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OTTO JEIDELS
120 BROADWAY
NEW YORK CITY

1
appointment
given for
3:30 pm Tuesday
Nov. 10, 1942

October 16, 1942

Mrs. H. S. Klotz
Private Secretary to
Secretary of the Treasury
Treasury of the United States
Washington, D. C.

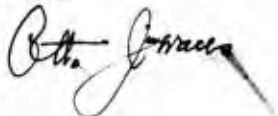
Dear Mrs. Klotz:

Since I wrote to you on October 13,
the radio has announced that the Secretary arrived
in England. This certainly simplifies the decision
to wait with the interview for which I have taken
the liberty to ask him directly and through you.
However, I would be grateful to you if you would
keep it in mind after the Secretary's return, because I
feel very strongly that the Secretary would like me
to submit to him personally the matter in question.

My warmest wishes for a successful journey
and a safe return accompany the Secretary.

Thanking you again and with kind regards,
I am

Sincerely yours,



OJ:MSC

OTTO JEIDELS
120 BROADWAY
NEW YORK CITY

October 15, 1942

Mrs H. S. Klotz
Private Secretary to the Secretary of the Treasury
Treasury of the United States
Washington, D. C.

Dear Mrs. Klotz:

I am much obliged to you for your letter of October 9. It is very kind of you to suggest an early appointment in the absence of the Secretary.

The subject on which I took the liberty to write to the Secretary has some implications in which I believe the Secretary will be interested, and I therefore feel that before making a decision I should wait until the Secretary will be good enough to grant me a personal interview. I am aware of the many urgent calls on matters of much greater importance made on the time of the Secretary, and the least I should do is to wait patiently until he is able to grant me a short visit.

Any day and hour will of course be agreeable to me, and I wonder if you would be kind enough to approach the Secretary at an opportune moment. You can reach me by a telegram to the above address, or on the telephone at Rector 2-9200. I can always arrange to be in Washington the day after your notification.

Please assure the Secretary of my high esteem and best wishes, and accept my reiterated thanks for your kind attention.

Sincerely yours,



OJ:MSC

October 9, 1942.

Dear Mr. Joidale:

Your letter of October 2, saying that you would like to talk with the Secretary about the advisability of your taking up work with the National Bank system, has reached his desk while he is away from the city.

In view of his absence, I am wondering if you would like for me to arrange an appointment for you with Mr. E. V. Ball, the Under Secretary, in order that you may discuss this matter without delay. If you will let me know what date it would be convenient for you to come, I will be glad to pass the word on to Mr. Ball.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Otto Joidale,
120 Broadway,
New York, New York.

KP/cbs

OTTO JEIDELS
120 BROADWAY
NEW YORK CITY

October 2, 1942

Dear Mr. Secretary,

I apologize for addressing this personal letter to you at a time when matters of greatest national importance are absorbing your full attention more than ever.

My excuse for taking this liberty is that it has been proposed to me to exchange my present activity in Investment Banking for one within the National Bank system and that I feel it to be my duty not to follow this invitation without having submitted the case to you as it seems to me to involve a somewhat wider aspect than the purely private one. It would make me happy, particularly in view of my foreign descent, if by assuming such new activity I could do some little service to the community; only if this is possible, I feel inclined to enter upon it.

May I ask for the great kindness of receiving me for a short visit to submit the case? I would be extremely

grateful and repeat my apologies for taking this
and direct approach.

Believe me to be, Mr. Secretary,

respectfully

Otto J. ...

1942 OCT 5 AM 8 59
OFFICE SECRETARY OF TREASURY
TREASURY DEPARTMENT
No. 10

OCTOBER 16, 1942

The first meeting of the Economic Stabilization Board was held this afternoon in the office of James F. Byrnes, Director of Economic Stabilization. Director Byrnes made the following statement to the Board:

You are familiar by this time with Executive Order No. 9250, providing for the stabilization of the national economy. The language is plain and needs no interpretation by me. Its reading indicates fully what is expected of us.

