman had spent his strength in his own attack, then to overrun the weakened enemy and throw him out of North Africa once and for all.

"But the honorable S.S. (Elite Guard) strategist decided otherwise. A new favorable report from Rommel, based on a number of big-mouthed promises of the Italians, was the deciding factor.

"The three chief attractions of Cavallero (Italian Chief of Staff) were a simultaneous large-scale attack on Alexandria by Italian sea and air forces, the landing of a strong Italian unit of tank and high-speed squadrons behind the English positions east of Gazala, bringing the 132nd Ariete Division to full strength, and sending another complete Italian division to Cyrenaica.

"And Rommel fell for this foul macaroni magic of the garlic eaters. They want others to fight for them, but to expose themselves to danger isn't in the books with them. One of these Wop generals needs only to gaze languishingly with his bedroom eyes at that fellow, and he sees himself already solidly printed in the history books of the Gestapo.

"And when the Italian aerial acrobats then report to him that they have already smashed all the advanced enemy air fields into ruin, Rommel believes it.

"But for the Italians there isn't any such thing as a regular air report. After the flight one of these Italian chieftains sits down - who was not there at all - and dictates an elegant story which just swims with heroic deeds.

"But the German soldier fights on. He fights his way through. He will get through this time too, in spite of heat, in spite of the Italian traitors, and in spite of the bungling of a puffed-up general who has now even lost the one man to whose cool head and conscientious preliminary work we owe our successes in Africa so far."

(Federal Communications Commission, June 5, 1942)

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 189

Information received up to 7 A.M., 5th June, 1942.

1. NAVAL

MURMANSK. 2nd. 72 enemy aircraft attacked and the Russians claim 9 bombers and 3 fighters destroyed for the loss of 3 Hurricanes. A U.S. ship, name unknown, was sunk in the vicinity, probably by magnetic mine.

2. MILITARY

LIBYA. On the afternoon of the 3rd a movement by 70 enemy tanks against TAMA where we have established a strong point did not develop. This movement may have been an attempt to recover some of the 16 enemy tanks disabled in this area the previous evening.

4th. The BIR HAKEIM position was again attacked by Italian ground forces supported by German tanks and dive bombers, the attacking forces were engaged by our mobile columns to the northeast and northwest of BIR HAKEIM. 200 enemy M.T. were reported in the BIR TEMRAD area and there was much movement between BIR TEMRAD and the Gap where the enemy has concentrated the bulk of his armour and the Italian twentieth corps. Our armoured cars are still patrolling SEGNAI and the area to the southeast while our columns are harrassing the enemy supply lines to the west of the Gap.

3. AIR OPERATIONS

WESTERN FRONT. Night 3rd/4th. BREMEN. Weather was good although there was ground haze. Observation was well assisted by the successful use of flares, nearly 250 tons of H.E. and incendiaries were dropped, several very large fires were started in the town and docks area, including a particularly big oil fire. A large explosion believed to be from the town gas works was also reported.

4th. A total of 12 Bostons and 12 Hurricane bombers attacked the docks at BOLOGNE and DUNKIRK and MAUPERTUS Aerodrome. About 680 Spitfires, 3 of which are missing, were engaged in offensive operations over Northern FRANCE, one enemy aircraft was destroyed, another probably destroyed and five damaged.

4th/5th. 20 aircraft were sent to attack DIEPPE. 13 to AMSTERDAM aerodrome and 3 were dropping leaflets. All returned safely. 16 enemy aircraft out of 45 operating were plotted over TRESIDE area where scattered bombing took place, one was destroyed and 3 others damaged.

LIBYA. On the 3rd and 4th our fighters over the BIR HAKEIM area shot down 14 enemy aircraft, probably destroyed 2 and damaged 3. They also destroyed or damaged about 60 vehicles. 9 of our fighters are missing. A vessel of about 6,000 tons was attacked by aircraft with torpedoes off CHERNA and seriously damaged.

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4. In the course of the combined operation carried out yesterday morning in the BOULOGNE - LE TOUQUET area an enemy patrol boat was sunk and another damaged. Our casualties were: Naval, two killed, eighteen wounded; Military, one killed, two missing; R.A.F. one fighter missing.

June 8, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES:

At Judge Rosenman's request, there was a meeting held in the Cabinet Room of the White House on Saturday, June 6, 1942, attended by the following:

Judge Rosenman, Messrs. Foley, Pehle and Bernstein for the Treasury, and Messrs. Markham, Jones and Tucker for the Alien Property Custodian.

Judge Rosenman stated that he had talked to the President and that the President said that the March 11 Order setting up the alien property custodianship did not carry out what the President had intended. The President had intended that the Treasury continue to control the foreign-owned balances (including gold) and foreign-owned securities and for the Alien Property Custodian to handle business enterprises. The Alien Property Custodian was to handle dollars and securities only when they were a part of business enterprises under the jurisdiction of the Alien Property Custodian. Judge Rosenman said that since the March 11 Order did not carry out what the President had at that time intended nor what he presently intends, it would be necessary to amend the March 11 Order so as to carry out the President's wishes. In connection with this, the March 11 letter from the Alien Property Custodian to the Secretary of the Treasury would be revoked.

Judge Rosenman said that the Alien Property Custodian was ready to take over the business enterprises and that it would also want to take over a part of the Treasury organization handling these matters. The Treasury explained that there were about 400 business enterprises in which it had installed supervisors at one time or another; that some of these business enterprises were closed and not being liquidated; that others were being liquidated under a Treasury license without a supervisor on the premises; that others were being liquidated under a Treasury license with a Treasury supervisor on the premises; and that other business enterprises were continuing business operations under a Treasury license and with a Treasury supervisor on the premises.

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The Treasury also pointed out that an examination of our TFR-300 reports and other data indicated that there might be perhaps as many as a couple of hundred more business enterprises which directly or indirectly were enemy-owned and would fall into the same category as those just mentioned.

Judge Rosenman said that he had told the President that the Foreign Funds staff numbered 1,500 and the President seemed surprised and facetiously asked why it had to be bigger than fifteen.

Judge Rosenman said there ought to be a provision in the Order concerning the transfer of personnel. Treasury said that it would be quite willing to sit down with the Alien Property Custodian and try to work out some agreeable transfer of personnel and that we would transfer to the Alien Property Custodian the supervisors which we now have in the business enterprises to be turned over to the Alien Property Custodian. Judge Rosenman did not express disagreement with this approach.

A discussion then arose as to whether the Alien Property Custodian was to handle all foreign-owned business enterprises, including organizations like Dutch Shell, SKF, etc. Mr. Foley said that there was no disposition on the part of the Treasury to question any decision that the President made on the matter but simply wanted to point out some of the practical problems involved. The Treasury explained that there were about 3,000 business enterprises under Treasury license which were probably not enemy owned or controlled; that at the present time they were merely subject to license which was granted almost automatically for periods of six months or longer; and that the Treasury merely examined the periodic reports filed by such business enterprises. The Treasury pointed out that if the Alien Property Custodian took over all of these business enterprises it would be necessary for the Alien Property Custodian to set up a nation-wide organization to handle licenses to these companies.

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The Alien Property Custodian representatives then said that they would like to use the Federal Reserve Banks as a licensing agency. The Treasury indicated that some confusion might result if the Federal Reserve Banks were to receive instructions from the Alien Property Custodian on licensing problems as well as from the Treasury. Judge Rosenman stated that the Federal Reserve Bank acted as fiscal agent for the Treasury in many connections and that the Federal Reserve Bank should not be asked to act as agent for the Alien Property Custodian. Judge Rosenman stated that logically all business enterprises whether or not enemy owned or controlled should be handled by the Alien Property Custodian, but that as a practical problem it might be undesirable at this date to turn these business enterprises over to the Alien Property Custodian. Judge Rosenman said that he had not raised with the President the Dutch Shell type of case and that he would talk to the President about it and then let the Treasury and the Alien Property Custodian know.

A discussion then arose as to who was to handle real estate. Judge Rosenman thought income earning real estate should go to whoever handled business enterprises. He also said that business enterprises included those run by individuals and partnerships, as well as by corporations. He queried whether personal holding companies should be included in business enterprises.

Judge Rosenman stated he understood that the Treasury agreed that the Alien Property Custodian was to handle all patents that were foreign owned and the Treasury also said that the Alien Property Custodian should handle ships (mirth and laughter) as well as probates and other notices of litigation involving persons in enemy-occupied countries.

Rosenman expressly stated in response to a question from the Treasury that the Treasury was to handle enemy-owned gold, dollar balances, and securities not connected with business enterprises being handled by the Alien Property Custodian.



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Judge Rosenman said that we ought to try to rack our brains to write an Order dividing the authority. Treasury suggested the impossibility of dividing the words of the statute giving the Alien Property Custodian the "ands" and the Treasury the "buts" since to discharge functions assigned to them, both groups might need the "ands" and the "buts". Treasury also suggested that the proposed Order expressly state, after defining the areas in which the Alien Property Custodian is to function, that when the Alien Property Custodian functions in those areas, the Treasury is to bow out of the picture or in no event act except in accordance with the instructions of the Alien Property Custodian. We also pointed out the impossibility of describing in an Executive Order the various functions and activities that the Treasury would carry on as part of its job.

The Treasury also said that the powers of Section 3(a) should be assigned to the Treasury and that they did not properly fall within the functions of the Alien Property Custodian. Judge Rosenman did not expressly comment on this matter but seemed silently to admit the correctness of the Treasury position.

Mr. Tucker urged that where business enterprises were taken over by the Alien Property Custodian, there should be no limitations exercised on the activities of those companies. Mr. Tucker's position was somewhat unclear and seemed to involve the proposition that any company in the hands of the Alien Property Custodian was not to be subject to the provisions of 3(a) of the Trading with the enemy Act (which prohibits trade and communication with the enemy), the Export Control Act, and perhaps other forms of Government control. The Treasury registered a sharp objection to this point of view and suggested that when the Alien Property Custodian took over enemy-owned or controlled enterprises they would, so far as freezing control is concerned, be treated as though they were American enterprises but that like American enterprises they would be subject to other provisions of law.

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Judge Rosenman then said that the Alien Property Custodian and Treasury could try to get together and draft an Order starting with the Treasury draft, a copy of which we gave to Markham and that if there were disagreement, as Judge Rosenman expected there would be, Judge Rosenman would be down next Thursday to work further on the matter. If some progress was made in reaching an agreement, it might be desirable for someone to come to New York to discuss the matter with Judge Rosenman before next Thursday.

In connection with the discussion of the Order, Judge Rosenman indicated that it would be desirable to include a definition of business enterprises.

No information was received either by the Treasury or the Alien Property Custodian over the week-end as to what disposition was made by the President of the question of who was to handle frozen enterprises not enemy owned or controlled. On Monday, Mrs. Eben at the White House called and said that Judge Rosenman had called and wanted the following message given to the Treasury.

"The President wants the Treasury to continue to license going businesses owned by neutrals and occupied countries until for some reason they have to be taken over or supervised."

Mr. Foley called Mr. Markham Monday morning and suggested getting together and drafting an Order on Monday. Markham said that the Alien Property Custodian people would not be ready until Tuesday afternoon and an appointment was made for a meeting at 2:30 on Tuesday.

June 6, 1942.

Mr. Louis Rittenberg,  
Executive and Literary Editor,  
The Universal Jewish Encyclopedia, Inc.,  
130 Clinton Street,  
Brooklyn, New York.

Dear Mr. Rittenberg:

I am returning proofs of the biography of  
Secretary Morgenthau, which you were so good as  
to enclose with your letter of June 4.

At the Secretary's request, I have read  
these proofs of Mr. Caser's article and have no  
suggestions for changes.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston,  
Assistant Secretary of the Treasury.

Enclosure.

HEG:ga

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June 4, 1942

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

Dear Mr. Morgenthau:

I beg to send you herewith galley proofs of the very discerning biographical appraisal of you which Mr. Joseph Gaer was gracious enough to write for the forthcoming volume of our Encyclopedia. You will probably wish to go over it with Mr. Gaer and to advise me what, if any, revisions you may deem necessary.

Please note that bibliographical sources (at the end of the article), were added for the convenience of the reader who might desire to gain a more detailed knowledge of your manifold achievements. These were selected to be in consonance with the tenor of Mr. Gaer's estimate. Among them is the notable address you delivered before B'nai Brith back in 1938, which I personally recall with lingering pleasure. Should you and Mr. Gaer regard any of these sources inappropriate, please do not hesitate to tell us and they will be omitted. If you would like to add one or two other major sources, unknown to us, please inform me accordingly.

Volume VII of our Encyclopedia, which will include this article, is rapidly being put on press. Hence, it would be most helpful if you and Mr. Gaer could go over the galleys promptly and return them to us with your observations.

Faithfully yours,


*Louis Rittenberg*  
Louis Rittenberg

LR:GW

PRINCETON UNIVERSITY  
PRINCETON NEW JERSEY

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*Section of Music*  
Department of Art and Archaeology,  
Architecture and Music

  
June 6, 1942

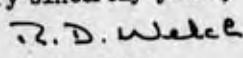
Mr. Henry Morgenthau, Jr.  
Treasury Department  
Washington, D. C.

Dear Mr. Morgenthau:

I appreciate your cordial note. During these past few days I have been busy with plans for extricating myself from my present position and discharging commitments of long standing. Next week I shall be free and will go ahead as fast as I can with the plans you have approved.

The provisions for reimbursing the University for the expense of my substitute in the summer term are not quite clear to me but I am certain that Mr. Thompson, from whom I have had a note, can straighten this out when I next see him.

My best wishes to you for a restful week, and cordial regards to Mrs. Morgenthau and Henry.

Very sincerely yours,  
  
R. D. Welch

THE SECRETARY OF THE NAVY  
WASHINGTON

June 6, 1942

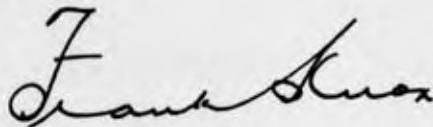
My dear Henry:

Thank you for sending me that statement of yours made before the Joint Committee on Internal Revenue Taxation.

I read the section relating to advertising and congratulate you on the clarity of the position you have set forth there.

Also I want to add my congratulations on the summary of the Treasury financing for May. That was a fine showing.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Frank Knox".

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

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Treasury Department  
Division of Research and Statistics

Date June 10 1942

To: Miss Chauncey - 285

From: Mr. Tickton

This letter is one of hundreds that we receive giving information on sales of war savings bonds. The Secretary may wish to see this particular letter himself, however, because it is from our War Savings Committee in Dutchess County, New York.



OFFICE OF  
THE COUNTY TREASURER OF DUTCHESS COUNTY  
POUGHKEEPSIE, N. Y.



PAUL J. MILLER  
COUNTY TREASURER  
W. N. CRESWELL  
DEPUTY

June 6, 1942

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

Dear Mr. Morgenthau:

Enclosed find a statement showing the amount of war bonds and stamps sold by the banks and post offices in Dutchess County during the month of May.

You will note that the bonds total \$529,268.50 as against a quota for the County of \$454,000.00. In addition officers and employees of many concerns purchase bonds on payroll deduction plans through their corporations having their main office in New York City or elsewhere than Dutchess County and these purchases are not reflected in the total sales as reported by the Dutchess County Committee.

With kind regards, I beg to remain

Cordially yours,

*Paul Miller*  
Vice Chairman,  
Dutchess County War  
Savings Committee.

PJM:D  
encl.



OFFICE OF  
THE COUNTY TREASURER OF DUTCHESS COUNTY  
POUGHKEEPSIE, N. Y.



PAUL J. MILLER  
COUNTY TREASURER  
W. N. CRESWELL  
DEPUTY

DUTCHESS COUNTY, NEW YORK  
Sales of War Bonds and Stamps      May 1942

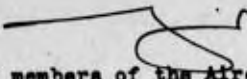
	<u>Bonds</u>	<u>Stamps</u>
Cities:		
Beacon	\$ 70,401.00	\$13,000.00
Poughkeepsie	294,907.75	31,840.00
Towns:		
Amenia	11,812.50	779.95
Beekman	131.25	71.95
Clinton	1,743.75	100.00
Dover	9,793.75	377.25
East Fishkill	2,475.00	320.85
Fishkill	4,312.50	699.00
Hyde Park	1,931.25	1,013.25
LaGrange	262.50	105.00
North East	18,177.50	624.05
Pawling	14,065.75	788.90
Pine Plains	5,816.00	430.00
Pleasant Valley	806.25	534.35
Poughkeepsie	12,806.25	696.30
Red Hook	13,999.75	837.60
Rhinebeck	26,075.00	1,452.65
Stanford	975.00	143.65
Union Vale		22.65
Wappinger	10,532.00	1,875.20
Washington	<u>28,243.75</u>	<u>1,259.70</u>
Total	\$529,268.50	\$56,972.30

Paul J. Miller, Vice Chairman,  
Dutchess Co. War Savings Committee

Dutchess County's quota for the month of May  
was \$454,000 (bonds only).

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE June 6, 1942

TO Secretary Morgenthau  
FROM Abbot L. Mills, Jr.   
Subject: Issuing agency status of members of the Aircraft War Production Council, Inc.

Mr. John C. Lee will be in Washington for another week. He advises that he can report some progress toward the members of his organization making satisfactory arrangements for the issuance of War Savings Bonds, but that he is still unable to state what their final decision will be.

June 6, 1942

Secretary Morgenthau

Abbot L. Mills, Jr.

Subject: Issuing agency status of members of the Aircraft War Production Council, Inc.

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## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 6, 1942

TO Secretary Morgenthau  
FROM Harold N. Graves *H.N.G.*

I think you will be interested in examining the attached report from Commissioner Helvering.



OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

TREASURY DEPARTMENT  
WASHINGTON

June 5, 1942.

MEMORANDUM FOR THE SECRETARY:

I am pleased to report herewith the results of the War Savings Drive for the first four days.

The Departmental Service shows that the Bureau has now attained 105.11% of quota and 86.78% employee participation. The Drive in Washington, while substantially completed, is still continuing. The detail of the Departmental Service is set forth herewith.

Division	Quota			Personnel		
	10% Annual Gross Pay Roll	Amount Allotted	% of Quota	Total	No. Partici- pating	% Partici- pating
Accounts & Col- lections	\$ 117,372.24	\$ 115,363.44	98.3	580	525	90.5
Alcohol Tax	47,994.24	50,051.28	104.28	203	186	91.6
Chief Counsel	169,104.00	203,234.64	120.0	532	481	90.4
Commissioner & Miscellaneous	66,901.20	71,869.92	107.42	339	321	95.0
Income Tax Unit No. 1	205,248.00	183,378.72	89.34	1233	909	73.7
Income Tax Unit No. 2	248,352.00	257,826.96	103.82	959	858	89.4
Intelligence Unit	5,253.84	6,285.60	119.63	22	21	95.4
Miscellaneous Tax	131,905.68	148,601.52	112.7	670	633	94.5
Technical Staff	17,036.88	24,135.36	141.66	47	45	95.7
<b>Totals</b>	<b>\$1,009,168.08</b>	<b>\$1,060,747.44</b>	<b>105.11</b>	<b>4585</b>	<b>3979</b>	<b>86.78</b>

The reports from the Field, due to the large number of offices to be heard from and the delay in reports received due somewhat to prevailing mail conditions, are not as satisfactory as the Departmental, yet they indicate that the quota of 10% of gross pay roll will be exceeded and 90% employee participation will be attained. The reports from the Field Service show 83.2% of quota and 78.7% employee participation.



-2-

## Memorandum for the Secretary.

Accounts and Collections Unit has had reports from only thirty-nine districts out of sixty-four. For the districts reporting there was assigned an annual quota of \$1,533,870.00; whereas the allotments have totaled \$1,670,792.16, or a percentage of 108.9% of quota. The collection offices reporting show an employee participation of 91.9%.

The detail with respect to Field quota and personnel participation is set forth herewith.

Division	Quota			Personnel		
	10% Annual Gross Pay Roll	Amount Allotted	% of Quota	Total	Participating	Participating %
Excise Tax	\$1,029,648.00	\$1,003,422.96	97.4	4322	3631	84.00
Intelligence Unit	123,792.96	115,533.60	93.32	411	318	77.5
Accounts & Collections	2,519,924.00	1,670,792.16	64.3	13,786	8090	58.00
Chief Counsel	79,696.08	81,349.28	102.2	227	184	81.00
Technical Staff	179,953.92	186,801.60	103.80	533	448	84.00
Miscellaneous Tax	18,765.60	21,345.12	113.7	61	55	90.00
Internal Revenue Agents	1,625,198.40	1,627,709.28	100.5	5371	4726	88.6
<b>Totals</b>	<b>\$5,655,978.96</b>	<b>\$4,707,054.00</b>	<b>83.2</b>	<b>24,711</b>	<b>19,452</b>	<b>78.7</b>

I can assure you that the Bureau personnel, both Departmental and Field, will exceed the 10% quota set as the Departmental goal.

*Lucy P. Downing*  
Commissioner.

(66)

Comparison of Actual Sales of War Savings Bonds Series E, F and G  
By States, May 1942, with Quotas Established for the Month  
(In thousands of dollars)

State	Actual Sales	Quota	Difference	Percent Actual Sales to Quota
Alabama.....	5,285	3,787	1,498	139.6
Arizona.....	1,966	1,358	608	144.8
Arkansas.....	3,556	2,682	874	132.6
California.....	41,225	40,011	1,214	103.0
Colorado.....	4,327	4,086	241	105.9
Connecticut.....	16,518	13,228	3,290	124.9
Delaware.....	1,649	1,861	-212	88.6
District of Columbia.....	5,958	6,179	-221	96.4
Florida.....	6,716	5,794	922	115.9
Georgia.....	6,439	5,365	1,074	120.0
Idaho.....	2,208	1,451	757	152.2
Illinois.....	52,227	49,300	2,927	105.9
Indiana.....	14,910	10,926	3,984	136.5
Iowa.....	13,870	9,000	4,870	154.1
Kansas.....	5,290	4,617	673	114.6
Kentucky.....	6,177	5,558	619	111.1
Louisiana.....	5,875	4,944	931	118.8
Maine.....	4,146	3,295	851	125.8
Maryland.....	8,392	9,079	-687	92.4
Massachusetts.....	28,738	28,771	-33	99.9
Michigan.....	26,240	21,647	4,593	121.2
Minnesota.....	12,574	11,657	917	107.9
Mississippi.....	3,698	2,905	793	127.3
Missouri.....	18,713	17,075	1,638	109.6
Montana.....	2,156	2,785	-629	77.4
Nebraska.....	4,590	3,286	1,304	139.7
Nevada.....	692	581	111	119.1
New Hampshire.....	2,168	1,895	273	114.4
New Jersey.....	22,889	26,727	-3,838	85.6
New Mexico.....	1,185	1,055	130	112.3
New York.....	106,671	125,000	-18,329	85.3
North Carolina.....	8,190	5,889	2,301	139.1
North Dakota.....	2,059	1,393	666	147.8
Ohio.....	35,899	31,769	4,130	113.0
Oklahoma.....	5,919	5,389	530	109.8
Oregon.....	5,676	5,611	65	101.2
Pennsylvania.....	53,514	53,814	-300	99.4
Rhode Island.....	4,404	5,352	-948	82.3
South Carolina.....	3,097	2,453	644	126.3
South Dakota.....	1,731	1,239	492	139.7
Tennessee.....	6,484	5,141	1,343	126.1
Texas.....	22,479	18,594	3,885	120.9
Utah.....	2,057	1,201	856	171.3
Vermont.....	1,449	1,205	244	120.3
Virginia.....	9,092	8,965	127	101.4
Washington.....	11,082	7,581	3,501	146.2
West Virginia.....	4,062	4,106	-44	98.9
Wisconsin.....	12,280	11,977	303	102.5
Wyoming.....	984	1,003	-19	98.1
Alaska.....	492	198	294	248.5
Canal Zone.....	190	-	190	-
Hawaii.....	5,985	992	4,993	603.3
Puerto Rico.....	183	214	-31	85.5
Virgin Islands.....	-	9	-9	-
Total.....	<u>634,356</u>	<u>600,000</u>	<u>34,356</u>	<u>105.7</u>

June 6, 1942.

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

Note: Figures in this table are based on preliminary telegraphic reports and are subject to revision.

666

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June 6, 1942.

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

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## CONFIDENTIAL

## MEMORANDUM FOR

The Vice President of the United States  
 The Secretary of the Treasury  
 The Secretary of War  
 The Attorney General  
 The Secretary of the Navy  
 The Director of the Office of Government Reports  
 The Director of the Office of Facts and Figures  
 The Director of Censorship

FROM: The Postmaster General

The minutes of the meeting of the Censorship Policy Board, May 19, 1942, were transmitted to you on May 20, with a request that you examine and advise me promptly of any corrections you wished made; otherwise that the minutes would stand as accurately reflecting the proceedings of the meeting.

Advice has been received from members of the Board as to two changes; one from the Director of Censorship as to page 16, that the words "Mexican Ambassador" should be changed to read "Mexican Foreign Minister", and one from the Director of the Office of Government Reports that the first paragraph on page 14 should read:

"The Director of the Office of Government Reports was of the opinion that broadcasters should be subjected to voluntary censorship only, unless it should be found that stations are being used to send messages to the enemy, in which case the whole matter should be reconsidered."

Pages 14 and 16 have been revised accordingly, and are transmitted herewith for your confidential files.

(Signed) Frank C. Walker

Postmaster General.

JUN 6 1942

CONFIDENTIAL

CONFIDENTIAL

14  
(Revised)

did run true to form. He stated, however, that the chances of getting a particular message over a particular station at a particular time was very remote. He said that anything carried on a network could be heard at many places throughout the world and that a large domestic station could be heard outside the country in almost any case.

The Director of the Office of Government Reports was of the opinion that broadcasters should be subjected to voluntary censorship only, unless it should be found that stations are being used to send messages to the enemy; in which case the whole matter should be reconsidered.

The Chairman of the Federal Communications Commission stated that the Commission was checking stations and wherever a complaint was received, the Commission was getting a transcript of the matter and was installing monitoring; and that the Commission was being very vigilant in monitoring domestic broadcasts. He stated that the results of monitoring service were being promptly reported by the Commission to other Governmental agencies. He was of the opinion that if the Government required a slightly coercive power, it would find that the broadcasters were very sensitive and that if any untoward conduct of any character was pointed out to them, they promptly corrected it.

The Director of Censorship stated that his office had made very clear to the broadcasters the responsibility of station managers who must control the microphone. He said it was always possible for an unauthorized person to use the microphone, but that such a possibility would be present even if the Government was conducting full censorship.

The Chairman of the Federal Communications Commission stated that, in his opinion, the Commission was doing a very complete job of monitoring but if the Director of Censorship wished anything further, the Commission would be glad to cooperate. He stated that in the monitoring and sampling of foreign language domestic broadcasts, the Commission had very complete

(Revised)

The Chairman of the Federal Communications Commission was of the opinion that publicizing the matter would be definitely upsetting. He stated that the point-to-point stations on the coast lines have been generally closed.

The Attorney General stated that the opinion could not be referred to unless it was made public.

It was the sense of the meeting that, at this time, no announcement be made of the opinion.

The Director of Censorship stated that there was a tremendous leakage of dangerous information over the Mexican border, and that there appeared to be no way of preventing this leakage as a person could obtain valuable information in the United States, phone it to a person near the border who could go across the border and transmit it. The only possible way of dealing with the problem would be to close the border and the Director of Censorship was of the opinion that such an action was not advisable. He stated that <sup>when</sup> the Mexican Foreign Minister was here, the State Department had discussed the matter fully with him and that the Foreign Minister had promised cooperation, but that, so far, nothing definite had been done. He said that he had received a suggestion that a censorship belt, 250 miles wide, be established at the border, by legislation, but that this suggestion was impractical.

The Chairman of the Federal Communications Commission stated that the monitoring service of the Commission would catch all transatlantic stations which had been monitored, and that the short wave point-to-point stations were also under surveillance. However, he pointed out that the most serious method of communication was by the use of small portable transmitters which were easy to obtain and effective for 25 miles distance, and were not detected unless the monitoring service was right on the site.

C  
O  
P  
YBritish Embassy,  
Washington, D. C.

6th June, 1942

SAFE HANDTF. 150

Dear Mr. Dietrich,

With reference to the various letters which I have sent you about Freezing Measures in Latin America, you may be interested to read some comments which we have received from Asuncion. Decree 11068, while laying down what appeared to be adequate measures for the control of transfers abroad, did no more than censor the internal movement of funds by Axis nationals. In this connection, the Minister of Finance told our Legation last month that no actual control of internal movements of Axis funds was being effected. He said that such control would be extremely difficult and furthermore, that, as Paraguay has relatively few big business establishments, any further restrictive measures on Axis firms would probably put them out of business. Our Legation dissented from the view that this might seriously endanger the whole commercial structure of the country which was said to be already in a bad way owing to the war, by pointing out that if German and Italian firms were put out of business, there would be many Paraguayans ready and able to take their place.

It appears from conversations which our Minister has had with the American Commercial Secretary that the principal reason for the fact that no real control existed was that those in charge of the control did not know how to exercise it. I understand, however, that it is proposed to show the Paraguayans what is being done in other parts of Latin America and to get them to stiffen up the local regulations.

There appears to be no official control over the local branch of the Banco Germanico other than that provided by the Exchange Control Law which gives the Banco de la Republica a monopoly of foreign exchange business.

Yours sincerely,

(Sgd) R. V. Palin

Mr. Frank Dietrich,  
U.S. Treasury Department,  
Stabilization Office, Room 279,  
Washington, D. C.  
RVP:OSB

Copy:lc:6/8/42

C  
O  
P  
Y

## TELEGRAM SENT

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

June 6, 1942

7 p.m.

AMEMBASSY,

MEXICO, D.F., (MEXICO)

803

Your 368, March 24, 6 p.m.

The Treasury Department has informally inquired  
of the Department whether you know or might ascertain  
the reasons for delay on the part of the Bank of Mexico  
in approving the stabilization agreement.

HULL  
(FL)

FD:GL:EM      EO      RA

BRITISH MOST SECRET  
U.S. SECRET

COPY NO. 13

OPTEL No. 190.

Information received up to 7 a.m.,  
6th June, 1942.

1. NAVAL.

Attacks on Shipping.

By Submarine - A small Panamanian ship sunk off Mozambique Coast on 5th.

By raider - A British vessel (6750) shelled 360 miles east-north-east of Durban on 5th. Raider stated to be fast Japanese passenger-type motor ship, probably carrying torpedoes and an aircraft.

A U.S. ship sank at Murmansk on the 3rd from unknown causes after discharging explosives.

2. MILITARY.

Libya. As a result of a night attack 4/5th by a British tank and Indian Infantry formation on the enemy positions between Mteifel and Knightsbridge advances have been made from north and east and the outer screen of anti-tank artillery has been broken. The Italians left a considerable quantity of material in our hands. A counter attack at noon 5th supported by about 90 enemy tanks was successfully resisted. The Free French remain in possession of Bir Hakeim having beaten off all attacks.

3. AIR OPERATIONS.

Western Front. 5th. A total of 24 Bostons and 8 Whirlwinds escorted by 18 squadrons of Spitfires attacked the electric power stations at Havre and Ostend and the aerodromes at Morlaix and Lannion. A further 23 squadrons of Spitfires carried out sweeps. Our fighters destroyed 6 enemy aircraft probably destroyed 7 and damaged 15. We lost 7 Spitfires, 2 pilots safe.

5th/6th. 199 aircraft were sent out -

Essen 182 including 72 heavy, sea mining 15, pamphlets  
Brittany and Paris 3. 14 aircraft are missing and 1  
crashed. Preliminary reports Essen - no cloud but  
considerable haze, identification difficult, A/A  
opposition normal over objective, heavy en route.

Libya. 4th/5th. Wellingtons and Bostons  
bombed Martuba and Derna landing grounds. On the 5th  
Bostons attacked enemy oppositions and mechanical  
transport.

Sicily. 4th/5th. Wellingtons bombed  
Syracuse.

BRITISH MOST SECRET  
U.S. SECRET

OPTCL No. 191

Information received up to 7 A.M., 7th June, 1942.

1. NAVAL

MEDITERRANEAN. One of H.M. submarines reports having sunk an Italian 1,600 ton destroyer, a 4,000 ton ship and 2 medium sized vessels on the shipping route to BENGHAZI.

Attacks on shipping by S/M. One British ship torpedoed S.W. of ASCENSION ISLAND and another one on passage from CLYDE to MIDDLE EAST attacked in MOZAMBIQUE CHANNEL. A 900 ton British vessel bound from LISBON to HOLYHEAD was bombed and sunk by aircraft off Southern IRELAND(R) on the second.

2. MILITARY

LIBYA. On 5th evening the enemy counter attacked along the TRIGH CAPUZZO and 5th Indian Division were forced to retire although it was reported on 6th afternoon that 1 brigade of this division was still holding their positions southwest of KNIGHTSBRIDGE. On 6th morning a tank battle in which the bulk of the enemy's armour was engaged developed in the KNIGHTSBRIDGE area, details still lacking. At midday on 6th 7th Motor Brigade Group engaged enemy columns preparing to attack BIR HAKKIM from the southeast. At the same time enemy forces were reported to be preparing a further attack on our position at ELUET ET TAMAR.

3. AIR OPERATIONS

WESTERN FRONT. 5th/6th. ESSEN. About 240 tons dropped, 1 large fire was seen in the centre of the town and another was reported in Krupps Works.

6th. A total of 24 Hurricane bombers attacked a military camp near FACAMP and DAUPARTUS aerodrome. About 380 Spitfires were engaged in offensive operations over Northern France. 2 are missing.

6th/7th. 243 aircraft were sent out - EMDEN 233; Aerodromes 10. 9 bombers and 1 Hurricane are missing. Weather was good at EMDEN and towards the end of the attack several good fires were taking hold of the town. About 40 enemy aircraft were plotted, the majority operating over the THAMES ESTUARY. 2 were destroyed (1 over HOLLAND) and another probably destroyed.

LIBYA. 5th. Bombers scored 20 direct hits among 300 motor vehicles.

6th. Our fighters attacked enemy concentrations near BIR HAKKIM, at night MARTUBA and DERWA landing grounds were bombed and mines were laid off BENGHAZI. 4 enemy aircraft were damaged and 3 of ours are missing. Axis aircraft attacked the GAMBUT area, the railway at CAPUZZO and landing grounds near SIDI BARRANI.



- 2 -

MALTA. 6th. Spitfires shot down 4 enemy aircraft, probably destroyed 3 and damaged 7.

NAPLES. 5th/6th. 6 Wellingtons attacked and caused large fires in the centre of the town.

#### 4. HOME SECURITY

LONDON. An explosion, believed due to an unexploded bomb occurred at SOUTHWARK. Some houses were destroyed, 6 persons killed and about 60 injured.

#### OPTEL No. 192

LIBYA. 6th. Main enemy force of about 130 tanks believed of both fifteenth and twenty-first Panzer Divisions approached KNIGHTSBRIDGE in two columns from West and South and was engaged by Second and Twenty-second British Armoured Brigades from nine A.M. to noon.

Action subsided during afternoon until resumed at six P.M. by Fourth British Armoured Brigade brought to reinforce. Enemy forced westwards after heavy fighting. It is known that enemy armour suffered considerable losses. Tenth Indian Infantry Brigade maintained their positions despite heavy fighting. Free French successfully repulsed two enemy attacks.

At 1830 hours enemy made third attack but garrison are confident and part of Seventh Motor Brigade Group is in touch with them.

June 8, 1942.

Mr. Harold R. Moskovit,  
State President, Affiliated Young  
Democrats, Inc. of New York State,  
Hotel Piccadilly,  
227 West 45th Street,  
New York, New York.

My dear Mr. Moskovit:

Secretary Morgenthau has asked me to reply for him to your letter dated June 2, in which you state that the Affiliated Young Democrats of New York, at their state meeting in Schenectady on May 23 and 24, unanimously recommended Mr. Morgenthau's name as a possible candidate for the office of Governor of the State of New York. You enclosed a questionnaire as to Mr. Morgenthau's views on various public questions which you suggested that he fill out and return to you.

Secretary Morgenthau has asked me to say that, while he appreciates the honor paid to him by the Affiliated Young Democrats of New York, he is not a candidate for the office of Governor of New York and does not wish to have his name considered in that connection. Accordingly, he regards it as unnecessary to fill out the questionnaire which you have supplied.

The Secretary asks me to thank you for your kindness in conveying to him the report of the action of the Affiliated Young Democrats of New York.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston,  
Assistant Secretary of the Treasury.

HEG:pm

nd noted 6/9/42 B.J.

- Mr. Franklin D. Roosevelt
- Robert H. Lehman
- Robert H. Jackson
- A. A. Barks, Jr.
- Henry Morgenthau, Jr.
- Robert F. Wagner
- Charles Folelli
- Miss Frances Perkins
- John M. Curnedy
- James M. Mead
- Leland Olds
- John J. Bennett, Jr.
- Dave H. Morris
- Edward K. Foley, Jr.
- Nathan Starna
- Francis M. Egan
- Joyce H. Frank

★ **Affiliated Young Democrats, Inc.** ★  
OF NEW YORK STATE

**HOTEL PICCADILLY**  
227 WEST 45th STREET  
NEW YORK, N. Y.

Columbus 8-4450  
Circle 8-8800

**ROLD R. MOSKOVIT**  
STATE PRESIDENT  
1800 Newkirk Avenue  
Brooklyn, N. Y.  
MAAnsfield 8-2218

- James J. Harnisch Vice-President
- Sam D. Elbyet, Jr. Vice-President
- Louise Rice Vice-President
- W. Knox Vice-President
- Malin Vice-President
- James Morris Vice-President
- Wojcik Vice-President
- W. W. Tully Vice-President
- James Fowler Vice-President
- Kalbar Vice-President
- J. Bourguignon Vice-President
- J. Stahl Financial Secretary
- Monsters
- Fin. Sec'y
- Ward
- Recording Secretary
- M. Brennan
- Rec. Sec'y
- Williamson
- Sec'y
- Yancey
- Corr. Sec'y
- K. McGee
- Treasurer
- E. Angelino
- Treasurer
- Smith
- Sergeant-at-Arms
- Isaka
- Sergeant-at-Arms
- L. Rosenthal
- Director
- F. Sommer
- Legislative Rep.
- Cleary
- Legislative Rep.
- Publicity
- Merrill
- Borden
- Fiorella

June 2nd, 1942.

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

Dear Mr. Secretary:-

The Affiliated Young Democrats of New York at their State Meeting in Schenectady on May 23rd and 24th last, unanimously recommended your name as a possible candidate for the office of Governor of the State of New York.

We plan to hold our State Convention shortly, at which time we will specifically endorse candidates suggested at our State Meeting for the various State Offices.

A full State Ticket will be presented by us to the Democratic State Convention for serious consideration with respect to gaining the designations of the Democratic Party for the November elections.

So that the Affiliated Young Democrats may be fair in arriving at decisions as to which candidates, we will endorse and support, I am enclosing a Questionnaire prepared by our Fact-Finding Committee. Thus, you will have an opportunity to express your views on issues which we feel are most important in helping us reach our decisions.

We would deeply appreciate a reply by June 17th, 1942 to the enclosed Questionnaire. Your prompt cooperation will enable us to make the necessary plans for our Great State Convention, to be held sometime after June 17th.

With sincere thanks, and kindest regards, I am

Yours for Victory,

*Harold R. Moskowitz*  
Harold R. Moskowitz,  
State President

JPS

THE AFFILIATED YOUNG DEMOCRATS, INC. OF NEW YORK STATE  
HOTEL PICCADILLY --227 West 40th Street-- New York City  
Circle 6-6900 Ext. 323-325 Columbus 5-4429

QUESTIONNAIRE ON NOMINATIONS FOR STATE OFFICERS COMPILED BY THE FACT-FINDING COMMITTEE

1. Do you favor the blanket endorsement of Congressional incumbent candidates regardless of political affiliation who have voted for the President's foreign policies before Pearl Harbor, December 7th, 1941?  
\*\*\*\*\*
2. Are you able to submit any published or printed statement showing your attitude on isolationism before Pearl Harbor? And, if not, kindly summarize your views on this subject.  
\*\*\*\*\*
3. Do you favor full recognition of the Affiliated Young Democrats, Inc. of New York State in the councils of the Democratic Party?  
\*\*\*\*\*
4. Are you opposed to any curtailment, or abandonment of the National Youth Administration, or the Civilian Conservation Corps?  
\*\*\*\*\*
5. Will you support a world organization of nations to preserve the peace for the future, in which the United States will take a responsible and leading part?  
\*\*\*\*\*
6. Do you favor the development of the St. Lawrence River Seaway and Power Project?  
\*\*\*\*\*
7. Are you opposed to the abandonment of the Forty-Hour Week?  
\*\*\*\*\*
8. Do you advocate a "working agreement" between the American Labor Party and the Democratic Party on the State ticket?  
\*\*\*\*\*
9. Are you opposed to a negotiated peace with the Axis? Or, do you favor peace only with a complete victory?  
\*\*\*\*\*
10. Are you in favor of President Roosevelt's domestic and foreign policies?  
\*\*\*\*\*

\*\*\*\*\*Kindly submit your explanatory replies by June 17th, 1942, on another sheet of paper.