We are a part of the machinery which must convert the peacetime economy of the country to a fully-controlled wartime economy. At present we are half and half.

In peace supply and demand is left to work. That requires time. In war the tempo changes. There is no time. Every man and woman, dollar and thing, everything must be utilized for the quickest winning of the war.

The war-making agencies must have what they need, when they need it. At the same time the welfare of those on the home front must be given consideration. Living costs must be kept from spiraling upwards so all of us can be free to contribute our utmost to winning the war. Reductions in living standards that the war will impose must be shared equitably by all of the people, without profiteering. If we are to avert a repetition of the collapse that followed the last war, we must prevent runaway price increases now.

Each of you occupies certain definite spheres of activity in the carrying out of these aims. For example, the Secretary of Treasury, among other things has responsibility for the sale of government securities, the raising of taxes, the siphoning off of excess purchasing power, and, of generally taking the profits out of war. For the control of salaries, I am looking for suggestions and guidance also to the Secretary of Treasury. Labor, wages and working conditions are within the province of the Secretary of Labor and the National War Labor Board. The Price Administrator has control of prices, including rents, rationing, etc. To the Price Administrator, the Secretary of Commerce and the Secretary of Agriculture, principally, I will look for advice on subsidies and related matters. To the Secretary of Agriculture I will look for guidance on the production of farm products and advice as to their prices. At times it will be necessary to invite the chairman of the War Production Board and the War Manpower Commission to meet with us.

And to all the members of the Board, I will look for suggestions to keep down the cost of living. While ours is an economy based on personal incentive and the profit system, we must at this time give more attention to keeping prices down than keeping profits up.

It is my desire that the Agencies and activities represented shall be increased in importance and not diminished in the least degree. It is not my intention to undertake any of the activities which lie within the province of your organizations, but rather to bring them together, to settle conflicts, to integrate all of the parts into one whole. I shall step in only where there are conflicts or where I think economic stabilization is threatened in any field.

As for the representatives of labor, industry and agriculture, we shall look to them to give us in all circumstances their suggestions, particularly in the fields in which they have become experts and to which they have given their life efforts. I know those gentlemen will present their views not as to what is best for any particular group but as to what is best for all of the people.

We shall meet here every fortnight. Discussions of interest to the members of the Board shall not be restricted, but I shall try in advance of meetings to note those questions on which I will want your advice,

In most cases common counsel should result in common agreement. But we are at war and we cannot wait upon the counsel of perfection. We will make mistakes. But in war, inaction is the greatest of mistakes. If after an adequate interchange of views, differences still persist, I shall resolve those differences and promptly communicate to you my decisions.

II

1. Let me here tell you what I have done to implement the Executive Order of the President.

a. I have arranged with the War Labor Board and the Treasury Department to bring all salaries under control. All salaries under \$3000 and those salaries up to \$5000 which are covered in wage agreements are to be regulated by the War Labor Board. For salaries over \$3,000, other than those handled by the War Labor Board as part of wage agreements, the Treasury Department is preparing regulations.

b. I have delegated to the Office of Price Administration the power to intervene in cases involving proposed increases in the rates or charges of utilities. The Office of Price Administration is the agency best suited to represent the interests of the consumer in these matters.

c. I have approved two regulations of the War Labor Board for exemptions from the wage provisions of the Executive Order. One regulation exempts special merit and promotion by length of service systems; the second exempts employers with not more than eight (8) employees.

Wage increases granted in such exemptions are not to be considered justification for increasing any price ceiling or cost of any Government Contract; or as an argument against any decrease in a price ceiling or Government Contract that might otherwise be thought necessary.

2. In addition to these regulations, I am working with the agencies concerned on regulations to cover these things;

Limiting salaries to \$25,000 after certain taxes and other permissible deductions.

Machinery for handling wage increases which may affect price ceilings. This necessitates close cooperation between the War Labor Board and Office of Price Administration. A liaison official has been appointed by each of these agencies.