\*\*\*  
THANK YOU

\*\*\*

June 1942

Washington Star

## Draft Officials Say U. S. Offices Ask Few Delays

### Deferment Requests Reasonable, Local Headquarters Think

Government departments have been reasonable and in some cases ultra-conservative in asking deferments of Federal employes registered with District draft boards, local headquarters of selective service said today.

This followed a report by a special Senate committee, headed by Senator Tydings of Maryland, that while the privilege of draft deferment on the whole had not been abused, some glaring instances of unjustified avoidance of military service by Government employes had been found.

The committee is asking selective service to review the cases of about 1,000 Federal employes under 25 years of age.

A committee official said today that most of the instances appeared to be deferments granted by small town draft boards awed by the appearance of an important agency chief's name on a deferment request.

#### Sometimes Not Even Asked.

Some officials thought the deferment requests had not been inspired by the department concerned. It was thought that in some cases, local boards were sufficiently impressed by the fact that one of their town boys was working in Washington to defer him even without an official request.

While a number of Federal employes are registered with their home town draft boards, and in some cases may not have followed the regular procedure in requesting deferment, those who are registered here go through various weeding out processes. Each section chief reports those he thinks should be deferred to his immediate superior and it goes up the line until the final decision within the department is made by a committee or individual designated by the agency head.

Of all Federal employes registered up to the end of 1941, 24 per cent were classified as 2-B, and 3 per cent in 3-B. The national figure for occupational deferments is about 5 per cent.

Capt. John E. Browne, occupational advisor at local headquarters, said it had been his experience that Government departments for the most part were more conservative in their requests for deferment than private industry. In fact, he said, some departments have probably been more conservative than they should be.

#### Treasury Most Conservative

In some cases, he said, men not considered as "necessary" by their department have been deferred by local boards here because of their knowledge of the over-all labor picture and the difficulties of finding replacements for certain types of work.

He considered the Treasury Department the most conservative of all Government agencies in its requests for deferment.

The only method of weeding out those who should not have been deferred, he said, was for Government agencies to make their own surveys of the standing of all their male employes, which would also give them a picture of the needs for replacement and training. It should be the responsibility of the Government agencies as employers, he said, to notify local boards where employes have been improperly deferred.

The Federal Bureau of Investigation, the Commerce and Treasury Departments have completed such surveys, he said, and the Navy Department is now working on one. Other departments are following suit.

#### Report Due at End of Week.

The Senate committee probably will not have its report ready to turn over to Maj. Gen. Lewis B. Hershey, director of selective service, until the end of the week, a committee official said. This will include a record of the apparent abuses with a request that the cases be reviewed.

National headquarters of selective service will be given the name of the department, registrant's name, age, title, grade and salary and the local board which deferred him. It has not yet been decided what the mechanics of the review will be—that is whether local boards, State headquarters or national headquarters will go over the cases.

The Senate will not get the committee's full report on what it has uncovered during its personal survey for two more weeks, it was said.

June 1942

Washington Star

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Of all Federal employes classified up to the end of April, 1942, only 2 per cent were placed in 3-B, and 3 per cent in 3-C. The national figure for occupational deferments is about 5 per cent.

Capt. John E. Browne, occupational advisor at local headquarters, said it had been his experience that Government departments for the most part were more conservative in their requests for deferment than private industry. In fact, he said, Government departments have probably been more conservative than they should be.

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The Senate will not get the committee's full report on what it has considered during its previous survey for two more weeks, it was said.

June 8, 1942

Dear Henry:

Thank you for your note of June 3,  
attaching a summary of the Treasury financing  
for the month of May.

Sincerely yours,

*Claude*

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

The Speaker's Rooms  
House of Representatives U.S.  
Washington, D.C.

June 8, 1942

The Secretary of The Treasury,  
Washington, D. C.

Dear Henry:

I appreciate your sending me a copy of the report  
which you presented to the Joint Committee on Internal  
Revenue Taxation, on the subject of Wartime Tax Avoidance.

I have found this report very interesting.

With good wishes, I am

Sincerely yours,

*Sam Rayburn*

*Wartime  
Tax Avoidance  
Statement*



BEN W. BARKLEY  
KENTUCKY

United States Senate  
CONFERENCE OF THE MAJORITY

June 8, 1942.

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

Dear Henry:

Allow me to thank you for your letter of June 3  
enclosing summary of the Treasury financing for the month  
of May.

Sincerely yours,

*not*  
*W. H. H. H.*  
Alben W. Barkley

AWB:EC

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE June 8, 1942.

TO THE SECRETARY  
FROM TED. R. GAMBLE

You will find enclosed comparisons of sales by States for the month of May. I have taken from this list the ten states with the largest sales and it tells, as we have known, a most important story.

64½ percent of the total sales of the nation were made in these ten states. All of these states, with the exception of two, have conducted pledge campaigns and the two missed their quotas by considerable margins, namely New York and New Jersey. New York sold but 85.3 of their quota and New Jersey sold but 85.6. There is no question but the campaign just getting underway in New York will reflect itself very advantageously during the months of June and July. This is most important as the New York quota represents about 20% of the nation's total.

We are currently working on special campaigns in the ten states representing such a high percentage of our total requirements, as well as five other states, namely Connecticut, Indiana, Minnesota, Washington and Wisconsin, where sales are over ten million dollars a month.

Our activated payroll campaign, which, as you know, is being presented to all the states, is receiving special attention from Washington in the 15 above-mentioned states.

-2-

I might add in closing, a review of this report shows definitely that the states that have conducted their pledge and sales solicitation campaigns were the leaders in the quota drive for May. For example, Washington had a very excellent campaign and ended the month with a showing of 146.2; Iowa with 154.1, and Texas with 120.9, despite the fact that it is lagging behind in payroll savings. You will note the dramatic story of Hawaii, 803.3 and Alaska 248.5. Special handling was given this last item by the Press Department and you will hear more about it.

WAR SAVINGS BONDS - SERIES E, F, AND G  
MAY 1942

	<u>Quota</u>	<u>Sales</u>
New York	125,000,000	106,671,000
Pennsylvania	55,814,000	55,514,000
Illinois	49,300,000	52,227,000
California	40,011,000	41,225,000
Ohio	51,769,000	55,899,000
Massachusetts	28,771,000	28,738,000
New Jersey	26,727,000	22,889,000
Michigan	21,647,000	26,240,000
Texas	18,594,000	22,479,000
Missouri	<u>17,075,000</u>	<u>18,713,000</u>
	412,708,000	408,595,000

June 8, 1942

TO: HAROLD N. GRAVES  
 SUBJECT: PROGRESS REPORT FROM WAR SAVINGS STAFF

ORGANIZATION

The number of members of State, County, and City Committees has more than doubled in the last three months, primarily because of Pledge and Quota campaign activities. The following table shows the increase in number from March 16 to June 5:

	<u>March 16</u>	<u>June 5</u>
Number of members of State Committees	1503	1869
" " chairmen of County and City Local Committees	5283	2999*
" " Chairmen of City Committees where no County Chairmen exist		1015
" " members of all committees exclusive of above	<u>106144</u>	<u>264503</u>
Total	112,930	270,386

\*Decrease due to the adoption of the County as a basis.  
 (Number of counties in the United States, 3,070.) City Committees now usually report to County Chairmen.

742 8/20/6/9

LABOR

Arrangements have been completed with the American Federation of Labor under which the services of 1,800 AFL organizers are being offered to the War Savings Staff to promote Payroll War Savings. These organizers will contact local AFL unions throughout the country seeking to establish 100 per cent participation by union members in the 10 per cent of gross payroll plan.

MISCELLANEOUS

Since the start of the Quota Campaign on May 1, there has been a 50 per cent increase in the amount of mail received, the Office of the Field Director reports.

The Field Director's office has had a teletype installed for the purpose of expediting messages. The teletype connects directly with ten of the most important field offices.

Because of population changes, there is a marked decrease in the number of inhabitants in Montana, which is producing a marked change in the set-up and procedure of the local organization. Due to war conditions, there has been a decrease of 75,000, or approximately 15 per cent in the agricultural population of Montana. Co-incidentally, because of defense projects, the population of Utah has increased by 10 per cent, or 55,000.

VICTORY HOUSES

Patricia Morrison, picture star, aided in opening Santa Monica, California, Victory House, Saturday, May 24.

RALLIES

Donald Crisp, popular screen character actor, led Santa Barbara, California, War Bond parade and addressed large rally.

B'Nai Brith Lodges and Auxiliaries, St. Louis, auctioned \$10,000 in goods for more than \$1,875,000 in War Bonds, May 20, at Washington University Field House. A \$20 bowling ball brought \$28,500, and a \$2.00 pair of silk stockings sold for \$1,000. Other articles auctioned included electric roaster, \$18,000; mixmaster, \$13,000; autographed baseball, \$900; golf clubs, \$10,000; electric razor, \$5,000; pound of coffee, \$150; two lamps, \$8,000; and foot stool, \$6,000.

TALENT TOURS

The Southernaires, famed quartet, continues its commendable Bond-selling drive. Most recent efforts are Charleston, W.Va., \$955.00; Williamsburg, Va., \$800.00; New York City, a \$4,000 check from someone who heard the quartet on the road. Sales record to date totals \$41,755.

VICTORY WINDOWS

The progress report of War Savings Bonds and Stamps sold in four Victory Windows of the I. Magnin Company, West Coast stores, follows:

<u>Store</u>	<u>Days Open</u>	<u>Sales to date</u>
Los Angeles	34	\$108,431.00
Pasadena	11	36,343.00
San Francisco	54	201,252.00
Oakland	45	68,133.00

VICTORY HOUSES

Los Angeles Victory House, May 18 - 23, staged feature presentations as follows: Hazel Van Mannon, soloist; 40 -voice Negro chorus, Jenifer Holt, Universal Pictures actress; All-American Symphonic Band, Page Military Academy Band, Ann Sheridan and George Brent, Leo Davis and Negro swing orchestra, Barbara Mercer, soloist; Dolores Moran, Warner Brothers star; Edgar Buchanan, Columbia Pictures actor; Gene Autry's Melody Ranch radio trio, Minter Field Air Force Band, third "Miss Victory" contest and United Nations Program.

BUSINESS PUBLICATIONS

We released this week to our complete list of approximately 700 business publications our advertisement No. 5. Proof of this ad, and the accompanying letter, are attached.



BUSINESS PUBLICATIONS (Continued)

We also mailed to approximately 150 publications two half-page advertisements for inclusion by the publishers as space permits. We have had more than 400 individual requests by letter from publishers for this type of advertisement.

COMPANY PUBLICATIONS

We released this week to our full list of 2,112 company publications a special promotional kit for July issues. Our records indicate that more than 1,600 company publications use one or more items from this material each month. Sample kit is attached.

FARM PUBLICATIONS

We released this week to our list of farm publications, representing a total circulation in excess of 18,000,000 farm readers, advertising release No. 3. Proof of this ad, and the accompanying letter, are attached. We have been notified that many farm publications are planning patriotic issues for July. This advertisement was designed to dovetail with this program.

RETAILERS

Attached in enclosed envelope marked "Retailers" is a special attachment showing the bulletins issued during the last week by the Retailers Sections.

PAYROLL SAVINGS

New material on the Payroll War Savings Plan is now available and is being distributed to all State Administrators' offices. Ten new promotional items have been distributed as follows:

1. Portfolio for employers - (A plan for diverting at least 10 per cent of America's payroll into United States War Bonds) 37,555.
2. Manuals for employers - (How to install and successfully operate a Payroll War Savings Plan for the regular purchase of United States War Savings Bonds) 301,350.
3. Booklets for employees - (Give 3, Get 4) 18,480,000.
4. Three envelope stuffers for employees - 8,293,000 of each.
5. Buttons for employees - 10,950,000.
6. Stickers for employees - 10,338,000.
7. "I Gave a Man" poster - 176,000.
8. "We can't all go" poster - 53,200.
9. "Bonds not Bunds" poster - 53,200.
10. "For Victory" poster - 53,200.

RADIO

A total of 489 radio stations throughout the nation now have installed Payroll Savings Plans. Of these, 399 radio stations have installed Payroll Savings 100 per cent.

Special program of Government leaders on Payroll Savings includes Eccles, Henderson, and Nelson and Marine Band, June 21, Mutual Broadcasting System, coast-to-coast network, 1:30 - 2:00 P.M. Local outlet is WOL.

RADIO (Continued)

Many farm programs have commented enthusiastically on our recorded announcements "Voices of the Farm" being used as daily feature on 87 per cent of all farm programs throughout the nation.

Foreign language plays all prepared and now being okayed by Office of Facts and Figures for transcription in eight languages and used throughout the nation.

Typical example of foreign language radio cooperation is KTKC, Fresno, California, which has a daily five-minute program and appeals to an audience of Mexican origin for increased regular buying of War Bonds.

Following twelve children's programs are promoting War Bonds, the 10% Club, buttons and stickers:

"HORN AND HARDART"	WEAR - Sunday, June 14 - 10:30-11:00 AM
"CHILDREN'S HOUR"	WEVD - Sunday, June 14 - 2:30 - 3:00 PM
"KID QUIZARD"	WHN - Sunday, June 14 - 10:00-10:30 AM
"CHILDREN'S HOUR"	WHN - Sunday, June 14 - 9:00-10:00 AM
"COAST TO COAST ON A BUS"	WJZ - Sunday, June 14 - 9:15-9:30 AM
"UNCLE DON"	WOR - Monday, June 15 - 6:00-6:30 PM
"YOUTH BUILDERS"	WNYC - Friday, June 19 - 4:30-5:00 PM
"HERN VARIETY HOUR"	WHN - Saturday, June 20-10:30-11:00 AM
"YOUTH MARCHES ON"	WJZ - Saturday, June 20 -10:45-11:00 AM
"CHILDREN'S PARADE"	WMCA - Saturday, June 20 - 11:00-11:30 AM
"POLICE ATHLETIC LEAGUE"	WNYC - Saturday, June 20 - 4:30-5:00 PM
"LET'S PRETEND"	WABC - Saturday, June 20-11:30-12:00 No

RADIO (Continued)

Special Series of Summer Programs

- A. Network of twenty-five leading sponsored programs on Bonds and Stamps- "Victory Parade" on Sundays from 7:00-7:30 P.M. over National Broadcasting Company -"Victory Theatre" on Mondays from 9:00-9:30 P.M. over Columbia Broadcasting System. National Broadcasting Company shows follow:

Fannie Brice and Morgan, June 7  
Mr. District Attorney  
Aldrich Family  
Jack Benny  
Charlie McCarthy  
Kay Kyser  
Great Gildersleeve  
Eddie Cantor  
Burns and Allen  
Kraft Music Hall  
Bob Hope  
Fibber McGee and Molly  
Red Skelton

- B. Present plan is to have Lionel Barrymore act as Treasury spokesman over one network, and Cecil B. DeMille act as spokesman over another network. The summer series will also be carried in Canada over CBC until July 1.

PRESS

Announcement of the Air Heroes Cavalcade, originated in New York, was handled by the Press Section and landed on the front pages of all New York newspapers on Monday, June 8. Heroes' photos were also released by Press Section.

PRESS (Continued)

The announcement of the breakdown of May sales by states throughout the nation was released for Monday morning papers, June 8, and received Page One treatment by a majority of leading publications.

NEW YORK PLEDGE CAMPAIGN

Plans for a comprehensive Press Campaign in the Greater New York newspapers were arranged by the War Savings Press Section in Washington, under the supervision of Jacob Mogolever.

Utilizing ten members of the WPA Writers Project as the nucleus of the new bureau personnel, additional personnel was recruited from newspapermen on the Manhattan newspapers who are serving in their spare time without pay. The New York Newspaper Guild was contacted and its officers agreed to act as a recruiting agent for these volunteers.

The news bureau, set up with a news editor, assignment editor, photo editor and rewrite man, gets out six to ten daily releases a day. A new mailing list, covering about 750 publications in Greater New York was made up.

The New York Press Photographers' Association is taking all campaign photos without cost to the Government either for labor or materials. Arrangements for this tie-up were made by us and Peter Finney, the New York publicity representative of the War Savings Staff.

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NEW YORK PLEDGE CAMPAIGN (Continued)

A general press program was devised. John T. Madden, campaign chairman, Samuel Fuson, the general publicity director, and Peter Finney, New York representative, gave initialled approval of the plan.

One of the features of the program - the issuance of a press book - has been accomplished and released to all publications in Greater New York. A copy of the press book is attached.

Editors and publishers of the chief foreign language publications - about 50 - and including Swiss, Finnish, Chinese, Jewish, Polish, Italian, Hungarian, and German newspapermen, were invited to Headquarters at 521 Fifth Avenue, shown the press book and given an explanation of how a coordinated effective press campaign could be put together from our material. The publishers agreed to run a Flag Day display on Page One on June 14.

Major cartoonists, editorial writers, and columnists have been contacted to run special material as the campaign date approaches and during the ten-day period of the canvass.

\*\*\*\*\*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

251

DATE June 8, 1942

TO Secretary Morgenthau  
FROM Vincent F. Callahan

The Treasury Department and the Office of Facts and Figures have started a new series of Summer programs which will run all Summer.

The series, known as VICTORY PARADE, started over the NBC Red Network Sunday, June 7th, from 7:00 to 7:30 PM. This series will run for seventeen weeks.

Another series, known as VICTORY THEATER, starts over CBS on Monday, July 6th, from 9:00 to 9:30 PM, and it will run for eight weeks.

Each program will be one of the best Winter programs. There will be no commercial sponsorship.

Here are some of the shows which will definitely be heard:

Frank Morgan and Fannie Brice; Rudy Vallee; Lux Radio Theater; Bob Hope; Bing Crosby; Mr. District Attorney; Aldrich Family; Charlie McCarthy; Kay Kyser; Gildersleeve; Burns and Allen; Fibber McGee and Molly; Eddie Cantor; Fred Allen; Screen Guild; and the Hit Parade. There will be others - a total of twenty-five half-hour shows.

-2-

Lionel Barrymore will be Master of Ceremonies for the NBC programs. Cecil B. DeMille is being asked to be Master of Ceremonies for the CBS shows.

We are using the programs to promote the Ten Per Cent Payroll Savings Plan.

Sponsors have given permission for the programs to go on, but there will be no credit to sponsors.

Vincent F. Callahan



June 8, 1942

Letters to the following list, enclosing recent copy of "THE MINUTE MAN", giving highlights of Treasury Dept's Quota Campaign to raise at least a billion dollars a month through sale of War Savings Bonds. Signed Henry.

Hon. Marriner S. Eccles  
Hon. Cordell Hull  
Hon. Secretary of Agriculture  
Hon. Leon Henderson  
Hon. Jesse Jones  
Hon. Archibald MacLeish  
Hon. Vice President Wallace  
Hon. Robert L. Doughton  
Hon. Donald M. Nelson  
Hon. Walter F. George  
Hon. Alben W. Barkley  
Hon. Henry L. Stimson  
Hon. Frances Perkins  
Hon. Frank Knox  
Hon. Frank C. Walker  
Hon. Speaker Rayburn  
Hon. Francis Biddle  
Hon. Harold L. Ickes  
Mr. Harold D. Smith  
Hon. Lowell Mellett

JUN 8 1942

Dear Lowell:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

This magazine is mailed periodically to some 20,000 active leaders throughout the country who are engaged in War Savings work.

I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

Honorable Lowell Mellett,  
Administrative Assistant to the President,  
Office of Government Reports,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Harold:

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Sincerely yours,

(Signed) Henry

Mr. Harold D. Smith,  
Director,  
Bureau of the Budget,  
Washington, D. C.

Attachment

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Sincerely yours,

(Signed) Henry

The Honorable Harold L. Ickes,  
Secretary of the Interior,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Francis:

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Sincerely yours,

(nd) Henry

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

JUN 8 1942

~~12~~

Dear Sam:

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Sincerely yours,

(Signed) Henry

The Honorable,  
The Speaker of the House  
of Representatives,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Frank:

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Sincerely yours,

(Signed) Henry

Honorable Frank C. Walker,  
Postmaster General,  
Washington, D. C.

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JUN 8 1942

Dear Frank:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

This magazine is mailed periodically to some 20,000 active leaders throughout the country who are engaged in War Savings Work.

I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

The Honorable Frank Knox,  
Secretary of the Navy,  
Washington, D. C.

Attachment

WES:lm



JUN 8 1942

Dear Frances:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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Sincerely yours,

(Signed) Henry

The Honorable Frances Perkins,  
Secretary of Labor,  
Washington, D. C.

Attachment.

JUN 8 1942

Dear Henrys:

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Sincerely yours,

(Signed) Henry

The Honorable Henry L. Stimson,  
Secretary of War,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Alben:

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Sincerely yours,

(Signed) Henry

The Honorable Alben W. Barkley,  
The United States Senate,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Walters:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

Honorable Walter F. George,  
The United States Senate,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Don:

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

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

Attachment

JUN 8 1942

Dear Bob:

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

Honorable Robert L. Doughton,  
The House of Representatives,  
Washington, D. C.

Attachment

JUN 8 1942

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Sincerely yours,

(Signed) Henry

The Honorable,  
The Vice President of the  
United States,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Archibald:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

This magazine is mailed periodically to some 20,000 active leaders throughout the country who are engaged in War Savings work.

I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

W. H. Henry

The Honorable Archibald MacLeish  
Librarian of Congress  
Washington, D. C.

Attachment



JUN 8 1942

Dear Jesse:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(signed) HENRY

The Honorable Jesse H. Jones,  
Secretary of Commerce,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Claude:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

The Honorable Claude E. Wickard,  
Secretary of Agriculture,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Leon:

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) HENRY

Honorable Leon Henderson,  
Administrator,  
Office of Price Administrator  
Washington, D. C.

Attachment.

JUN 8 1942

Dear Cordell:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

The Honorable Cordell Hull,  
Secretary of State,  
Washington, D. C.

Attachment

JUN 8 1942

Dear Marriner:

Attached is a recent copy of "THE MINUTE MAN", a news letter that gives highlights of the Treasury Department's Quota Campaign to raise at least a billion dollars a month through the sale of War Savings Bonds.

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I believe you will find it interesting reading, for it tells of special activities in cities and towns in which you have a great personal interest.

Sincerely yours,

(Signed) Henry

Honorable Marriner S. Eeles,  
Chairman,  
Board of Governors of the  
Federal Reserve System,  
Washington, D. C.

Attachment

TREASURY DEPARTMENT

274 ✓

INTER OFFICE COMMUNICATION

DATE

June 8, 1942

TO Miss Chauncey  
FROM Mr. Duffus

Here are newspaper tear sheets on the rallies  
in Chicago and New York City.

# SOLDIERS TO SING AT DEFENDER TEA SUNDAY

## LOOKING FOR WORK

**28 PAGES**  
**10¢ AND WORTH IT**

THE **Chicago Defender**  
WORLD'S GREATEST WEEKLY

**CITY EDITION**

Vol. XXXVIII, No. 6 CHICAGO, ILL., SATURDAY, MAY 30, 1942

OFFICE IN PROVISION OF DEFENDERS BY TELEPHONE CALLERS MAY CONTACT THE BUSINESS DEPARTMENT

# HIT PREJUDICE AT RALLY



MISS TRINIDAD AQUILAR

## DEFENDER TEA TO FEATURE SOLDIER CHOIR

**Army Singers To Share Spotlight With Most 'Desirable' Girls**

The Regimental Chorus of the 148th Field Artillery, Fort Custer, Mich., and John Kirby and his band, currently filling a long engagement, are to bring an outstanding vocal band to the Chicago Defender Annual Tea on Sunday, May 31, at the Navy Ballroom.

The rally, which is being held in honor of the 100th anniversary of the Defender, will be held from 7 to 10 p.m. at the Navy Ballroom, 1000 North Dearborn St. The program will feature the singing of the national anthem, the playing of the Defender, and the singing of the regimental chorus of 40 men.

Main singers are expected to be announced in the next week. A band of 100 men is expected to perform at the event, which is expected to be the largest ever held at the Navy Ballroom.



## CHICAGOANS ATTEND MUSICAL WAR RALLY AT AMPHITHEATRE



## Taverns Still Closed; Await Mayor Kelly O.K.

Despite the fact that the House Liquor Amendment, which would allow the sale of liquor to the general public, has passed, taverns in Chicago are still closed. The amendment, which was passed by a vote of 217 to 197, would allow the sale of liquor to the general public, but it still requires the approval of the mayor.



## Attorney Has Joe Served In Fee Suit

Joe Served, a well-known Chicago attorney, has filed a suit against his former law firm, Served & Served, for the recovery of legal fees. The suit, which was filed in the Cook County Circuit Court, alleges that the firm failed to provide adequate legal services.

## AGAR, KELLY SCORE RACE HATRED IN U.S.

At a meeting to stimulate the purchase of war bonds, speakers attacked the racial hatred in the United States. The meeting, which was held at the Navy Ballroom, featured a program of singing and speaking.

Speakers at the meeting included Mayor Kelly and several members of the city government. They urged citizens to purchase war bonds and to stand against racial discrimination.

The meeting was held in honor of the 100th anniversary of the Defender. It was the largest ever held at the Navy Ballroom. The program was well-received by the audience.

## DUSTIN' off the NEWS

By LUCIUS C. HARPER

WHAT WE DIDN'T KNOW ABOUT OUR MEMORIAL DAY

May 31, 1942. Memorial Day is a day of remembrance for the men and women who have given their lives for their country. It is a day to honor their sacrifice and to inspire us to do our best.



MISS ILA GILMORE

Miss Ila Gilmore, a member of the Navy Ballroom staff, is a young woman who has been working for the Navy Ballroom for several years. She is a member of the Navy Ballroom staff and is a young woman who has been working for the Navy Ballroom for several years.

## Baby Bell Pleads Intoxication; Freed

A young woman, Baby Bell, has been freed after pleading intoxication. She was arrested for a minor offense but was released because she was intoxicated at the time of the arrest.

## Navy To Use Defender For Recruiting

The Navy Department has announced that it will use the Chicago Defender for recruiting purposes. The newspaper will be used to provide information about the Navy and to encourage young men to join the service.

## Gadsden Is West Point Appointee

John Gadsden has been appointed to a position at West Point. He is a young man who has been working for the Navy Ballroom for several years. He is a member of the Navy Ballroom staff and is a young man who has been working for the Navy Ballroom for several years.

## Chauffeur Sues Woman Employer

A chauffeur has filed a suit against his employer, a woman, for the recovery of wages. The suit, which was filed in the Cook County Circuit Court, alleges that the employer failed to pay the chauffeur for his services.

## Mitchell Names 2 To Annapolis

W. C. Mitchell has named two men to positions in Annapolis. The men are young men who have been working for the Navy Ballroom for several years. They are members of the Navy Ballroom staff and are young men who have been working for the Navy Ballroom for several years.

## Complete Marian Anderson Musical

The Marian Anderson Musical has been completed. The musical, which was written by a young man who has been working for the Navy Ballroom for several years, is a story of a young woman who is a member of the Navy Ballroom staff and is a young woman who has been working for the Navy Ballroom for several years.

## Woman Shoots Man To Death In Crowd

A woman has been charged with the murder of a man in a crowd. The man was shot and killed during a public event. The woman, who is a young woman who has been working for the Navy Ballroom for several years, is a member of the Navy Ballroom staff and is a young woman who has been working for the Navy Ballroom for several years.

## Doris Miller Is Awarded Navy Cross

Doris Miller has been awarded the Navy Cross for his heroic actions during the attack on Pearl Harbor. He is a young man who has been working for the Navy Ballroom for several years. He is a member of the Navy Ballroom staff and is a young man who has been working for the Navy Ballroom for several years.



NAVY CROSS

## Federal Rent Control To Begin Here June 1st

Federal rent control will begin in Chicago on June 1st. The new law will limit the amount of rent that landlords can charge for their properties. This will help to reduce the cost of housing for many people.



JOHN GADSDEN

John Gadsden is a young man who has been working for the Navy Ballroom for several years. He is a member of the Navy Ballroom staff and is a young man who has been working for the Navy Ballroom for several years.



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**BROWN AMERICA**  
Is In The Air!

**NEWSBOYS**  
TO ENTER  
**\$1,000.00 CONTEST**  
BY CASH PRIZES

# AGAR SCORES PREJUDICE AT BOND RALLY

### Mayor Also Hits At Parents of Race Hatred in U.S.

(Continued from Page 1)  
 Mayor William W. Maestri, who presided at the rally, said that the prejudice against the Japanese is the worst that has ever existed in this country. He said that the prejudice against the Japanese is the worst that has ever existed in this country. He said that the prejudice against the Japanese is the worst that has ever existed in this country.

# WINS EXTRADITION FIGHT



Edward Harrison Miller was not only the only man to win the extradition fight for the release of Miller from the case of the Chicago Police Officer, Philip Brown, but he also won the extradition fight for the release of Miller from the case of the Chicago Police Officer, Philip Brown.



Miller was not only the only man to win the extradition fight for the release of Miller from the case of the Chicago Police Officer, Philip Brown, but he also won the extradition fight for the release of Miller from the case of the Chicago Police Officer, Philip Brown.

# PASTOR'S SUIT CAUSES ICC TO LAUNCH PROBE

### Road Moves Seats From Baggage Car; Provides Coach Section

WASHINGTON, (AP)—The Interstate Commerce Commission today launched a probe into the suit filed by the Rev. J. Edgar Hoover, pastor of the First Baptist Church, Chicago, against the Chicago & North Western Railway for moving seats from the baggage car to a new coach section.

# BOY SCOUT NEWS

By EMERSON JAMES  
 Douglas District Executive  
 Phone: STAU 3190



Mr. James

The Chicago Council of Boy Scouts has announced that it will accept the offer of the Chicago & North Western Railway to provide a new coach section for the use of the Scouts. The council has accepted the offer of the Chicago & North Western Railway to provide a new coach section for the use of the Scouts.

# Policeman Fired For Abusing Man

ALABAMA, (AP)—A Birmingham policeman has been fired for abusing a man. The policeman was fired for abusing a man.

FDH Adds to CCC  
 Washington, D.C. (AP)—The Federal Deposit Insurance Corporation today announced that it will accept the offer of the Federal Reserve Board to provide a new coach section for the use of the FDIC.



O. James

# Rats Feast Tea—On Sleeping Southsiders



Chicago Defender reports that the rats of the South are feasting on the sleeping Southsiders. The rats are feasting on the sleeping Southsiders.

# Joliet Girl Disappears From School



LYNDIA BRYAN, 12-year-old daughter of the Joliet Police Officer, Philip Brown, has disappeared from school. The girl has disappeared from school.

# Doris Miller—



(Continued from Page 1)  
 The Rev. J. Edgar Hoover, pastor of the First Baptist Church, Chicago, has filed a suit against the Chicago & North Western Railway for moving seats from the baggage car to a new coach section.

# LET US SUMMER YOUR CAR NOW

Free Radiator and Motor With Your Summer Changeover  
**ROOSEVELT PHILLIPS SERVICE STATION**  
 56th & Wash. Ave. 49th & Wash. Ave.  
 Phillips '66' Products Standard Oil Products  
 Credit Cards Honored

# CHILLED A-1 WINE

**THE IDEAL SUMMER BEVERAGE**

**A-1**  
 TOPS IN WINE  
 California Sherry Wine

ROSEBUD  
 CENTRAL STATE DISTRIBUTORS, INC.  
 1100 N. STATE ST. CHICAGO, ILL.

Superior Quality! Full Rich Flavor! Low in Price!

**DEMAND THE BEST!**

Regraded Unclassified

# Attends Confab



C. F. YOUNG, who attended the recent C.M.E. general conference in Chicago, has returned to Chicago. He has returned to Chicago.

# Gadsden—



(Continued from Page 1)  
 The Chicago Council of Boy Scouts has announced that it will accept the offer of the Chicago & North Western Railway to provide a new coach section for the use of the Scouts.

# Roseland



ROSEBUD  
 CENTRAL STATE DISTRIBUTORS, INC.  
 1100 N. STATE ST. CHICAGO, ILL.

**FLORENCE'S RESTAURANT**  
 5515 S. STATE ST.  
 FINE FOODS WELCOME BASEBALL FAIR VISITORS  
 SUNDAY SPECIAL—FREE STROPPED COMPLETE DINNER \$5c  
 OPEN ALL NIGHT

**QUICKY**  
 GET UP—PLEASE!  
 BUTTER-NUT TOAST!  
 I'M JUST NUTS ABOUT BUTTER-NUT!

**YOU'LL BE LATE!**

**Butter-Nut**  
 CRISP BREAD

# Men's Felt Hats

**39¢**  
**PEKIN CLEANERS**  
 815 N. STATE ST.  
 CHICAGO, ILL.

# Debts

**DAW'S**  
 DAUGHTER'S  
 ROOT BEER  
 DEBTS  
 PAYABLE  
 HERE  
 FREE

# Men's Felt Hats

**39¢**  
**PEKIN CLEANERS**  
 815 N. STATE ST.  
 CHICAGO, ILL.





rs Safe Months Jungles

...to make... back in April... 25... jungle... safe...

...around this time... We were sick... Another had a bad case...

...I remember that stretch... it was the only time... There was a...

20,000 Expected At Inter-Racial Unity Rally

More than 20,000 persons... to be expected... at the stadium...

14, Drowned Rescue Attempt

...14... drowned... rescue attempt...

ATTENTIVE AUDIENCE



Elm star Olivia De Havilland reading the poem 'Fifty Years' by James Weldon Johnson...

20,000 Expected At Inter-Racial Unity Rally

More than 20,000 persons... to be expected... at the stadium...

Reclaimed Tire Fraud Charged

...reclaimed tire... fraud charged...

Students Defend 'Frats'

Students defend... 'Frats'... against charges...

FRATS IN DISFAVOR

In a poll conducted by the Board of Education... Frats in disfavor...

2 More Vessels Torpedoed; Save All 91 Aboard

MIAMI, June 3 (AP)—All 83 crewmen and eight passengers, including three women and a four-year-old boy, escaped death when Japanese sank a United States merchant vessel and a British merchant ship in the Caribbean Sea early last month.

The U. S. ship, carrying the eight passengers and a crew of 88, went down off a large West Indian island May 6. The British vessel, with a crew of 45, was sunk in another part of the Caribbean May 9. The Navy announced the attacks today.

Members of the American ship's crew told here how Bobby Davis, 4 of Jacksonville, Fla., believed he was being taken on a fishing trip and 'laughed all the time' during his 16 hours in a lifeboat. His mother, Mrs. Barbara W. Davis and the other two women were with him.

Vessel Torpedoed, Sub Guns Kill 6

NORFOLK, Va., June 3 (AP)—A British merchant ship was sunk several hundred miles east of Bermuda May 20 by a submarine which ripped her open with two torpedoes and then surfaced to fire four shells as the crew lowered lifeboats, killing six of their number.

Details of the daylight attack were told here by 15 survivors who spent seven days on the ocean in lifeboats before they were picked up by another cargo vessel. Thirty-one crew men were missing, the navy said in announcing the sinking of the medium-sized vessel today.

Subsequently the Navy disclosed 14 survivors at the same sinking has been landed at Charleston, S. C.

Held in \$10,000 As Girl Attacker

Jessy Mason, 26, one of three men indicted on rape charges, was held in \$10,000 bail by Bronx County Justice Patterson today. Mason was arrested in a Harlem rooming house last night.

On July 27, 1941, three youths in an auto picked up 17-year-old Kathleen Fitzsimons, of 27-51 105th St., Corona Queens, near the Whitehouse bridge, according to the charge, the girl was attacked and then taken to an apartment at 248 E. 151st St. There she was raped from the fifth floor window into a courtyard. She is recovering hospitalized for three months.

Simultaneously, Stephen Coleman, 32, of 332 E. 151st, and Anthony Bannocchini, 20, of 25 E. 151st, were arrested. Coleman pleaded guilty to a charge of rape and Bannocchini to rape and seducing a 10 to 15 years old girl.

Plan Economies In Retail Trade

75 Tenants in Rent Frozen House Ours

SEATTLE, June 3 (AP)—In a one-man rebellion against the level at which the government has frozen Seattle rents, a landlord ordered tenants in his 75 apartments today to vacate by July 1 because he is going to close the structure.

The landlord is N. E. Berry. The apartment house is the Ambassador, one of the few in the Pacific northwest equipped with a bomb shelter.

The protest is against the order, which was effective June 1, freezing rents in the Puget Sound area at the level of April 1, 1941. Most of the nation's war industry areas were frozen as early 1941.

Treasury Curbs Suspect Gr Incoming Cash On 40 Fin

WASHINGTON, June 3 (AP)— The Treasury announced today it had taken possession, pending investigations, of all amounts of currency in excess of \$250 a person brought from Europe by the diplomats and others who arrived at New York on the steamship Detroit-Norfolk Monday.

The announcement said "heavy amounts of currency" were seized under the Treasury's policy of not allowing anyone to bring more than \$250 into the country and that the great amounts were impounded in the New York Federal Reserve Bank pending proof that none belonged in it was likely to be used in behalf of the Axis.

Advertisement for HEAL DOLLAR clothing store. Features: BOTH STORES OPEN EVERY THURSDAY ONLY! These Are Only HEAL DOLLAR. Compare! 1.49 Values! Shirts, Sport Shirts \$1. Here's Great HOVERET 89c. For Men and Boys 25c and 29c Values! Men's Smart Hosiery. Men's Sleeveless Sweaters. Men's Knitted...

# End Race Hatred, Plea by Dewey



Olivia de Havilland, film star, in dramatic speech at Inter-Racial War Bond Rally. *Journal-American Photo.*

## Bond Rally Told Fighting Strength Hinges on Unity

Immediate discard of racial bigotry which bars Negroes from some factories and some branches of the armed services was urged today by Thomas E. Dewey.

The former District Attorney, speaking before 10,000 at the Greater New York Inter-Racial War Bond Rally, at Lewisohn Stadium last night, warned that unless America wipes out such prejudices it cannot fight its best.

"A large segment of our population is actually being thwarted in its patriotism, deprived of its right to take full part in the national effort.

"That is not only ugly and hateful. It is downright stupid. It is not only a blunder. It is a crime."

Dewey, who called it absurd to talk of wiping out international discrimination based on race, creed or color until "we have wiped out discrimination at home," said there is one thing that must be understood.

"This war presents to every American, white or colored, Catholic, Protestant and Jew, a single question.

"The question is: Shall we be slaves together or shall we be free together?"

Prejudice, he declared from the dimmed-out platform, "no longer has a place in American life."

Pearl Buck told the audience

# CHALLENGE TO RACIAL BIGOTRY



District Attorney Thomas E. Dewey (center) is seen as he addressed rally of 10,000 at Lewisohn Stadium, asserting that America must discard bigotry which bars Negroes from working in some factories,

and fighting in some branches of armed forces. At left, Mrs. Eunice Hutton Carter, Assistant District Attorney; at right, Nevil Ford, state administrator of the War Savings Staff. *Journal-American Photo.*

that race prejudice would probably get one of its most severe blows through the present war.

"The colored peoples are right in the middle of the war, and they are going to be right in the middle of the peace," she commented.

Others speaking were Dr. Chan-

ning Tobias, chairman of the meeting; Nevil Ford, State administrator of the War Savings Staff; John T. Madden, chairman of the Greater New York War Bond Pledge Campaign, and Olivia de Havilland, actress.

Cards were distributed among

the audience, with many promising to take part in the campaign to sell bonds and stamps as Minute Men and Women. The drive, seeking pledges for the purchase of \$1,900,000,000 in bonds and stamps will start June 14.

# Artist Re Ten Sol With Ske

Pencil sketches of Bernhard Godwin, N. Y. artist, are being given at Mitchell Field, L. I., selected as the outstanding units.

Most of the sketches completed last week by who recently made General George C. C. R. Stark, Commanding American Naval European Waters.

A painting by Captain Colin Kelly, Philippines after the Japanese battleship, Officers Club here.

## CHOSEN FOR H

The men chosen Sgt. Alphonse Hempstead, L. I. Regiment; Sgt. Clarence of Columbia, S. C.; Private Ward R. Field, Pa., First Almand; Corporal Brooklyn, Quarter Sgt. Harry Jarrett, Mo., Air Base Squadron; Sgt. Alan W. New York City, Mass. Sgt. Roy J. Molbeth, Tenn., Corp. Franz von New York City, in First Class Michael Carbondale, Pa.,

**"My beer is RHEINGOLD — the**

**SAYS GUY LOMBARDO**

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

AA  
DATE June 8, 1942.

TO Secretary Morgenthau  
FROM Abbot L. Mills, Jr.

Mr. John C. Lee, Manager of the Aircraft War Production Council, Inc., called again today to report that although he will be in Washington for the remainder of the week, an associate, a Mr. Schwartz, is flying today to the Pacific coast. All necessary information on the issuing agency problem of the members of the Aircraft War Production Council, Inc., is now available and Mr. Schwartz is to hold a meeting on the subject immediately on his return to Los Angeles. Mr. Lee cannot, of course, predict the decision, but judging from his tone it is reasonable to expect an answer favorable to the Treasury. Mr. Lee hopes to be able to furnish the answer before his return to Los Angeles at the close of the week.