Machinery for the control of agricultural prices. This necessitates similar cooperation between the Department of Agriculture and the Office of Price Administration.

3. I have also begun to review the situation with the various agencies to determine if there is need for additional legislation. One such omission was discovered in the matter of commercial rents. I have asked Congress to remedy this. The House with splendid cooperation has passed the Bill and I hope for prompt action by the Senate.

4. I also have asked the different agencies to furnish me with detailed reports on some of the problems that lie ahead.

The more important things on which I have requested reports are:

Compulsory savings and other proposed measures to control excess spending power.

Prospects as to future rationing needs.

The spacing of Military and Lend-Lease purchasing.

Prospective subsidy needs and considerations which should govern or limit the use of subsidies.

Wages of farm labor.

The effect of the stabilization of wages on manpower problems, particularly on the migration of workers.

If the members of the Board have any information or views on these matters, of course, I will be glad to receive them.

I intend to continue this practice of asking for reports on all likely problems that may arise in the future - in advance of the necessity for action.

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MEMORANDUM FOR THE SECRETARY.

October 16, 1942.

Mail Report

Taxes and Bonds continue to dominate as themes of the letters addressed to the Secretary. Judging by these letters, the public is not too happy about either. Taxes, particularly, have been foremost in the public mind, with the Tax Bill enacted by the Senate meeting the strong disapproval of most correspondents. One of the most frequent objections to it is that it fails to provide for collections from highly paid itinerant workers, domestics, etc., and penalizes the moderately salaried white-collar employees.

Out of 16 letters mentioning higher personal taxes, 3 were favorable, 13 unfavorable. Seven letters favored the Ruml Plan, 1 opposed it, and 8 favored the withholding tax, 1 opposing. There were, however, 9 unfavorable comments on the Victory Tax, to each one in favor, and the Sales Tax drew 16 favorable letters to 5 unfavorable. There were 2 letters each in favor of a savings sales tax and an excess profits tax on individuals.

For the third week, every letter mentioning the increase in Social Security taxes has been strongly disapproving -- not one word in favor of it has yet been said.

For the first time in several weeks, the idea of compulsory investment in Bonds met little opposition. Those who favored such a measure were twice as numerous as those who disapproved. The form letter, "A Message to the American Farmer", brought in a number of personal replies, most of them written on the back of the original letter. These replies touched upon the difficulties that farmers are experiencing, and practically

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Memorandum for the Secretary.

October 16, 1942.

all of them complained of the drafting of men who were the mainstay of the farm, thus curtailing production or forcing the abandonment of that particular farm.

Interest in Stamps and Bonds as Christmas gifts continues to increase, while other suggestions touched upon the conversion of dormant bank accounts into Bonds, the elimination of the \$5,000 limit on purchases, and a number of requests for simpler and more accessible facilities for safekeeping. Two unusual suggestions were that Bonds be issued to businessmen who must wind up their firms as a nest egg to be redeemed at the end of the War; and that a Bond salesman meet incoming ships to sell to those who have accumulated money from salaries paid during their absence from the country.

An interesting coincidence was the receipt of a letter, dated October 5, abstracted in Bonds Favorable, from the Advertising Agency of the Stromberg-Carlson Manufacturing Company, outlining the supposedly efficient and speedy manner by which Bonds are delivered to employees, and an anonymous letter, dated October 13, from an employee of that Company, complaining of long waits for delivery of Bonds purchased. This letter is abstracted under Bonds Unfavorable.

Of the 27 complaints of delay in delivering or issuing Bonds, 11 came from employees of some branch of the War Department. There were 5 letters complaining of the nonreceipt of interest. A pleasant comment on the cooperative attitude of the Bond officials is abstracted on page 6. There were 9 letters telling of abuses of the privilege of cashing Bonds after 60-days.

A number of complaints concerning the inability to secure Tax Anticipation Notes have appeared in the mail this week.

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Memorandum for the Secretary.

October 16, 1942.

Anti-labor feeling has somewhat subsided, but Government economy is still the theme of many letters, with inflation a close second. We received several urgent requests that the Treasury broadcast a denial of the rumor that all bank accounts are to be frozen.

Toward the end of the week Economy Stabilization referred to the Treasury 8 letters from corporations requesting permission to increase certain salaries now set at \$5,000 a year.

J. F. Forbush

General Comments

John J. Phillips, Temple City, Calif. The writer, in common with millions of other citizens, has been buying Bonds and Defense Stamps regularly each month, and glad to make such sacrifice and effort to help our country to victory. But we read from day-to-day in the press where throughout the country at every Government cantonment and defense construction job, that every worker is being compelled to pay some private group of individuals under the name of "Unions" large fees for the privilege of working to help their country; some of these working permit assessments run from \$25 to several hundred dollars. Out in Montana, I noted recently where the Carpenters Union is charging every carpenter on a Government project there \$50 for a permit to work. This dictatorial practice was reprehensible enough in peacetime, and has been going on for years, but now with our country at war, and the help of every person needed, it is a public scandal and a crime against our sons and brothers who are offering their all on the fields of battle. Therefore, this holdup of the public and usurpation of the sacred rights of our citizens to work should be stopped at once, and those guilty of this racketeering practice be compelled to disgorge the millions they have taken from the workers, and the money be turned into the U. S. Treasury, and Bonds and Stamps given those who were compelled, under threat and compulsion, to pay these unlawful fees. * * *

Senator Vandenberg transmits letter he has received from Wm. A. Krey, Secretary, Detroit Photo-Engravers Union, which reads in part: " * * * Another problem is now confronting our industry. The continued restriction of silver nitrate is proving disastrous to photo-engraving and publishing, essential to the war effort. Release of any minimum amount of the Government's idle hoard would prove adequate for our purpose, and also avert the possibility of further considerable unemployment of our members. * ** "

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George W. Johnston, Captain, Infantry Commanding, Illinois Reserve Militia, Bloomington, Ill. Enclosed find United States Savings Bond, Series F, issued in the name of Company K (Sixth Regiment), Illinois Reserve Militia, an unincorporated association. It is the expressed desire of all members of the Unit to which this Bond was issued that it be destroyed and the Treasury released from all obligation to pay the same. * * *

Mrs. Wanda Lewis, N.Y.C. There are a few men in our State Department who do not realize that we are fighting a war against fascism, and not for fascism. For what other reasons could men like Mr. A. A. Berle, Jr. help disrupt our effort to send aid to Russia. * * * I am a housewife. Each day as I set out to do the shopping for my family, I make a comprehensive list of the items I need. There is nothing fancy in this list because I realize that whatever pennies I can save and turn into Defense Stamps and Bonds is that much more toward helping to win the war. I know that it doesn't seem like much, compared with the tremendous sacrifices the Russian people and Chinese people are making so that we may enjoy a free world after the war, but it gets me very angry when men in our own Government are actually anxious to sabotage aid to our Allies. I hope this will be stopped at once, and that our Allies will be given all the material aid they need. * * *

G. C. Gasber, Martins Ferry, Ohio. I see by the papers that \$6,000,000,000 is needed shortly for the successful conduct of the War, and so I have figured that at an estimated population in the United States of 132,000,000 that each individual is therefore in the red to the Government for approximately \$46. In consideration of this fact, I am enclosing Post Office Money Order for \$20, which is part payment on my share of the debt. The other \$26 will be forthcoming in the next week or ten days.