Treasury Department 280  
Division of Monetary Research

Date 6/15/42.....19

To: Miss Chauncey

From: L. Shanahan

Returned for your files; Mr. White has  
a duplicate. Changes noted on Page 2, as  
per telephoned call from Mr. Milo Perkins'  
office.

BOARD OF ECONOMIC WARFARE  
formerly  
ECONOMIC DEFENSE BOARD  
WASHINGTON, D. C.

281

OFFICE OF THE EXECUTIVE DIRECTOR

June 8, 1942

The Honorable

The Secretary of the Treasury

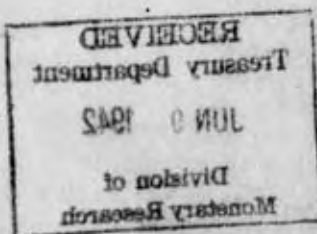
Dear Mr. Secretary:

The minutes covering the meeting of the Board of Economic Warfare, which was held on Thursday, June 4, are enclosed. If there are any corrections which you care to suggest, please let me know.

Sincerely yours,

*Nils Persius*  
Executive Director

Enclosure



282  
**SECRET**

Minutes of the Meeting of the Board of Economic Warfare  
Held June 4, 1942, at 10:00 A. M.

A meeting of the Board of Economic Warfare was held in the office of the Vice President in the Capitol Building at 10:00 A. M. on June 4, 1942.

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

The Vice President, Chairman of the Board  
Mr. Dean Acheson, representing the Secretary of State  
Mr. Harry White, representing the Secretary of the Treasury  
The Secretary of War  
The Attorney General  
The Secretary of the Navy  
The Secretary of Agriculture  
Mr. Wayne Taylor, representing the Secretary of Commerce  
Mr. Nelson Rockefeller  
Mr. William Batt, representing Mr. Donald Nelson

In addition, the following persons were present:

Admiral Emory S. Land, Maritime Commission  
Mr. Harold Smith, Bureau of the Budget  
Mr. W. L. Clayton, Department of Commerce  
Mr. L. W. Douglas, War Shipping Administration  
Mr. Clayton Peet, War Shipping Administration  
Mr. Huntington Morse, War Shipping Administration  
Mr. Ballo G. Colledo, Department of State  
Mr. Thomas Burke, Department of State  
Mr. Milo Perkins, Executive Director, Board of Economic Warfare  
Mr. E. W. Gammitts, Board of Economic Warfare  
Col. R. B. Lord, Board of Economic Warfare  
Mr. Morris Rosenthal, Board of Economic Warfare

Copies of a summary of the "Report to the Board of Economic Warfare on Merchant Shipping Policy with respect to the Other American Republics", dated May 29, 1942, were distributed.

AMERICAN REPUBLIC SUPPLIES

The Vice President indicated that the first point for discussion was the question of the policy of the Government as embodied in the Board resolution of December 26, 1941, "It is the policy of the Government of the United States to aid in maintaining the economic stability of the other American Republics by recognizing and providing for their essential civilian needs on the basis of equal and proportionate consideration with our own." Due to the shipping situation, performance shows that a departure from that policy has been necessary, and indications are that further departure in the next 12 months likely will be necessary.

Aside from the question of deviations from the stated policy, such reduction in shipment has the possibility of causing major difficulties in

the other American Republics with serious repercussions on the United States war effort, not only because of possible loss of materials, but of a more direct military character. Careful examination of the problem was therefore in point.

Discussion served to emphasize the importance of continued weighing of reduced shipments to the American Republics with its attendant dangers, and use of shipping in other areas. It was clear that all avenues of relief should be explored in the interest of the most efficient utilization of shipping in the total war effort.

WOODEN VESSELS.

The possibility of constructing or acquiring wooden vessels as a means of supplementing usual shipping capacity was discussed. The report and discussion indicated that perhaps 100 such vessels of 100-500 ton capacity could probably be constructed within a year in a number of Latin-American yards with materials and labor available locally (some materials might be required from the United States.) Recognizing the program as being of an emergency character and relatively expensive to operate, it was concluded tentatively that such a program limited to Latin-America should be undertaken under the administrative direction of the Coordinator of Inter-American Affairs. The Coordinator of Inter-American Affairs was requested to prepare a further report, stressing particularly the type of cargo, finance, relative cost of operation, insurance and operation for presentation at the next meeting of the Board.

REDUCTION IN SHIPPING REQUIREMENTS THROUGH ADJUSTMENTS IN FOOD PRODUCTION AND TYPE OF FOODS BEING MOVED.

*Harold Smith*  
Mr. ~~Harold~~ <sup>Smith</sup> referred to a recent report prepared in Agriculture regarding the United Kingdom food situation, which indicated that shipping requirements for food might be reduced by changes in the type of farming involving increased emphasis on bulky food production. Also reference was made to the shipment of more concentrated foods. Mr. ~~Smith~~ <sup>Smith</sup> suggested a more comprehensive study should be prepared along the same line covering the United States insular possessions and the South American Republics. The Vice President indicated that the question involved was that of such shifts in agriculture in the various countries as to reduce the tonnage of food needing ocean transport to a minimum, the actual foods moved being those most economical in terms of shipping and nutrition. Discussion developed that shifts in food production in such areas as Hawaii and the Caribbean, as well as in other countries, was possible, but would probably involve overcoming objections of land owners, that power to force changes was limited, and that the cooperation of many United States Government agencies would be necessary to make any program effective. The Office of the Coordinator is taking administrative responsibility for developing a rounded program involving health, sanitation and food supply, particularly in connection with production of strategic materials we need to import.

The Vice President requested that the Department of Agriculture prepare recommendations on the food question for presentation at the next Board meeting.

CARGO PLANES.

The Vice President drew attention to the cargo plane portion of the report indicating the subject was included as a matter of information and



interest, but that no Board action was necessary since a committee such as that suggested in the report (page 5, "Other Suggestions," paragraph 3) had been appointed under War Production Board.

INCREASED REPRESENTATION ON THE ADVISORY COMMITTEE TO THE COMBINED SHIPPING ADJUSTMENT BOARD.

The Vice President raised the question of adding representatives from the Department of State, Office of Coordinator of Inter-American Affairs and Board of Economic Warfare to the Advisory Committee to the Combined Shipping Adjustment Board, as suggested in the report (page 3, Ship Allocation, paragraph 3.) The suggestion being agreeable to the War Shipping Administration, the War Shipping Administration will invite representatives of these agencies to attend future Advisory Committee meetings. to utter

CARGO CONTROL AS BETWEEN WAR SHIPPING ADMINISTRATION, ARMY AND NAVY.

The question was raised as to the degree of coordination of shipping between the War Shipping Administration, Army and Navy. Indications were that such coordination varies as to efficacy, but that progress is being made.

The meeting adjourned at 11:30 A. M.

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SECURITY ADMINISTRATION  
WASHINGTON

OFFICE OF THE ADMINISTRATOR

JUN 8 1942

The Honorable  
The Secretary of the Treasury

Dear Secretary Morgenthau:

I am sorry that I have been delayed in thanking you for the letter you sent to Senator Russell, clarifying your position on the Farm Security Administration. I am sure that it contributed substantially to the final result in the Senate.

It is very comforting to me to know that we have your continued support.

Sincerely,

*C. M. Aldrich*  
Administrator

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 8, 1942

TO Secretary Morgenthau  
FROM Mr. Hass  
Subject: The Business Situation,  
Week ending June 6, 1942.

Summary

(1) The recent lag in department store sales has carried the FRB seasonally-adjusted sales index for May down to 107 from 117 in the previous month. This was the fourth consecutive decline in the index from the record high of 138 reached in January. The actual volume of goods sold has declined in recent weeks to substantially below last year's levels. Restrictions on consumer credit, together with the retail price ceilings, have apparently been important factors in the sales decline.

(2) The general price level in the last week in May rose very slightly to a new high. A rise of 0.1 point carried the BLS all-commodity wholesale price index to 98.8, or 31.7 percent above the pre-war level of August 1939. Basic commodity prices moved lower last week, partly due to the issuance of an executive order authorizing the emergency purchase and duty-free importation of raw materials from abroad.

(3) The continuing gradual rise in industrial stock prices has lifted the Dow-Jones industrial average more than 12 percent above the 1942 low touched on April 28, the day of the price ceiling announcement. Near the end of the week the rise broadened somewhat, and trading stepped up to around 500,000 shares daily. In May, stock transactions on the New York Exchange fell to the lowest levels since August 1918.

(4) A Conference Board analysis of income statements of 270 industrial corporations for the first quarter of 1942 reveals that while earnings before taxes averaged 29 percent higher than in the first quarter of 1941, net income after taxes and contingency reserves was down 25 percent. Reserves for federal income taxes and contingencies rose to 63 percent of taxable income, as compared with 42 percent a year earlier.

(5) The flow of scrap to steel mills has improved, and steel operations last week were scheduled at more than 99 percent of capacity for the fourth consecutive week. Due to materials shortages, the projected capacity expansion program for the steel industry probably will be revised downward.

- 2 -

### Retail sales pace slowed in May

Department store sales figures now available for the entire month of May tend to corroborate earlier reports of a continuing lag in retail trade. In the last week of the month the decline in department store sales from year-earlier levels widened to 11 percent from 2 percent in the previous week. (See Chart 1.) While part of the decline probably was due to the fact that Memorial Day fell on Saturday this year, as compared with Friday a year ago, a definite slackening in the sales trend was in evidence during the month.

In the 4 weeks ended May 30, department store sales showed no change in dollar volume from the corresponding period a year ago, despite the fact that prices at the beginning of the month were 19 percent higher. On a seasonally-adjusted basis, the FRB index of department store sales dropped to 107 from 117 in the previous month. This index has been declining steadily since the record high of 138 was reached in January of this year.

Further evidence of declining sales volume in May is provided by Montgomery Ward's sales report for the month, which showed a decrease of 16 percent from year-earlier levels, as compared with a decline of less than 1 percent in April. War-time production restrictions on tires, refrigerators, washing machines etc., cut into the sales of this company, although sales of so-called "soft" lines are reported to have fallen off following the publication of the OPA price ceiling order near the end of April. Sales of Sears Roebuck in May dropped 19 percent below year-earlier levels, thus confirming the trend shown by Montgomery Ward sales.

Last week the lag in retail trade is reported by Dun and Bradstreet to have become even more pronounced. Bad weather conditions and a hardened attitude of shoppers to reports of shortages were cited as factors in the slowing in sales. For the country as a whole, sales are estimated to have fallen from 4 to 8 percent under year-earlier levels.

### Credit restrictions a retarding influence

While the allaying of price fears through the price ceiling order has probably been the most important immediate factor, the tightening of credit restrictions has apparently contributed to the slackening in retail trade volume. In reflection of previously-imposed restrictions on consumer credit, confidential data reveal that instalment sales by department

stores in April dropped 9 percent below year-earlier levels, in the face of corresponding gains in cash and charge account sales of 17 percent and 6 percent respectively. In the early part of May, stiffened regulations on installment selling went into effect, and open charge accounts for a specified list of articles were placed under control for the first time. While figures are not yet available to indicate specifically the effect of these additional restrictions, they must obviously have had a further retarding effect on sales volume.

All-commodity price index at new wartime high

In the week ended May 30, the third week of operation of the general maximum price regulation, a slight increase of 0.1 percent carried the BLS wholesale price index to 98.8 percent, its highest average in more than 15 years. (See Chart 2.) The index stands 31.7 percent above the pre-war level of August 1939.

The rise in the general price index chiefly reflected continued advances in prices of farm products, especially livestock and poultry. Food prices increased to a more limited extent, but the food index was 3.6 percent above its highest weekly average in March.

Basic commodity prices decline

Speculative commodity markets were jolted last week by the order extending to additional Government procurement agencies the authority to make emergency duty-free purchases of war materials abroad, although prices made some recovery later in the week on Secretary Jones' reassurance that these materials will be sold at OPA ceilings, so far as purchases by the RFC are concerned. The recovery failed, however, to offset continued weakness resulting from the discouragement of speculative activity by OPA regulations, and from the prospect of more burdensome wheat supplies. The index of 28 basic commodities was carried back to the levels of early March. (See Chart 2.)

The ELS price index of 8 uncontrolled basic commodities again declined abruptly last week to its lowest level since late March. The index of 20 controlled commodities, continuing the very gradual recession of the past four months, touched early January levels. (See Chart 3.)

Price changes of the 8 uncontrolled commodities since December 6 through May 29 and June 5, are shown in Chart 4.) Wheat prices declined to the lowest levels since October, as harvesting became more general and private crop estimates indicated substantial increases over the May 11 Government

crop report. Cotton prices receded to the January levels, weakened by a lull in demand from mills. Livestock prices moved down somewhat and continued to fluctuate around the levels reflecting ceiling prices on beef and pork. Corn and barley prices were unchanged, but butter increased slightly.

#### Improvement in industrial stock prices continues

The gradual rise in industrial stock prices showed some signs of broadening out during the past week. (See Chart 5.) The rise has been under way since the 1942 low was reached on April 28, the day of the price ceiling announcement. The rate of rise accelerated somewhat last week, and toward the end of the week trading volume stepped up to around 500,000 shares daily. This suggests the possibility of a moderate revival in public interest, which recently has been at an extraordinarily low ebb. During May, stock transactions on the New York exchange fell to the lowest level since August 1918, and ran above the half million mark on only 1 day in the entire month.

Strength in the so-called "peace" stocks again featured the market rise, although toward the end of the week "war" stocks such as the steels and aircrafts joined in the advance. Railroad stocks and bonds, which have been lagging despite improved earnings, also firmed somewhat in the latter part of the week.

In contrast with a rise of 12 percent in the Dow-Jones industrial stock average since the April 28 low, railroad stocks have actually eased a trifle, and the average of second-grade railroad bonds has declined nearly 9 percent. Inasmuch as the railroads have been a prime beneficiary of wartime activity, some observers have regarded this action as a further indication that speculators and investors are expecting the war to terminate earlier than they had believed possible a short time ago.

In London, industrial stock prices have continued to rise gradually, and by the end of last week they stood at the highest level since the early part of February.

#### Corporate net earnings below year-earlier levels

Corporate earnings data now being published provide one explanation for the relatively low levels of current stock prices. A study of the income statements of 270 industrial companies for the first quarter of 1942, made by the National Industrial Conference Board, reveals that net income after taxes dropped 25 percent below year-earlier levels. This decline, which occurred in the face of a 29 percent increase

- 5 -

before taxes, was due of course to greatly increased reserves for Federal income taxes and contingencies. In the first quarter of 1942 these reserves on the average rose to 63 percent of earnings before taxes and contingency reserves, as compared with 42 percent a year earlier, and only 22 percent in the corresponding period of 1940.

While automobile manufacturers were the only industrial group to show a decline in earnings before Federal income taxes and contingency reserves, after such deductions were made all but 6 of the 19 industrial groups showed declines. The groups which managed to show gains after all deductions were aircraft and parts, office equipment, railroad equipment, petroleum products, textiles, and miscellaneous nondurable goods manufacturers. However, due to the narrowness of the sample for some industries, the results shown may not be thoroughly representative of all of the industrial groups mentioned.

The significance of the earnings comparisons after deductions for reserves, of course, is clouded by the varying practices followed in different years and by different companies. Furthermore, the percentage changes in average earnings may be expected to vary with the number of companies included. A Federal Reserve Board tabulation of earnings after taxes for 390 industrial corporations in the first quarter shows a decline of 20 percent from the first quarter of 1941, which compares with the 25 percent decline shown by the Conference Board figures for 270 companies.

#### Steel expansion plans likely to be cut by materials shortage

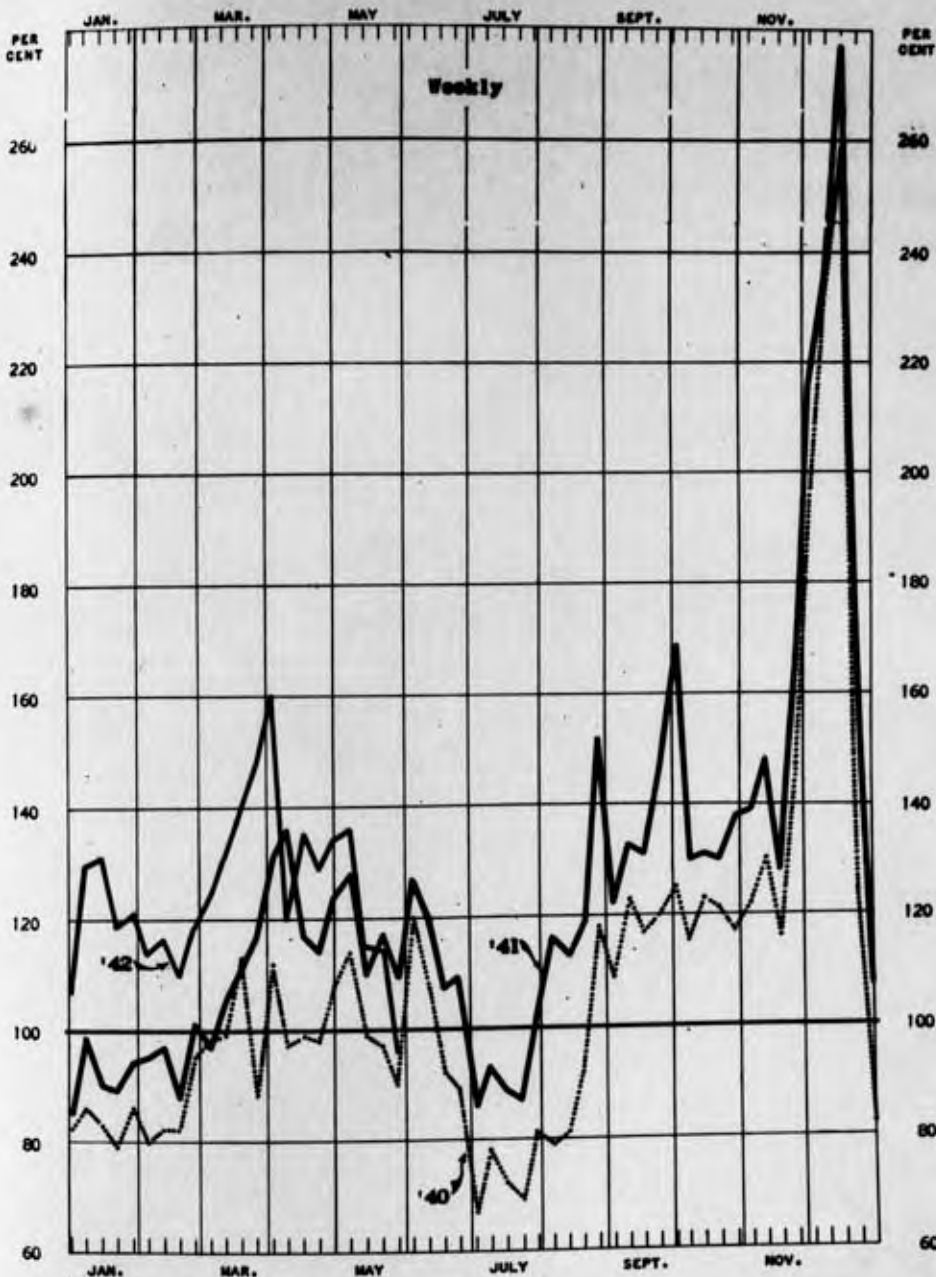
In connection with a discussion of the serious shortages of raw materials, particularly metals, confronting the war program, WPB officials indicated last week that the projected 10 million ton expansion program for the steel industry would probably be revised downward due to materials shortages. It was indicated, however, that probably 65 to 70 percent of the projected program will be carried through to completion.

Within the steel industry itself, the flow of scrap to mills is reported to have improved, and steel operations last week were scheduled at more than 99 percent of capacity for the fourth consecutive week. Nevertheless, the chief of the WPB's Industrial Salvage Section declared last week that the margin of scrap supply was too close for comfort, and stated that a national stock pile of 10,000,000 tons of scrap metal would have to be built up to keep steel production next winter

at its present level. In this connection, the steel industry is planning to spend \$1,500,000 on a campaign soon to urge the collection of scrap materials. Good progress continues to be made in moving iron ore down the Great Lakes, with May shipments of over 12,600,000 gross tons breaking all previous monthly records.



**DEPARTMENT STORE SALES**  
1935 - '39 = 100, UNADJUSTED



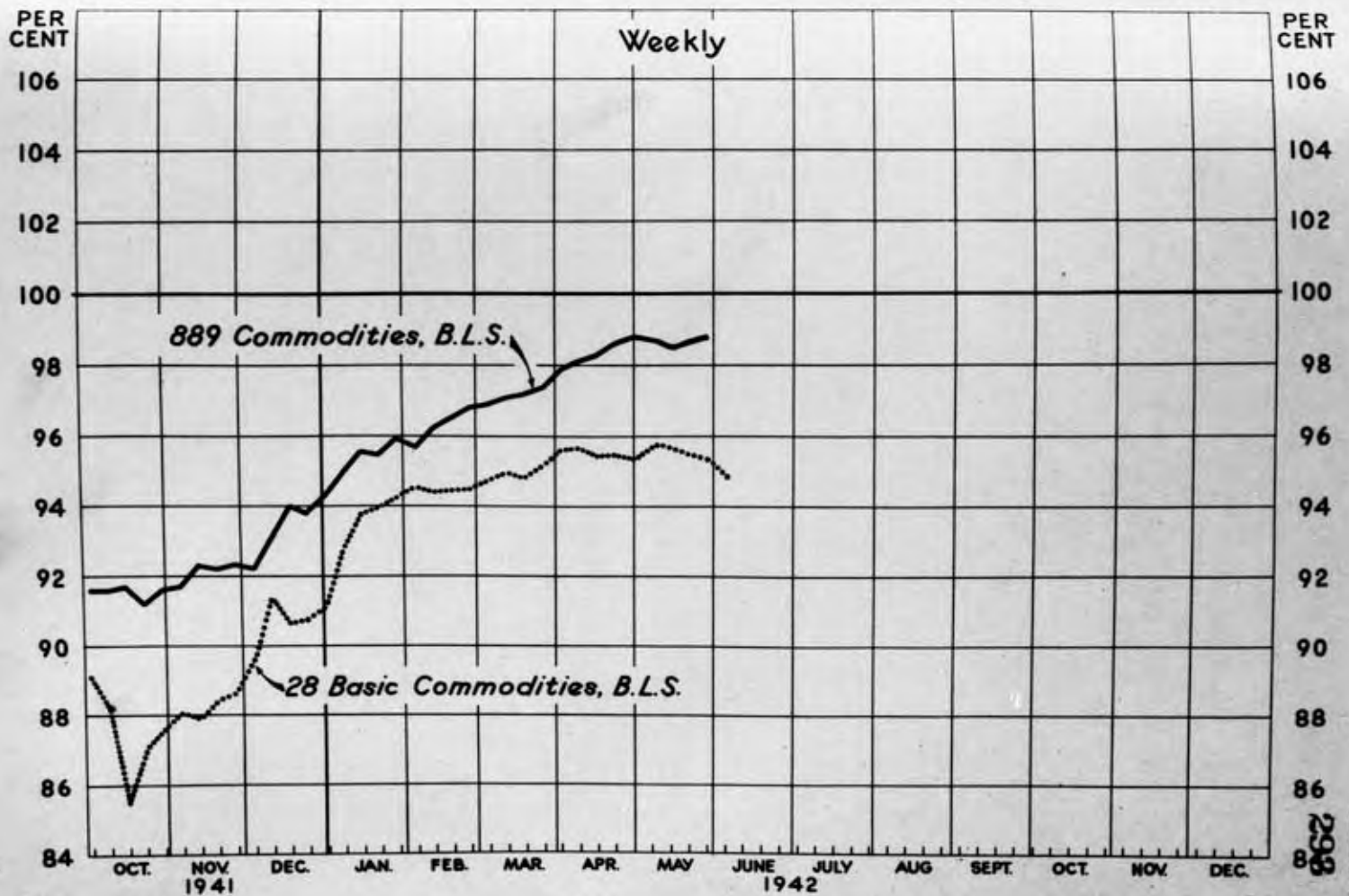


Chart 2  
298

WHOLESALE PRICES OF 28 BASIC COMMODITIES  
Controlled and Uncontrolled Components

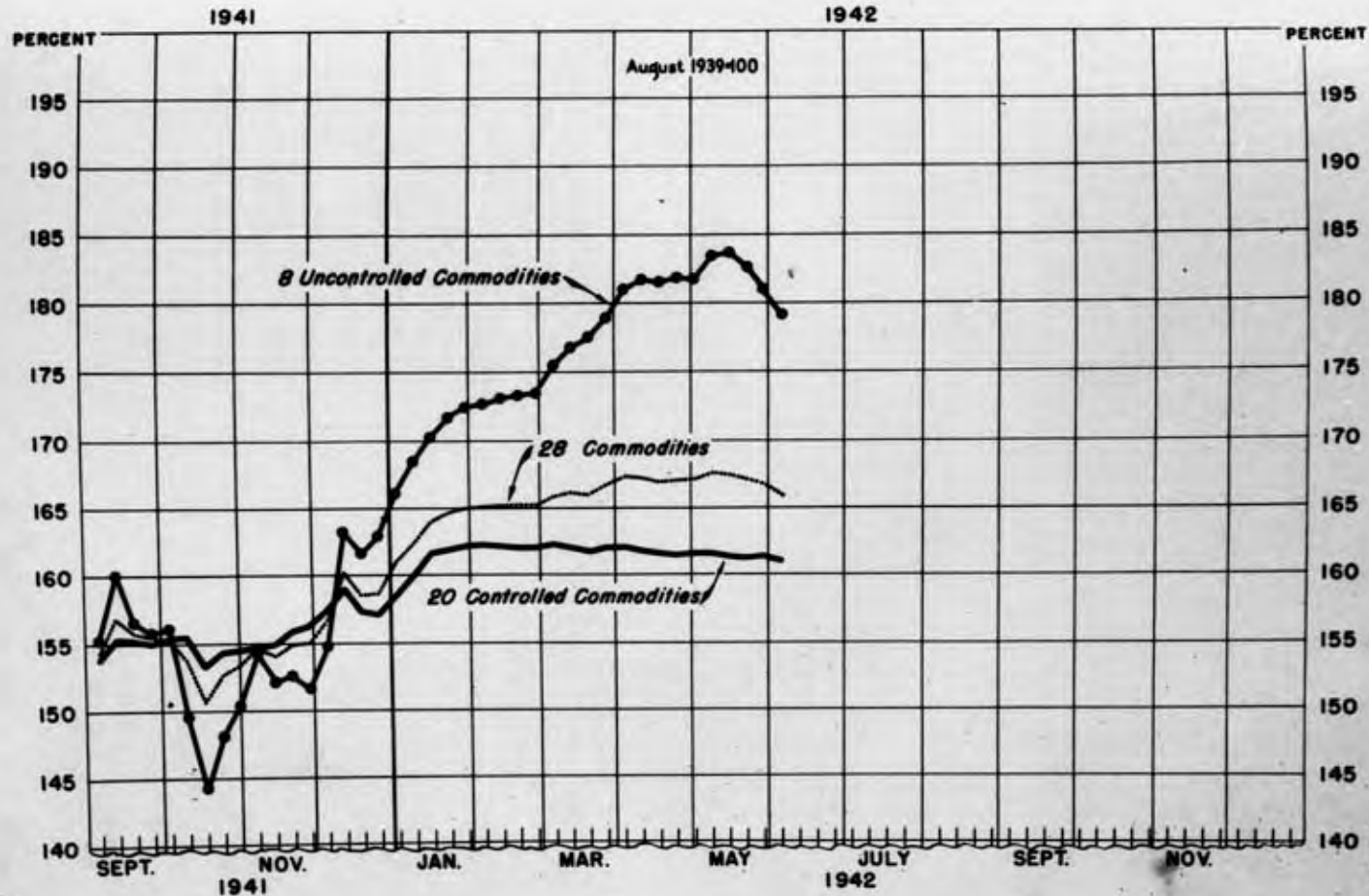


Chart 3  
294

**PRICES OF 8 UNCONTROLLED BASIC COMMODITIES**  
 Percentage Change December 6, 1941 to May 29 and June 5, 1942

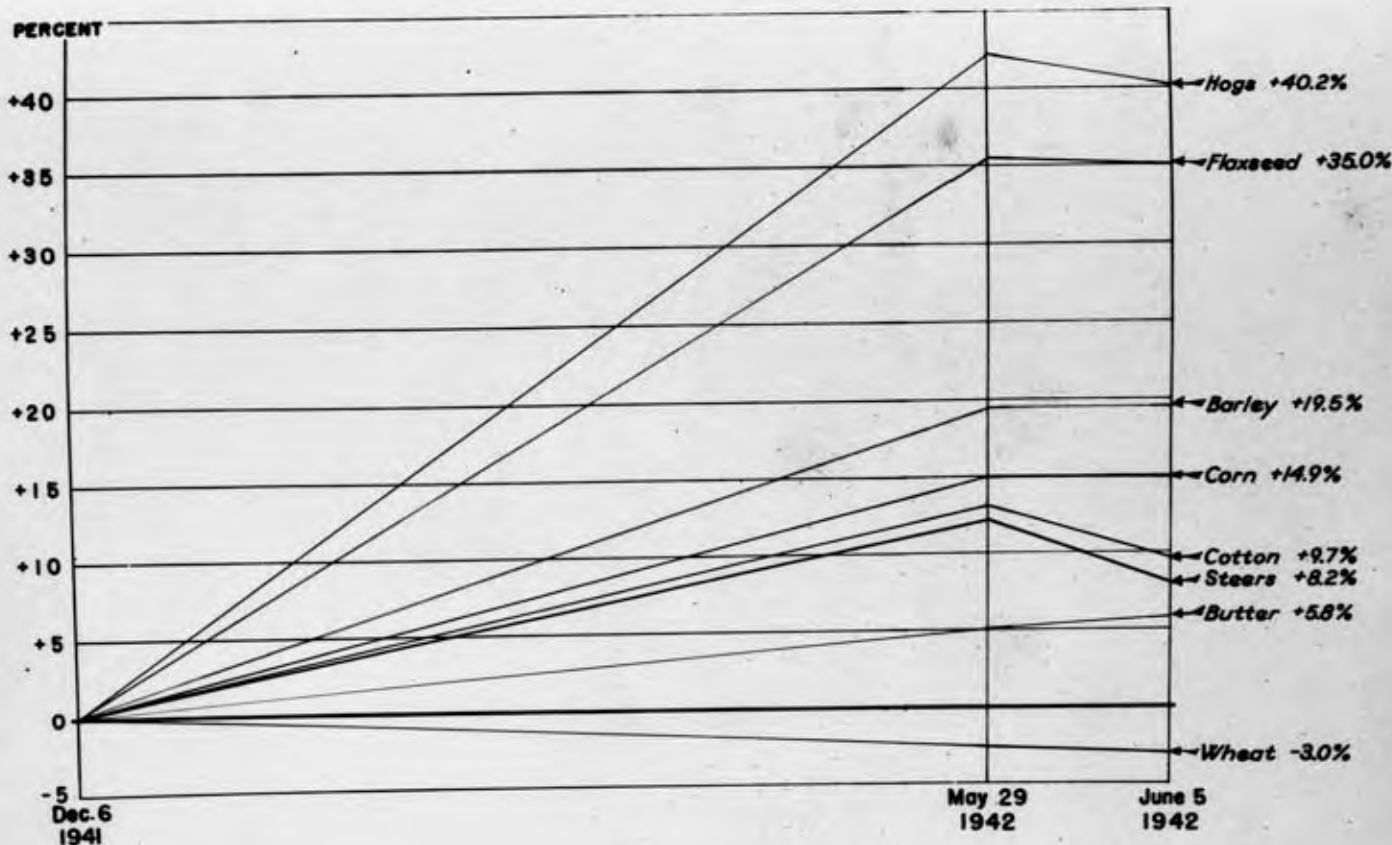
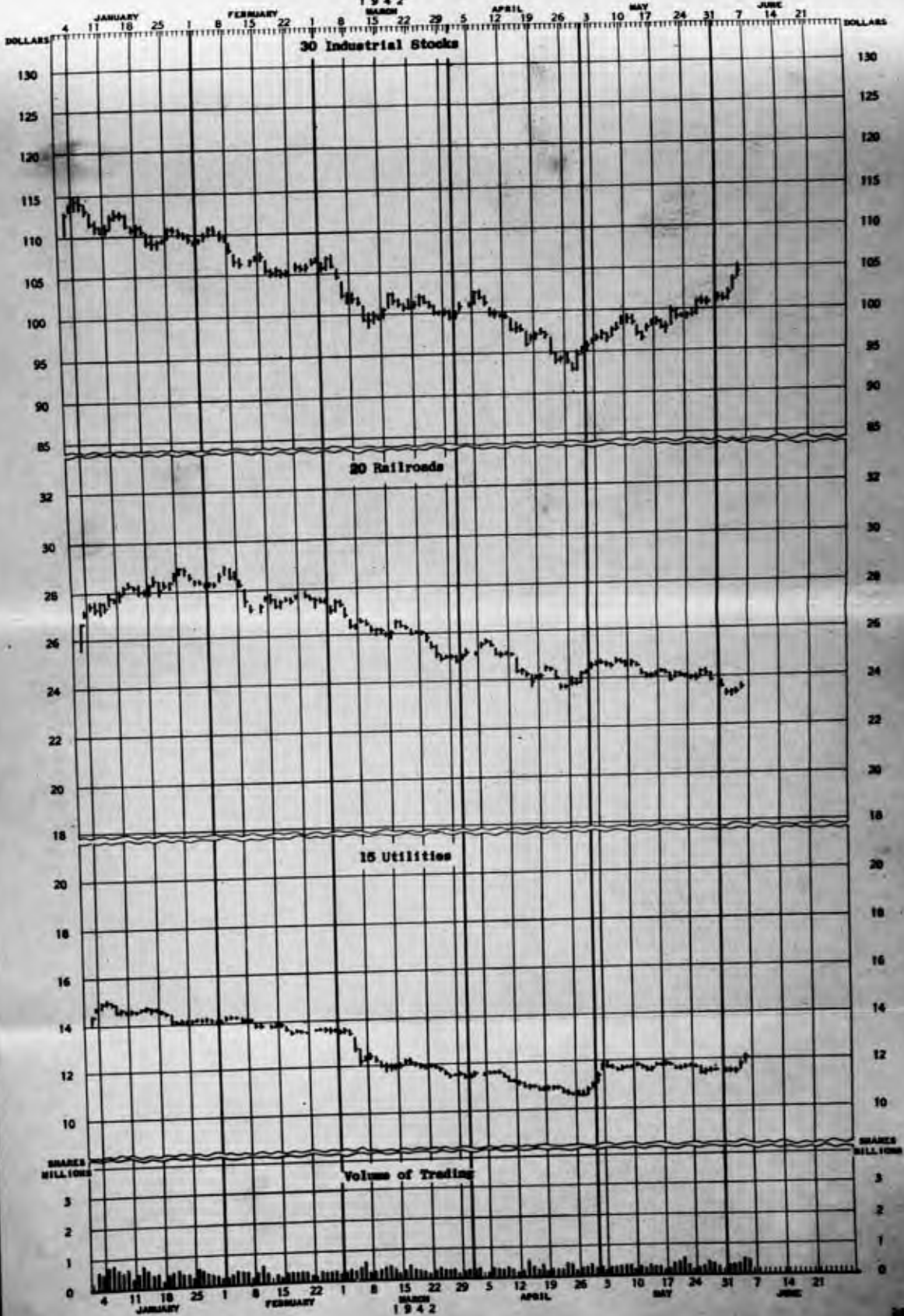


Chart 4  
295

STOCK PRICES. DOW-JONES AVERAGES

Daily  
1942





# Business Advisor

Analyzes and Interprets all Important Business Developments  
Legislation, Labor Relations, Taxes, and Defense Activities  
As Reported from the Nation's Key Points.

WASHINGTON PHILADELPHIA SAN FRANCISCO PITTSBURGH  
BOSTON ST. LOUIS NEW YORK CHICAGO DETROIT



Vol. 4, No. 23

Issued by Standard & Poor's Corporation

June 5, 1942

## On The Business Front

George C. Haas

**C**OST control, so important in peace-time, will soon become just as important under the war economy. Industrial budget officers might as well start sharpening their pencils, for several federal agencies are about to exert plenty of pressure.

Latest development along these lines is the appearance of Treasury officials before members of the House Ways and Means Committee with examples of alleged excessive salaries, bonuses, and royalties paid, as well as the loading of payrolls with salaries paid to relatives and stockholders.

All seven examples submitted to the Committee involved smaller companies. The principles, however, apply equally to larger companies, and the Treasury warns that revenue agents will bear down hard in forcing the elimination of all expenses that cannot be fully justified.

### First Audit Hits War Contractors

First on the list for examination are the war contractors. Instead of waiting until the new fiscal year before starting examination of 1941 income tax returns, the work is already in progress. The examiners have been instructed to interpret literally the laws and regulations which permit deduction only of "ordinary and necessary business expenses."

Large salary increases will definitely be viewed with suspicion. The corporation will have to prove that the compensation paid was fair and reasonable for the services rendered.

Large payments to stockholders in the form of rents, royalties, or other compensation will be examined under the principle that a shareholder is entitled only to a fair return on property or rights leased to the corporation.

The device of using a pension trust to cloak payments to company officials will be blocked. Such expenditures must be reasonable and must be for the exclusive benefit of employees.

### Capital Improvements or Repairs

Although the Bureau is always alert to the tendency to make capital improvements and charge the expense off to repairs, these will be scrutinized much more carefully henceforth. It has been noted that many are using present large operating income to effect capital improvement of their plant, attempting to deduct such outlays as repairs.

Fees paid to agents for securing Government contracts are to be watched more closely than ever. Some of these, of course, are completely banned, while others represent necessary and reasonable expenses. Where such payments are against public

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policy (paying for "influence"), they will certainly be disallowed.

Advertising expenditures on the part of "those who have nothing to sell" have come in for much criticism. The Treasury says, however, that it has no quarrel with institutional or goodwill advertising in "reasonable amounts." But advertising outlays that do not bear a reasonable relation to business activities or are extravagant and out of proportion to the size of the company will not be regarded as a permissible deduction.

High tax rates are, obviously, the most potent force in back of free and easy expense policies. The Treasury realizes this as well as anyone. The Internal Revenue Bureau feels that it has the power to curb loose spending policies on the part of corporations, and it intends to be fair but tough. Any loopholes that cannot be plugged will bring a prompt request for additional legislation.

### Several Agencies Watching Costs

Aside from Treasury scrutiny of costs, the Army, Navy, Maritime Commission, and WPB are also very cost-conscious these days, as repeatedly pointed out in these pages. Reexamination of contracts continues to make progress, and the saving effected through new negotiations is already well above nine figures. In looking into contractors' costs, the investigators are interested in more than the computed ratio of profits to sales, or profits to invested capital. They are looking beyond to the elements of cost, particularly to the "loading" of expense accounts.

OPA's scrutiny of corporate profits in connection with its enforcement of price ceilings is the third example. All those who have seen the schedules sent out by the price agency to 25,000 companies will appreciate that a new and very big federal eye has been turned on their earnings records.

The ability of many companies to make any profit under the price ceilings also depends heavily on how they are able to control their costs. Each passing day strengthens the determination of OPA to make the price ceilings hold, despite inevitable squeezes on profit margins.

A general tightening up on costs is very much in order. Laxity in this respect may mean coming off second best in an encounter with the Treasury on income tax returns, with procurement agencies on Government contracts, with OPA and its price ceilings, or with Congress and its periodic investigations. Aside from all these, a loose policy on costs will only add to the grief when it again becomes necessary to scramble for business under peacetime competitive conditions.

### Labor Mobilization Takes Shape

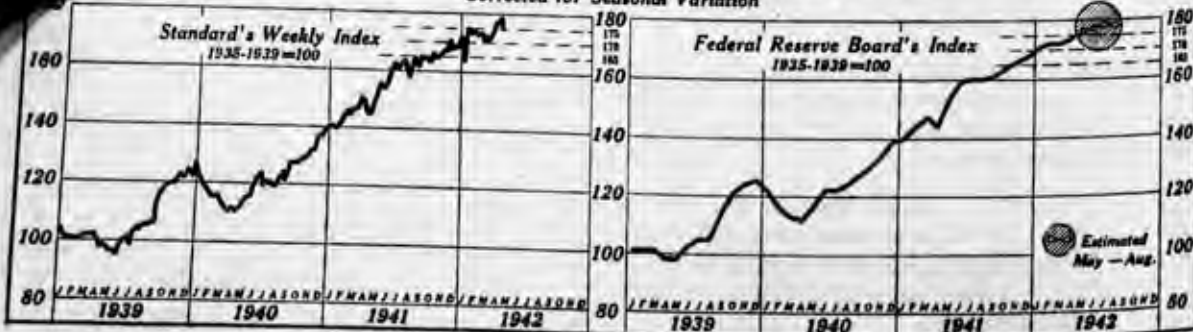
Whatever charge may be brought against the War Manpower Commission certainly no one can call it "secretive." WMC is slapping its cards down on the table as fast as they can be dealt. Both employers and workers are getting a comprehensive preview of what total labor mobilization for Victory will mean.