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Charles A. Yarner, Philadelphia, Pa. Do you get many letters of praise or thanksgiving from the American Public? Oh, how I hear some people say, "The Secretary of the Treasury is asking for more taxes, etc., etc.," and now you hear some of those Half Americans grumbling about the new plastic pennies you are going to give us. The writer is an American citizen, age 55, and I have a serious heart ailment called Angina Pectoris, and I was out of work for over 5 years, but I am proud to say that I am now employed by a 100% defense plant, and my son is in the U. S. Army in a foreign country. * * * I am also proud to report that on last Thursday, October 8, a representative from your office presented the Smith Drum Company of Philadelphia with a Flag, in recognition of 100% cooperation with our Government in buying War Bonds. * * * When I hear or read that you are going to speak over the radio, I am sure to tune in, for I think that your job must be one of the hardest in the entire Cabinet. Now Mr. Secretary, our country is in urgent need of copper, so much so that although you knew that you would get complaints and criticism from many angles, and from many Soreheads, you felt and knew the circumstances better than we do, you are going to put out plastic pennies. Therefore, would it not be possible for you to ask the American Public to start a penny campaign? Ask each American to help fill Uncle Sam's high hat with copper pennies. Suppose each one of our people contributed 10 pennies - the price of only one War Stamp - our Government would receive thirteen million dollars. * * *

Mrs. Joseph Fels, Hotel Peter Stuyvesant, N.Y.C. The putting out of "There Were Giants in the Land" was an excellent piece of work. I congratulate you heartily on it. There must be many to love it and profit by it. It should be advertised more and more, so as to get even wider distribution of it.

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Favorable Comments on Bonds

Walter Stewart, Paris, Ill. Your message to the American farmer received. In regard to buying Bonds, I have purchased six \$25 Bonds the first six months of 1942. On account of my health, I have to hire all my work done on the farm. * * * I hired a man to husk corn. He worked three days, cribbed 303 bushels of corn. Today he worked nine and one-half hours, husked 107 bushels - was paying him 80¢ per bushel. That made him \$8.56 for his day's work. He said he was not going to work for that kind of wages, and wanted his pay, which I gave him, and he quit. * * * I would like to be able to buy Bonds, but a farmer cannot pay these prices, and have much surplus cash to put into Bonds. If I was able to do the work, of course I could save enough in labor to buy a Bond every 2½ days. Do you suppose the fellow that was making \$8.00 a day is buying Bonds? The answer is NO. I could give you several examples along the same lines in this locality, but will not bother you with them. But you can rest assured, all my surplus will be put into Bonds.

E. L. Gaines, Associate Engineer, The City of Seattle. The following story, wholly true, and involving two of our neighbors, whose names I can supply, should be given to the country. Please take care that not even the name of our city be given out, lest we offend our dear friends. * * * Near the edge of our city in a little cottage, bare of many modern comforts, but scrupulously neat and clean - and their own - lives an elderly couple, AMERICANS, though of foreign birth. * * * He carefully tends their little garden, which provides them with much of their supplies, and she works frugally and skillfully to maintain their scanty wardrobe, for their income from which their sustenance must come is but \$15 per month. * * * A sweet-faced lady of their circle of friends told me this story today. "Mr. E. a short time ago sent word to me to come up to their home. I knew it was important or he would not have sent for me, so I put aside my work

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and went. The old folks seemed much disturbed. 'We got this letter from Uncle Sammie', said Mr. E. 'He wants us to buy some more Bonds. He must need the money very badly for the War, or he would not have asked us. But we just don't see how we can. What shall we do?' I knew of their slender \$15 per month. I replied, 'We will put this letter in the stove, for I know that if Uncle Sam knew how small was your income, he would not have asked you to buy. But you said more Bonds. Surely you have not bought already?' A moment of quiet while the old couple did not look up or speak. Then this from the dear old lady, 'Yes, we talked it over and decided we would be buried very plain.'" A part of their savings had been given to "Uncle Sammie". They love their country.

Mrs. M. D. Metcalfe, Sioux Falls, S.D. During the last war, Kladderadasch (Berlin) had a cartoon of which I have a copy in my war scrap-book, of a Japanese war ship with many flying Japanese flags sinking an American ship whose Flag is just going under the waves -- the caption is, "Germany warns us, some day the sun will rise over the stars". (This was printed in 1915.) I thought maybe reprints of this cartoon would sell more Bonds. If you are interested, I may be able to have a copy made in Sioux Falls, but you may be interested in seeing the war book, as there is quite a good deal about Turkey, when your father was American Ambassador there.

Thomas P. McMahon, Director of Public Relations, McCann-Erickson, Inc., Advertising, N.Y.C. I understand from news reports that you are curtailing inquiring into methods to speed delivery of War Bonds purchased under payroll deduction, and it occurred to me that you might therefore be interested in how one war plant, that of the Stromberg-Carlson Tel. Manufacturing Company of Rochester, solved this problem. Bond sales were lagging because deliveries were lagging as much as three or four weeks. After a number of compromise adjustments,

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both labor and management decided that Bond purchases and their delivery were so important a factor in employee morale that a thorough-going-over change in system had to be made. The company, therefore, has made an arrangement with a local bank, whereby the Bonds are prepaid by the company. The moment payroll deductions reach the purchase price of the Bond, the list of Bond purchasers is supplied to the bank, the Bonds are forwarded to the plant, and delivered to the workers. Thus, the payroll deductions are made on Friday, and by Monday morning Bonds are available. We have noted that employees' reactions to Bond purchases are much more satisfactory since the institution of this system.

Bronson Morgan, Jasper, Texas. * * * Your program is serving a two-fold purpose; first, the sale of War Bonds; second, it is keeping alive the patriotism of a free people, which I think is of equal importance. Your program also contributes much in keeping up the morale which is constantly being disturbed by conflicting reports of our free press and radio. * * *

A pleasant note from Mrs. A. P. Clark, Jr., Fort Sam Houston, Texas, in re Bond conversion. "This is to acknowledge your letter of September 29, giving me permission to turn in my husband's Bonds with my Power of Attorney. The fact that you were able to do this for me has made it possible for me to settle my family comfortably and securely until such time as this war is over and my husband returns. Needless to say, I am deeply grateful for your assistance; and it is a source of great comfort to me to know that those who are in a position to help, can understand the position and unusual needs of those of us who must take care of ourselves and our children while our husbands are doing a bigger and harder job. And those men can do a far better job when they know that their wives can go to the top in time of need and get sympathy and assistance. I thank you for myself, my children, and my husband, who will probably know nothing of this for some time to come; but he will be as deeply appreciative when he does know."

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Unfavorable Comments on Bonds

C. B. Weidman, Credit Manager, Philadelphia Terminals Auction Co., Philadelphia, Pa. * * * We are enclosing a copy of a letter received from the Treasury Department. We were astounded to think that the Post Office Department, or any Department of the U. S. Government, would pass the buck in this manner. It is a distinct slap in the face to those of us in the trade who have worked so hard to raise money for Uncle Sam. * * * (The following quotation is taken from the letter which Mr. Weidman enclosed.) " * * * The Post Office Department has written to us stating that their facilities for issuing Bonds in large quantities is very limited and suggests that if convenient to you, you make arrangements to purchase Bonds in the future through the Federal Reserve Bank located at 10th and Chestnut."

W. Christian, Acme Foundry Company, Detroit, Michigan. On September 10, I issued a check to the Commonwealth Bank of Detroit in the amount of \$1,215.36 to purchase \$1,200, Series A, Tax Anticipation Notes. Up-to-date I have not been able to secure delivery of the Bonds, and understand that they have been superseded by a new series of A Bond, payable in 1945. It would seem to me that Bonds should be advertised only when delivery can be made in a reasonable time. I have received since, a number of announcements of new Treasury issues, but have paid no attention to them, inasmuch as it is probable that no delivery could be made for some time. * *

Stanley Metalitz, Washington, D.C. * * * Some delay in issuing Bonds is to be expected, I suppose. But isn't four months excessive? As far as I know, this condition exists only in the War Department, where I work. For example, my wife works in another agency. She began several weeks after I did, but with about the same pay deduction. She has already received her first \$50 Bond. This is obviously discriminatory. I am willing and eager

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to put more than 10% of my salary into Bonds. But, with Bonds so easy to get at once through banks, department stores, even newsboys, as well as a representative right in my office, I decline to risk using the manifestly inefficient, slow, and untrustworthy pay deduction plan as it operates in this Department.