To furnish a birds-eye view of the whole problem, WMC's labor-demand analysts quote the following figures: From the April 1 level of 9,000,000 workers, war-industry employment must rise to 15,000,000 by mid-November, to 17,000,000 by New Year's Day, to 20,000,000 by 1944. All this must be accomplished starting with an unemployed labor reserve of only 3,000,000 and allowing for the plans of Selective Service to call up 2,500,000 of the ablest workers in 1942.

To meet the demand for some 15,000,000 defense workers and soldiers during 1942 and 1943, WMC will first tap peace-time industry and the unemployed—then draw ever more heavily on the sec-

### Industrial Production—Current and Future

Corrected for Seasonal Variation



ondary labor reserves of women, students, retired workers, and the handicapped in 1942.

During 1942 alone, the WMC estimates that some 7,000,000 to 7,900,000 workers will shift from peacetime to war industries.

### Competitive Labor Market Closed

The immediate problem of the War Manpower Commission is to keep workers from shifting from one essential job to another in search of higher wages. To do this it has already lashed out at labor "pirating" on the part of the employer and is asking him to do his hiring through the United States Employment Service.

Eventually, the U. S. Employment Service will become the sole agency through which skilled workers can be hired. Based on information furnished by WPB, the Service will grant or reject an employer's request for labor, depending upon how essential his plant is to the over-all war effort and depending on the supply-demand situation for that particular type of work.

Prejudices against women workers, against aliens or physically-handicapped persons, against "the man over 40" will be ruthlessly extirpated. Women will be assigned to the less strenuous work in aircraft factories and munitions works to release men for heavier jobs in shipyards and steel mills. Industries that have made their accident records "showpieces of perfection" by hiring only perfect physical specimens will be forced to take on the aged, the halt, and the lame—provided they can do a reasonably efficient job.

Workers will be restricted in their right to change jobs. Those who quit a defense job will be required to show good reason for doing so. In the event that they refuse to return to their former position or to take another job offered by the Service, their selective service board will be informed that their occupational deferment no longer exists.

WMC Chairman McNutt has indicated that the labor mobilization program will be kept on a "voluntary" basis insofar as possible. But nurse no illusions—where persuasion doesn't work, compulsion will be used promptly and effectively.

### War Output in Upsurge

War spending in May was \$3.5 billion, which compares with \$3.2 billion in April. Reduced to a daily average basis, the rate in May was \$134 million, as against \$124 million in April.



WAR SPENDING for May was \$3.5 billion, up appreciably from the April total of \$3.2 billion. In May of last year it was only \$637 million.

Of the \$160 billion war funds appropriated to date, only \$30 billion has actually been spent. It should also be kept in mind that a sizable proportion of the funds spent to date has included outlays for new plants and production facilities, for Army and Navy posts, depots, etc., for housing defense workers, and similar items.

In other words, we cannot look at the dollar totals of defense and war spending over the past two years and consider these in terms of planes, tanks, guns, ammunition and other direct implements of war. But each passing day sees the proportion of funds spent for war implements rising steadily—relatively less is being spent on facilities.

We are now reaping the benefits of our long months of make-ready. In spite of all the blundering, strikes, management resistance to change, and the mistakes incident to a new type of production, the output of war goods is truly gratifying.

### Greater Sacrifices Ahead

If wars could be won by production alone, the end would be in sight. Those of us concerned with, and having a hand in, the great war output are inclined these days to over-optimism. Those concerned with the prosecution of the war, however, share no such rosy views. Official Washington sees the picture in broader perspective—the frightful loss of shipping, the great difficulty in moving men and materials over thousands of miles of treacherous water, the vast distances of fighting fronts over which we must ultimately be victorious, and the fearful losses we inevitably face.

The end is not yet in sight. There are many heartaches and headaches ahead. The production problem may be licked, or almost so, but the effect-



ive use of that output is only starting. The truth is that the Army and Navy have a lot of respect for the enemy—the power he still packs. Count definitely on making sacrifices far greater than anything seen up to now.

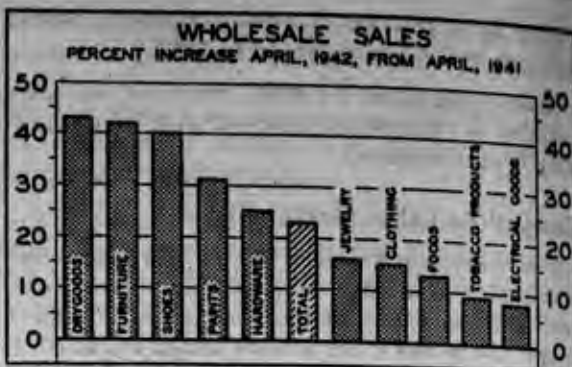
### WPB Salvaging Frozen Inventories

Stocks of critical materials frozen in the hands of non-essential users are being rapidly gathered together by WPB's Inventory and Requisitioning Bureau and channeled into the war industries.

Already, WPB has acquired possession of some 28,000,000 pounds of aluminum. Considerable quantities of copper and steel will be secured as the result of recovery programs now launched or under consideration.

In the case of copper, for example, it is estimated that some 255,000 tons of copper and approximately 45,000 tons of zinc will eventually be secured as a result of "offers to purchase" tendered to some 20,000 copper fabricators and 80,000 industrial consumers.

WPB is not offering premium prices to bring out these metals, but it is making reasonable allowances for expense which the holder has incurred in fabricating. Thus it is paying from 15 cents a pound for certain types of drawn copper wire up to 30 cents a pound for copper in more highly-finished forms. The latter figure is approximately 2½ times the scrap



SCARCITIES of merchandise are already showing strongly in wholesale sales. Increases in clothing and electrical appliance sales are less than the advance in prices, which means that unit sales are below a year ago. Consumers have now shifted their spending over to dry goods, furniture, and footwear.

value of the metal which the Government will receive from war plants.

The copper salvage program is being handled by the Copper Recovery Corporation, a non-profit organization which acts as agent for the RFC's Metals Reserve Company.

Holders of war orders who need partially- and wholly-assembled copper products are urged to inform WPB of their needs (c/o Copper Recovery Corporation, 155 East 44th Street, New York City) so that as large a portion of the frozen stocks as possible may be used in their existing form.

## Reported by Our Field Staff

*"Hard Goods" Retailers Find Substitute Problem Knotty—Rebuilt Office Machines Snapped Up—Compact Boxing Conserves Ocean Shipping—Rayon Best in Wool Blending*

RETAILERS OF "HARD" GOODS find their plans for substituting "soft" lines going awry. First, they are finding their lack of experience in the new field a real handicap—more important, the desired merchandise is just not available. . . . "SOFT" GOODS MANUFACTURERS can't take care of their long-established customers. They're in no position to supply goods to a new-comer—at least not in any substantial volume. . . . A leading RETAILER OF FURNITURE on the West Coast estimates that only 10% of its normal business is concentrated in metal lines—and only an additional 20% in frozen items not eligible for immediate sale. The 70% of sales volume concentrated in wood furniture appears "safe" as far as raw materials is concerned—though eventually there may be a shortage of labor and transportation.

Forced curtailment in CIVILIAN WOOL USAGE will hit the men harder than the women. Worsteds, used principally in making men's suits, are made by twisting long fibres of virgin wool. Unlike the ordinary woolens—used in the manufacture of women's wear, blankets, overcoatings, flannels, etc.—they cannot be made of reprocessed wools. . . . BLENDING of other fibres with wool is still in the experimental stage. While present mixtures are far from satisfactory to the woolen mills, rayon seems to have the edge. . . . Rayon producers claim that they are meeting the same type of RESISTANCE from the woolen industry that they encountered 20 years ago in the silk mills. They hold that rayon is easier to shape than wool in making men's suitings—that rayon suits will undersell woolen ones after the war because of lower costs.

**REBUILT OFFICE MACHINES** are being snapped up by those unable to secure the high priority ratings needed to procure new equipment. . . **SALES BRANCHES** of the leading makers are scouring their territories—to locate idle machines that can be purchased and sent back to the factory for repairs. Demand is so great that many of the more complex types are "spoken for"—even before they are repaired! . . . Agitation in Washington for a **COMPLETE HALT IN PRODUCTION** of office machines after the end of 1942 is meeting opposition. More conservative element recalls criticism by General Pershing during World War I—when such a policy caused a shortage of machines for the military.

**LOAD CAPACITY** of our merchant marine is being greatly increased—by more compact boxing of equipment. With some machines, more than a 60% saving in cargo space has been achieved by disassembling units earmarked for movement overseas. . . **WARTIME WRAPPING ECONOMIES** will probably carry over to the peace which follows. Retail store customers will be more sensitive to the waste involved in excess wrappings—stores should be able to cut their consumption of paper.

A federally-sponsored program is under way to revive the **DOMESTIC HEMP INDUSTRY**. Cordage and twine needs can no longer be met by importing jute from India, manila from the Philippines, and sisal from the Dutch East Indies. . . Department of Agriculture is encouraging Kentucky farmers to produce a large quantity of **HEMP SEED** this year. By 1943 enough seed should be available to plant about 350,000 acres for fibre—mainly in Kentucky, Wisconsin, Minnesota, and Illinois. . . **NEW FIBRE MILLS** will have to be erected next year—and additional workers trained to operate them. . . Newest wrinkle in **BURLAP SUBSTITUTES** consists of a tightly-twisted Kraft paper. It's said to have reasonable water repellency—and has been successfully used in bagging and shipping 100-pound lots of potatoes.



**FIRST** quota month for war bond sales was a success. Sales beat the \$600 million allotment for May. Aim is to sell \$800 million this month, \$1 billion monthly thereafter.

Every-other-day **DELIVERY OF MILK** will boom the demand for two-quart containers. Right now the milk dealers favor use of glass bottles—they say that paper containers of this size tend to sag and leak. . . Metal shortage is so acute that it is even forcing elimination of **WIRE BINDINGS** around milk bottle hoods. More dairymen are talking of changing over to all-crimp tops. . . **SUGAR RATIONING** poses new problems for the dairy companies—they're large consumers of the sweetening. Tendency is to eke out supplies by dropping the least essential and least profitable lines—like wholesale condensed milk.

**CHAIN DRUG STORES** find it costly educating their clerks, pharmacists, store managers, etc., to the numerous restrictions coming out of Washington. Tying up of **GLYCERINE**, banning of the sale of **QUININE** except on prescriptions specifically used for combating malaria, are but examples of orders that require a wholesale re-orientation of operations.

**SUPPLY OF POTTERY** may not continue so abundant as at present. True, there is plenty of clay and other raw materials, but the industry may have difficulty getting railroad service—and in keeping its workers from moving into war industries. . . **FELT** will be used as a substitute for burlap—in the manufacture of linoleum. . . While there is no way to measure it accurately, it's estimated that approximately 50% of total **PAINT PRODUCTION** goes into government-approved projects. It should help the industry in getting allocations of materials.

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## Policing Your Business

### Wage and Hour Act

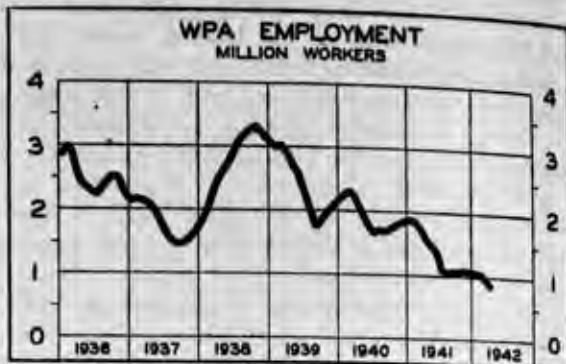
**BUILDING SERVICE EMPLOYEES**—*Employees of buildings tenanted by concerns engaged in interstate commerce are covered by the Act.*

Since two circuit courts upheld the Wage and Hour Administrator in his attempts to force building owners to pay their help in accordance with the Act, there has been much discussion as to the final decision on the point. Now, however, the Supreme Court has affirmed both cases, and the Wage and Hour Division will go ahead in its campaign to clear up any cases of employers who do not now abide by the ruling.

Holding that "maintenance of a safe and habitable building is indispensable to production of goods for interstate commerce," the Court noted that the work of the building employes had such a close and immediate tie with the process of production as to be regarded as "necessary to the production of goods for commerce."

### National Labor Relations Act

**WARTIME DISLOCATIONS**—*If curtailment of operations under WPB orders results in maintenance of only a skeleton force of workers, the NLRB will not consider that skeleton force an appropriate collective bargaining unit.*



**FUNDS** for WPA projects are to be cut drastically. Appropriation for 1943 fiscal year is to be \$280 million, compared with peak of \$2.2 billion in 1939 fiscal year. Number of WPA workers is to be cut from present 800,000 down to 400,000.

A company which was virtually forced to shut down because of wartime restrictions normally employed a large force at its warehouse. This force was reduced, however, to one warehouseman and two clerks, all temporarily assigned. Prior to the shutting off of business, a union had sought the Board's certification as bargaining representative.

Recognizing the obvious unfairness to everyone involved should such a token group be chosen as a representative unit, the Board refused to act on the petition when it came up.

## Industry at War

*Handling of Preference-Rated Orders Smoothed Out—Advertising Allowances May Be Dropped—New Deposit Charges for Containers O. K.—  
Not All Canned Fish for the Army*

### Priorities Improved—

An improvement in the method of handling preference-rated orders has been initiated in the cotton duck industry. Until now, high-rated orders have been served upon cotton mills with no regard for their effect upon previous orders placed for the armed services. Now, if an order requires deferment of any old order rated A-2 or higher, the mill must refer the new one to procurement officials of the services, who will finally determine which order should be filled.

### Advertising Allowances—

More comfort is offered the manufacturer who hopes to offset price ceiling squeezes through reduced advertising appropriations in latest interpretation of the General Maximum Price Regulation. Legitimate advertising allowances

granted a buyer for promotional services rendered may be discontinued by the seller without any change in his prices, as OPA does not consider these expense elements in the price. If such allowances, however, were merely reductions in the price—granted without regard for services performed—they must be retained unchanged, just like discounts, price differentials, etc.

### Container Deposits—

Although OPA has ruled it okay to charge deposits on containers that have previously been shipped deposit-free, the charge may be assessed only in cases where the container was normally returned. If container was usually sold together with contents, no deposit may be charged now. Amount of deposits may not "unduly" exceed replacement cost.

### Coal Transportation Tightens—

Long-threatened squeeze on transportation of coal is now starting. In addition to the more than 300 Great Lakes vessels diverted from grain to iron ore movement by ODT, all coal carrying vessels—with few exceptions—are now put under similar restrictions, though not so strict. Railroads at the same time are forbidden to accept any coal for Great Lakes transshipment except where it is to move between ports and on carriers permitted by the order.

### Some Canned Fish for Civilians—

Although WPB ordered fish canners to set aside their complete 1942 packs of salmon, sardines, Atlantic herring, and mackerel for the armed forces and lend-lease requirements, not all such fish will actually be taken. Lend-lease will require only 50% to 66% of the 1942 packs of sardines, Atlantic herring, and mackerel. If the salmon pack is sufficient to fill joint lend-lease and military needs of 2,500,000 cases—it's expected to run about 5,400,000 cases—all of the remainder of the various fish packs will probably be available for civilian consumption. Canners need not hold packs more than 60 days awaiting Government purchase decision.

### Allocations to Affiliates—

Although OPA has shown an inclination under certain price regulations to exempt sales between affiliated companies from the provisions of the regulations, it does not seem as if WPB will allow any similar action under allocation control. Ordering full control of chemical cotton pulp, WPB specified that even where a single company both produces and uses the pulp, it must file reports of production and seek allocations as if it were two separate units.

### Seller Pays Freight Charges—

If a product has been selling on a delivered basis, and a state or federal regulatory body allows freight rate increases which affect the cost of the product, the additional cost can not be charged the buyer if the total price would thereby be brought above the ceiling level. This was made clear in an OPA interpretation issued for the cement industry. Even in individual cases where certain manufacturers were allowed, previous to the General Maximum Price Regulation, to adjust prices to reflect such increases, the prices now must be no higher than allowed in the regulation.

### Repossession of Frozen Merchandise—

Although the WPB rules for disposition of 600,000 "frozen refrigerators" allow repossession for default in payments, such repossessed boxes may not be resold except upon a certificate from WPB or to fill an Army or Navy order. Government agencies estimate that they will need about 80% of the supply for their own needs this year and next, leaving only about 100,000 units as a reserve for later needs.

### Seasonal Pricing—

Seasonal price variation in many lines is recognized by OPA. In two industries—ice and women's, girls', and children's coats, suits, and dresses—permission has been granted



FARMERS are now in the unique position of having their cost of living frozen, while a number of farm products are still free to rise because of legislation which prevents OPA from imposing general ceilings on farm commodities at the March high.

to charge the prices prevailing during corresponding months of 1941 instead of the March, 1942, prices. In the case of the garment industry, March could not be used as a price base for fall lines as they hadn't been presented by that month. The ice industry would have been penalized in many sections by being held to special "winter" rates in effect during that month. In ordering rents reduced in 20 war production areas, OPA remarked that it is within the powers of the area rent director to set different rents for different times of the year.

### PRP Advances Another Step—

Number of companies using Production Requirements Plan will be more than doubled as a result of impending revision of Priorities Regulation No. 3. With the exception of a few classes of companies—mainly utilities and mining enterprises—all those requiring more than \$5,000 worth of metal for the third quarter must come under the plan. Thus 10,000 companies will be added to the 7,000 now included.

### Conservation of Truck Mileage—

Events of the week would seem to indicate that the order commanding truck owners to cut their mileage by 25% is one of the toughest ODT—or any other agency—has run up against yet. First it had to be put off two weeks after fleet owners kicked. Then last minute changes revised many of the requirements. Newspapers, scheduled originally to take the worst beating under the order, finally fared quite well. Milk companies' headaches are just starting: in New York City drivers' unions balked at last minute against every-other-day delivery program, which War Labor Board promptly asked companies to postpone.

### Unnecessarily Small Shipments Taboo—

Striking at evasion of a price regulation, OPA at the same time took a roundabout swipe at unnecessary use of scarce container materials in small shipments. Citric acid sellers had been breaking shipments up into 5 pound packages to secure the price differential allowed for small sales. Outlawing this practice, OPA also remarked that saving of packaging materials was an important consideration in its action.



# Outlook

*for the*

# Security Markets



JUNE 8, 1942

Post-War Taxes Will Be Heavy

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Bohn Aluminum Has Favorable Outlook

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Twelve Attractive Preferred Stocks

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Improvement in Traction Earnings Temporary

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Swift International Affords High Yield

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Pages 759-768

# Outlook for the Security Markets

1933

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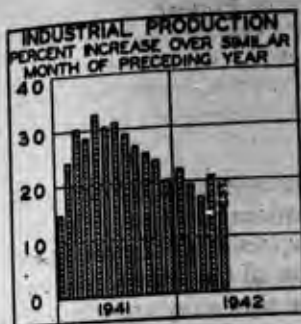
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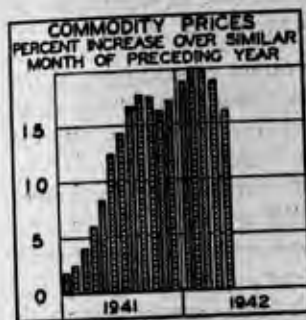
Section 1

# Market Still Favoring Peace Stocks

## FORECAST AND POLICY



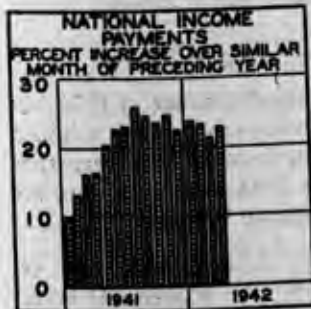
Production Gains Large But No Longer Widening



Price Controls Retarding Rise in Commodities



War Spending Now Close to Four Billions Monthly



National Income Rise Reflects Arms Spending

Temporary military and market reverses are probable, and some buying power should be kept in reserve for use as such opportunities appear. However, there is tentative evidence that at least the bulk of the prolonged general liquidating movement has been completed. While still advising concentration in peace stocks, we nevertheless expect at least technical rallies in the over-sold rail, steel, and other capital goods securities.

**THE LINE** of demarcation between war and peace securities was drawn even more vividly last week as GENERAL MOTORS and CHRYSLER advanced to new 1942 highs accompanied by new lows or near-lows for various railroad stocks and bonds and for steel and other heavy goods shares. The underlying tone of the market was one of quiet confidence inspired by the implications of the large scale bombing of Cologne, Essen, and other Axis targets.

Much capital which, prior to April and May, was held out of the market pending an expected spring drive by the Axis, is flowing into stocks, especially peace issues, now that air supremacy appears to have shifted to the United Nations. Speculative movements in the market usually are far ahead of actual events, and it is in keeping with precedent that peace stocks should be in demand long before the end of the war.

Composite investment judgment is probably correct in concluding that the balance of military power is turning strongly in our favor, but speculative eagerness to discount events far ahead may easily distort the price relationships between war and peace stocks and result in temporary corrections.

The haste to get out of lower grade rail bonds is an example of excess selling which will probably produce a technical rebound. Within a short space of time, rail bonds have gone from the year's highest levels to prices which last week, in numerous instances, represented new 1942 lows.

We see no reason to press sales of railroad bonds at prevailing low prices in view of the excellent near term earnings outlook. On the other hand, the post-war prospect for these securities is unpromising, and as the market rallies, large offerings of bonds doubtless will reappear to impede full recoveries.

The market's technical action remained favorable last week in that average prices, despite many weak spots, pushed ahead to the highest level since mid-March. All told, the market in the last five weeks has enjoyed its first sustained rally of the year, which significantly coincides with the growing evidence of Germany's inability to strike its former devastating blows. In relation to the severe liquidation and deflation of recent years, however, the rally to date is negligible and should, consequently, be able to proceed further in selected stocks.

The shortage of consumers goods, the record level of employment at high wages, and above all the unsolved problem of balancing national budgets are latent forces yet to be reckoned with in elevating stock prices, once the limited effectiveness of existing so-called anti-inflation measures is understood.



# Post-War Tax Burden Will Be Heavy

*Expectations of Substantially Lower Burden on Corporations than at Present Are Largely Illusory—Rates Will Be Lower than War Time Peak, But Peak Is Still Ahead—Important Question Is Whether Corporations Are Allowed to Pass Tax Burden Along,*

**B**ECAUSE federal government revenues in the current fiscal year are running some four billion dollars above government expenditures in the last pre-war fiscal year (1938-39), there has arisen much loose discussion of the extent to which tax rates can be reduced when the war is over.

This year's revenues come in part from taxes under the 1940 law and in part from taxes under the 1941 law. On the surface, therefore, it would appear that tax rates half way between those of 1940 and 1941 would produce enough revenues to balance the budget in the post-war era and leave a substantial margin over for debt retirement.

*The fallacy in this argument is that it takes no account of the level of national income to which the tax rates apply, nor of the permanent increases in government expenditures—the mounting interest burden on an increasing debt, to cite the most obvious example.*

## Budget Expansion in Past Wars

It is instructive in this regard to glance briefly at what happened in previous wars. Before the Civil War, the federal budget was in balance at around 60 million dollars annually. Expenditures rose during the war to a peak of over 1.25 billions, and large budget deficits resulted. By the time the war was over, the budget was again brought back into balance, but at a level of around 300 to 400 millions annually, or five to six times the pre-war rate.

The Spanish-American War lasted but four months and had little effect on the budget. Just before the World War, however, the federal budget balanced at around 750 million dollars a year. Federal expenditures rose to a high of 18.5 billions in the 1919 fiscal year, and when the budget was brought back into balance after the war, it was at a level of four to five billions annually—again, five or six times the pre-war total.

## "Social Gains"

After the Coolidge era, when government expenditures in one year (1926-27) were reduced below 3.5

billion dollars, spending mounted even before significant sums were spent on national defense. The pre-New Deal years saw a slow mounting of government spending, and then subsidies to the unemployed and to farmers, creation of new regulatory agencies with large staffs and large budgets, and heavy expenditures for government power projects and other government construction brought the rate of expenditure to more than double the average of the 1920s.

In the later 1930s, per capita expenditures of the Federal Government were more than double those of the late 1920s. The reason, of course, was the New Deal social program, which involved: (1) replacement of a part of state expenditures by federal spending—relief, road building, etc.; (2) replacement of private capital investment by government investment—TVA, RFC, etc.; (3) increased police power exercised by the Federal Government, with necessary expansion of the federal payroll to make it possible—SEC, FCC, FPC, CAB, NRLB, etc.; (4) subsidies to farmers. This leaves out of account the Social Security program, which is outside the budget.

*In considering what the post-war budget will look like, we must assume that these "social gains" will be largely retained permanently. It is the history of government in this country and elsewhere that it is constantly reaching out for new powers and that it very rarely relinquishes any powers it acquires. Twenty-odd years ago, it is true, the Government gave up many (but not all) of its emergency powers, but it is a different story with activities assumed in a depression, and not a war, emergency.*

## National Defense Expenditures

Before Europe was plunged into war in 1939, our national defense expenditures ran around a billion dollars annually; in the last pre-war fiscal year, they were 1.2 billions. By the 1943 fiscal year, they are expected to mount to around 70 billions.

It is sheer guesswork to estimate what these expenditures will be when the war is over. It is certain, however, that they will not go back to the pre-war level for many years, if ever.

If the seriously-proposed plans for a policing of the world by the United Nations are adopted, a continuing large army and navy will be necessary. Even if we are less ambitious in the post-war period, it is hard to foresee that the American people will risk being caught unprepared for war again until the memory of the present conflict has faded far into the background.

*To maintain a large air force, a two-ocean navy, and a substantial standing army will take several times the amount of money spent on armaments in 1939. Something like five billion dollars a year for the early post-war years would seem to be a minimum figure, and the total could run considerably higher.*

### Interest Burden Mounting

The 1939 fiscal year expenses included less than a billion dollars for interest on the public debt, which at that time amounted to less than 40 billion dollars. The present debt is double the 1939 total, and Washington is thinking in terms of a debt of 150 to 200 billions by the end of the war.

*Taking the lower figure, and assuming that it can be financed at an average rate of only 2% (well below the rate on War Savings Bonds, and about the same as the present yield on long-term market issue), we should have annual interest charges on the federal debt three times those of 1938-39 fiscal year.*

### Tax Receipts Will Shrink

On the basis of present tax rates (1941 law), it is estimated by the Budget Bureau that United States Government receipts in the 1942-43 fiscal year will be close to 18.5 billion dollars. The tax bill on which Congress is now working is supposed to increase annual receipts by some seven billions; that, at least, is the goal the Treasury has set. Let us, for the moment, consider the budgeted figure.

*The estimates of receipts from corporate and personal income taxes are based on a national income of between 110 and 120 billions dollars. But one important reason for expecting an income of that size is the 70 or 80 billions which the Government will be spending. Taxable incomes of corporations are running at record levels in many cases because of tremendous Government orders; it is certain that peace-time business would not fully offset the loss of munitions business for some time after the war spending was cut down.*

### Effect of Price Levels

Price levels after the war will have some effect on the level at which the budget can be balanced, but the effect will be mixed. Higher prices, if they do not get up to the level of a business-paralyzing destruction of currency values, will raise dollar incomes and make the interest burden a little easier to bear. But they will also increase the cost of all elements in federal expenditures except interest. Government salaries will have to be raised—though they will lag. Ships and guns and airplanes for replacement, food and supplies for the military forces, building materials for government construction—all will cost more; and tax rates will be correspondingly higher than at the present price level.

Price deflation, on the other hand, would tend to reduce incomes on which taxes are levied, while at the same time reducing somewhat the cost of running the Government. But if the reduction in incomes reached serious proportions, this might be offset by new unemployment subsidies and other relief.

*What would happen if prices advanced in a runaway inflation is too complex a problem for brief discussion. It is enough to note that in any country which has experienced such inflation, taxes have been steadily and speedily stepped up as the value of the currency fell.*

### What Will Happen to Tax Rates?

We started this discussion by pointing out the fallacy of attempting to determine from pre-war federal expenditures and war time tax receipts the rate of taxation necessary to bring the post-war budget into balance. Before we can be sure what tax rates are necessary, we must know:

- (1) How many of the pre-war "social gains" will be retained in the post-war period.
- (2) How much of the war-created bureaucracy will become permanent.
- (3) How large the military forces will be after the war.
- (4) What the post-war price level will be.
- (5) What the post-war national income will be.
- (6) What the post-war public debt will be, and what interest rate will be paid on it.

There are other unknown and unknowable factors, but these are enough to demonstrate that the answer cannot be given in terms of figures. It is impossible to say that budget balance would require taxes levied at the 1940, 1941, 1942, or any other particular rate.

If, after the present war, the budget is five or six times the pre-war budget, as was the case after the

Civil and World Wars, then even the tax rates talked of for 1942 would not balance the budget except at a national income level far higher than anything we have yet experienced. On the other hand, if we assume a four billion dollar increase in annual national defense expenditures after the war, as compared with 1938-39, a two billion dollar increase in interest on the debt, and a two billion dollar—or 30%—increase in other government expenditures, the present (1941) tax laws would balance the budget with a 110 to 120 billion dollar national income.

On the basis of our present knowledge, these assumptions seem as reasonable as any. If we further assume that the national income, in the early post-war years, will not reach 110 billions and that some attempt will be made to cut down the debt, tax rates higher than those of the 1941 law would be necessary.

It has been the experience of this country that, after every war, some of the additional tax burden levied under stress of the war emergency has been

lifted within a few years of the return of peace. There is no reason to expect any other experience this time.

But a little study of the figures will make it obvious that the reduction will be from the war-time peak, which has not yet been reached, and that if sanity is ever to return to federal finances, taxes must be at least as high as under the 1941 law. The distribution of the burden between corporations and individuals, among corporations, and among individuals may, of course, be drastically altered.

*More important to corporation earnings, and consequently to security prices, than the level of taxes is the extent to which government regulation of industry will be relaxed when the war is over. Corporations will be able to bear even higher than present-day tax rates over a prolonged period if they are allowed, as in the past, to adjust their selling prices, take advantage of economies in operation, and establish pay rates without excessive government interference.*

## Bohn Aluminum in Good Position

*Large Volume of Business and Reasonable Margins Assured During the War, and Post-War Prospects Are Favorable*

AS LONG AS the war lasts, BOHN ALUMINUM is assured of a large volume of business for the military services. Unlike many of the war babies, it also has a relatively favorable post-war outlook.

For one thing, the automobile and refrigerator industries, which are the company's largest customers in normal times, have virtually ceased production of regular lines, and a large deferred demand is building up. For another, the company is gaining valuable experience in fabrication of a wide variety of items from aluminum and magnesium, and this experience should make for highly efficient operations on peacetime products after the war.

### Potential Market Increased

Perhaps more important than either of these is the great expansion taking place in the country's capacity for producing aluminum and magnesium. In consequence, these metals promise to sell at much lower prices after the war than before, and they should enjoy wider markets. They are likely to displace copper, steel, and other metals in many applications. Such a trend would be highly beneficial to fabricators of aluminum and magnesium, such as BOHN.

The outlook for the duration of the war is highly favorable. The company is manufacturing a broad list of armament materials, many of them as a sub-contractor, and plant facilities have been expanded. Sales thus far in 1942 are understood to have run materially above those a year earlier, and indications are that a 100% gain will be registered for the full year. Margins were not excessive in 1941, and realizations on the much larger 1942 volume should compare favorably with those of last year. Hence, a sharp gain in earnings before taxes is indicated.

After allowance for taxes under the House Committee proposals, final profits for 1942 are estimated at around \$4 a share. While this would represent a substantial decline from the \$5.48 a share realized in 1941, it would appear that such a drop has been more than discounted at present prices of around 26 for the stock, particularly since the company's favorable post-war prospects entitle the shares to sell at a higher price-earnings ratio than war babies generally. Dividends probably will be held to conservative limits, because of the working capital requirements of the huge volume of business being transacted, but the \$2 paid in 1941 should be repeated.

*In view of the company's favorable outlook during and after the war, the stock is recommended as an outstanding speculation.*

# Twelve Preferred Stocks For Income

*Stocks Of Well Entrenched Organizations In Diverse Fields Afford Good Income—Earnings Of All Will Provide Adequate Coverage for Senior Dividends Under War or Peace Conditions*

**THE THREAT** to common dividends resulting from rapidly mounting corporate taxes increases the desirability of sound preferred stocks with adequate earnings protection. The twelve preferred stocks in the table below are in a strong position to maintain their favorable dividend records for some time ahead under any circumstances now foreseeable. These issues have been selected from a wide variety of both war and peace industries. The stocks range in quality from high grade to semi-speculative.

Operations of virtually all the organizations represented are either benefiting from the war or are little affected by it. None should face serious difficulties in the post-war years. All but perhaps PARAMOUNT PICTURES will suffer some shrinkage of earning power this year as a result of heavy taxes, but in no case will the decline be great enough to jeopardize dividend payments. The yield available is, in most cases, somewhat better than the average obtainable on stocks of like quality. *These stocks should meet the requirements of most income-seeking investors.*

## Good Quality Stocks

**ARMOUR & Co. (DEL.)**—Continued heavy marketings of livestock, combined with the high level of consumer, government, and lend-lease demand, will maintain record sales. Heavy income taxes will cut earnings only moderately. The \$7 preferred dividend, guaranteed by ARMOUR of Illinois is well protected, and the stock affords a good yield.

**CELANESE CORP.**—If the company is able to obtain the necessary raw materials, capacity operations are assured, for demand is at record levels. Because government requirements must be met, and because of the shortage

of natural textile fibres, it is likely that every effort will be made to see that raw materials are available. Moreover, any shortage which now appears likely would not cut earnings seriously. Under the circumstances, the \$5 and \$7 prior preferreds are attractive for income.

**HERSHEY CHOCOLATE**—Cocoa shortages will not hamper HERSHEY soon, for inventories are substantial. However, sugar rationing will cut volume, despite the use of substitutes and the reduction of bar sizes. This, together with somewhat narrower margins and heavier taxes, will mean considerably lower earnings during the war. These factors are adequately reflected in the price of the preference stock, which offers an attractive yield.

**HOUSEHOLD FINANCE**—The volume of small loan borrowing should continue heavy, despite government restrictions and the possibility of a somewhat more cautious attitude toward incurring new debt. Even allowing for some shrinkage in loan volume and for heavier taxes, preferred dividend requirements should continue to be covered between four and five times.

**WEST VIRGINIA PULP & PAPER**—Aided by heavy demand for all lines and somewhat wider margins on some, net earnings should hold fairly close to 1941 levels, despite higher taxes. A strong industry position assures better than average results in the post-war period. The preferred dividend should continue secure.

## Medium Grade and Semi-Speculative

**CHAMPION PAPER & FIBRE**—Magazine circulation the major determinant of sales volume, should continue at high levels. Production of miscellaneous paper lines will be close to capacity during the war. Margins promise to remain satisfactory, but heavy taxes will, of course, cut earning power. However, the preferred dividend will be amply protected.

**DIXIE-VORTEX**—Demand for paper cups and containers, both for civilian and military purposes, will

## Twelve Attractive Preferred Stocks

Company—	No. of Shares Outstanding	Earnings Per Share					Call Price	Approx. Price	Approx. Yield
		1937	1938	1939	1940	1941			
Armour & Co. (Del.) \$7	531,195	'22.00	'5.48	'14.28	'14.75	'22.48	110	109	8.4%
Celanese Corp. of Amer. \$7 prior	164,818	'21.80	'6.05	'35.33	'36.29	'44.33	120	116	6.0
Celanese Corp. of Amer. \$5 prior	37,710	'21.80	'6.05	'35.33	'36.29	'44.33	108	99	5.6
Champion Paper & Fibre \$6	89,008	'20.10	'5.76	'19.73	'26.71	'35.00	110	98	6.1
Dixie-Vortex Cl. A \$2.50	178,644	5.32	4.11	4.79	4.50	5.23	45	34	7.4
Firestone Tire & Rubber \$6	465,934	'19.89	'11.28	'14.43	'18.57	'24.17	105	90	8.7
Hershey Chocolate \$6	253,844	3.67	16.25	24.56	23.27	23.42	NC	85	5.9
Household Finance \$5	180,000	35.46	34.23	33.58	34.12	29.79	'107 1/2	96	5.2
Interchemical Corp. \$8	65,154	12.26	7.89	24.27	16.99	32.79	110	108	5.6
Newberry (J. J.) Co. \$5	50,968	45.12	35.16	45.61	38.77	52.76	'106	106	4.7
Paramount Pictures \$6	126,073	46.92	26.54	26.64	56.15	81.32	100	108	5.6
Twentieth Century-Fox \$1.50	916,264	9.98	7.73	5.08	2.49	5.97	35	28	6.5
West Virginia Pulp & Paper \$6	155,830	'18.37	'1.67	'7.08	'23.56	'27.40	105	99	6.1

\*Fiscal year ended October 31. \*Giving effect to merger of Celluloid Corp.; on combined prior pfd. shares. \*Fiscal year ended April 30 of the following calendar year. \*To 1947 and 196 thereafter and at lower prices thereafter. \*To Jan. 1, 1945; thereafter at \$108. \*Of which \$1 is non-cumulative but must be paid before common dividends. B—Battmate. NC—Non-callable.

continue heavy, but pulp allocations may cause some loss of production. Earnings will probably tend to stabilize at a level well below 1941, but comfortably above Class A dividend requirements. The \$2.50 Class A stock is reasonably priced and affords an attractive yield.

**FIRESTONE TIRE & RUBBER**—Although normal business has been drastically reduced as a result of the war, sales will not decline severely, because much of capacity is employed in war work. However, narrower margins mean sharply lower earnings than experienced in 1941. The preferred dividend should, nevertheless, continue to be earned by a good margin.

**INTERCHEMICAL CORP.**—Sales of printing ink will be adversely affected by the curtailment in advertising and by shortages of color ingredients. Production of pigments will also be restricted. However, increasing demand for finishing materials in connection with the war effort may

offset the decline in regular sales. Earnings will be well under recent levels, but good coverage for the preferred dividend is indicated.

**PARAMOUNT PICTURES**—Motion picture attendance will continue to rise, aided by high consumer incomes. Higher admission prices and increased rentals, combined with a heavier production schedule will lift operating profits to a new peak. Net income should hold close to recent highs, despite heavier taxes. Preferred dividend requirements will be earned at least ten times. The shares are among the most attractive in the group.

**TWENTIETH CENTURY-FOX**—The management has pared expenses sharply, and definite progress has been made in improving the quality of the company's productions. Thus, substantially higher operating profits will be experienced. The preferred offers a good yield and has appreciation possibilities.

## Traction Improvement Largely Temporary

*Adverse Secular Trend of Operations Will Be Resumed With End of War, and Securities of Traction Companies Lack Appeal*

• • •

**T**HE PRESENT prosperity of the traction industry has been born solely of the war and will last only as long as the war does. Year to year traffic comparisons have been steadily widening thus far in 1942, and early in May the number of riders carried daily was running 21% higher than a year ago. Imposition of gasoline rationing in the East in mid-May raised the rate of gain to 26%. As gasoline rationing is tightened and made nation-wide, and as tires now on private cars wear out, sharper advances are to be expected. Revenue gains will be a little better than traffic increases, as fares have been increased in scattered areas.

Whenever tires are again available for passenger cars and gasoline is again in ample supply, the tractions will not only lose their recent gains but also resume their secular downtrend, resulting from their inability to compete effectively with the private automobile. Basically, therefore, traction securities are speculations on the duration of the war.

### Debt Being Reduced

Like the railroads, the tractions will be able to use their temporarily high war time earnings to strengthen their post-war position by cutting down debt burdens. But their debts are so heavy that a few years of high earnings will help only moderately in this respect.

It is instructive to compare last year's rate of debt retirement for a typical group of traction enterprises with

their outstanding debt at the end of the year. The figures (in thousands of dollars) are as follows:

	Debt Reduction in 1941	Funded Debt Dec. 31, 1941
Public Service Coord. Transp. ....	1,481	25,541
Twin City Rapid Transit. ....	565	14,690
Eastern Mass. Street Rwy. ....	882	8,005
Los Angeles Railway. ....	411	15,850
International Railways. ....	512	16,211
Lehigh Valley Transit. ....	274	7,435
Denver Tramways. ....	210	4,820

The major increase in traction operations did not get under way until late in 1941, and greater funds will be available for debt retirement this year than last. It will be difficult to obtain new equipment, because of priorities, and cash which would ordinarily be applied to this use can go to reduce debt. Dividend policies will be ultra-conservative.

Nevertheless, it would be highly optimistic to expect debt retirement to double the 1941 rate, and on this basis two or three more years of war would still leave these companies with heavy debt burdens to carry over into the period of declining traffic.