Stanley Meduski, Meats, Groceries, Fruits, Vegetables, Florida, New York. As an American citizen, I make this appeal. You and your office are doing a great job in raising money to pay the expenses of this war by selling War Bonds, but do they have time to contact all people? No, they cannot leave their business and sell War Bonds, cause most of them say their business comes first, all over this country -- I know from daily experience by contacting the people in my Market. All they care is what can I grab for my dollar, or what the Government will take from us next. This goes on daily by your American people. The least our Government can do is make them buy War Bonds, and the only way to sell those people that are against our Government order is by contacting them, and they should be contacted by a uniformed man. My ambition is to promote the sale of War Bonds. This I could do 24 hours each day, and to further the sale of Bonds I have promoted shows, amateur nights, etc., to raise money for first aid units, for Red Cross, for ambulance funds, and now I have promoted a sale of War Bonds in my market and sold to farmers \$25 and \$50 Bonds to the amount of \$3,850, just by having a War Bond day. * * * This is not boasting, I will lay everything to one side and work for my Government, and do everything in my power to help my Government to win this War.

Virginia V. Vedder, Draftsman's Division, U.S. Patent Office, Richmond, Va. I have been strongly advised to write you personally in regard to two War Bonds purchased by me through the Richmond Army Recruiting and Induction Station while employed there by the War Department. I have written to the Chief of Finance, Defense Bond Division, New Armory Building, where application

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was made, but can get no response. Quite a number of us entered into the payroll agreement to purchase a Bond a month. We were told it would take from 30 to 60 days to get delivery on them. It now has been 130 days for the first one, and 100 days for the other, - - AND WE CAN'T GET ANY ANSWERS TO OUR QUESTIONS ABOUT THEM! You can understand how much more satisfactory it would have been for us to go somewhere and buy them and HAVE them, but the Army wanted it handled through payroll. ** We just can't believe that this is the way the Government wants the Bonds sold. We don't even know when our interest begins, or anything about them. My Bond buying at the Patent Office, where I am now employed, is a different matter - we get our Bonds just as soon as they are paid for.

Claudius O. Johnson, The State College of Washington, Pullman, Washington. A few days ago the leading business organization of this town told its members not to buy any Bonds for the present. Why not? Because we are going to have a "shindig" in town next week. The Standard Oil Company of California is sending a fancy truck to town. There is to be a big parade and Bonds are to be sold then. Does not this sort of thing (which I am sure goes on in thousands of other towns) show the inadequacy and insincerity of the promotion scheme for voluntary Bond buying? I am doing all I can, however, to cooperate with local Bond sales, and I have been asked to make the principle address and shall do my best for you. But I, with a growing number of my fellow citizens, am convinced that the voluntary Bond buying plan is wholly inadequate. It doesn't sell enough Bonds, and it doesn't sell the Bonds to the right people. May I be so impertinent, Mr. Secretary, as to suggest once more that we tackle this Bond buying proposition in a realistic way and without any further delay. Compulsory Bond buying is the only answer, as I see it, and the people should be buying at least \$2,000,000,000 worth a month.

Mrs. I. J. Ives, Hazen, Ark. (On reverse of form letter to farmers, re Bond buying.) I'm telling you why I can't buy another Bond. My son is being drafted November 15, and this is what he is having to do. Dispose of 1,000

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bushels of rice; equally large quantities of soy beans, oats, hay, cotton, and lespedesa; a herd of dairy and beef cattle; hogs and poultry at a sacrifice; store his machinery; and put a 900-acre farm out of production next year. I am 67 years of age and can't live here alone, so I am buying a railroad fare to far into the North to live with a sister. * * * We have neighbors who only raise one or two bales of cotton, and are exempted because they are farmers. If the local board could have a salary so they could go out and see who is producing and who is not, they could make a better decision, and send the ones who are not producing much to the Army. * * * I know the President can't go out and see all the farmers, but he could have some one do it.