### Immediate Earnings Trend Favorable

Most traction companies have large invested capital per dollar of revenues, which places them in a favorable position in regard to excess profits taxes. Most of them can record losses on property abandoned and thus cut down their normal taxes.

The good tax position, plus the leverage of heavy fixed operating costs, will enable net incomes to rise much more

rapidly than revenues during the current boom. Price controls, which tend to hold back increases in operating costs, are also a helpful factor.

### Priorities Position

Traction companies will not be able to obtain all the new equipment they need to operate most efficiently, but the Government will make every effort to see that they obtain the minimum amount necessary to provide adequate transport facilities for war workers. They will be close to the head of the list of non-military users in priorities on tires, gasoline, and materials necessary for operation and maintenance of present equipment. And the Office of Defense Transportation has recommended that priorities be granted for production this year of 12,000 intra-city buses, 600 trolley buses, and 800 electric rail cars—which compares with actual orders for 7,360 motor buses, 417 trolley buses, and 522 electric cars in the better than normal year 1941.

Even if the ODT recommendations are adopted, it will be necessary to retain in service equipment which would normally be retired, to stop substituting buses for trolleys, and to resort to such devices as staggering of peak loads. These measures will have a favorable effect on profits over the near term, since they permit the companies to obtain the maximum of revenues with a minimum of new capital investment, but they will leave the problem of modernizing to be faced in a period of lowered revenues, and the use of over-age equipment will tend to step up maintenance costs above the normal 10% of gross revenues.

*Because of the temporary nature of current high profits, traction securities as a class are undesirable commitments. In the table below, which lists all of the more active traction bonds and stocks, less than half a dozen carry better than average ratings; these are the most reasonably priced of the lot and have some appeal for retention as relatively short-term speculations.*

### Leading Traction Stocks

Stock—	Approx. Current Price	Dividend	Yield %	Market Rating
Cincinnati Street Railways, capital	87½ - 7½	*\$0.20	†2.6	Av.—Below
Eastern Massachusetts Street Railways, \$6 1st pfd.	83 - 85	‡0.00	6.8	Av.—Below
Eastern Massachusetts Street Railways, \$6 B pfd.	17 - 20	Nil	---	Av.—Below
National City Lines, common	11½ - 12½	1.00	8.1	Av.—Below
National City Lines, \$3 pref.	41¼ - 43½	3.00	6.9	Av.—Below
New York City Omnibus, capital	13¼ - 13¾	2.00	14.7	Av.—Below
Omnibus Corp., common	4¼	Nil	---	Switch
Omnibus Corp., \$8 pfd.	71½ - 75¼	8.00	10.6	Av.—Below
Twin City Rapid Transit, common	2¼ - 2¾	Nil	---	Av.—Below
Twin City Rapid Transit, \$7 pfd.	35 - 38	Nil	---	Av.—Below

\*Paid to date in 1942. †Based on payments to date in 1942. ‡Paid against arrears; accumulations are \$46.50 a share as of June 15, 1942.

### Leading Traction Bonds

	Fxd. Chgs. Earned 1941	Quality Rating	Call Price	Approx. Curr. Price	Yield %	Market Position
Anacostia & Potomac 3¼s, 1951	2.84	A	105	106½	2.98	Above Av.
City & Suburban Rwy. 3¼s, 1951	2.84	A	105	106	2.97	Above Av.
Market St. Elev. Passenger Rwy. 4s, 1956	1.84	B1+	102½	101¼	3.88	Switch
New York Railways 6s, 1958	7.03	B1+	105	104½	5.57	Above Av.
Capital Traction 5s, 1947	2.84	B1	NC	104	4.11	Av.—Below
Cincinnati Street Rwy. 5½s, 1952	2.61	B1	102½	100¼	5.44	Av.—Below
Cincinnati Street Rwy. 6s, 1955	2.61	B1	104½	104¼	5.53	Av.—Below
Lehigh Valley Transit 4s, 1945	1.37	B1	100	*98	*	Above Av.
Lehigh Valley Transit 5s, 1945	1.37	B1	100	*97½	*	Above Av.
Phila. Rapid Transit 6s, 1952	1.34	B1	105	105	5.58	Switch
Denver Tramway 5s, 1950	1.40	B	101	100	5.00	Switch
Eastern Mass. Street Rwy. 4½s, 1948	2.27	B	105	102	4.32	Switch
Jersey City, Hoboken & Pat. 4s, 1949	1.02	B	NC	90	5.76	Av.—Below
Los Angeles Rwy. 5s, 1950	0.97	B	101	91	6.44	Av.—Below
N. J., Hudson River Rwy. & Fy. 4s, 1950	1.02	B	105	89¾	5.61	Av.—Below
Twin City Rapid Trans. 5½s, 1952	1.27	B	103	77¼	9.00	Av.—Below
Chicago Railways 1st 5s, 1927	0.35	C1+	100	55½	---	Above Av.
Indianapolis Rwy. 5s, 1947	1.45	C1+	100	76	7.06	Av.—Below
Lehigh Valley Transit 5s, 1950	1.37	C1+	110	71¾	7.98	Av.—Below
Omaha & Council Bluffs St. Rwy. 4s, 1947	0.97	C1+	NC	68	†5.88	Av.—Below
Phila. Rapid Transit 5s, 1957	1.34	C1+	105	104¼	4.50	Switch
St. Louis Public Service 5s, 1950	2.35	C1+	100	88	6.15	Av.—Below
Thrd Ave. Rwy. 4s, 1950	1.48	C1+	105	53	†7.55	Av.—Below
Baltimore Transit. Inc. 4s, 1975	6.77%	C1	100	55	†	Av.—Below
Baltimore Transit. Inc. 5s, 1975	6.77%	C1	100	62½	†	Av.—Below
International Rwy. (Buffalo) 3-5s, 1952	0.22	C1	110	34½	†8.70	Av.—Below
Philadelphia Transport. 3-6s, 2039	1.34	C1	100	84	†	Av.—Below
Chicago Railways Cons. Mtge. A 5s, 1927	0.35	D1	---	10	---	Av.—Below
Chicago Rapid Transit 1st 6s, 1953	0.07	D	102½	8	---	Av.—Below
Chicago Railways Cons. Mtge. B 5s, 1927	0.35	D	---	2	---	Av.—Below

\*Price based on 75% unpaid extended principal on which interest is being paid. †Paid 2½% in 1942; arrears total 3%. ‡Paid 3% in 1942; arrears total 3%. §Paid 1¼% 1-1-42; to pay 4¼% 7-1-42. ¶Current return based on fixed rate. †Current return.

# Swift International Affords High Yield

*Current Earnings Adequately Protect Dividend—Adequate Shipping Facilities to Permit Serving Markets and Maintaining Profits Expected*

IT IS highly unlikely that Axis submarine activities in the Atlantic will become so successful or that the shipping shortage will become so great as to prevent SWIFT INTERNATIONAL from serving its major market, Great Britain. British demand for South American meat has been so active that prices have been increased, resulting in favorable profit margins for the company.

## Domestic Sales Up

The prosperity now prevailing in Argentina and Brazil is promoting domestic sales of meat and supporting prices and profit margins in SWIFT INTERNATIONAL's domestic markets. In addition, the company enjoys a good sale and satisfactory prices for by-products sold to the United States.

The British need of meat and the United States need for hides and other by-products put the company in a relatively favorable position as far as obtaining transport facilities is concerned; its major risk in this regard is a bad deterioration of the entire ocean shipping situation.

As an Argentine corporation, the company is not subject to the rapidly increasing taxes which United States companies must pay. The income tax on Argentine corporations is only 5%, and proposed increases have repeatedly been turned down by the Argentine legislative body. Even these proposed increases have been moderate.

Large reserves against both inventory losses and losses on foreign exchange have been created by the company and could be used to support earnings if necessary. Foreign exchange controls are likely to be successful enough during the war, at least, to minimize the risk the company faces in being paid in sterling, keeping its books in pesos, and paying dividends in United States dollars.

Considering all factors, there are good grounds for expecting 1942 earnings to approximate the favorable level of 1941, equivalent to a little less than \$3 a share at prevailing exchange rates. Further extra dividends, following the \$0.50 special paid March 1, are unlikely, but the \$2 regular annual rate is considered secure.

*At around 22, the stock affords a yield of over 9% from the regular dividend alone and is attractive both for the yield and for the long-term growth possibilities.*

# Bond Market Featured by Selling in Rails

*Pressure on Speculatives Lessens, However—Hasty Liquidation Not Necessary—Money Market Demands Drain on Excess Reserves*

*Our bond market policy calls for lightening portfolio holdings of speculative rail bonds during periods of strength rather than weakness. Investors should be in no haste to liquidate such holdings of well situated speculative rail issues at current prices; it is more than likely that better selling opportunities will be available in the future.*

AN OUTSTANDING feature in last week's bond market was the weakness displayed by rail bonds before selling pressure lightened at mid-week. Prices of most of these bonds are now substantially below their 1942 highs; defaulted rail bonds are about mid-way between the highs and the lows for the year. An important factor in this market weakness has undoubtedly been the increase in the peace scares arising from the unexpected success of the huge-scale British bombings of important German industrial cities and from the promise that 30,000 planes a month will be used to raid enemy strongholds.

Many issues are now selling at prices which suggest the likelihood of a technical rally.

In the week ended May 27, excess reserves of banks declined to \$2,540,000,000, the lowest level in four years and more than 63% below the high reached in October, 1940. The Federal Reserve has been buying government bonds to cushion this decline, but such measures are of the stop-gap variety and more sweeping measures will have to be taken in the near future. One probable partial solution is the lowering of reserve requirements of member banks on a fairly substantial scale.

*There is every indication that the Treasury and the Federal Reserve will take all measures necessary to insure that banks have plenty of money for their full participation in the coming heavy Government financing program. There can be little doubt that these measures will be successful and that money rates will hold firm around current levels, probably for the duration at least.*

## Changes in Recommendations

A complete list of Standard & Poor's market ratings on more than 1,100 common and 400 preferred stocks appears in the Stock Ratings Bulletin published monthly. Rating changes made in the past week are tabulated below.

Company—	Former Position	PRESENT POSITION	Approx. Price
Bohn Aluminum, com...	Above Av.	BUY	26

Because of the company's high earning power during the war and its relatively favorable post-war prospects, the stock is recommended for purchase at current reasonable prices.

Dominion Stores, com.	Switch	AV.—BELOW	3
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Liquidation no longer is advised because of the low price.

Hollander (A.) & Son, com...	Switch	AV.—BELOW	6
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The sales trend should be favorable over the medium term, and the stock may be held for better liquidating opportunities.

McCroery Stores, com...	Av.—Below	ABOVE AV.	10
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Since the low price discounts the sharp decline in earnings indicated for this year, the stock has appeal.

Omnibus Corp., \$8 pfd.	Above Av.	AV.—BELOW	75
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Nat'l City Lines, com...	Above Av.	AV.—BELOW	12
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Twin City Rap. Trans., \$8 pfd.	Above Av.	AV.—BELOW	34
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See page 764.

Parker Rust-Proof, com.	Av.—Below	ABOVE AV.	13
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The growing use of the company's process as a metal plating substitute gives the stock attraction, particularly since market prices are close to the lows of recent years and continued generous dividends are likely.

Reynolds Spring, com.	Switch	AV.—BELOW	4
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The low price of the stock and the fact that the company has obtained some war business warrant a more constructive attitude.

Company—	Former Position	PRESENT POSITION	Approx. Price
Southern Pacific, cap...	Buy	ABOVE AV.	19
Southern Rwy., com...	Buy	ABOVE AV.	13
\$5 pfd.	Buy	ABOVE AV.	24

Although these stocks are among the better speculations in the non-dividend paying rail group, the growing possibility that the war will be shorter than previously expected removes them from the outstandingly attractive category.

United Gas Corp., \$7 1st pfd.	Av.—Below	ABOVE AV.	108
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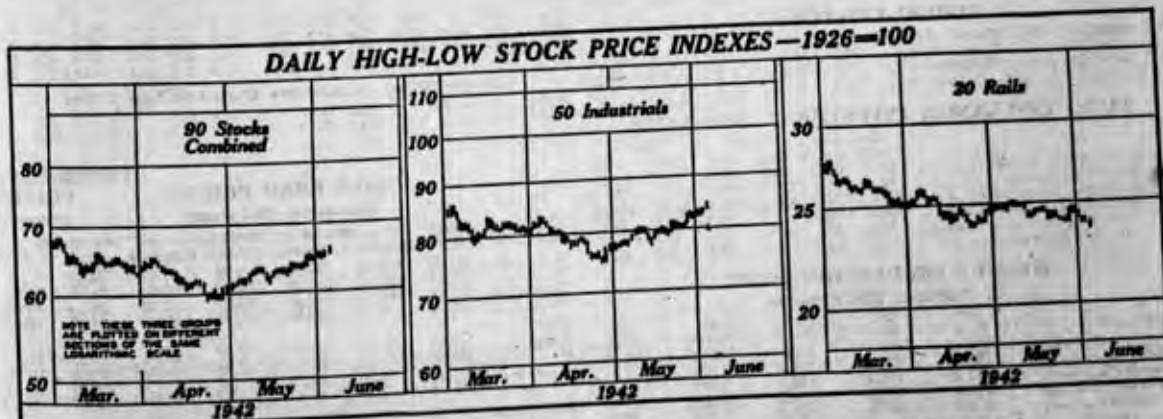
Because integration hearings to be held before the SEC may pave the way for recapitalization and favorable treatment of the preferred, it has speculative appeal.

### BONDS

**General Steel Castings 1st 5½s, 1940**—Originally recommended May 27, 1940, at 57, these bonds have advanced to 95 and are considered amply priced. Sale is advised.

**Montana Power 1st & ref. 3½s, 1945**—At around 104½, these bonds have only average attraction. Investors who purchased them on the recommendation in the Outlook of September 8, 1940, when they were selling three points lower, are advised to take this profit and transfer funds to more attractive issues.

**Texas & Pacific 5s, 1977, 1979, 1980**—These bonds, selling around 65, are unlikely to give a more favorable market performance than the average bond in their class. They are off slightly in price since they were recommended in the Outlook of March 10, 1940, at 68-69, but the interest payments have about offset this drop. Switching from these three issues into recommended common stocks is advised.



The factual information contained herein has been derived from sources which are believed to be accurate, but is not guaranteed. Opinions and forecasts are based upon careful analysis, but are also not guaranteed and are subject to change without notice.

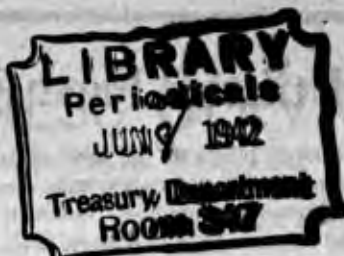




# UNITED BUSINESS SERVICE

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June 6, 1942

## The Situation At A Glance

### FAVORABLE FACTORS

**EMPLOYMENT**—Total number of unemployed, including those habitually out of work, is now less than 3.5 million.

**ELECTRIC POWER OUTPUT**—12% above a year ago.

**REAL ESTATE**—Aggregate foreclosures on non-farm property show about 30% drop from this time last year.

**CIGARETTE PRODUCTION**—Has topped year-earlier levels for seventeen successive months. Is currently up 10%.

### UNFAVORABLE FACTORS

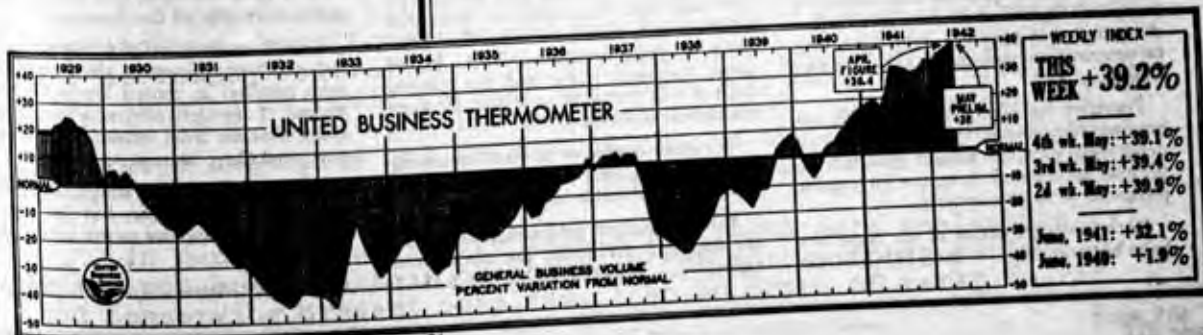
**DEPT. STORE SALES**—Currently 2% under a year ago in dollar volume, with physical turnover off about 20%.

**PETROLEUM**—Eastern oil companies are suffering estimated losses of \$16 million monthly due to higher transportation costs and 50% cut in gasoline deliveries.

**LIFE INSURANCE**—Sales of ordinary life policies (bulk of business) are running more than 20% under a year ago.

### SUMMARY AND FORECAST

**JUNE** will see new highs in war production and a further tightening of the screws on nonessential consumption of vital materials. Despite confusing statements of Government officials, nationwide gas rationing now appears certain. It will place further curbs on retail trade, which is now running under a year ago in spite of the fact that average retail prices are nearly 20% higher than at this time last year. Tax prospects are now shaping up, but the final bill will not be passed before late summer.



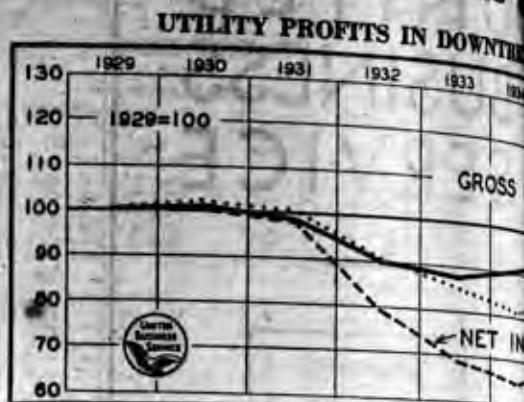
# Utilities Face Further Earnings Declines

**N**EAR-TERM earnings prospects for most electric utility companies are not encouraging despite the record level of power consumption. Gross incomes this year will be somewhat larger than in 1941. Net profits, however, will be smaller as a result of heavier taxes and increased operating costs. Some dividend reductions have been made, and others are probable. Holding companies face continued pressure from the SEC to integrate their activities in accordance with the provisions of the Public Utility Act.

## Power Output Setting New Records

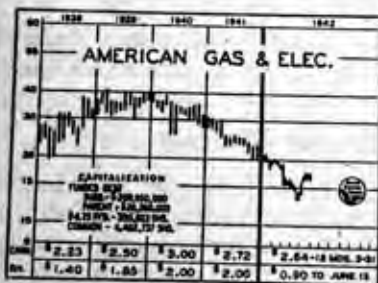
Reflecting heavy industrial demand due to war production, electric power consumption is running about 12% above 1941 levels and is at a new high for this time of year. Dimouts in coastal areas and curtailed sales of new household appliances will tend to reduce revenues from residential and commercial sales. Industrial power output will undoubtedly increase further, but this class of business is less profitable than domestic sales, which carry higher rates.

War industry consumption of power is tremendous. For example, it takes around 10-12 KWH of electricity to manufacture a pound of aluminum. This



compares with approximately 19 KWH consumed in the average American home per week. Both private utility companies and Federal power agencies have been expanding their facilities to meet war needs. Yet power rationing appears imminent in some industrial areas. Diversion of electrical equipment production to war uses and shortages of critical materials are impeding utility expansion programs.

Government price controls on fuels will retard the uptrend in operating costs. This is especially true in



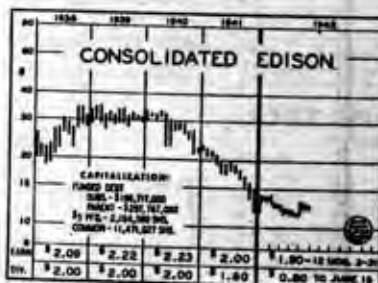
### Company Well Integrated

**A**MERICAN GAS & ELECTRIC, one of the strongest holding companies, operates in the territory extending from Virginia northwestward to Lake Michigan.

The major importance of industrial sales makes for wide cyclical fluctuations in gross revenues. Operating subsidiaries are interconnected, but eventual liquidation may be necessary to conform with the Holding Company Act.

Provision for higher taxes recently necessitated omission of the \$0.10 extra dividend, but earnings should continue to provide satisfactory coverage for regular payments of \$0.40 quarterly.

Recent market action of the issue has been encouraging. . . . (now 16½) **HOLD**



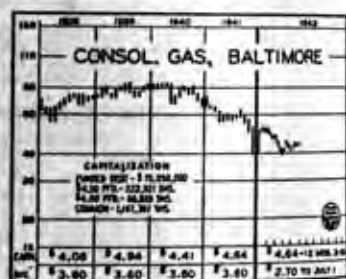
### Largest Operating Utility

**C**ONSOLIDATED EDISON, the world's largest integrated electric and gas system, serves New York City and Westchester County.

The heavy residential and commercial load and lack of important industrial business has resulted in marked stability of gross revenues. Thus, higher taxes, increased costs, and the coastal dimout will probably continue to force net income downward.

The stock is now on a \$0.40 quarterly dividend basis, but a minor reduction in payments is probable later on.

Although current prices discount lower earnings and dividends, the stock lacks appeal. . . . (now 18) **SELL ON RALLY**



### Industrial Sales Growing

**C**ONSOLIDATED GAS of BALTIMORE markets electricity and gas in the City of Baltimore, Md., and adjacent territory. Electric sales account for over 75% of gross revenues, and manufactured gas for virtually all the remainder.

Recent construction and enlargement of important war plants in the service area have resulted in record levels for gross income. Long-term contracts for the purchase of power from outside sources have prevented sharp increases in costs.

Some moderate contraction of earnings is in prospect this year, but the regular \$3.60 dividend appears secure for the time being at least.

A good grade issue. . . (now 45) **HOLD**

# UNITED BUSINESS SERVICE

Weekly Forecasts Based on the United Opinion of Recognized  
Business and Economic Authorities

UNITED BUSINESS SERVICE BUILDING

210 NEWBURY ST., BOSTON, MASS.

## THE PEOPLE HAVE A RIGHT TO THE TRUTH

The American people are quite evidently confused and befuddled as to the real situation in many matters of Government policy concerning tires, gasoline, sugar, wages, price control, and rationing.

The general willingness of the public to make sacrifices and to do whatever may be necessary to win the war is, indeed, remarkable and most gratifying. But there is great confusion of mind as to what is necessary and what is not. Premature scares have alternated with false assurances.

One might almost say that the confusion arises not from too little information, but from too much -- too much, we mean, that is only partially true. Much of it is the expression of opinions or hopes, having an insufficient factual basis. Government officials, from the President down, want to do two things. They want to convince the public of the necessity of controls and restrictive measures, and at the same time to encourage and cheer up the people.

So they talk about present, hard, and unfavorable facts, and about rosy future hopes, almost in the same breath. That is natural enough, but it mixes people up. It is hard to distinguish between the facts and the hopes, especially when we all want to put confidence in the hopes, while we find the facts disagreeable. That Ford's Willow Run plant will soon be turning out four-motored bombers at the rate of one per hour is a future -- and perhaps reasonable -- hope. That the Navy has utterly failed to check the alarming rate of ship sinkings in the Atlantic, the Caribbean, and Gulf of Mexico, is a present fact fraught with dire consequences to our current supplies of important goods.

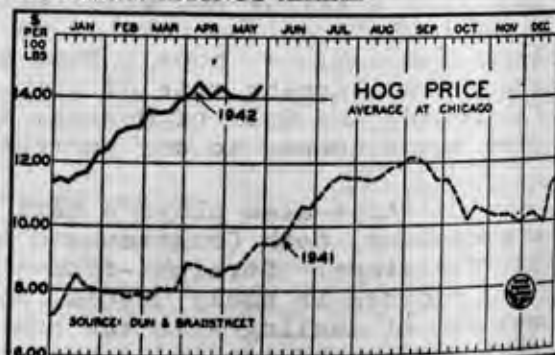
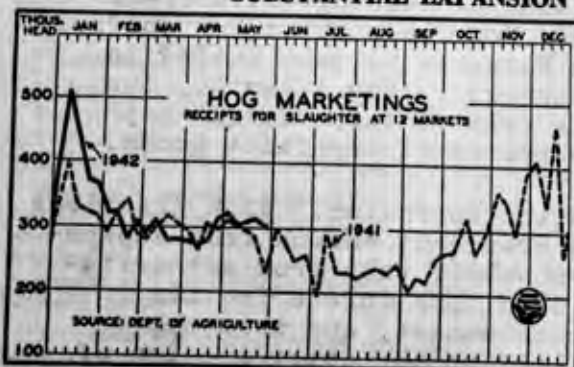
Politics also plays a part in the confusion. With elections approaching, both Congress and the President shrink from unpopular decisions. Straight-from-the-shoulder talk from authoritative sources is badly needed; so, also, are more effective methods of dealing with the submarine menace, and more concentrated authority and responsibility in the determination of policies in the matters which affect our daily lives and business.

In general, we will be facing the facts more realistically if we put more emphasis on the need for disciplining ourselves and conserving present supplies, than on hopes of early relief.

# Commodity Price Changes And Comparisons

	May 29 1942	A Month Ago	Percent Change	A Year Ago	Percent Change
Beans (Pis, Choice).....100 lbs.	\$ 5.25	\$ 5.20	+1.0	\$ 5.00	+5.0
Beef (Steer, Chicago).....100 lbs.	15.63	15.13	-3.1	11.50	+35.0
Burlap (10 1/4 os. 40 in.).....100 yds.	11.00	11.00	0.0	12.50	-12.0
Butter (Ex. Creamery).....lb.	.37	.39 1/2	-8.0	.35 1/2	+4.3
Coal (Clear, mine run, A).....ton	3.70	2.70	0.0	2.70	0.0
Cocoa (Standard).....lb.	.09 1/2	.09 1/2	0.0	.07 1/2	+21.7
Coffee (No. 7 Rio).....lb.	.09 1/2	.09 1/2	0.0	.08	+17.2
Copper (Electrolytic).....lb.	.12	.12	0.0	.12	0.0
Corn (No. 2, Yellow, N. Y.).....bu.	1.02 1/2	.97 1/2	+4.3	.90 1/2	+12.4
Cotton (N. Y. Middling).....100 lbs.	20.55	20.90	-1.7	13.53	+51.9
Cottonseed Oil (Crude).....lb.	.12 1/2	.12 1/2	+1.0	.09 1/2	+35.0
Crude Oil (Kans., Okla.).....bbl.	1.17	1.17	0.0	1.07	+9.3
Eggs (Fresh First).....dos.	.31 1/2	.30 1/2	+2.4	.24 1/2	+27.2
Flour (Spring Pat.).....bbl.	6.45	6.18	+4.4	5.83	+10.6
Fuel Oil (Bunker, C).....bbl.	1.85	1.60	+15.6	1.35	+37.0
Gasoline (72-74 Octane Tanks).....gal.	.09 1/2	.08 1/2	+5.7	.07 1/2	+19.3
Gray Goods (Composite).....yd.	.12 1/2	.12 1/2	+1.6	.10 1/2	+21.0
Hides (Heavy Nat. Steers).....lb.	.15 1/2	.15 1/2	0.0	.15 1/2	0.0
Hogs (Live, Chicago).....100 lbs.	14.43	14.30	+0.9	9.55	+51.2
Iron, Pig (Composite).....ton	24.20	24.20	0.0	24.15	+0.2
Lard (Prime, Western).....lb.	.12 1/2	.12 1/2	-1.0	.09 1/2	+28.2
Lead (St. Louis).....100 lbs.	6.35	6.35	0.0	5.70	+11.4
Leather (Union Backs).....lb.	.42	.42	0.0	.41	+2.4
Linseed Oil (City Raw).....lb.	.14 1/2	.14	+1.8	.10 1/2	+32.5
Lumber (Hard, Comp., Boston).....M. ft.	80.55	80.55	0.0	74.40	+8.3
Lumber (Soft, Comp., Boston).....M. ft.	66.52	66.52	0.0	59.36	+12.1
Oats (No. 2, White, Chicago).....bu.	.52 1/2	.57 1/2	-8.9	.37 1/2	+38.8
Paperboard (Chip, N. Y.).....ton	45.00	45.00	0.0	45.00	0.0
Rosin (Savannah "H").....cwt.	2.88	2.90	-0.7	1.90	+51.5
Rubber (Plantation).....lb.	.32 1/2	.22 1/2	0.0	.22 1/2	-0.6
Shellac (T. N.).....lb.	.32 1/2	.32 1/2	0.0	.24 1/2	+32.6
Silk (Japan, Double Extra).....lb.	3.08	3.08	0.0	2.91 1/2	+5.7
Silver (New York).....fine os.	.35 1/2	.35 1/2	0.0	.34 1/2	+1.1
Steel (Composite).....100 lbs.	2.65 1/2	2.65 1/2	0.0	2.65 1/2	0.0
Steel Scrap (Average).....ton	19.17	19.17	0.0	19.17	0.0
Sugar (Ref., Amer., N. Y.).....100 lbs.	5.60	5.60	0.0	4.95	+13.1
Tin (Straits, N. Y.).....lb.	.52	.52	0.0	.52 1/2	-0.2
Turpentine (Savannah).....gal.	.55 1/2	.55 1/2	-0.5	.39	+41.7
Wheat (No. 1, Northern, Minn.).....bu.	1.12 1/2	1.14 1/2	-1.6	.93 1/2	+20.1
Wool (Av. 25, Quot. Boston).....100 lbs.	79.24	79.24	0.0	72.40	+9.5
Zinc (E. St. Louis).....100 lbs.	8.25	8.25	0.0	7.25	+13.8
		Av. Change	+0.4	Av. Change	+16.3

## SUBSTANTIAL EXPANSION IN HOG MARKETINGS AHEAD



HOG marketings are beginning to reflect the sharp expansion in pig production that was inaugurated in 1941. Encouraged by relatively high prices last autumn, hog producers expanded the fall pig crop to 35 million head — 18% larger than in the preceding fall, and the highest for the period on record. What is more, a 1942 spring pig crop in the neighborhood of 62 million — 25% more than in 1941 — is anticipated.

Prices at Chicago in recent weeks have continued close to the highest levels since 1920 due primarily to the fact that farmers have held hogs back for heavier feeding. Moderate seasonal weakness is usual during the late spring, but this should be short-lived this year. With a substantial reserve of fat hogs being built up, the real price test will come when the large 1942 spring pig crop comes to market next November.

# Coffee Shipping Difficulties Increasing

CONCERTED efforts are being made to soften the impact of declining coffee imports on consumers in this country. Arrivals for the period October 1, 1941, to date total 10,615,000 bags (of 132 lbs.) or 59% of the full crop-year quota of 18,023,000 bags. While this would appear reasonably satisfactory under normal conditions, late imports have been well below average, and because of the acute shipping situation, the threat of a severe shortage looms.

To meet this exigency, both the Government and the trade are working to smooth out the available supply. Wholesale sales of roasted coffee are being generally restricted to 75% of deliveries in 1941. Green coffee in the hands of roasters must be limited to a two-month inventory. Prices are under strict ceiling limitations, both at wholesale and retail. Furthermore, coffee appears to be the next food item that will be rationed to consumers on a nationwide basis.

Recent reports from Brazil indicate a 1942 crop and carry-over about 50% in excess of export needs. On this prospect, the National Coffee Department of Brazil recommends continuance of the 35% destruction quota. Since 1931, over 76 million bags (equaling U.S. consumption for 5 years) have been destroyed.

Ample supplies are available in producing countries, but until shipping difficulties are overcome, consumers here must count on increasing scarcities. Wholesalers and roasters should maintain reserves up to permitted limits. There is no speculative play in coffee.

## CURRENT CHANGES

**BARLEY** (↔ Unchanged). Ample supplies and the prospective increase in production this year preclude much price rise until after the harvest. Continue buying conservatively.

**BRICK, CEMENT** (↔ Unchanged). The Maximum Price Regulation limits quotations to March highs. Demand continues active, and from the standpoint of having supplies when needed, clients should hold more than normal inventories.

**LARD** (From ↗ to ↘). Prospects of heavier hog marketings in coming weeks (see comments on hogs on preceding page) overshadow recent declines in cold storage holdings. However, reactions will not go far. Increase reserves on setbacks.

**LINSEED OIL** (From ↗ to →). Uncertainty regarding new crop supplies is likely to bring some price irregularity. Less aggressive purchasing is now in order.

**OATS** (From ↗ to ↘). Aggregate supplies will probably be smaller in the coming season, and recent price weakness appears to have been overdue. Utilize present opportunities to build up some forward protection.

**SALMON, Canned** (From ↗ to →). The WPB has ordered fish canners to set aside their entire 1942 packs of salmon for the Government. Not all supplies will be needed for the armed forces, yet amounts released later for civilians will be well below normal. Buy ahead wherever possible.

## BUYERS' GUIDE

Grains & Feeds	Metals	Textiles
†Barley 225...↗	Aluminum	Burlap 202...↗
†Corn 215...↗	†Scrap 205...→	†Cotton 202...↗
†Flaxseed 205...↗	†Virgin 205...→	Cot'n Gds. 212...↗
†Hay 85...↗	†Antimony 125...→	Hemp 85...↗
Meal	†Brass 205...→	Rayon 91...↗
Cot's'd 205...↗	†Copper 185...→	Silk, Raw 91...→
†Linseed 205...↗	†Iron, Pig 155...→	Wool 171...↗
Soybean 205...↗	†Lead 105...→	Woolens 91...↗
*†Oats 225...↗	†Quicksilver 215...→	Worsted 91...↗
Rice 175...↗	†Silver 175...→	Yarns
†Rye 211...↗	Steel	Cotton 215...→
†Soybeans 175...↗	Bars 185...→	Worsted 91...↗
†Wheat 215...↗	Plates 185...→	
	Scrap 215...→	
Foodstuffs	Shapes 185...→	
†Beans 155...↘	Sheets 185...→	
*Canned Goods	Tin Plate 185...→	
Corn 95...→	Wire 185...→	
†Milk 145...→	†Tin 91...→	
†Peas 95...→	†Zinc 181...→	
*Salmon 225...→		
Tom't's 95...→	Bldg. Materials	
Cocoa 205...↗	Brick 225...→	
Coffee 225...↗	Cement 225...→	
†Flour 185...↗	Glass	
*Lard 225...↗	Plate 95...→	
Oil	Window 95...↗	
Coconut 144...↗	Lumber	
Cot's'd 202...↗	Hard 135...↗	
Soybean 144...↗	Soft 195...↗	
†Onions 155...↗	*Oil	
†Potatoes 145...↗	Chinaw'd 144...↗	
Sugar	*Linseed 225...→	
Raw 171...↗	†Rosin 155...↗	
Refined 195...↗	Shellac 125...→	
	†Turp'tine 171...↗	
Dairy & Poultry	Chemicals	
†Butter 205...↗	Acetone 165...→	
†Cheese 155...↗	Al'hol Dn. 185...→	
†Eggs 205...↗	Caustic Soda 45...→	
†Poultry 195...↗	Glycerine 145...→	
	Pot'sh Sul. 125...→	
	Soda Nitr. 175...→	
	Sul. Acid 125...→	
Meats		
Beef Cattle 122...→		
Hogs 225...↗		
†Lambs 185...↗		

\*Denotes change from previous week. (Items not under General Calling.)

NOW—30 indicators up; 7 down; 69 sidewise

Month Ago—33 indicators up; 5 down; 62 sidewise

## KEY TO BUYERS' GUIDE FORECASTS

Figures after each commodity indicate page of latest comment.

- ↗ Trend Sharply Upward
- ↘ Trend Sharply Downward
- ↔ Trend Moderately Up
- ↔ Trend Moderately Down
- Trend Steady and Firm
- ↔ Irregular Sidewise
- ↖ Approaching a Top
- ↘ Approaching a Bottom

CONSULTATION PRIVILEGE—More detailed analyses on individual commodities will be furnished to clients on request.

## Political Factors Impeding Tax Bill

CONGRESSIONAL indecision is delaying the tax program. Political effects are being weighed as much as revenue needs. Current prospects are about as follows: (1) normal corporate tax of not over 45% (2) 94% maximum on excess profits only if there is postwar rebate, otherwise around 80-85%, (3) lower individual exemptions — after much wrangling, (4) higher normal and surtax rates about as proposed by Ways and Means Committee, and (5) some sort of withholding tax — probably not effective until after elections.

### Price Controls

**CEILINGS**—Pressures are building up that will probably force OPA to lift some price ceilings before long. The War Labor Board is still granting wage increases — and a Presidential "directive" on wage policy appears unlikely. Congress is reluctant about providing funds for "roll-back" subsidies. Yet, higher ceilings or cash subsidies are the only solutions for the developing squeeze. It all adds up to a continued — but gradual — uptrend in the over-all price level.

**HENDERSON**—Is in for Congressional criticism over the magnitude of his request for funds and personnel to enforce price ceilings. They were quite a shock after his earlier statements that the program would be largely self-policing. Henderson, however, has firm Administration backing on all aspects of price control — will probably get what he wants.

**INVENTORIES**—Curbs on retail and wholesale merchandise stocks are still several months away, and will be considerably less drastic than recent rumors indicated. Curbs will not apply to manufacturers. They are already limited to three months' needs by initial Priorities Order.

### Consumer Developments

**GASOLINE**—Latest Washington information is that the President has approved nationwide rationing to save rubber, despite howls from some mid-west Congressmen. However, move may be deferred until sometime after July 15. Plans call for basic ration of three to four gallons weekly.

**SHOES**—Civilians are going to have to get along with fewer styles and lower quality after present inventories are worked down. Military demand is huge, and good hides are becoming scarce. The Government has already impounded all top quality sole leather for war needs. Actual rationing of shoes is probable by next spring. Better stock up.

**SUGAR**—Reduced consumption and elimination of hoarding have improved the supply situation. There is a good possibility that sugar rationing will be liberalized by fall — especially in the case of industrial consumers.

**TIRES**—Do not be misled by the President's recent optimistic statement about the rubber situation. It's not good. Synthetic production (even by the end of 1943) will only meet military requirements. We repeat — there will be no new tires for the average motorist before 1944 at the earliest.

**WAR DAMAGE INSURANCE**—Temporary automatic coverage (\$15,000) will expire July 1. You will then have to take out a specific policy through local fire insurance agents, who will be selling agencies for Government. Rates will range from 5¢ per \$100 on crops and 10¢ on homes to 30¢ per \$100 on non-fireproof factories. Insurance will protect against any loss from enemy action or U. S. forces resisting attack — but will not cover damages from blackouts, sabotage, or civilian looting.

### Production Front

**ARMS SPENDING**—May total reached \$3,552 million, an increase of \$300 million over April and a gain of more than 300% over May, 1941. By the year end, expenditures will be in excess of \$5 billion monthly — will thereafter level off. The gain in actual arms output is much sharper than dollar figures indicate — unit prices of many items have been lowered considerably in recent months through re-negotiation of contracts.

**PLANT CONVERSION**—Joint House-Senate committee has approved the setting up of a new division in WPB with capital of \$150 million to assist in the conversion of small plants to war work. It's designed to soften blow to small nonessential goods manufacturers who are being hard hit by WPB curtailments. Bill also carries a rider giving Nelson power to suspend anti-trust laws to accelerate war production.

### Labor Situation

**FREEZING OF WORKERS**—McNutt's order that hiring for critical industries must be through U. S. Employment Service will effectively check labor "pirating" and cut down job shifts. Move, however, has caused considerable resentment in labor circles as they were not consulted prior to the action. Neither was management. There's a storm brewing over the dictatorial attitude of some Government war agency officials.

**OVERTIME RATES**—Recent Labor Board decision on General Motors labor contract sets a pattern for future policy. There will be no premium pay for "swing" shifts or other week-end work, but any sixth day will be at time and one-half rates. A seventh day will call for double pay. All work in excess of 40 hours weekly will continue to require time and one-half.

**RAIL WAGE DEMANDS**—Watch for new union pay demands for workers on smaller roads. They have a good chance of getting them under Administration's policy of lifting "sub-standard" wages while stabilizing higher wage rates.

**LEWIS-MURRAY FIGHT**—Ousting of Murray from United Mine Workers was inevitable, and in no way curbs his potent power as head of the Steel Workers and CIO. Lewis is seeking to use the UMW as a nucleus for a third major labor group by extending its membership to dairy farmers and other fields.

### War Sidelights

**AIR RAIDS**—Precautions on the West Coast are not being overemphasized. Officials definitely expect Jap attacks at any time in reprisal for Tokyo bombing. East Coast raids are less probable—Hitler currently has his hands pretty full.

**NEWS HEADLINES**—Are creating false impressions of near-term war outlook. They play up minor gains; play down major setbacks. War developments do look brighter for ultimate victory — but an imminent Axis collapse is wishful thinking. Hitler is in serious trouble, but still has real military power. So have the Japs.



# UNITED INVESTMENT REPORT



Forecasts and opinions in these Reports are based on a weighted average of United Opinion as expressed by such authorities as Alexander Hamilton, Babson, Brookmire, Gibson, Investors Research, Kiplinger, Standard & Poor's, etc.

## Why So Much Pressure On The Rails?

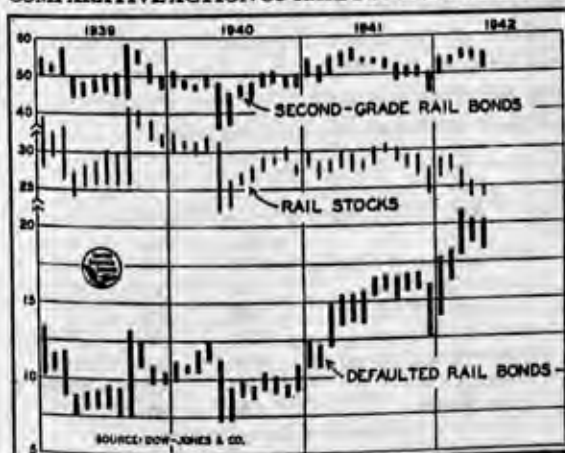
**R**AIL stocks as well as speculative rail bonds not only failed to join the May upswing in industrial stocks, but during the past two weeks have taken an opposite course. There are several factors upon which their relatively poor performance might be rationalized and at the same time there are as many influences which would seem to call for better action.

In all probability, the weakness in rails is related primarily to the "peace scare" which has recently had such a depressing effect on war issues in general. Inasmuch as the present high volume of freight loadings is made up largely of war materials, rail securities naturally take on a strong war flavor.

### Over-Speculation In Rail Bonds

So far as railroad shares are concerned, there has been no excessive bidding up of prices, but this cannot be said of the more speculative rail bond classifications. Second grade and defaulted issues have staged quite a substantial rise over the past two years and were due for some technical readjustment. The peace-scare selling wave found them in a rather vulnerable position, and as prices gave way, selling spread to other sections of the carrier list. Although rail stocks were already quoted on a peace basis, they have nevertheless sold down to a new low for the year. As a matter of fact, in only two of the past ten years have they been lower than at the present time — about a

### COMPARATIVE ACTION OF RAIL STOCKS AND BONDS



point lower in 1940 and a little over four points lower in 1938, the poorest year for the railroads since 1932.

Other factors which have undoubtedly contributed to recent weakness are (1) the announced plan of railway unions to ask for increases in sub-standard wages of other than Class I roads, (2) a move on the part of the California Railroad Commission seeking Federal legislation to recapture excess earnings of prosperous railroads for the benefit of weaker lines. In the first instance, there is a fair possibility that an increase in such wage scales will be granted. On the other hand, adoption of the proposal that strong roads subsidize the weaker ones seems quite unlikely.

### The War Influence

Obviously no one can tell how long hostilities will continue, but it is reasonably certain that the European war has reached a stage where the weight of striking force is rapidly shifting to the side of the United Nations. As long as this trend is in evidence peace psychology will flourish — there will be more so-called "peace scares". However, it does not necessarily follow that an early termination of the war on the European continent will bring a drastic letdown in industrial activity.

The United States will still have a war on its hands in the Pacific. Furthermore, there will be the job of rehabilitating Europe, and this project will require vast quantities of heavy goods as well as consumer items. Even should the most optimistic hopes of an early peace materialize, we can visualize a high level of traffic continuing for a year or two beyond the war's end. It is true that when war activity and subsequent reconstruction ends, railroad earnings will shrink rapidly, and we think it is logical to begin revising security portfolios accordingly.

### Building Earning Power

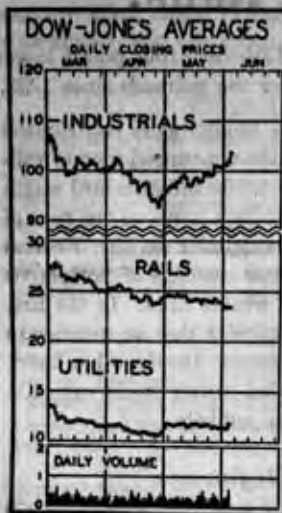
We do not advise indiscriminate liquidation of holdings in this group, however. The earnings positions of some roads will be stronger after the war than they were before. All should come out in better financial shape and in the best physical condition in many years, if not in history.

(Continued on following page)



# Rise Gaining Stature

**S**TOCKS extended their gains this past week in one of the most encouraging rallies in the entire May-June upswing. The impressive feature of this move was the ease with which the industrials negotiated the area between 101 and 103, where resistance was encountered on several occasions during March and April. The implication is that the upswing will be further extended over the near term.



Lending additional support to this prospect is the gradual manner in which the rise is developing. It is correcting

itself as it goes along — maintaining a state of good health which is characteristic of sustained advances. Still another encouraging feature is the high quality of leadership. All that is needed now is for the rails to join the uptrend.

**MARKET POLICY** — We continue to advise a selectively bullish attitude toward the market.

(Continued from page 227)

Windfall earnings are not as transient as the expression might seem to imply, if they are used as the railroads are applying them. These war profits are being used to reduce debt, build up working capital, modernize equipment, and to increase operating efficiency generally. As an example of the long strides that are being made toward strengthening financial positions, net working capital of Class I roads as of March 31 totaled \$840,000,000 compared with \$358,000,000 two years previous.

Railroads have cash resources with which to accelerate their debt reduction programs through open market purchases of their own bonds. These are now available at a considerable discount, and company purchases on an extensive scale only await favorable action on the question of taxing profits thus derived. There is a good chance that this levy will be lifted, and once it is removed, open market purchases will lend considerable support to the second grade rail list.

## Tax Position Of Bankrupt Roads

The tax status of reorganized rails is highly uncertain. Under the Treasury's interpretation of the law, the excess profits tax exemption is based on initial market prices for new stocks rather than on book valuations. As a result, most roads coming out of bankruptcy would be subject to heavy excess profits taxes. Thus security owners have no incentive to approve reorganization plans. Clarification of the tax position of bankrupt roads on a favorable basis either through court rulings or legislation would expedite reorganizations and provide the stimulus necessary to produce still higher prices for defaulted railroad bonds.

## Summing Up

Summarizing the present status of railroad securities in general, the following are the principal favorable and unfavorable factors in the picture.

### FAVORABLE

- Improved condition of properties and equipment.
- Relatively sheltered excess profits tax position.
- High level of wartime earnings.
- Reduction of indebtedness and interest charges.
- Greatly increased operating efficiency.
- Strongest financial position in many years.

### UNFAVORABLE

- Postwar letdown in both traffic and earnings.
- Maintenance of labor costs at high levels.
- Lower freight and passenger rates after emergency.
- Increased competition indicated in postwar period.

Current prices for railroad stocks overemphasize the long-term uncertainties and do not adequately recognize the favorable forces now at work. Our position on previously recommended rail shares is set forth in the tabulation below. Medium-grade and speculative railroad bond recommendations are similarly treated on the following page.

## RAIL STOCK RECOMMENDATIONS

	Dividend	Price	Advice
Atchafalaya, Topeka & Santa Fe	\$4.00	84	Hold
Atlantic Coast Line	1.00	21	Hold
Chesapeake & Ohio	3.00	30	BUY
Great Northern pfd.	3.00	30	Hold
Pennsylvania Railroad	3.00	20	Hold
Southern Railway	...	13	Hold
Union Pacific	5.00	67	BUY

(Estimated 1942 minimum payments.)

## Follow-Up Of Rail Bond Recommendations

As pointed out in the preceding article, the favorable factors influencing rail bond prices outweigh the unfavorable. Wholesale liquidation of such issues would, we believe, be premature, but it is not too early to begin preparing for the day when a complete withdrawal from second-grade and speculative rail bonds will be advisable.

This can best be accomplished by adopting a policy of gradually working into shorter maturities, particularly those which are in line to be retired rapidly through company buying. Holdings of longer term issues should be confined to those which are likely to be supported by open market purchases or which have better-than-average postwar prospects. On this basis, we are advising the changes outlined below.

### Switches To Improve Position

Atlantic Coast Line gen. 4½%, 1964, which constitute the junior debt and longest maturity of this road, would be vulnerable to a postwar traffic letdown. A switch to a bond with a shorter maturity, the Southern Pacific coll. 4s, 1949, is advised. This road's large earnings will enable it to accelerate an already aggressive debt reduction program.

Now that large accumulations have been paid off on the Baltimore & Ohio 4½%, 1960, and Boston & Maine 4½%, 1970, these income bonds are essentially speculations on the length of the war. We advise taking profits and investing the

proceeds in Chesapeake & Ohio common stock, described on page 217 of last week's Report, which appears more undervalued and has better postwar prospects.

Maturity can be shortened and better interest coverage obtained by switching from Canada Southern 5s, 1962, to Kansas City Southern ref. 5s, 1950. Moreover, the latter issue is already being bought in, and further purchases are likely, a situation which does not exist with Canada Southern.

Concord & Claremont 1st 5s, 1944, and the St. Johnsbury & Lake Champlain 5s, 1944, provide satisfactory yields to their early maturity, but further appreciation is obviously impossible at current prices. Profit-taking is advised. As a conservative replacement, we suggest the Great Northern "G" 4s, 1946. For greater appreciation, the Baltimore & Ohio 4% Notes, 1944, are recommended.

Although interest coverage will be adequate for the duration, the long maturity of the Great Northern Ry. 4½%, 1976, detracts from the appeal of this issue. A switch into the Pennsylvania R.R. 3½%, 1952, would involve a small sacrifice in yield to maturity, but would improve investment position.

Maine Central gen. 4½%, 1960, and the Pittsburgh & W. Va. 4½%, 1958, are vulnerable from a long-range standpoint and should be switched at this time into an issue with a shorter maturity. We suggest the Illinois Central 4s, 1952, which should benefit from open market purchases this year.

Although the Texas & Pacific 5s, 1977, represent this road's earliest important bond maturity, and fixed charge coverage will probably continue liberal for the duration, the long-term outlook is unimpressive. A switch into the Southern Ry. 4s, 1956, is recommended on the basis of better postwar prospects.

### CURRENT ADVICE ON MEDIUM-GRADE AND SPECULATIVE RAIL BONDS

	Recent Price	Advice		Recent Price	Advice
Allegheny Corp. mod. coll. 5s, 1960	55	Hold	Morris & Essex constr. 4½%, 1955	35	Hold
Atlantic Coast Line gen. 4½%, 1964	60	SELL*	New York Central ref. 5s, 2013	43	Hold
Baltimore & Ohio 4% Notes, 1944	69	BUY	New York Central ref. 4½%, 2015	44	Hold
Baltimore & Ohio inc. 4½%, 1960	20	SELL*	New York, Chic. & St. L. ref. 5½%, 1974	74	Hold
Bangor & Aroostook std. 4s, 1951	52	Hold	Northern Pacific ref. 4½%, 2047	45	Hold
Boston & Maine inc. 4½%, 1970	31	SELL*	Northern Pacific ref. 6s, 2047	61	Hold
Canada Southern Ry. 5s, 1962	80	Hold	Northern Pacific ref. 6s, 1952	86	BUY
Central Pacific Ry. 5s, 1960	50	Hold	Pennsylvania R.R. conv. 3½%, 1952	60	Hold
Chic. Burlington & Quincy gen. 4s, 1958	76	Hold	Pere Marquette 1st 4s, 1966	58	SELL*
Chic. Burlington & Quincy 5s, 1971	74	Hold	Pittsburgh & W. Va. 1st 4½%, 1958	100	SELL*
Cleve. Cinn. Chic. & St. L. ref. 4½%, 1977	45	Hold	St. Johnsbury & Lake Champlain 5s, 1944	86	Hold
Cleveland Union Terminal 1st 5½%, 1973	75	Hold	Southern Pacific sec. 3½%, 1946	67	BUY
Cleveland Union Terminal 1st 5s, 1973	66	Hold	Southern Pacific coll. 4s, 1949	45	Hold
Cleveland Union Terminal 1st 4½%, 1977	80	Hold	Southern Pacific 4½%, 1958	63	BUY
Concord & Claremont R.R. 1st 5s, 1944	99	SELL*	Southern Ry. dev. & gen. 4s, 1956	63	SELL*
Delaware & Hudson ref. 4s, 1943	53	Hold	Texas & Pacific gen. ref. 5s, 1977	63	
Erie R.R. inc. 4½%, 2015	46	Hold	<b>DEFAULTED BONDS</b>		
Great Northern Ry. "G" 4s, 1946	96	BUY	Central of Georgia cons. 5s, 1945	15	Hold
Great Northern Ry. 4½%, 1978	82	SELL*	Chicago & Alton ref. 5s, 1949	19	Hold
Illinois Central coll. 4s, 1952	46	BUY	Chicago, R. I. & Pacific 1st ref. 4s, 1934	13	Hold
Illinois Central ref. 4s, 1955	42	Hold	Denver & Rio Grande West. ref. 5s, 1978	16	Hold
Kansas City Southern ref. 5s, 1950	68	BUY	N.Y. N.H. & H. R.R. conv. deb. 6s, 1945	35	Hold
Maine Central 1st coll. 4s, 1945	45	Hold	St. Louis-San Francisco p. l. 5s, 1960	13	Hold
Maine Central gen. 4½%, 1960	39	SELL*	St. Louis-Southwestern gen. 5s, 1960	23	Hold
Missouri-Kansas-Texas 1st 4s, 1960	39	Hold	Seaboard Air Line 1st cons. 6s, 1945	8	Hold
			Western Pacific R.R. 5s, 1946 (assented)	37	Hold

\*For replacement suggestions see text.

## "Peace Or War" Stocks Favored

RECOMMENDATIONS made by the leading financial services during the past month reveal a shift in emphasis to "peace or war" stocks and away from issues with a strong war flavor. Prominent among those which failed to qualify for retention in the list are four steel, four machine tool, three machinery, and two aircraft stocks. Most of the other issues dropped would also be classified as war beneficiaries. The prevailing attitude is that taxes will take much of the profit out of armament business and

that stock selection should be governed primarily by postwar prospects.

However, few ventured to go to the extreme of advising out-and-out peace stocks. Recommendations were concentrated in issues representing companies having a favorable postwar outlook and able to show reasonably good earnings for the duration. The rubbers are an outstanding example with three of the "big four" appearing in the group of twelve stocks most favored by other services.

### THE TWELVE MOST FAVORED STOCKS

Although five of the following stocks have been recommended for purchase by only two services, they have received bullish comments from others. Therefore, they carry a greater weight of favorable opinion than the remaining issues listed in the table at the bottom of the page.

Goodrich (4)	Chrysler (3)	Loew's, Inc. (3)	Am. Smelting (2)
Int'l Harvester (4)	Firestone (3)	Allis-Chalmers (2)	Gt. Northern Ry. (2)
Phelps Dodge (4)	Goodyear (3)	Am. Cyanamid "B" (2)	Southern Ry. (2)

NOTE—The figures in parentheses represent the number of services that have recommended purchases during the past four weeks.

### BUYING ADVICES OF OTHER AUTHORITIES

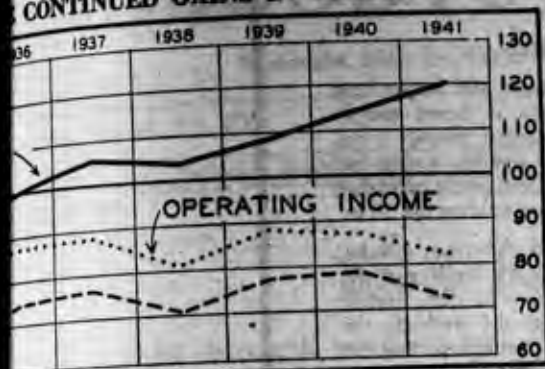
STOCK	Range of Buying Advice†	1941 Dividends	EARNINGS First Quarter		STOCK	Range of Buying Advice†	1941 Dividends	EARNINGS First Quarter	
			1942	1941				1942	1941
Allied Chemical	123-126	\$8.00	↓	↓	*General Motors	33-36	\$3.75	\$0.48	\$1.44
*Allis-Chalmers	23-24	1.50	\$0.68	\$0.34	Goodrich, B. F.	15-18	2.00	↓	↓
Amerada	46-48	2.00	0.89	0.64	*Goodyear	15-18	1.37½	↓	↓
*American Cyanamid "B"	29-32	1.85	0.38	0.39	*Gt. Northern pfd.	21-23	2.00	d0.04	d1.04
*American Smelting	36-38	3.50	1.35	0.95	Gulf Oil	26-28	1.50	↓	↓
American Tobacco "B"	39-42	4.50	↓	↓	International Harvester	42-44	3.00	↓	↓
Anaconda Copper	22-24	2.50	1.15	1.34	Kennecott	26-28	3.25	↓	↓
*Atlantic Coast Line	20-22	1.00	5.82	4.07	*Loew's, Inc.	38-40	3.00	d1.46	d1.76
Borden Co.	18-19	1.40	↓	↓	Mid-Continent Petroleum	13-14	1.15	0.90	0.28
Briggs Mfg.	16-18	2.25	0.47	0.93	Montgomery Ward	26-29	2.00	0.61	0.67
Cannon Mills	30-31	2.00	↓	↓	Phelps Dodge	23-25	1.50	↓	↓
*Chrysler	55-60	6.00	1.13	2.20	*Pure Oil	7-8	0.50	↓	↓
Continental Can	22-26	2.00	c2.66	c2.83	*Southern Ry.	13-14	↓	2.18	2.03
Crucible Steel	24-27	1.00	3.46	2.41	*Standard Oil N. J.	33-35	2.50	↓	↓
Deere & Co.	20-22	2.00	↓	↓	*Texas Co.	32-34	2.50	0.73	0.61
Douglas Aircraft	61-65	5.00	↓	f3.03	*Underwood Elliott	31-34	3.50	0.54	0.86
*du Pont	102-110	7.00	1.18	1.77	U. S. Gypsum	42-46	3.50	0.54	0.94
Firestone	15-16	1.00	↓	↓	Woolworth, F. W.	23-25	2.00	↓	↓

\* Stock carried in our recommended list. Names in *Italics* added this month. † Approximate levels at which other advisory services have recommended purchases. ‡ Not available. ‡ Sixteen weeks ended March 12, 1942 and March 12, 1941. † Twelve months ended March. ‡ Deficit. † Three months ended February.

**IMPORTANT** Listing of a stock in the tabulation above does NOT constitute a buying recommendation on our part. Nor does its subsequent removal from the list mean that it should be sold. The purpose of the table is to point out those stocks that are currently being most actively recommended by leading advisory services. To gain admission to this list, a stock must have been advised for purchase by at least two advisory services within four weeks. If a stock is not recommended by at least two services during any four week period following its admission, it is dropped from the list.

# Operating Costs And Taxes Are Mounting

## CONTINUED GAINS IN GROSS



the case of steam generating units. However, it is unlikely that the rising trend of labor costs will be halted. Thus, gains in gross utility revenues will be largely offset by increased operating overhead. Moreover, while rates seem to be fairly well stabilized, any important advances appear remote.

From a tax standpoint, some encouragement can be drawn from indications that the boost in normal and surtax rates will not be as stiff as in the original Treasury proposal. Retention of the average-earnings base is

also an advantage, as many utility companies use this option rather than invested capital. However, even the lowest tax rate being proposed (40%) constitutes a tremendous burden for the industry.

The SEC has indicated that it will not postpone integration proceedings against holding companies because of the war. This places such companies in the unfavorable position of having to break up their organizations in a period of depressed stock prices. From the investor's viewpoint, it is particularly difficult to appraise the value of holding company equities when properties must be liquidated under present conditions.

## Utility Stocks Deflated

With the utility stock average now close to the all-time low reached this Spring, it is obvious that such equities have largely discounted known adverse factors. While the near-term earnings outlook for utilities is admittedly not encouraging, we believe that a policy of retention is warranted at current market levels. However, such stocks must be appraised on their individual merits. Operating companies in general are in a much better position than utility holding companies, which face eventual liquidation.



+ Plus stock extra.

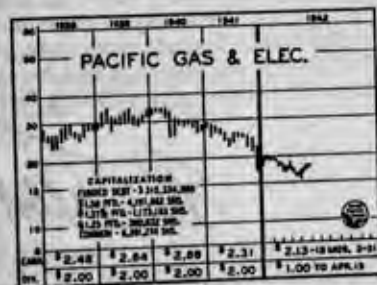
### Properties To Be Liquidated

**NORTH AMERICAN CO.** controls subsidiaries operating in the important cities of St. Louis, Cleveland, Milwaukee, and Washington, D. C.

Integration under the Holding Company Act will apparently have to be accomplished at an earlier date than was originally believed necessary.

The forced sale of some properties will probably result in lower realizations than would have been possible under a more leisurely process, but the indicated liquidating value of the common stock is well in excess of current market quotations. Payment of dividends in stocks of subsidiaries should continue.

Below asset value... (now 8) HOLD



### Lower Profits Discounted

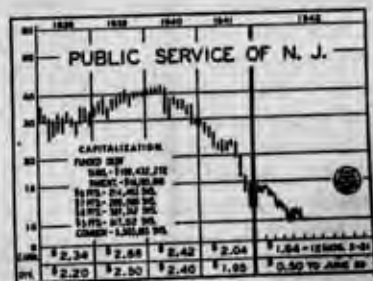
**PACIFIC GAS & ELECTRIC** is the second largest operating utility company in the country, serving San Francisco and surrounding areas.

The threat of municipal ownership in the city appears to be solved for the duration since the full generating capacity of the Hetch Hetchy project is being taken by a Federal-owned aluminum plant.

The large proportion of low rate business will restrict revenue gains, and operating costs and taxes are rising.

Current year earnings appear certain to fall below the \$2.00 dividend rate, and thus some reduction appears inevitable.

Lower earnings have been amply discounted by the stock... (now 18) HOLD



### Earnings Sharply Lower

**PUBLIC SERVICE of NEW JERSEY** derives about 60% of total revenues from electricity and about 20% each from manufactured gas and traction services. Operations are entirely intrastate.

Gross revenues advanced 8.8% in the twelve months ended March 31, 1942, but sharply higher costs and Federal taxes reduced common share earnings 33%. The downtrend seems certain to continue this year despite further gains in gross.

A dividend of \$0.30 per common share was declared in February and another of \$0.30 in May. Further reductions do not appear imminent.

The common stock is temporarily over-depressed... (now 10) SELL ON RALLY

## The Back Yard

THE word "Washington" looms larger and larger from week to week. Time was when it meant merely "national politics", but from that central theme it has spread in all directions until it now signifies a detailed control of our daily lives on the one hand, and a probable over-all command of the entire postwar world on the other.

Yet how much do you, as a good American citizen, really know about Washington? Not the froth and the glitter and the gossip — but real "down to dirt" factual information about the key personalities, the methods, the influences, the traditions, and the surroundings that, in total, make Washington what it is today. The answer is probably "not much".

At long last, such information is now easily available. You can get it in very palatable form in a new book written by my good friend Willard M. Kiplinger entitled, "Washington Is Like That".

Certainly, there is no one in the country who has a more intimate and objective viewpoint toward "what makes Washington tick" than does Kiplinger, who for the past 25 years has been reporting and forecasting Washington events.

"Washington Is Like That" is not a "little" book — it has 40 chapters and costs \$3.50 — but it has substance and value. It gives you real "Washington understanding". Written in Kiplinger's direct and pleasing style, it uses up an evening before you are aware the time has passed. It's a book that should be read by every thinking American.

*Paul Talbot.*

P.S. "Washington Is Like That" is published by Harper & Brothers, 49 E. 33rd St., New York City, and is probably available at your bookstore. If not, we shall be glad to send a copy to you upon request. The price is \$3.50 a copy postpaid.

### UNITED BUSINESS SERVICE

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### UNITED INVESTMENT COUNSEL

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# MOODY'S STOCK SURVEY

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## Stock Review and Outlook



Strength combined with moderate activity again characterized most of last week's trading. To a greater extent than in previous weeks, the price rise was shared by all kinds of stocks.

Japanese attacks on Alaska and Midway last week, as well as the comparative lull in Russian and African fighting, may be preludes to a more acute and even critical phase of the war. The mere risk of that coming provides an uncertain background for any considerable or consistent extension of the recent price rise.

The war's duration could still stretch out considerably into the future but, as suggested below, it is neither wise nor necessary to make now a sharp choice between "war stocks" and "peace stocks" for long term investment.

### "Short vs. Long War"—Some Investment Implications

Investment is much concerned with the increasingly important question of how long the war will last from here out. In this connection one often hears the view expressed that the war will be either comparatively short or else that it may last quite a number of years. "Five months or five years" is the way some people put it. An attempt is thus made to express the idea that the dynamics of war are such that it could end "much sooner than anyone expects," or else it may have to be "an awfully long" affair as the President himself recently said.

Before coming to the investment implications of either a very short or a very long war, let us first look into the theory itself. Why is it that the war has to be either comparatively short or else disproportionately long?

We presume that this view—whether it is held by a highly informed Government official or by the man on the street—is arrived at by a process of reasoning which may be summarized more or less as follows:

### Why The War Could Be Very Long

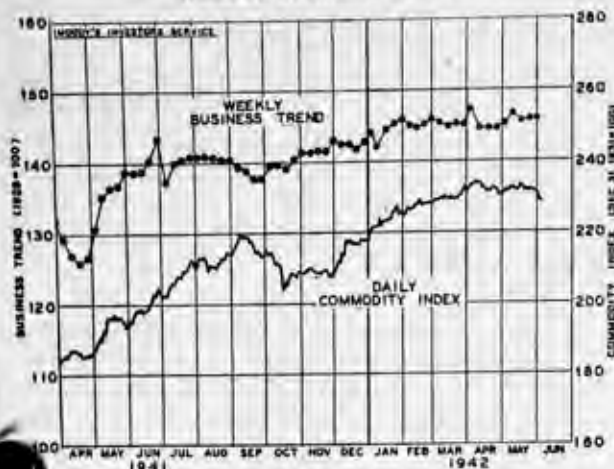
Both the Germans and the Japanese realize the increasing strength of the United States and are determined to win the war this year if possible, or at least to put themselves in a position which not only makes them impregnable to attack but enables them to make the use of our strength difficult. As an illustration, if the Germans were able to push back the Russian front and at the same time secure the resources they lack; better still if they could accomplish a juncture with the Japanese in India—their position could be termed relatively impregnable perhaps for a period of years. That is, they could then successfully cope with any attempts at a second Allied front in the west of Europe, might in fact threaten Great Britain itself. Furthermore, not being sure this time that they may count on leniency of the victors, the Germans might prefer to fight to the bitter end in any case.

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MOODY'S DAILY COMMODITY INDEX  
AND  
WEEKLY BUSINESS TREND



MOODY'S WEEKLY BUSINESS TREND (1928=100)

	May 30	May 23	May 16	May 9	May 2	Apr. 25
1942 Weekly .....	145.9	145.9	145.6	146.6	145.2	144.6
Annual Range:	1942	1941	1940	1939	1938	1937
High .....	147.3	143.4	129.5	122.8	98.7	110.2
Low .....	142.2	125.9	90.7	84.7	72.3	76.5

MOODY'S DAILY COMMODITY INDEX (Dec. 31, 1931 = 100)

	June 5	June 4	June 3	June 2	June 1	May 30
1942 Daily .....	220.2	229.7	228.6	228.8	229.9	Holiday
Annual Range:	1942	1941	1940	1939	1938	1937
High .....	234.0	219.9	171.8	172.8	152.9	228.1
Low .....	220.0	171.6	149.3	138.4	130.1	144.6

Or, from the Japanese point of view, if the Japs could choke off Chinese resistance to the point of reduction to guerilla warfare, they could then be free to attack Russia while the latter is engaged in a death struggle with Germany. Perhaps such a Japanese attack on Russia would be combined with an attack on our Alaskan outposts. If successful, the Japanese would thus rob us of any possible bases for air attacks on Japan proper. Having control of vast supplies of food and raw materials, and comparatively secure against air attacks, Japan could build up her strength and resistance to a point where it would take a truly enormous superiority of arms and manpower to crush them. That is why the less favorable alternative necessarily means a long war, it is held. But how about a comparatively short war. And precisely how short would a short war be?

Why It Could Be Short

This more optimistic alternative requires first of all that Germany be defeated first and relatively soon, say, within one year. If so, the entire combined strength of the United Nations would then

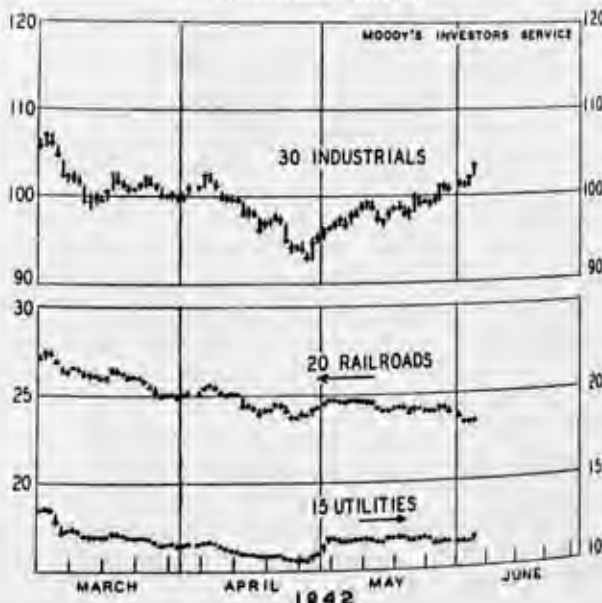
be thrown against Japan. Such undivided force would in all probability be sufficient, in view of the long extended Japanese lines, to secure a comparatively quick favorable decision.

But how could Germany be defeated within so short a time as one year, particularly if within that one year Japan chooses to attack Russia from the rear?

This looks like an enormous but not impossible task. Russian's main front is against Germany and she will not under any circumstances divide her attention between two possible fronts to the detriment of the German front. That is, she has enough territory and latent power to remain in the Far East on the defensive without weakening too much her defense or striking power against Germany.

A German thrust toward India is no longer as easy as it would have looked in the days of one-sided blitzkriegs. Those days are gone forever, as has been most recently illustrated by the fighting in Libya. Germany is no longer able to choose her point of attack at will, and to confine warfare to that point only. Her forces are now extended and irretrievably engaged along a front two thousand miles long, plus several thousand miles of additional "front" against a possible Allied invasion, plus hun-

DAILY RANGE OF STOCK PRICES  
(Dow-Jones Averages)



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dreds of thousands of square miles of hostile territory seething with unrest of conquered but not subdued peoples.

Because of the peculiar make-up of the German mass mind and the whole recent ideology which has been fed on visions and then fulfillment of victories, it is generally agreed by students of the situation that defeats, even stalemates, combined with the knowledge of growing United States strength, would be especially depressing to German morale. It will be against this psychological background—not to mention a deteriorating food, raw material and man-power situation, as well as increasing fatigue in the tenth year of their war effort—that the Germans will one day have to withstand a grand physical assault by the superior strength of Allied forces. Even before that point is reached Germany will have to withstand continued air assaults such as she herself was never fully able to inflict on others.

This roughly is the "formula" for a German defeat within comparatively as short a time as one year more or less.

Just what is to determine whether this will be the outcome or whether, on the contrary, the Axis powers will manage to put themselves in that "impregnable" position previously described and thus prolong the war enormously? The answer, so it is pretty generally held, seems to rest on the military developments of the next few months which for that reason could be highly critical.

If the investor accepts the above theory, these next few months ought to be exceptionally important to him as they may decide about one of two possible economic outcomes of a victorious war. These two outcomes could be quite dissimilar in their effect on investments.

#### Some Of The Post-War Differences

Just what the detailed effects would be, it is too early to say. Only bare outlines of possibilities are visible, and these will be discussed here from time to time. It may be already possible, however, to point to some of the *chief differences* in economic and financial conditions after a short war (from here out), as compared to those which would follow a very long war.

One of the most important of such differences

would be an incomparably stronger inflationary pressure, that is, a tendency of the commodity price level to rise, after a very long war.

In order to appreciate this it is only necessary to imagine the destruction wrought by large-scale air-raids, such as those staged recently on German production centers, multiplied a hundredfold. After years of such destruction, which would involve many countries, not merely the "accumulated backlog of demand" would be incomparably greater, but adequate plant facilities capable of turning out consumption goods would be lacking. The factor of technological obsolescence would also be more important—for instance, many more brand new houses, automobiles, machines, etc., would be in demand.

Meanwhile consumers would have an accumulated purchasing power in the form of unspent bank deposits and war bonds, which could be turned into cash. This combination of great pent-up demand backed up by purchasing power, on the one hand, and acute shortage of goods and pressing reconstruction problems, on the other, could produce an explosive rise of prices unless Government controls were continued instead of abandoned (it will be recalled that after the last war here the most explosive part of inflation occurred more than a year after the end of hostilities; in other countries also the worst inflation came a few years after the war).

After a long war, however, the first impulse of the people would be to seek freedom from governmental interference. We would therefore be confronted, after a very long war, with a situation where a doubly great need for controls would tend to come into sharp conflict with natural aspirations and desires of the people. Such a conflict, whatever its outcome, would be sure to create an unfavorable investment environment—presenting to the investor the alternatives of chaotic inflation, on the one hand, or continuation of strictest controls, the end of which would be hard to see, on the other hand.

The above is one illustration of how difficult some of the economic problems might become after a very long war, even from the point of view of such purely materialistic concepts as the size of the accumulated "backlog of demand."

Conversely, the investor should not become unduly alarmed when considering the comparative smallness of such "backlogs" after a short war (es-

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pecially since there is nothing to indicate that the war can end abruptly). It is true that after a comparatively short war the immediate impact of post-war readjustment would for that reason be sharper and therefore Government controls would have to be continued for the duration of that readjustment. But that period would be more surely of a transitory nature and require less time than the readjustment following a very long war.

#### Investment Policy

We believe therefore that the investor would fare much better after a shorter than after a longer war.

## Industry Prospects

### Tire And Rubber Company Post-War Prospects Favorable

**Intermediate Term Outlook Only Fair. Purchase Of Stocks Not Advised**

Earnings of rubber companies in 1942 before federal taxes and charge-offs for war contingencies will be below the record results of 1941 but will compare favorably with any other recent year despite the domestic usage of about 450,000 tons of rubber against 750,000 tons in 1941, 650,000 tons in 1940 and 600,000 tons in 1939. Dollar volume of the industry this year will be under 1941 but above other years because of tremendous military business.

#### War Business Large

In addition to making tires and tubes for military vehicles the industry is producing enormous quantities of such military products as bullet-sealing fuel tanks for airplanes and mechanized land equipment, gas masks, endless rubber track for high speed military vehicles, rubber track blocks and bogey wheels for tanks, pontoon bridges, barrage balloons, anti-submarine blimps, sponge rubber products for tanks and combat cars, fire hose, and many rubber parts for tanks, battleships and airplanes.

In addition, Firestone, General, Goodrich, Goodyear and U. S. Rubber are receiving fees for the operation of sizable Government ordnance plants. Goodyear is a large producer of wheels, brake assemblies and metal parts for airplanes and Firestone of anti-aircraft gun mounts and carriages as well as belt links for machine gun cartridges. Also the four leading companies are active participants in the synthetic rubber program of the Government which now promises to reach an ultimate yearly capacity of a million tons.

#### Lower 1942 Earnings

Earnings of the industry after taxes may not decline as sharply this year as pre-tax profits, despite higher tax rates,

But even though he cannot know with any certainty whether the war's duration will be short or long, he does not, happily, have to make a choice between "war stocks" and "peace stocks." Much current market comment is misleading in this connection.

Actually there are many stocks which are bound to be good in peace time and qualify for war retention. It is stocks of that kind—the sort which have been recommended here as inflation hedges—which continue to be good long term holdings. Chemicals, electrical equipment, motors and stocks of that and more specialized sorts remain sound long term investment holdings when the investor faces the dilemma of a short or a long war.

as few companies will be much above their exemption bases for excess profits tax and hence will not be liable for this large levy. In most cases the decline in common per share earnings will be drastic because of heavy preferred dividend requirements and additionally, in the cases of Goodyear and U. S. Rubber, owing to heavy Far Eastern plantation losses.

#### Post-War Prospects Predominantly Favorable

The chief function of the industry in the synthetic rubber program will be the polymerization (a chemical change resulting in formation of a new compound) of the raw materials to be supplied by the oil and chemical companies into synthetic rubber and the compounding of this rubber with carbon black and other chemicals.

The four leading companies, Firestone, Goodrich, Goodyear and U. S. Rubber, will probably make substantially all the synthetic rubber used domestically, perhaps for the account of the Government in the post-war era, but probably from plants now under construction which will be purchased from the Government. These companies will have the great benefit of the highly developed research and technical skill of the chemical and oil companies in lowering raw material costs and in obtaining a superior product to natural rubber. For this purpose the rubber industry will have the assistance of the country's proven leaders in chemical skill, namely, American Cyanamid, Dow, du Pont, Monsanto, Standard Oil Company of New Jersey, Shell and Union Carbide.

The rubber companies will have important but relatively minor problems to solve in polymerizing, compounding and vulcanizing as compared with the problems to be surmounted by the oil and chemical companies. Thus in the years in which synthetic rubber is moving from an embryonic to a mature stage, it is unlikely that the rubber companies will experience any major financial losses from participating in its production.

Synthetic rubber is likely to be the chief source of rubber in the post-war era because (1) from a military standpoint it will be expedient to be independent of foreign rubber; (2) Far Eastern plantations may be severely damaged before recapture and even if not severely damaged may take a long time to function satisfactorily and then only with higher labor costs; (3) technical progress in synthetic

*Invest in America's future—Buy United States War Bonds*

JUNE 8, 1942

rubber during the war period should be great (despite many difficulties in the early stages) and is likely to result ultimately in a low-cost product with characteristics "tailor made" to specific requirements.

Because of low-cost raw materials and accomplished technical skill, it will probably fall to this country to supply the Western Hemisphere and many other foreign countries with their synthetic rubber needs. Synthetic rubber for foreign demand may not be made by the tire and rubber companies at Akron but either they or the oil and chemical companies will probably supply rubber from plants in Texas.

### Capacity Operations For Several Years Likely

The big after-war demand for civilian products is likely to mean capacity operations and good profits for several years before the vacuum created by war restrictions is filled. Dollar volume of tire and rubber companies may be expected to be large in the early post-war years not only because of the civilian vacuum but also by reason of the higher average price of synthetic rubber and its probable inferior wearing qualities.

Another favorable post-war prospect is that the industry may have synthetic rubber available at a fairly steady price level thus eliminating the large inventory losses of the past resulting from wide gyrations in rubber prices. Moreover, it is possible that rubber companies will have sizable amounts of working capital freed in the post-war period by the usage of synthetic rubber as it will no longer be necessary to carry four or five months' supply of natural rubber. However, the somewhat higher cost of synthetic rubber, at least in the early post-war years, as compared with the average pre-war prices of natural rubber will offset this advantage to some extent. Also the larger companies may need funds to purchase synthetic rubber plants from the Government but presumably the rate of return from such investments will be satisfactory.

After-war prospects are not all on the favorable side. Average tire life is likely to increase in the later post-war era for several reasons: (1) technical progress in synthetic rubber should finally result in a longer lasting product than natural rubber; (2) the experience of motor car and truck drivers may result in some alleviation of former tire wearing practices such as under-inflation of tires, "jack rabbit" starts and excessive braking; (3) the merits of tire capping and re-treading will be better known publicly; (4) the development of large rayon capacity for military tire fabrics in the war period will be available for civilian use and enable a tire carcass to take more retreads or recaps than present cotton fabrics and (5) wartime development of the airplane may cause a net reduction in rubber usage if the plane replaces trucks, buses and passenger cars in many of their uses.

### Stocks Not Yet Attractive For Purchase

No one can see clearly the post-war position of the tire and rubber industry, beyond filling the vacuum created in civilian demand by wartime restrictions. Also, it is questionable whether such "vacuum" earnings will be capitalized satisfactorily in the stock market as the investor will be well aware that they are not normal or permanent. Even in the post-war period the industry will continue to be essentially speculative due to its sympathetic movements with business cycle changes which in the cases of the large

companies are accentuated in terms of common per share earnings by the leverage resulting from heavy funded debt charges and preferred stock dividend requirements. The previously summarized study of the industry's prospects, however, does indicate a preponderance of favorable factors for the early post-war years with such prospects being much more tangible and having much greater implications than the unfavorable ones.

To attract the speculator for post-war prospects the stocks of companies in the industry will have to be available at bargain prices. This is not so currently. Stocks of a group of seven companies are now higher in relation to the general market (as represented by the Dow-Jones average of 30 industrial stocks) than in either 1940 or 1941 and are only moderately under the 1939 relationship. They are now about 50% higher in relation to the general market than they were at their 1941 lows. The low present ratios of Goodyear and U. S. Rubber to the Dow-Jones Average as compared with their 1939 relationship is due mainly to the loss of Far Eastern plantations while the lower ratio for General Tire may reflect a smaller participation in the war program than for other companies. The improved relative status of Goodrich reflects both internal improvement and the absence of any important foreign earnings or rubber plantations, also this company's sizable participation in war business and synthetic rubber. The satisfactory comparisons of Hewitt and Lee are due mainly to their intra-industry progress in recent years and the absence of preferred dividend requirements.

RATIOS OF STOCK PRICES TO DOW JONES AVERAGE

	*1941 Low	†Recent	1941	1940	1939
Firestone .....	12	15	14	13	15
General .....	6	10	9	12	14
Goodrich .....	10	17	15	11	14
Goodyear .....	9	16	15	13	50
Hewitt .....	9	10	10	5	8
Lee .....	14	20	17	19	22
U. S. Rubber.....	13	17	19	19	28
Average .....	10	15	14	14	18

\* 1941 low to Dow-Jones low as of that day.  
† Recent ratios approximately same as mkt. prices as D. J. Ind. aver. at 104.

The market buoyancy of the tire and rubber company shares in recent months has carried them to levels where they do not qualify for purchase for after-war speculative purposes. Some time in the war period, however, they may well reach an attractive buying area for the speculator interested in capitalizing on the industry's post-war possibilities.

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## Individual Stocks

**Beneficial Industrial Loan Corporation and Household Finance Corporation Preferreds**

Shares well backed by assets of a liquid character and considered attractive income holdings. Purchase is advised.

Issue	Earnings— 1942	1941	Call Price	Recent Price	Yield
Beneficial Indust. Loan Corp.:					
\$2.50 Prior Pref...	\$7.93	\$9.92	\$53.75	48	5.21%
Household Finance Corp.:					
\$5 Cum. Pfd.....	6.81	9.25	107.50	197½	5.13

\* Three months ended March 31.  
† Average of bid and asked.

Beneficial Industrial Loan Corporation and Household Finance Corporation, the two largest American companies engaged in making small loans under the uniform small loan laws of various states, have good earnings records and their senior shares are considered attractive income holdings. Both issues are afforded a good degree of dividend coverage and strong asset protection.

While the companies' volume of loans is likely to follow a downward trend as a consequence of the program of consumer credit control and, reflecting this trend, as well as heavier taxes, net earnings will undoubtedly be lower this year than in 1941, the strong position of these shares is unlikely to be importantly impaired. Assets are predominantly of liquid character and loss of volume would serve to reduce indebtedness ranking ahead of the senior stock.

**Beneficial Industrial Loan Corporation** through subsidiaries operates 435 small loan offices and 13 offices for purchasing instalment obligations. Total assets on March 31, 1942, were \$87.8 million, including \$5.5 million cash and \$80.6 million instalment notes receivable (after loss reserves of \$5.5 million); December 31, 1941 net outstanding amounted to \$82.9 million. Notes payable (\$9.1 million short term) amounted to \$14.1 million (compared with \$17.4 million at the 1941 year end) and two issues of debentures maturing in 1950 and 1956 to \$19.5 million. Capital funds totaled \$44.8 million, equal to \$299 per preference share.

**Household Finance Corporation**, which operates over 300 offices, had total assets on March 31, 1942, of \$86.2 million, of which cash represented \$7.2 million and instalment notes receivable (less loss

reserves of \$6.7 million) \$78.2 million (December 31, 1941, \$80.1 million). Short term notes payable amounted to \$16.8 million and serial bank loans maturing from 1943 to 1946 to \$14.0 million, against \$19.8 million and \$14.5 million on December 31, 1941. Capital funds of \$48.7 million were equivalent to \$270 per share of preferred.

**Allegheny Ludlum Steel Corporation Common**

Stock regarded as attractive holding for income and eventual price appreciation; war outlook for company favorable; postwar position promising; purchase recommended.

Issue	Earnings— 1942	1941	Dividends— 1942	1941	Recent Price
Allegheny Ludlum Steel Corp.:					
Common .....	\$1.02	\$2.12	\$0.85	\$2.25	116½

\* First three months.  
† Paid or declared to date.  
‡ Average of bid and asked.

Alloy and special types of steels are playing a most important part in the war and have promise of excellent post-war consumption. Allegheny Ludlum Steel Corporation is one of the leading exclusive producers, specializing in stainless steel, tool steel, valve steel, special alloys and the company also manufactures a small quantity of ordinary carbon steels.

Operations are running at capacity, but with new additions to plants now being made there is some chance that 1942 sales will exceed the \$91.2 million of 1941, which had increased 67% over 1940, the previous record year. In 1941 the company had an operating profit margin of 16.5% as against 12.2% in 1940. Federal taxes were heavy and amounted to 65% of pre-tax income.

In the first three months of 1942 the company had earnings of \$1.02 a share on the common stock after setting aside taxes amounting to 71% of the pre-tax income. There was included in the tax provision the sum of \$165,000 as an additional reserve for anticipated tax increases under the laws now being discussed in Congress.

As of March 31, 1942 the company had unfilled orders of about \$35.0 million. In the first three months of the year the company's sales totaled \$22.0 million, indicating an annual rate about equal to that of 1941. Last year the company spent \$3.4 million for plant additions and betterment. Early in 1942 the company entered into a Defense Plant

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Corporation contract to build a plant at an estimated cost of \$4.7 million, which will be operated under lease by Allegheny Ludlum for the production of war materials.

Finances are sound; current assets of \$25.0 million, including cash and equivalent of over \$3.2 million at the end of 1941 compared with current liabilities of \$12.5 million. Capitalization consisted of only 28,340 shares of \$7 cumulative preferred stock and 1,256,251 shares of common.

Allegheny Ludlum Steel has been aggressive in recent years in promoting the use of stainless and alloy steels for new purposes. One development is Ludlite, a paper-thin corrosion-proof metal with silver-like appearance bonded to paper or some other material. This product is used for lining of shelves, for application to walls for decorative or protective purposes, etc. In 1940 the company announced production of Pluramelt steel, high cost stainless or alloy steels welded to low cost carbon steel. This product is versatile, permitting many combinations of different types of steel for various requirements. In the past, Allegheny Ludlum has been an important supplier of the automobile industry with many types of stainless and alloy steels.

While taxes will cut sharply into the company's earnings during the wartime, there appear to be good possibilities, nevertheless, that earnings will be at a comparatively high level and that the company will be able to pay substantial dividends. On the basis of the \$2 rate now paid, the shares return a high yield, but would still return a liberal return with dividends at \$1.50 per annum.

In the post-war period the company should have a large demand for its products with the anticipated revival of manufacture of consumers' durable goods, particularly automobiles and household equipment. Usage of alloy steels has been growing rapidly over a long period of years, and impetus given the uses of these special steels by the war effort should accelerate demand during the post-war period, particularly since these steels are able to compete with non-ferrous metals such as aluminum and magnesium, production of which is now increasing so rapidly during the war years.

All things considered the stock at recent prices appears a relatively attractive purchase for income and as a speculation for eventual price appreciation in view of the favorable long range trends affecting the company's business.

### Cleveland Graphite Bronze Company 5% Cumulative Preferred

*Purchase is recommended as an attractive medium grade preferred adequately protected for general income investment.*

Issue	*Div. Cov.— 1942	1941	Call Price	Recent Price	Yield
Cleve. Graphite Bronze Co.:					
5% Cum. Pfd.....	5.6	9.9	105	197%	5.12%

\* Three months ended March 31. † Average of bid and asked.

This issue is recommended as an attractive income investment for those seeking a fairly generous yield in the medium grade field. It should prove to be adequately protected under either war or peace conditions (had the issue been outstanding, dividend requirements would have been earned 8.8 times in 1940) although normal variations in the earnings of such a specialized industrial company will naturally cause price fluctuations. With only 30,000 share outstanding, the market on the New York Stock Exchange is relatively thin so the price on buying orders should be limited.

Cleveland Graphite is primarily a maker of bearings and bushings; it also makes clutch plates. Normally these are used in motor cars as shown by the fact that in 1940 some 50% of Cleveland's sales were to automobile factories (Ford, Chrysler, General Motors, International Harvester) and some 25% of sales were for the auto service market. Remaining 25% of sales were made to manufacturers of electric equipment, agricultural implements, marine engines and industrial machinery. Management appears able and conservative.

Although the war has eliminated normal business in original automotive equipment, this company has suffered no dearth of orders. Sales in the first quarter of 1942 rose 27.2% over a year before and a further substantial rise is in prospect. Products are now going into aircraft, Diesel engines, army trucks, gun carriages and tanks; also, are being used for automotive service purposes.

Defense and war work have necessitated important expansion. In the spring of 1941 the company sold this preferred (\$3 million) to provide the cost of a new plant which began operations early in 1942. Instead of relinquishing the old leased plant, as expected, Cleveland Graphite recently found it advisable to buy the old factory. Moreover, the company has negotiated with the U. S. Government to lease about \$7 million worth of additional machinery in order to lift its production for aircraft and Diesel engines.

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Margins of operating profit have been quite satisfactory, 18.3% in first quarter of 1942, and 19.9% for full year 1941. Lower margins on war work will probably bring the average down but rising sales should aid operating income. Taxes on income will no doubt be heavier than recently recorded; first quarter 1942 tax reserve took 65% of pre-tax profit and was figured at rates halfway between those for 1941 and those proposed for 1942.

This preferred has first claim on earnings and assets. (There is no long term debt). It is followed by common with a current market value of approximately \$7.7 million or \$257 per share of preferred. On March 31, 1942, treasury position was adequate. Working capital ratio was 2.1 to 1 and net current assets aggregated \$2.8 million. Net property account was \$5.8 million. Other assets and investments were not in important amount.

## Review of Previous Recommendations

**Burlington Mills Corporation \$2.75 Cumulative Convertible Preferred**—Retention advised; yield relatively attractive; dividends well assured; conversion privilege offers possibilities of price appreciation over period.

Issue	*Earnings— 1942	1941	Call Price	Recent Price	Yield
Burlington Mills Corp.: \$2.75 Cum. Conv.					
Pfd. ....	\$21.52	\$18.97	55	154½	5.04%

\* Six months ended with March.  
† Average of bid and asked.

Burlington Mills Corporation turned in a good report for the first half of its current fiscal year. For the six months ended March 28, 1942, earnings of \$1.7 million were 14% above the \$1.5 million earned in the comparable period of the preceding fiscal year. Preferred dividend requirements were therefore earned nearly sixteen times. In view of the higher tax deductions presumably made for the first half of the current fiscal year than in the first half of the preceding year, operating profit must have been considerably better than a year before.

It is doubtful that earnings for the full fiscal year to end next September will equal the \$42.57 per share preferred, or \$4.87 per share of common, reported for the last fiscal year in view of higher costs, expenses and taxes, and possible difficulties in connection with raw materials, but a relatively good showing is probable and preferred dividends will be earned by a wide margin. Some time ago it was reported that the company was cooperating with the Government in the war effort, but details in connection with any war work the company may be doing are not available.

The preferred stock is convertible into common at \$21 per share of common (preferred taken at \$50 per share) and the conversion privilege is likely to acquire value over a period. The common stock recently sold at 16½, last year earned \$4.87 per share and for the first half of the current fiscal year earned \$2.44. Common dividends last year amounted to \$1.50 and recent declarations have been at the rate of 35c per quarter.

As a reasonably well protected issue returning a fair yield and having possibilities over a period of price appreciation, the preferred continues to be regarded as an attractive holding.

The stock was last discussed in the STOCK SURVEY of January 12, 1942 (page 591).

**Interchemical Corporation Common**—Outlook marred by war developments. Lower earnings in prospect. Common lacks outstanding attraction currently. Sale advised.

Issue	*Earnings— 1942	1941	Dividends— 1942	1941	Recent Price
Interchemical Corp.: Common . . . . .	\$0.56	\$0.68	\$0.80	\$2.00	120½

\* Three months to March 31.  
† Paid or declared to date.  
‡ Average of bid and asked.

Interchemical Corporation reported first quarter sales for 1942 17% above those of the similar 1941 period. Margin of profit increased from 6.8% to 10% and net before taxes rose 70% but net after taxes declined by 12%. Net income declined because of materially higher tax provisions which amounted to 81% pre-tax profits in the first quarter of 1942 compared with 40% in the first three months of 1941.

Tax deductions were in line with rates recently proposed by the House Ways and Means Committee (94% excess profits tax and 40% normal and surtax).

Chief business of the company is the manufacture of printing ink; in this field it is having some difficulty in obtaining pigments for colored inks and faces the prospect of a declining trend of demand for both black and colored inks as a result of declining newspaper and magazine advertising.

Remainder of the company's business comprises primarily the production of industrial finishes, pigments, textile coloring materials, carbon paper and typewriter ribbons. Earnings of the company will suffer as the result of loss of business by the company's branches in Shanghai, Hong Kong and Manila. In the first ten months of 1941 these branches had sales of more than \$1 million and profits equal to about 48c per share of common stock.

Present indications point to earnings in 1942 of around \$2.50 per share after taxes (based on tax rates proposed by House Ways and Means Committee). The 40c quarterly dividend may continue for some further period, but payment of an extra (if any) as large as the 40c extra paid last December is unlikely.

The price of the stock is reasonably well deflated but the issue, in our opinion, no longer offers relatively attractive value and sale is, therefore, advised.

The stock was recommended for income and moderate price appreciation in the STOCK SURVEY of November 17, 1941 (page 380).

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## MOODY'S DAILY COMMODITY INDEX—WEEKLY (FRIDAY) PRICES

(December 31, 1931 = 100)



## WEEKLY (FRIDAY) FIGURES FOR MOODY'S DAILY COMMODITY INDEX, 1928-42

(December 31, 1931 = 100)

	Friday	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1928—First ....	244.3	238.5	234.8	235.8	247.7	241.6	246.4	232.8	235.1	227.1	222.5	222.5	223.1
Second ..	245.0	237.1	232.9	239.4	248.9	240.3	243.5	230.7	232.6	224.5	223.7	223.7	223.3
Third ...	247.4	234.9	235.8	244.2	245.0	239.0	239.4	234.0	231.9	225.8	222.7	222.7	231.9
Fourth ..	240.6	234.4	237.1	249.4	244.8	242.0	238.4	233.2	228.3	222.6	222.7	222.7	233.5
Fifth ....	....	....	240.1	....	....	....	....	....	....	....	....	....	....
1929—First ....	221.6	230.1	230.7	238.9	228.5	224.3	229.5	225.0	231.1	226.2	214.0	214.0	204.8
Second ..	225.8	232.0	242.0	236.5	224.5	224.0	232.0	230.8	230.1	223.2	209.2	209.2	203.5
Third ...	227.7	235.3	245.1	231.1	224.8	225.4	237.5	232.4	229.8	219.9	208.9	208.9	202.6
Fourth ..	230.6	236.1	243.5	228.9	224.1	226.4	237.5	231.6	228.3	218.4	208.3	208.3	206.0
Fifth ....	....	....	240.8	....	218.5	....	....	....	....	....	....	....	....
1930—First ....	204.8	201.4	194.7	198.6	188.2	183.9	170.0	164.1	165.9	150.5	148.6	148.6	145.3
Second ..	204.5	202.9	193.1	197.0	187.3	178.5	167.3	168.3	164.3	141.5	148.2	148.2	141.7
Third ...	204.2	202.5	196.5	191.0	188.0	172.8	168.1	168.3	167.4	154.9	148.1	148.1	139.7
Fourth ..	205.7	199.7	196.5	187.9	189.9	169.9	165.9	167.7	166.9	150.1	....	....	....
Fifth ....	201.7	....	....	....	....	....	....	....	....	....	....	....	....
1931—First ....	139.9	157.5	135.5	137.5	130.5	130.5	123.4	131.0	112.1	110.6	101.6	108.1	96.7
Second ..	140.4	137.8	140.1	136.5	130.2	136.6	126.9	118.2	110.7	107.0	102.5	101.9	97.4
Third ...	140.1	136.9	140.3	135.4	129.1	127.3	126.2	114.2	107.0	102.5	105.6	101.9	98.2
Fourth ..	140.8	136.8	139.2	132.5	126.7	121.3	126.2	112.4	108.0	105.6	99.5	....	100.0
Fifth ....	138.4	....	....	....	123.8	....	....	....	....	....	....	....	....
1932—First ....	98.7	96.3	96.6	81.3	87.1	81.2	84.4	89.7	102.4	93.4	85.7	85.7	82.0
Second ..	100.5	96.4	97.7	90.3	84.0	80.9	85.8	84.2	92.2	90.3	85.5	85.5	81.5
Third ...	98.2	96.8	93.0	87.8	83.3	81.2	89.2	84.8	97.2	89.0	84.5	84.5	80.3
Fourth ..	98.1	95.8	91.3	85.9	....	....	....	....	96.9	85.9	....	....	79.8
Fifth ....	....	....	....	....	....	....	....	....	....	....	....	....	....
1933—First ....	81.6	78.9	81.9	88.5	110.0	120.9	135.4	135.1	130.1	128.5	124.2	124.2	124.4
Second ..	81.0	81.1	87.6	90.0	115.6	121.6	143.7	133.9	127.7	123.7	128.0	128.0	124.3
Third ...	80.8	80.6	88.3	90.7	114.9	120.1	134.1	130.7	131.5	121.1	128.9	128.9	124.6
Fourth ..	81.0	80.2	86.5	101.5	116.9	122.7	137.4	130.7	132.9	126.2	125.6	125.6	123.2
Fifth ....	....	....	86.3	....	....	....	....	....	131.5	....	....	....	124.7
1934—First ....	127.5	136.8	140.0	137.9	134.4	136.1	139.2	144.6	154.4	144.6	144.2	144.2	150.7
Second ..	129.5	136.6	139.5	137.3	135.7	137.0	143.4	151.1	150.8	146.4	145.6	145.6	151.3
Third ...	132.9	140.4	133.4	133.7	134.2	140.9	144.0	152.0	151.3	145.0	147.3	147.3	151.3
Fourth ..	133.5	139.1	137.3	....	....	....	....	....	148.9	143.4	145.8	145.8	154.4
Fifth ....	....	....	137.3	....	....	....	....	....	....	....	....	....	....
1935—First ....	158.2	153.5	158.3	152.2	150.8	158.1	157.1	163.3	167.2	174.3	160.6	160.6	166.6
Second ..	158.2	155.6	157.1	156.4	157.4	156.4	157.5	158.0	170.1	174.3	166.4	166.4	168.6
Third ...	153.5	157.4	151.3	159.8	158.8	158.9	158.9	166.9	172.6	174.0	167.8	167.8	184.9
Fourth ..	155.5	157.9	149.9	158.3	161.3	157.9	....	....	172.2	171.0	166.5	166.5	185.6
Fifth ....	....	....	150.9	....	156.7	....	....	....	....	....	....	....	....
1936—First ....	168.0	169.6	171.1	169.8	164.9	163.8	172.3	183.6	189.7	183.7	184.8	184.8	190.0
Second ..	168.7	171.8	170.7	171.7	163.6	167.2	177.0	185.2	185.7	181.1	181.1	181.1	202.0
Third ...	167.9	169.3	169.6	172.0	165.1	168.7	177.9	182.5	184.5	181.7	180.6	180.6	208.5
Fourth ..	171.3	169.9	....	....	163.3	....	....	....	....	....	....	....	207.5
Fifth ....	169.1	....	....	....	....	....	....	....	....	....	....	....	....
1937—First ....	208.3	206.0	213.6	227.3	208.0	203.5	207.1	208.1	198.5	185.8	154.2	148.9	148.9
Second ..	210.0	206.3	218.4	221.5	205.1	199.3	208.7	204.8	194.3	179.0	146.5	146.5	148.2
Third ...	208.9	206.6	221.0	218.3	200.2	198.9	200.5	200.4	196.0	189.2	160.5	160.5	151.6
Fourth ..	206.0	208.8	224.2	209.0	....	....	....	....	....	....	....	....	....
Fifth ....	....	....	....	....	....	....	....	....	....	....	....	....	....

(Continued on next page)

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## WEEKLY (FRIDAY) FIGURES FOR MOODY'S DAILY COMMODITY INDEX, 1928-42

(December 31, 1931 = 100)

	Friday	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1928—													
First ....	151.4	148.9	150.7	141.4	136.7	131.2	143.1	146.0	148.4	144.8	144.2	144.2	141.3
Second ..	152.1	148.2	150.0	140.6	137.8	133.5	146.0	141.7	142.8	142.8	144.7	144.7	139.8
Third ...	151.2	149.7	147.7	141.3	134.8	138.2	146.8	143.8	143.7	145.1	144.2	144.2	139.9
Fourth ..	149.8	151.1	145.6	141.0	131.8	140.8	147.7	143.8	143.8	144.4	141.8	141.8	141.9
Fifth ....	.....	.....	.....	136.9	.....	.....	147.9	.....	144.8	.....	.....	.....	143.3
1929—													
First ....	144.0	143.2	145.3	140.3	142.6	143.5	143.8	141.2	146.9	168.9	163.1	163.1	160.6
Second ..	142.5	142.5	144.8	138.9	144.1	143.5	142.3	139.1	167.7	167.2	162.7	162.7	162.5
Third ...	143.5	143.5	143.5	138.8	144.0	142.3	141.1	140.2	160.9	167.2	160.8	160.8	166.2
Fourth ..	142.3	144.5	142.4	140.4	144.6	142.8	141.6	141.3	172.8	164.5	160.5	160.5	160.1
Fifth ....	.....	.....	140.6	.....	.....	142.8	.....	.....	168.3	.....	.....	.....	166.8
1930—													
First ....	108.4	159.8	158.7	158.1	162.3	154.0	156.4	156.4	151.1	155.8	160.4	164.3	164.2
Second ..	165.5	159.8	159.3	159.4	166.6	156.4	156.8	156.8	150.8	156.3	162.7	167.3	163.7
Third ...	165.9	160.3	157.4	163.1	158.2	157.6	155.1	149.3	157.9	164.6	168.4	168.4	165.3
Fourth ..	161.0	160.3	157.8	163.3	153.0	155.1	158.8	150.7	159.1	164.7	167.8	167.8	170.5
Fifth ....	.....	.....	155.7	.....	153.0	.....	.....	154.2	.....	.....	167.4	.....	.....
1941—													
First ....	172.4	173.2	177.4	185.1	187.0	195.8	202.5	210.5	217.0	218.8	218.8	210.1	213.0
Second ..	174.6	172.6	180.8	186.5	192.0	199.0	205.8	213.4	218.9	211.7	208.8	208.8	213.8
Third ...	174.6	173.3	182.6	185.3	196.3	200.3	207.7	210.8	216.4	205.4	209.4	209.4	216.3
Fourth ..	175.3	175.5	184.2	186.6	198.3	204.8	211.8	212.9	213.3	208.5	208.4	208.4	217.8
Fifth ....	172.6	.....	.....	.....	194.2	.....	.....	213.9	.....	209.2	.....	.....	.....
1942—													
First ....	220.0	226.9	229.1	232.3	231.2	.....	.....	.....	.....	.....	.....	.....	.....
Second ..	221.6	227.6	229.8	233.9	232.3	.....	.....	.....	.....	.....	.....	.....	.....
Third ...	223.3	228.2	229.3	231.3	233.2	.....	.....	.....	.....	.....	.....	.....	.....
Fourth ..	225.7	228.2	231.4	231.8	231.5	.....	.....	.....	.....	.....	.....	.....	.....
Fifth ....	226.0	.....	.....	.....	231.2	.....	.....	.....	.....	.....	.....	.....	.....

NOTE—Moody's Investors Service has used due care and caution in the preparation of this publication. The factual information has been compiled from sources of repute, although not infallible. Errata, when discovered, are corrected. Opinions are based partly upon compiled factual information and partly upon other factors affecting our judgment of the matter treated. They are independent and unbiased.

Printed in U. S. A.

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TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE June 8, 1942

TO Secretary Morgenthau  
FROM Mr. Kamarck

Subject; Shipment of Planes to British Forces

1. In the week ended June 2, 1942, a total of 145 planes of all types (103 combat planes) were shipped to British forces.

2. Nine Vultee Vengeance dive-bombers were sent to India this week. These dive-bombers are the same as the Northrop model reported two weeks ago. The British placed orders for these dive-bombers in June, 1940, after the effectiveness of the German Stukas was demonstrated in France. As no plant facilities were available, a new plant had to be built. Now, two years after the orders were placed, deliveries are beginning to be made.

A picture of a Vengeance is attached on the next page.





Table A - Shipments by Area

320

	Week Ending June 2, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	11	275	1,436
Heavy bombers	3	61	165
Naval patrol bombers	0	8	110
Pursuit	36	743	1,054
Army Cooperation	0	71	102
Trainers	<u>0</u>	<u>0</u>	<u>24</u>
Total to the United Kingdom	50	1,158	2,891
<u>To the Middle East</u>			
Light and medium bombers	4	204	534
Heavy bombers	0	0	5
Pursuit	18	267	1,115
Army Cooperation	0	12	12
Trainers	<u>0</u>	<u>8</u>	<u>150</u>
Total to the Middle East	22	491	1,816
<u>To the Canadian Forces</u>			
Light and medium bombers	0	37	205
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	<u>42</u>	<u>410</u>	<u>1,651</u>
Total to Canadian Forces	42	501	1,960
<u>To the British Pacific Forces</u>			
Light and medium bombers	8	141	241
Naval patrol bombers	0	0	27
Pursuit	14	200	363
Trainers	<u>0</u>	<u>0</u>	<u>105</u>
Total to Pacific Forces	22	341	736
<u>To the British Indian Forces</u>			
Light and medium bombers	9	9	9
Pursuit	<u>0</u>	<u>40</u>	<u>40</u>
Total to Indian Forces	9	49	49
<u>Totals</u>			
Light and medium bombers	32	666	2,425
Heavy bombers	3	62	171
Naval patrol bombers	0	31	168
Pursuit	68	1,280	2,644
Army Cooperation	0	83	114
Trainers	<u>42</u>	<u>418</u>	<u>1,930</u>
Grand Total	145	2,540	7,452

Table B - Shipments by Types

	Week Ending <u>June 2, 1942</u>	<u>Total Shipped in 1942 to date</u>	<u>Total Shipped since Jan. 1, 1941</u>
Bell Airacobra	0	314	468
Boeing B-17	0	12	32
Boston III	2	12	36
Brewster Buffalo	0	0	168
Cessna Crane I-A (AT-17)	9	65	65
T-50	0	86	700
Consolidated Catalina	0	31	168
Liberator	3	50	139
Curtiss Kittyhawk	32	498	880
Tomahawk	0	0	544
Douglas Boston I, II and III	0	0	492
Fairchild 24 R-9	0	73	95
Glenn Martin Baltimore	4	207	275
Maryland	0	0	150
Grumman Martlet II	0	46	87
Lockheed Hudson	13	322	1,292
Lightning	0	3	3
Ventura I	0	12	12
Ventura Bomber	0	94	94
North American B-25B	4	10	10
Harvard II	0	52	949
Mustang	36	414	494
Northrop Vengeance	0	5	5
Pitcairn Autogiro	0	0	5
Stearman PT-27	33	215	216
Vought-Sikorsky Chesapeake	0	0	50
Vultee-Stinson O-49	0	10	14
Vultee Vengeance	<u>9</u>	<u>9</u>	<u>9</u>
Grand Total - All Types	145	2,540	7,452

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Totals</u>
Weekly average of shipments in 1941	36	2	3	28	1	30	100
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	4	0	0	14	0	60	78
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	20	0	3	59	0	4	86
February 17, 1942	9	0	2	41	7	0	59
February 24, 1942	24	0	2	86	7	1	120
March 3, 1942	26	0	1	80	6	0	113
March 10, 1942	25	2	0	78	1	0	106
March 17, 1942	34	1	0	94	8	0	137
March 24, 1942	94	9	12	79	0	84	278
March 31, 1942	49	1	0	58	4	10	122
April 7, 1942	69	2	0	8	4	5	88
April 14, 1942	55	7	0	86	6	29	183
April 21, 1942	55	11	0	43	15	34	158
April 28, 1942	35	10	0	39	0	26	110
May 5, 1942	14	2	0	98	0	4	118
May 12, 1942	10	3	0	75	12	6	118
May 19, 1942	22	0	0	37	0	7	66
May 26, 1942	23	8	0	34	0	38	103
June 2, 1942	32	3	0	68	0	42	145
Total shipments since January 1, 1941 to date *	2,425	171	168	2,644	114	1,930	7,452

\* Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

June 8, 1942

Dear Mr. Secretary:

There is enclosed a copy of the instruction as finally drafted and signed by Mr. Acheson to the Ambassador at Buenos Aires. I am leaving this afternoon, and I am to deliver the instruction personally to Mr. Armour at Buenos Aires, where I expect to arrive on June 13. It will be a pleasure to mark for your attention any reports that may be sent in while I am at Buenos Aires, and to give a full account of the trip upon my return toward the end of July. In accordance with your suggestion, my travel orders were revised to include Uruguay.

Faithfully yours,

Enclosure:  
Instruction.

*B. M. Morgenthau, Jr.*  
The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury,

STRICTLY CONFIDENTIAL

AIR MAIL

No.

The Honorable  
Norman Armour,  
American Ambassador,  
Buenos Aires.

Sir:

Reference is made to the telegram, no. 680,  
May 14, 1942, 6:00 p.m., "From the Secretary to the  
Ambassador". There are now enclosed:

(1) A memorandum of the Treasury Department dated  
May 12, 1942, proposing the freezing of Argentine funds  
because of the pre-Axis financial and commercial trans-  
actions which are occurring in Argentina either  
because of the failure of the Argentine Government to  
impose adequate controls, or to apply effectively the  
controls which have been put into operation;

(2) A memorandum of the Department of Justice  
dated May 12, 1942, entitled "Axis Funds and Financial  
Activities in Argentina".

As you know, it is of paramount importance to  
eliminate pre-Axis financial and commercial transactions  
which are being executed in Argentina. To accomplish  
this, not only is it necessary for the staff of the  
Embassy effectively to implement the various control  
measures which have been adopted by our Government, but  
it is also necessary to induce, if possible, the Argentine  
Government to adopt complementary controls in accordance  
with the provisions of Resolution V adopted at the Rio  
Conference. This Department, and the other interested  
government agencies, view with grave concern the pre-Axis  
transactions which are being carried on in Argentina and

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the uncooperative attitude of the Argentine Government. It is, therefore, suggested that you personally follow questions raised by action designed to strengthen United States control measures or to induce the Argentine Government to carry out the commitments embodied in Resolution V.

## I

In communications between the Embassy and the Department, and in discussions between various missions from Washington and the Embassy, measures which would strengthen United States controls have, of course, been suggested from time to time. In accordance with those suggestions, and with steps already taken by the Embassy, further vigorous action along the following lines, among others, is an indispensable prerequisite to increasing the effectiveness of our controls:

(1) In so far as possible, a careful check should be made regarding the liquidation of looted currency and securities, with a view to implementing General Ruling No. 5, as amended. (Reference is made to the circular telegram of May 18, 1942.) Information regarding the specific firms or persons or other channels direct or indirect through which such currency and securities are flowing, and information regarding serial numbers, or any other identifying marks on such currency or securities would, of course, particularly facilitate the administration of that Ruling.

(2) A careful check should be made of holding companies, dubious exchange houses, and other firms which are suspected of being engaged in cloaking activities. Evidence of cloaking by firms in Argentina should, of course, result in their immediate recommendation for inclusion on the Proclaimed List. Such evidence regarding firms in the United States or firms in Argentina suspected of having accounts in the United States should, of course, be submitted as a possible basis for ad hoc freezing by the United States Treasury Department. That Department is making an investigation regarding the material under item 2 of its memorandum and has been requested to submit information or suggestions which would aid investigation by members of the Embassy staff.

(3) Investigation should be made of the amount of remittances to Axis territory directly, or indirectly through neutral countries. It is suggested that information might be secured through the Central Bank or otherwise, regarding remittances to each neutral country for the last four years. These figures might be analyzed in the light of the trade balances between Argentina and the countries involved, and an estimate might be made of the amount of remittances not referable to "legitimate trade transactions" which have been made

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-3-

to Axis territory directly, or indirectly through neutral European countries. In this connection, it is, of course, significant that officials of the Central Bank and the Argentine Government have repeatedly stated that remittances to neutrals are limited to those connected with "legitimate trade transactions". An explanation of the transactions which are deemed "legitimate trade transactions" by the Argentine authorities should also be submitted.

(4) A careful check should be made of the progress of negotiations between the Argentine Government and the Spanish trade mission. Any significant development should be reported to the Department by telegram.

(5) A careful check should be made on the possible flow of goods between Europe and Argentina, with a view to recommending the strengthening of the navicert system.

(6) A careful check should be made of all transactions which appear to involve, directly or indirectly, an Axis interest. Important transactions should be reported in summary by telegram, but details on all of the transactions described above should be sent by air mail.

Reports to the Department on the foregoing items, including suggestions for remedial action, should be kept current. In addition, an immediate report on the accuracy of the facts set forth in the attached memoranda is requested.

## II

The Argentine Ambassador to the United States has already been informed of the Treasury proposal, its rejection, and the view of the United States Government that Argentina's cooperation under Resolution V has been unsatisfactory in character. In addition, you should make strong representations to the Argentine Government regarding its failure to implement Resolution V by severing commercial and financial intercourse direct or indirect between Argentina and the nations signatory to the Tripartite Pact, and its failure to take measures to eliminate financial and commercial activities which are prejudicial to the welfare and security of the American republics. It is requested that, in the first instance, this matter should be taken up with the President of Argentina to insure his receiving a proper report of the attitude of this Government.

The Department is also preparing an instruction suggestion representations to be made to the Argentine Government concerning pro-Axis activities in Argentina, in fields other than commercial and financial. It is suggested that you do not seek an interview with the President until you have received that instruction and are prepared to make representations concerning both the matters covered herein and in that instruction.

Your representations regarding Resolution V should, unless you perceive some objection, include reference to the following:

(1) As a

Regraded Unclassified



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(1) As a result of Argentina's failure to implement Resolution V and the consequent inadequacy of Argentine controls, the nations signatory to the Tripartite Pact, the territories dominated by such nations, and the nationals and partisans of both, are executing financial and commercial transactions in Argentina, or through the use of Argentine facilities, which prejudice the welfare and security of the American republics.

For illustrative purposes, unless you perceive some objection, you may refer to the following transactions (and similar transactions of which the Embassy is aware) which have been executed in Argentina with the apparent approval or knowledge of the Argentine Government, notwithstanding that those transactions run directly counter to Resolution V, since they prejudice the welfare and security of the American republics by increasing the strength of the signatories to the Tripartite Pact:

(a) With the authorization of the Argentine monetary authorities, remittances have been made to Axis nationals to service Argentina's external debt owed to the residents of Axis countries. (Despatch no. 4925 dated May 1, 1942.)

(b) Substantial private remittances have been made to, or for the benefit of, firms or persons in Axis territory.

(c) Substantial transfers have been made to occupied France, contrary to assurances by the Central Bank that no payments would be made outside of the Argentine-French payment agreement. Although the pesos which may be made available to French banks as a result of such transfers are blocked, it is the understanding of the United States Government that such funds may, under existing Argentine controls, be freely unblocked and used for purposes which prejudice the welfare and security of the United States and the other American republics.

(2) As a further result of Argentina's inadequate controls, shipments of material from the United States to Argentina, and the extension of public or private credit by the United States to Argentina may directly or indirectly increase the economic and financial power of Axis agents and other Axis partisans in Argentina who are executing commercial and financial transactions which are inimical to the security and welfare of the American republics. In determining allocations of increasingly scarce material and shipping space and in its total commercial and economic relations with Argentina, the United States Government will be compelled to give appropriate weight to this fact - that shipments from the United States and other transactions between the United States and Argentina may, in the absence of appropriate controls by Argentina, directly or indirectly increase the economic and financial power of the enemies of the United States and of the other American republics.

(3) The

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(3) The United States Government would be constrained to view the future continued failure of Argentina to carry out the commitments embodied in Resolution V adopted at Rio de Janeiro as a definitive indication of Argentina's intention neither to fulfil the obligations, nor to gain the benefits, of the several inter-American instruments with respect to commercial and economic matters, to which she is a party.

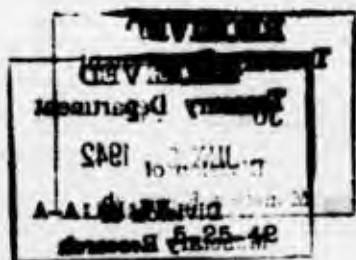
It is requested that a copy of any note or aide-mémoire which is transmitted to the Argentine Government be submitted to the Department and that the Department be kept fully informed of developments.

Very truly yours,

For the Secretary of State:

Enclosures:

1. Memorandum from the Treasury Department, dated May 12, 1942.
2. Memorandum from the Department of Justice, dated May 12, 1942.



FF EO PA/LD RA FD A-A

Treasury Department 329  
Division of Monetary Research

Date .....19

To: Miss Chauncey

From: L. Shanahan

Mr. White has noted, and as I told  
you several days ago, this letter does  
not require any attention.

C O P Y

May 12, 1942

Secretary Morgenthau

Mr. Foley and Mr. White

Subject: Extension of Freezing Control to Argentina

It is recommended that the freezing control order be extended to cover the assets and transactions of Argentina and her nationals, for the following reasons:

- A. Argentina is being actively used by the enemy to undermine our program of economic warfare.
- B. Argentina is being actively used by the enemy, in fields other than economic warfare, to undermine our war effort.
- C. Argentina has not taken effective steps to carry out the resolutions adopted at the Rio conference.

These points are developed more fully below.

A. ARGENTINA IS BEING ACTIVELY USED BY THE ENEMY TO UNDERMINE OUR PROGRAM OF ECONOMIC WARFARE.

Argentina is now being widely used by the Axis to cloak important economic and financial activities. Argentina and Switzerland are the two most important centers used by the Axis to evade the economic warfare carried on by the United Nations. Elaborate machinery has been built up by the Axis in these countries to cloak transactions, on the assumption that these countries would remain neutral.

(1) Argentina is a Refuge for Axis Funds.

In the weeks preceding the extension of our freezing order to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. In this way, a large part of the funds which we had hoped to prevent being used for Axis activities escaped our control. This accumulation of Axis funds in Argentina has resulted in the Axis' using Buenos Aires as the center point from which to transmit funds to Axis agents in all the other American republics.

-2-

This transfer of funds to Argentina, representing in many instances the evasion of our freezing control, is still going on. In a recent conference with Mr. Towson of the Treasury Department, Dr. Irigoyen, Argentine Under Secretary of Finance, stated that there had been a substantial flow of foreign capital to Argentina amounting to four or five hundred million pesos. Dr. Irigoyen added that the inflow of funds is continuing and that the largest part of this inward capital movement is from the United States.

The Argentine Government has done nothing to prevent Axis funds from finding refuge in Argentina. Funds that have fled to Argentina are apparently freely used by Axis Embassies. Argentina limited the Axis Embassies to two hundred thousand pesos a month but Dr. Prebisch, head of the Central Bank of Argentina, admitted to our Embassy that it was quite possible for Axis diplomats to receive additional funds through the accounts of other persons. As the Taboria Committee, established by the Argentine Congress for the purpose of investigating anti-Argentine activities, disclosed, during the year 1940 to 1941 the German Embassy spent 5,983,000 pesos as against normal yearly expenditures of 164,000 pesos.

(2) Argentine Institutions are a Cloak for Axis Financial Transactions.

Absence of effective legislation and enforcement has created in Argentina an ideal environment for the setting up of financial institutions--particularly holding companies--which can cloak Axis operations and provide a refuge for Axis assets. There are numerous Argentine holding companies disclosed in TFR-300 reports which can readily cloak Axis assets. After closely watching the account of one such Argentine holding company, believed to be concealing funds for a blocked national, we discovered that the funds in the account, amounting to over \$1,000,000 did in fact belong to a Swiss national on the Proclaimed List acting for the Axis.

Another typical Argentine holding company cloaking funds in this country holds \$3,000,000 in New York by way of a Panamanian holding company which in turn owns a Canadian company in whose name the funds are held. It is known that this chain of holding companies is in fact entirely owned by a French banking concern, and that prior to our freezing order the Canadian company holding the Funds was admittedly owned by French nationals in France.

An interesting example of the manner in which Argentine holding companies can serve as a repository for dubious assets is provided by the 13 holding companies of the Bemberg interests

which increased their reported assets from about \$3,500,000 on June 1, 1940 to \$32,000,000 on June 14, 1941. It is not yet clearly known whether these particular Benberg holding companies are acting on behalf of the Axis but the following is suggestive concerning them:

- (a) The Benberg interests are known to have recently placed two suspicious Germans in important positions in their Argentine offices.
- (b) The American agent of Benberg, Fred Pestulossi, was recently refused an exit visa by the State Department.

- (c) The Benbergs have extensive interests in France and Germany and the principal holding company is referred to in a State Department despatch (4436, Buenos Aires, March 16, 1942) as being French-owned.

While it is possible for us to ferret out a few of these companies and to freeze them on an individual basis, it is impossible to keep pace with the rapid maneuvers presently possible through Argentine companies. By freezing funds held in this country in the name of Argentine holding companies and institutions, we will destroy the elaborate machinery built up by the Axis and their Argentine associates to cloak funds held in this country on the assumption that Argentina would remain neutral and would not be subject to the freezing order.

(3) Argentina is an Agency for the Transfer of Axis Funds to Europe

Large transfers are made to the Axis countries from Argentina and by way of Argentina. Even when some banks cooperate with the British and American Embassies other banks are found to carry out the same transactions. For example, the British reported (March 14, 1942) that when the Banco de Italia y Rio de la Plata refused to carry out Italian instructions respecting payments to Italian diplomatic representatives, the Italian Foreign Exchange Institute transferred its balance to the Banco de la Nacion under an agreement with the Argentine Central Bank by which the peso balances of the Institute were to be kept free. The Central Bank authorities were embarrassed that the British had learned of this private agreement. The British believe that the Italians reached their private agreement with the Central Bank subsequent to the freezing circular issued in Argentina, September 1, 1941. The British report that Italian transfers from pesos to Swiss francs totaled 8,000,000 pesos from September to January and 7,000,000 pesos in February.

The Italians were willing to pay ten percent over the Argentine party in pesos for the Swiss francs for at least a part of the funds received, indicating the great importance of the transaction to them. The American Embassy commented in a despatch to the State Department that the "lack of candor" of the Central Bank in this matter was disturbing.

A series of censorship intercepts, both British and American, have revealed, among other things, that Argentina is sending remittances directly to Axis countries, that banks such as the Banco de la Provincia Buenos Aires have made large telegraphic transfers to Switzerland to be held in the name of German institutions, and that payments to Axis-occupied areas are being made by the drawing of checks on New York to the order of Argentine firms.

Argentina itself is the source of a large volume of the funds remitted to Axis countries. A recent report from the British Embassy in Buenos Aires (April 23, 1942) carries the information that more than 20,000,000 lire are remitted from Argentina to Italy monthly in the form of "gifts." Such benevolent remittances to Italy from Argentina provide the Axis with more than \$10,000,000 annually in free exchange. A Swiss company on the Proclaimed List cited these transfers to a Buenos Aires firm (until recently, on the Proclaimed List) as reason for purchasing 20,000,000 lire per month from the Swiss firm for sale in this hemisphere.

The American Embassy in Buenos Aires reports that the Brazilian Ambassador to Argentina stated that he had been requested by his Government to express to the Argentine Government Brazil's concern regarding the transfer of funds to and from Axis countries via Buenos Aires through Switzerland and Sweden. In addition, the Bank of Brazil recently refused the request of the Bank for International Settlements to transfer gold from Rio to Argentina.

(4) Commercial and Payment Agreements with Axis Countries.

Argentina has been contributing to the economy of Axis Europe by the export of strategic materials through the European neutrals. For example, skins and hides are being shipped from Argentina to Portugal, doubtless intended for re-export to the Axis powers as Portugal is normally an exporter of skins and hides. More recently the Argentine Government has concluded financial and commercial agreements which have brought her into closer cooperation with Axis Europe.

Late in 1941 it had been reported that negotiations for a new French payments agreement had been suspended and the Central Bank had stated that the French francs involved in the agreement were

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practically exhausted and that the Bank intended to refuse any new agreement except perhaps in respect to small family remittances.

Dr. Raul Prebisch, General Manager of the Central Bank, informed the American Embassy at Buenos Aires on February 9, 1942 that the negotiations for a new French Payments Agreement would not be resumed. On March 13th, however, the British Embassy learned that the Central Bank had authorized the transfer to France by the Banco Hipotecario Franco-Argentino of 1,000,000 French francs. The rate of exchange in the transaction was fixed at 9.65 pesos per 100 francs, which is the same rate as that used in the Payments Agreement and greatly over-values the French franc.

The pesos paid for the francs in this transaction are to go into a blocked account which, owing to the laxness with which blocked accounts are controlled, is little protection against withdrawal of the funds. The Banco Hipotecario Franco-Argentino had given a written undertaking to the British Embassy some months prior to March 16th in which the bank agreed not to make remittances to France outside of the Payments Agreement without express consent to the transaction by the British Embassy. Subsequent to the above transaction it was learned by the Embassy at Buenos Aires that a similar authorization for remittance of funds to France had recently been granted to the large French-owned brewery, Quilmes Cervceria Argentina, Buenos Aires. Particularly significant is Dr. Grumbach's confidential statement that this action was taken against the wishes of the Central Bank as the result of specific instructions from the Ministry of Foreign Affairs.

The recently concluded agreement with Franco Spain has provided an opportunity for the Axis powers to obtain Argentine cooperation in draining strategic materials from Argentina and in channeling these products into Axis Europe. Apart from the fact that the Agreement establishes a flow of goods to and from the Axis and the Western Hemisphere, it contemplates a regular shipping line and the establishment of an airline between Argentina and Spain.

In this connection it is worth noting that the British Government is informed that the Spanish Commercial Mission now proceeding to Buenos Aires includes two German agents (whose names are known) who, among other things, are bringing substantial quantities of United States currency for disposal in Latin America (American Embassy cable 680, April 16, 1942).



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(5) The Proclaimed List and Cloaking.

Despatches received from American Missions indicate not only that the Argentine Government has refused to recognize our Proclaimed List policy, but also that Argentine facilities are being used to destroy the effectiveness of our Proclaimed List policy in other countries. For example, Bolivian Proclaimed List nationals are receiving large assignments of goods and supplies from Argentina according to State Department despatches (Nos. 1739, 1747, and 1771). Argentine companies are freely underwriting Proclaimed List insurance business and it is understood that certain Proclaimed List insurance business is placed in Germany (State Department despatch No. 4667, Buenos Aires). In addition, German and French insurance companies are still operating in Argentina.

The Argentine Government's failure to recognize our Proclaimed List makes it impossible for us to prevent delivery of shipments to persons in Argentina who are placed on the Proclaimed List after goods leave our shores. In many cases, the Germans have defeated the British and American Black List by reorganizing their companies into Argentine firms and the Argentine Government has, if anything, encouraged the practice.

At times the Argentine Government itself has participated in subverting our policy rather than merely disregarding it, as may be seen from a news letter of the Board of Economic Warfare, which reports that the Argentine Government purchased copper in Chile on behalf of a Proclaimed List firm in Argentina. In response to our efforts to deprive the notorious Nazi newspaper El Pampero of newsprint, the Argentine Government is reported to have contemplated regulating the sale of all newsprint in order to assure El Pampero an adequate supply.

(6) Argentina is the Fence for Looted Currency and Securities.

Despite the efforts that have been made to prevent Germany from realizing on the looted currency and securities seized in the invaded countries, the Axis has succeeded in realizing some benefit from this stolen property by disposing of it through Argentina. In the first quarter of this year, direct imports of currency from Europe into the United States were completely stopped. In the same period, Argentina sent to this country \$1,125,000 in dollar currency. This flow has been increasing and during April amounted to \$931,000. Every Axis agent arriving in Argentina is bringing his load of looted United States currency. Note, for example, the despatch mentioned in item (4) in which the British inform us that not only are the expenses of the Spanish Commercial Mission to be paid in United States

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currency, but two Axis agents accompanying the Mission are carrying United States currency for disposal in Argentina.

The British Embassy analysis (March 19, 1942) of the European-Latin American market for United States bank notes clearly shows that Buenos Aires is the Western Hemisphere outlet for the looted bank notes that enter the traffic in Switzerland. Although steps will be taken to narrow this particular avenue of evasion, this is one example of the many ways in which our freezing control program is evaded and defeated by the collaboration of persons in Argentina.

Dollar securities looted by the Axis are now being disposed of in Argentina by German agents. Although the present freezing order prevents such securities being shipped to this country, their disposal in Argentina provides the Axis with free funds in South America. The U. S. Naval Attache in Buenos Aires reported (March 24, 1942) that a German citizen (Hahn) and a German-Argentine (Linz) are trying to sell securities confiscated by Germans from American banks and citizens in Europe. The ability of the Axis to sell these securities in Argentina, coupled with their ability to hold free dollars in the United States in the name of Argentine institutions, completely undermines the purposes of our freezing control.

B. ARGENTINA IS BEING ACTIVELY USED BY THE ENEMY, IN FIELDS OTHER THAN ECONOMIC WARFARE, TO UNDERMINE OUR WAR EFFORT.

The detailed case in support of this point can better be supplied by other departments and agencies of the Government, such as the State Department, the Coordinator of Information, the Federal Bureau of Investigation, and the Offices of Military and Naval Intelligence, who are in closer touch with the political, subversive, and propaganda activities in Argentina. In order, however, to complete the whole picture of Argentine acts of commission or omission attention is called to the principal activities under this heading.

(1) The Argentine Government has not broken relations with the Axis.

(2) The Argentine Government has taken suppressive action against newspapers, political groups, and individuals expressing sympathy with the United Nations, at the same time freely permitting expressions of support for the Axis.

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(3) The Argentine Government has permitted Buenos Aires to become the center of Axis espionage and propaganda in Latin America.

(4) Acting President Castillo has selected several well-known pro-Nazi to act on his advisory council.

C. ARGENTINA HAS NOT TAKEN EFFECTIVE STEPS TO CARRY OUT RESOLUTIONS ADOPTED AT THE RIO CONFERENCE.

Argentina has not adopted measures effectively carrying out the resolutions of the Rio Conference recommending the severance of diplomatic, commercial and financial relations with the Axis and the implementing of a program of economic warfare against the Axis. Such financial controls as Argentina has imposed apply to all belligerents outside the Western Hemisphere--to the United Nations as well as to the Axis powers.

In despatch No. 3865, dated January 13, 1942, from our Embassy in Argentina, the Embassy stated:

"Indeed one might be tempted to believe that the Decree is a subtly devised measure for the purpose of enabling the Argentine Government to say to the United States on the one hand that Argentina is meeting our desiderata \*\*\* and on the other hand to say to the Axis countries that their interests are not prejudiced by the Decree, which makes no distinction between those countries and their non-American enemies."

Officials of the Argentine Government agree that existing measures of control do not meet the expectations of the Rio resolutions. A measure of control is applied only in those cases in which the transaction involves a foreign exchange operation. Moreover, licenses under the exchange control are freely granted for operations alleged by the applicants to be related to commercial transactions. This provides a wide-open loophole for the transfer and use of Axis funds.

The Under Minister of Finance recently said that arrangements are being made to present a legislative program to the Argentine Congress when it convenes. In view of the attitude of the Acting President of Argentina and the conservative coalition, however, it is very unlikely that any effective control will be adopted.

The futility of waiting for the voluntary cooperation of Argentina is well expressed in the following excerpt from a despatch from our Embassy in Buenos Aires (4647, April 4, 1942):

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"The Acting President and the Minister of Foreign Affairs have definitely adopted a policy to extend economic and financial cooperation on only a very limited scale and presumably only to an extent that will not be considered seriously unsatisfactory by the Axis Governments. Although more than two months have now elapsed since the end of the Conference at Rio de Janeiro, no measures have been adopted in pursuance of Argentina's commitments under Resolution V and, indeed, the efforts to enforce the inadequate measures previously adopted have been characterized by a conspicuous absence of seriousness. Until and unless this policy is modified as a result of improved prospects of the democracies winning the war or as a result of a replacement of the officials who are now determining this policy, it is feared that very little can be hoped for in the way of Argentine cooperation with respect to Resolution V."

#### CONCLUSION

We cannot depend upon the Argentine Government to cooperate with us and close these serious gaps in our program of economic warfare. The lack of cooperation that Argentina has exhibited in all stages in which it could have cooperated with the United Nations' program of economic warfare leaves no satisfactory alternative other than to proceed with the extension of the freezing order to Argentina and its nationals. We would of course take such steps under the freezing order as would permit the carrying out of legitimate Argentine transactions. This could take the form of the issuance of a general license covering Argentine transactions, modeled along the lines of the general licenses relating to Portugal, Spain, Sweden, and Switzerland.

The extension of freezing control to Argentina will have a wholesome effect not only in its particular relation to Argentina, but also in its relation to our whole program of economic warfare in Latin America. Most of the Latin American Republics are not giving us their wholehearted cooperation in the field of economic warfare. The application of freezing control to Argentina will demonstrate to all Latin America as well as to Argentina that the United States Government "means business" and takes a serious view of the failure of any country to render whatever assistance it is in a position to render to the United Nations in this war of survival.

It may be that the freezing of Argentine assets should be accompanied by similar action against Chile, and that the

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policy should be based on their continuance of relations with the Axis. The policy thus explained may be more readily understood by the Latin American countries and may even "make sense" to many Argentines and Chileans.

FAS:dm;meh 5/12/42  
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COPY

John Edgar Hoover  
Director

FEDERAL BUREAU OF INVESTIGATION  
UNITED STATES DEPARTMENT OF JUSTICE  
WASHINGTON, D. C.

PERSONAL AND  
CONFIDENTIAL

May 12, 1942

The Honorable .  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

Apropos of our recent discussion at the Economic Defense Board meeting last Thursday, I am transmitting herewith copy of a memorandum, dated today, relating to Axis activities in Argentina.

Sincerely,

/s/ J. E. Hoover

Attachment

By special messenger

May 12, 1942

AXIS FUNDS AND FINANCIAL ACTIVITIES IN ARGENTINA

Argentina, according to information received, is at the present time the center of operations of most of the Axis organizations in Latin America. Prior to and since the entry of the United States into the war, important Axis agents have been moving to Argentina. Correspondingly, there has been a movement of Axis funds from the other countries of the Western Hemisphere to Argentina. All of the Republics of Latin America with the exception of Argentina and Chile have broken off diplomatic relations with the Axis and have frozen Axis funds, but information received indicates that Axis individuals and organizations succeeded in removing a substantial portion of their funds from banks prior to the freezing orders and a large part of these funds has since been taken to Argentina.

Argentina has long been regarded as a country friendly to the Axis because of the attitude of its present government. It has not broken off diplomatic relations with the Axis Powers and little affirmative action has been taken with respect to the control of Axis nationals or Axis funds.

The presence of large amounts of Axis funds in Argentina constitutes a serious menace to the safety of the other Western Hemisphere Republics. These funds are utilized throughout the Western Hemisphere to finance Axis propaganda and intelligence activities; in financing economic and commercial transactions to the detriment of the Allied Powers; for the purpose of bribing or coercing local government officials; and, for the promotion of the interests of the Axis Powers wherever these funds may be utilized with effect.

Although exact data are not available with regard to the amount of funds accessible to Axis interests in Argentina, from statistics available it is evident that these funds are substantial. The extent of Axis interests in Argentina is reflected in the United States "Proclaimed List of Certain Blocked Nationals", which contains the names of 527 individuals, firms and organizations in Argentina. There is summarized below information which has been received concerning the more important sources of funds available to the various Axis Powers in Argentina.

Germans

The total of German investments in Argentina is not impressive as compared with the British and American interests in Argentina, but these investments are utilized almost in toto to the fullest extent for the benefit of the German Government. (German investments have been estimated at approximately 10,000,000 dollars.) There is conclusive evidence that the

- 2 -

leading German firms play a prominent part in Nazi intelligence and propaganda activities. In the economic field these firms endeavor to assist the German Government by hampering the economic program of the United States and by bribery of local officials. Among the more important German firms which have establishments in Argentina and which are known to participate actively in the German program are the following:

Bromberg y Cia.  
 Cardimex Cia. Argentina de Imp. y Exp., S.A.  
 Delfino y Cia. A. M.  
 Farma Platense  
 Hasenclever y Cia.  
 La Quimica Bayer, S. A.  
 Lahusen y Cia.  
 Lloyd Norte Aleman  
 Mannesmann Sociedad de Tubos  
 Merck Quimica, S. A.  
 Quimica Schering, S. A.  
 Siemens-Schuckert, S. A.  
 Staudt y Cia., S. A. C.  
 Thyssen-Lametal  
 Carl Zeiss  
 Banco Aleman Transatlantico  
 Banco Germanico de la America del Sud  
 Anilinas Alemanes, S. A.  
 A. E. G. Compania Argentina de Electricidad, S. A.  
 Stinnes, S. A. C.

The Germans have been extremely active in Argentina in connection with raising funds locally which are expended for purposes of prosecuting the current war. According to the findings of the Argentine Congressional Committee in 1941, from July of 1940 to July of 1941, the German Embassy in Buenos Aires received 7,722,950 Argentine pesos and expended 5,983,100 pesos during the same period. It was pointed out that the normal expenses of the embassy should be approximately 1,100,000 pesos. The expenses of the United States Embassy for the same period were only 506,500 pesos and those of the British Embassy amounted to 1,829,400 pesos. (The Argentine peso is valued at approximately 24 cents in American Currency.)

The funds of the German Embassy were allegedly spent for the financing of propaganda and intelligence activities, such as the notorious Nazi newspaper "El Pampero" which has received substantial help from the German Embassy. The expenses of this newspaper for the first six months of its existence were alleged to be 1,026,297 pesos and its receipts for this period were only 605,045 pesos. It was also shown that the Nazi



- 3 -

Transocean News Agency which is actively engaged in both intelligence and propaganda activities spent 1,124,280 pesos from 1937 to 1941, but collected only 26,900 pesos for the same period.

With reference to the raising locally of funds for the use of the Germans in Argentina, it appears that various means are used. The Argentine Congressional Investigating Committee revealed that the German Chamber of Commerce regularly collects money which is credited to the account of the German Embassy. A part of the funds available to the German Embassy during the year 1940 to 1941 was obtained from the credit balances due Germany through an Argentine-German Trade Treaty. These funds were supposed to have been earmarked for the purchase of Argentine goods but were misused by the German Embassy.

The Federacion de Circulos de Beneficia y Cultura, an ostensible German charitable society believed to be the cover name for the German Party, has collected yearly large sums supposedly for charitable purposes, but which have found their way into the hands of the German Embassy and the propaganda organization of the Nazis. During July 1940 to July 1941, it is alleged that 1,565,550 pesos were collected by this organization.

There also exists in Argentina the German Winterhilfe Fund which is supposed to be utilized for the assistance of needy Germans, but which has universally utilized its funds to further the interests of the German Government. It is alleged that 1,337,723 pesos were collected for this fund in the year 1940 - 1941.

Information has been received that Argentine bonds have been requisitioned from the conquered countries of Europe by Germany and these bonds used to promote German organizational activities in Argentina. Likewise information indicates that the German Government has seized quantities of jewelry in the occupied countries which was sold in Argentina in order to obtain funds for operation in the Western Hemisphere. As early as 1940 one Michael Holzmann brought a large quantity of jewelry to Argentina which was confiscated by immigration authorities after they were notified that he was endeavoring to smuggle the jewelry into Argentina. Holzmann was definitely identified as acting in the capacity of an agent of the German Government.

Another serious problem is presented by the property and investments in Argentina of the nationals of those countries which have been conquered by Germany. The Argentine Congressional Investigating Committee pointed out in 1941 that there were 1,500,000,000 pesos invested in Argentina by French, Dutch and Belgian nationals. These investments are subject to control by the German Government, but little action has been taken by the Argentine Government to assure that the funds available will not be used to the detriment of the Western Hemisphere.

- 4 -

There are also known to be in Argentina certain refugees who have managed to bring out of occupied countries in Europe considerable funds under suspicious circumstances. It is believed that some of these refugees may be utilizing this money for the benefit of the German Government. For example, Fritz Mandl, an Austrian financier who is located in Buenos Aires, brought from Europe a relatively large sum of money and has engaged in various commercial activities. Information indicates that Mandl may be working for the benefit of the Germans.

In September 1941, information was received from Europe that one Leo Hirsch, a German agent, left Lisbon, Portugal, for Buenos Aires on a Spanish ship to organize German espionage and propaganda activities in Latin America. It was stated that an initial deposit of 1,000,000 dollars had been made to his account with the Banque Franco-Italienne Pour l'Amérique du Sud at Buenos Aires. Hirsch was later seized by the British and taken to Trinidad at which time a large amount of American currency was found in his possession. A one thousand dollar bill in United States currency found in his possession was traced and discovered to have been withdrawn from the Chase National Bank in New York City by the German Consul General on October 10, 1939.

Prior to the President's Executive Order providing for the regulation of foreign exchange and foreign owned property in the United States with respect to the Axis countries, issued on June 14, 1941, there have been many indications of transfers of funds between the United States and Argentina on behalf of Axis countries. For example, during May 1941, G. W. Schuets, New York representative of the Reichs Kredit Gesellschaft, deposited \$98,000 in the Central Bank and Hanover Trust Company, New York City, to the credit of the Banco de la Nacion in Buenos Aires, Argentina, thereby transferring these funds. One C. J. Duncker, who was engaged in New York City in the business of shipping food packages to Germany and who is presently interned as an enemy alien in the United States, transferred \$69,000 from New York to the Banco de la Nacion in Argentina between January 31, and May 31, 1941.

Information was received from a confidential source that the Banco de la Provincia de Buenos Aires had 368,000 Argentine pesos on deposit for German Embassy and Consular officials of Central and South American countries prior to the entry of the United States into the war.

#### Italians

The amount of funds in the possession of the Italians in Argentina is substantial but does not represent the potential danger that the funds of the Germans indicate. This is chiefly due to the fact that most of the Italians in Argentina are not active Fascists and many of them are anti-Fascist. Confidential reports reflect that the Italian Government has

- 5 -

endeavored to emulate the German Government in utilizing its firms and institutions to its benefit in Argentina but has been far from successful.

Among the Italian firms and institutions which are active in connection with the utilization of their funds for the benefit of Italy are as follows:

Fiat Argentina, S. A.  
 The Italmar Sociedad Anonima de Empresas Martinas  
 The Italcable Companhia Italiana des Cabi Telegrafici  
 Sottomarini, S. A.  
 The Banco di Napoli  
 Banque Francaise et Italienne Pour l'Amérique du Sud

It is known that the Alia Littoria, the Italian Government-subsidized air company, owns a majority of stock in an Argentine air line.

The Stefani News Agency, subsidized by the Italian Government, operates in Argentina and acts as a principal propaganda distribution center, thus constituting an organization which can be used for the collection of intelligence information.

#### Japanese

The Japanese colony in Argentina is not large nor are the investments of the Japanese in Argentina impressive in size. However, all Japanese firms and institutions have been more intimately connected with the efforts of the Japanese Government than have the representatives of the other Axis Powers. The Japanese have always been chiefly interested in commercial espionage and this has almost solely been carried on by the representatives of the large Japanese firms.

The following Japanese firms and institutions in Argentina are of importance with reference to Japanese activities, according to information received:

#### Argentina Comercial e Industrial de Pesqueria -

A Japanese fishing company which has a large fleet of boats including two modern, fast boats which could be converted to torpedo boats. Confidential sources have reported that this fleet has been utilized in thoroughly charting and exploring the entire coast line of Argentina. The manager of this firm, Kingo Kaway, is said to be the leader of the Japanese movement in Argentina and to have more power than the Japanese Ambassador.

- 6 -

O. S. K. (Osaka Syosen Kaisya) - Branch  
The Japanese shipping line.

Mitsubishi Argentina

The Japanese commercial monopoly which appears to have control of Japanese commerce in Argentina. Employees of this firm have been unusually active in connection with intelligence activities of the Japanese.

Yokohama Specie Bank

Oficina de Turismo de Japon -

Ostensibly a Japanese tourist agency, but it is utilized by both the Japanese propaganda and intelligence organizations in their work.

Nambel Compania de Importacion y Exportacion, S. A.

Confidential information has indicated that the Japanese funds in Argentina have been supplemented by funds sent by the Japanese Government, all of which funds are intended to be utilized in conducting intelligence and propaganda activities throughout the Western Hemisphere.

A reliable, confidential source has reported that the following is a budget for the Japanese intelligence work for the year 1942 in Argentina:

For propaganda purposes

Printing	-	12,000 pesos
Radio	-	6,000 pesos
Salaries of seven employees	-	72,000 pesos
Dissemination of war news:		
Domei	-	7,200 pesos
Purchase of stationery	-	6,000 pesos
Short-wave recording, printing, machinery	-	2,400 pesos
Movies and lectures (probably cultural)	-	2,400 pesos

For intelligence activities within Argentina

Entertainment	-	6,000 pesos
Funds for espionage activities, espionage expenses	-	6,000 pesos
Publication of photographs, articles, editorials in newspapers and magazines		-12,000 pesos
General expenses including investigations	-	5,000 to 7,000 pesos

General intelligence activities

Agents dispatched to Chile, Paraguay and Brazil	-	6,000 pesos
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- 7 -

Subscriptions to Allied Nations' magazines and periodicals	- 5,000 pesos
Communication expenses, excluding telegraphic	- 5,000 pesos

Special fund

The purchase of secret documents which were bought from military personnel	-20,000 pesos
Donations	-10,000 pesos

Spanish

Spain has close ties with Argentina and has substantial investments in the commercial field, as for instance the Chadopyf, chiefly owned by Spanish capital, is the operator of the newest and most modern subway system in Buenos Aires. Confidential information indicates that the Spanish Government expects to collaborate more closely with the Axis Powers in the future and in so far as is possible, Spanish funds in the Western Hemisphere will be utilized for the benefit of the Axis.

Recent confidential information reflected that Argentina and Spain have signed a treaty providing for an exchange of about five hundred million Spanish pesetas worth of products. Argentina will supply Spain with wheat, beef, and other surplus products and Spain will supply Argentina with machinery which it is expected will come from Germany. Negotiations have been made between Spain and Argentina for the establishment of an air line across the Atlantic. Such an air line would provide a direct Axis route to the Western Hemisphere for Axis agents and mail and would be extremely detrimental to the program of the United States in Latin America.

June 8, 1942

With reference to the fourth paragraph, the Federal Reserve Bank of New York will discuss with the Bank of Canada the question of purchasing and earmarking gold in Canada. The Federal will discuss with the Foreign Funds Control the possibility of transferring funds to Canada to buy the gold.

F.D.

DE SURINAAMSCHE BANK, N. V.

A I R M A I L

Telegramadres; Bank. SB/EV.

Paramaribo, 22nd May 1942.

Federal Reserve Bank of New York,  
New York.

Dear Sirs,

On 6th instant you cabled us that after having obtained the necessary authorization from the United States Treasury Department you had earmarked for our account a quantity of gold, representing the equivalent of \$549,998.39.

With a view to the fact that the circulation of our banknotes has considerably increased, mainly owing to defense measures and the stationing of American Forces in this country, our Board of Directors are convinced of the necessity to augment the cover of our banknotes and other liabilities on demand. In this connection we should feel much obliged by your repeating the transaction which you completed on 13th April last, i.e. to purchase gold and hold under earmark for our account up to an amount of \$550,000- .

Meanwhile we have authorized the Chase National Bank of New York, Pine Street Corner of Nassau, New York, to pay to you on your request up to \$550,000- .

Furthermore we beg to inform you that with a view to present and future commitments in England and also for the above-mentioned purpose our Board of Directors are of opinion that the purchase and earmarking of an equal quantity of gold in Canada would be desirable. We would very much appreciate any information regarding the possibility of transferring an amount of \$550,000- to the account of the Bank of Canada and whether such a transaction would be allowed by the United States Treasury Department.

Thanking you beforehand for your valued co-operation and soliciting the favour of a reply by airmail at your earliest convenience, we beg to remain, dear Sirs,

Yours faithfully,

DE SURINAAMSCHE BANK

(signed) G. C. F. Schoch

(signed) S. J. Baukema

C  
O  
P  
Y

350

DEPARTMENT OF STATE  
WASHINGTON

June 8, 1942

In reply refer to  
FF 832.51/2019

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for his information a copy of an air-mail despatch no. 7348 dated May 18, 1942, from the American Embassy, Rio de Janeiro, quoting a telegram received by the French Embassy in Rio from the Vichy Government concerning suspension until after the war of all negotiations in respect to the Brazil Railway bondholders.

Enclosure:

Copy of despatch no. 7348  
May 18, 1942, from the  
American Embassy, Rio.



Rio de Janeiro, Brazil, May 18, 1942.

No. 7346

Subject: Telegram Received by the French Ambassador in  
Rio de Janeiro from the Vichy Government

STRICTLY CONFIDENTIAL

The Honorable  
The Secretary of State,  
Washington, D. C.

Sir:

I have the honor to report that the French Ambassador in Rio de Janeiro has received the following telegram from the Vichy Government:

"Brazil Railway bondholders are very thankful for your action in their favor. They point out to me that Souza Costa has promised Chase National Bank (acting as trustee) to suspend until after war all negotiations in respect of indemnization. They hope it will have effect to suspend the work of Expert Committee and avoid one-sided fixation of indemnities, which would jeopardize negotiations after war. Try to obtain from Aranha or Souza Costa confirmation of promise made by latter."

Respectfully yours,  
For the Ambassador:

John F. Simmons,  
Counselor of Embassy.

File No. 701

WEF:ms

Copy:bj:6-9-42

**TREASURY DEPARTMENT**

352

INTER OFFICE COMMUNICATION

DATE June 8, 1942

TO **Secretary Morgenthau**

FROM **Mr. White**

Subject: **Digest of cable from Fox dated June 6, 1942.**

1. You may be interested in the following information received in the enclosed cable from Fox:
  - (a) The Central Bank of China in the future will be the sole bank of issue. Until the present the note issuing power has been shared by the four Government banks;- the Central Bank, the Bank of China, the Farmers Bank and the Bank of Communications.
  - (b) The Bank of China will handle all current foreign trade and foreign exchange business.
  - (c) Central Government revenue in April, 1942 was about five times that of April, 1941.
  - (d) In Occupied China, the circulation of legal tender notes of the Chinese Government will be prohibited as from July 1.
2. The vesting of note issuing power in the Central Bank alone is a victory for the Kung group, as well as an important step in the centralization of Free China's financial system.

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency; (BR)

Chungking

Dated June 6, 1942

Rec'd 11:40 a.m.

Secretary of State,  
Washington.

669, June 6, 10 a.m.

FOR THE SECRETARY OF THE TREASURY FROM FOX

Weekly economic by Adler. "T. F. 44 (SECTION ONE).

This week's meeting of joint head office of four government banks at which Generalissimo presided decided:

One. Central Bank in future to be sole bank of issue and bank of issue fiscal agent of Central Government; also entrusted with setting up a house in Chungking and with exercising supervision and control over money market. Other government banks are to report their foreign exchange assets to the central bank.

Two. Bank of China is to handle all current foreign trade and foreign exchange business, will continue to receive savings deposits and sell saving certificates and act in trustee capacity. No final decision has been taken on its large interests in manufacture and commerce but it is expected that it will be allowed to maintain them and to borrow when necessary from Central Bank against industrial and commercial collateral.

Three. Farmers Bank is to confine itself to

agricultural

-2- #669, June 6 from Chungking

agricultural credit and is to take over the Bank of China's agricultural business.

Four. Bank of Communications will handle financing of mining and industrial enterprises and transportation as was originally intended at its inception. Probably, however, this bank will be least affected by proposed reorganization.

GAUSS -

BB

NWN

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

Chungking

Dated June 6, 1942

Rec'd. 11:19 a.m.

Secretary of State,  
Washington.

669, June 6, 10 a.m., (SECTION TWO)

Main direction of reform is to increase powers and controls of Central Bank. Uncertain yet how far specialization and division of labor contemplated for three other banks will be carried. Hitherto one of their main sources of revenue has been interest on advances to Central Government; thus Bank of China raises its current operating expenses of Chinese dollars 70,000,000 per annum largely from this source.

Dr. Kung was appointed Vice Chairman of joint head office of which Generalissimo is Chairman.

One. Central Bank started clearing house for Chungking on June 1. Other Government banks and majority of commercial and native style banks members. Turnover first three days averaged about Chinese dollars 120,000,000 per annum. Chungking native style banks fifteen day loan rate unchanged June 1 at fourteen dollars per Chinese dollars 1,000.

Two.

-2- #669, June 6, 10 a.m., (SECTION TWO), from Chungking.

Two. According to Vice Ministers of Finance Central Government revenue April 1942 five times that of April 1941.

Three. Sales of savings certificates to June 3 Chinese dollars 59 point 5 million.

Four. Shanghai. Circulation of all fapi to be prohibited as from July 1; in interim fapi issued before 1940 convertible up to reported maximum of Chinese dollars 5,000 at the rate of two fapi per Central Reserve dollar payment usually being made in puppet Government long term bonds. Japanese reported pursuing stringent deflationary policy in Shanghai apparently designed to squeeze out Chinese industrial interests.

(END OF MESSAGE)

GAUSS

HPD

TELEGRAM SENT

HRL

GRAY

June 8, 1942

9 p.m.

AMEMBASSY,

QUITO (ECUADOR).

394

Your 440, May 30.

FOR FRIEDMAN FROM GLASSER.

Pursuant to your travel authorization travel expenses of you and your family to Ecuador will be paid by the Treasury Department. Accordingly, your family may travel to Ecuador under this authorization.

HULL  
(WLS)

RC:MLL:MDD RA

eh:copy  
6-19-42

June 8, 1942

Mr. Livesey

Mr. White

I suggest that the following be the cable sent to our Embassy in Quito concerning the production of minor coins for Ecuador:

The Bureau of the Mint informs us that on the basis of experiments and experience, the copper-zinc alloy makes an acceptable coin, with 80 percent copper and 20 percent zinc.

The time involved to have the metals delivered to the Osborne Register Company at Cincinnati would be at least three months, would require much paper work, and the allocations would be charged against Ecuador's quota. The procedure would be greatly simplified and the time shortened if the Philadelphia Mint were assigned to produce the coins for the Ecuadorian Government because it would be considered as direct government work. The Mint can prepare new dies in less than 90 days and run off the coins immediately thereafter. The cost of minting coins by the Mint will be \$1.63 per thousand for 10 centavo piece and \$2.04 per thousand for 20 centavo piece plus \$700.00 for master dies, which expense will not need to be repeated at any time. Copper and zinc can be delivered immediately and will not be charged against Ecuador's quota. Note that rail transport to ship would be minimized also.

Please discuss with the Finance Minister and obtain his decision as to which course to follow.

HG:rel - 6/8/42



## TELEGRAM SENT

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

June 8, 1942

5 p.m.

AMEMBASSY

QUITO (ECUADOR)

391

Your 448, June 2, 5 p.m.

The Bureau of the Mint informs us that on the basis of experiments and experience, the copper-zinc alloy makes an acceptable coin, with 80 percent copper and 20 percent zinc.

The time involved to have the metals delivered to the Osborne Register Company at Cincinnati would be at least three months, would require much paper work, and the allocations would be charged against Ecuador's quota. The procedure would be greatly simplified and the time shortened if the Philadelphia Mint were assigned to produce the coins for the Ecuadoran Government because it would be considered as direct government work. The Mint can prepare new dies in less than 90 days and run off the coins immediately thereafter. The cost of minting coins by the Mint will be \$1.63 per thousand for 10 centavo piece and \$2.04 per thousand for 20 centavo piece plus \$700.00 for master dies, which expense will not need to be repeated at any time. Copper and zinc can be delivered immediately and will not be charged against Ecuador's quota. Note that rail transport to ship would be minimized also.

Please discuss with the Finance Minister and obtain his decision as to which course to follow.

HULL  
(JSH)

822.515/90

EO:JSH:JMW RA FD

Copy:bj:6-12-42

BRITISH MOST SECRET  
U.S. SECRET

OPTeL No. 193

Information received up to 7 A.M., 8th June, 1942.

1. MILITARY

LIBYA. 6th. OPTeL No. 192 continued. A strong motorised column was sent from BIR HAKLIM to MTEIFEL west of the main tank battle to harrass enemy communications, columns from GAZALA which endeavoured to pierce enemy defences to the southwest met with strong opposition but one of them reached the CHORIMA area about seven miles northeast of ROTUNDA SEGNALI.

2. AIR OPERATIONS

WESTERN FRONT. 6th/7th. EMDEN. 94 tons of H.E. and 262 tons of incendiaries were dropped. Photographs taken on 7th show that among the buildings destroyed were five shops in the Nordseewerke shipbuilding yard where U-boats are built, the main passenger and goods stations and the customs house. 7th/8th. 43 aircraft laid sea mines and 3 others dropped leaflets over BRITTANY and PARIS area. All returned safely.

LIBYA. On 6th and 7th our aircraft continued their attacks on landing grounds, enemy armoured vehicles and communications.

MALTA. Between 2: 20 P.M. 6th and 11:40 A.M. 7th about 90 aircraft, mostly fighters, flew over the Island, 5 were destroyed, 1 probably destroyed and 1 damaged.

SICILY. 6th/7th. Wellingtons bombed MESSINA.


BURMA. 6th. Wellingtons bombed enemy troop concentrations in the HOMALIN area.

3. HOME SECURITY

SOUTHWARK. Casualties now reported 19 killed, 97 seriously wounded.

4. SOUTH EAST AFRICA

2 Japanese armed merchant cruisers fitted with at least six inch guns, possibly torpedo tubes and probably with floatplanes; and a number of Japanese submarines are operating off the MOZAMBIQUE coast.



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

June 8, 1942

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

Attached is the British political warfare executive French subdirective for the period June 7 to June 14.

Sincerely,

*Bill*  
William J. Donovan

Keep Russian front foreground avoiding undue proportion news comment to latest RAF news. Stress "three-fold attack" on Germany. Russians gained advantage Kharkov battle, apparently they still hold Donetz line from Kharkov southeastwards. PWE treatment unchanged.

Treat Libyan battle as undecided following line of Churchill's June 2 statement. German threat to Egypt has been parried. Plug Free French forces Libya; General Koenig is Alsatian.

Continue Use:

- a. RAF offensive linked with German production manpower difficulties.
- b. Resistance in occupied countries.
- c. Couple French peoples resistance with Allied offensive. French people still in War.

Use "Allies" instead "United Nations" for phonetic (this verbal suggestion not part subdirective) reasons.

**SECRET**  
CONFIDENTIAL INFORMATION



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

June 8, 1942.

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

The attached is a digest of the  
British Political Warfare Analysis of Ger-  
man Home Propaganda.

Sincerely,

*Bill*  
William J. Donovan

German propaganda ministry alarmed at Cologne, Essen raids. Result of their alarm was greater spreading within Germany of news about scale, effect and implications of raids.

Silence inside Germany concerning number of RAF planes contrasts with Axis propaganda everywhere outside claiming only 70, 100, 150 aircraft participated. But Domei admitted thousand.

Retaliation pledges reached degree unreality beyond anything comparable. For example: front report June 2 spoke of 'Ipswich, a town which in morning will be smouldering heap debris'. DNB item June 1 said 'In accordance Fuhrer's words we are retaliating two and three fold on Canterbury'. Policy must be either great stupidity or short term desperation. It can reckon with some short term success since barrier around Germans still pretty newstight.

Consolation offered Germans is RAF rate of losses is prohibitive. British leaders being misquoted especially Oliver Stewart. Yet propaganda ministry must know scale RAF operations will not be reduced enough to impress Germans. Churchill and others saying some would be increased were suppressed inside Germany.

Limited number of microphone interviews with Cologne citizens day after gave more vivid impression damage to shelters, were unusually frank, resembling EBC's home service during Blitz.

Worth noting High Command and air staff did not join propaganda ministry in claiming only 70 raiders or retaliation on Canterbury, Ipswich. Whether this result conflict or lack of contact unknown but on May 29 Flight Lieutenant Rossbach on German radio spoke of Manchester as four engined bomber and seemed not to know Whitley out of production long ago. This ignorance may indicate lack contact between propaganda ministry and air ministry.



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

June 8, 1942

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

The attached is the British Political  
Warfare Executive Italian Directive for the June  
5-11 RAF Offensive.

Sincerely

*Bill*  
William J. Donovan

Background--four figure raids captured Italian imagination led to omissions distortions by Fascist Home Propagandist. First official recognition June 3 ridiculed RAF claims.

a. Directive: Emphasize effects of air offensive stressing effects on Italian industries and workers in Italy and Germany (latter estimated three hundred thousand by Lombrasa June 2) Italian shipbuilding affected by bombing German steel industries. Dislocation continental transport endangering Italian supplies coal other essentials. Occasionally remind Italians Mussolini volunteered participate Axis bombing British cities. RAF bombing Sicilian bases part strategic operations Libyan campaign.

Food:

a. Background--usually cheap-plentiful vegetables fruit presently scarce expensive, causing widespread disappointment. Black market in farmers produce flourishing. Fascists withholding drastic measures against farmers, while refusing estimate coming harvest because fear arousing unfulfillable hopes for larger bread rations.

b. Directive later.

Background--Fascist Home Propaganda unplaying Libyan offensive, leaving Italians uninformed its scope aims.

a. Directive--Refer to German not Axis attack. Do not commit British to hold Tobruck. Egypt should not be stressed as ultimate German objective. Imply Germans again using Italians for German purposes alone that is to destroy British forces and create diversion intended divert British resources from Russian front. Stick to official British caution for day by day fighting avoiding strategical predictions. Plug American participation using 'General Grant'



- 2 -

tank stories. Acknowledge supplies moved to North Africa via Cpaee as evidence Allied control seas.

Second front: Hint Cologne bombed because rail center for German troops in western France and hinterland. Scale RAF's preliminary softening unlikely to be reduced while weather permits. Stress utter inadequacy Luftwaffe defense retaliatory raids. Hit RAF intense fighter sweeps against western Europe (note: references to raids on southern Italy should not mention bombers base)

Far East and Russia unchanged. For latter follow strategical directive to regional heads.

Do not underline Northern Sea route to Russia.

Shipping losses, unchanged.