"Stromberg Carlson Company", Rochester, N.Y. I am writing this letter in regard to our Bonds. We wait as long as three and four months for our Bonds, and then when we get them, they are dated around the week before we receive them. They are paid for a couple of months before we receive them, then they are not dated when they are paid for. Is the company we work for using our money for something else-when we get our Bonds paid for, we expect to get them the next week, as other companies do. This concern is "Stromberg Carlson Co.", and although they are having lots of waste material, which can be avoided, the waste is not necessary on such materials as silver, platinum, gold and copper. If you can do anything about this, I wish you would, and thanks a million.

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Favorable Comments on Taxation

Lt. Col. J. L. Perkins, U.S.M.C., San Diego, Calif. I am delighted with the new income tax Bill. However, there is one recommendation I wish to make in connection with its enforcement. Appropriate steps should be taken to insure that the hundreds of thousands of defense workers on the 1942 payrolls be required to pay their proper tax on these present incomes, which are higher than they ever received before. Many of the civilian employees receive as much pay as I do, and a great many receive more! My tax for this year will be \$600, which I must pay, as the Income Tax Division has a record of me. But they have no record at all of the countless thousands receiving high wages, and who have never filed an income tax return. For the sake of convenience to all, and to insure that none escape, I further recommend that the tax be taken out at the source for all persons carried on payrolls, and paid by check. Otherwise, the Government will lose the greater part of it.

George W. Spayth, Typewriter strategist No. 41,144, Editor, The Spayth Weeklies, Dunellen, N.J., encloses an article entitled, "Let's Put Up and Shut Up", and writes as follows: What this country needs is a tax plan that cannot be consistently opposed by the guy waving a Flag as he cheers the other fellow in uniform. Maybe if you will read the enclosed editorial carefully, you might agree that here it is.

E. Foster Webb, Park Hotel, Plainfield, N.J. * * * Any one not willing to pay a reasonable percent on salary earned, does not belong here, and I don't mean on a minimum of \$500, \$600 or \$700, but a percent on every dollar earned. I think this is the least we can do. Make it stiff! If we are beaten, what good will any amount of money earned be to us, we had better be dead. Every cent that I can possibly spare will be invested in Defense Stamps and that won't be too much. You are doing a proud job -- more power to you!

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Campbell Holton, (Wholesale Groceries), Bloomington, Illinois. There seems to be a rolling tide, all over the country, in favor of the 10% Retail Sales Tax, with no exceptions whatever. This will be a little sacrifice, of course, but it is a sacrifice the people are waiting to give to the war effort, and to take care of this seven billion dollars you are short, for your estimate. We feel sure that your influence would count more than any other man in the United States, in bringing this about. * * *

Mary Elizabeth Osborn, Department of English, Hood College, Frederick, Maryland. * * * As I try to understand the present tax proposals, it seems to me that I should plan to pay in March, 1942, an income tax amounting to about 20% of my salary. Ever since I began teaching, nearly 20 years ago, I have been putting as much money as I could spare (it now amounts to 20% of my salary) into annuity retirement insurance in the hope that it would provide security for my old age. In recent years, it has become necessary for me to contribute another 20% of my salary toward the support of my father and mother. This leaves me 40% of my salary to live on, and since my salary is \$2,000, this 40% amounts to \$800 a year. * * * I have no reserve to draw on. In order to cooperate in any savings plan which is to be superimposed on my present one, or in order to pay taxes much heavier than those now contemplated, I shall have to abandon my retirement insurance, inasmuch as that is the only place where curtailment of my expenses is now possible. If the Government wishes this particular sacrifice of me for the War effort, I am willing to make it; only I want to be told about it plainly, in so many words, and as long in advance as possible. * * * If someone in your Department can be found who will take the time to answer my letter in plain, simple, unofficial language, I shall be grateful. I am writing as a private individual, not officially as a member of a college faculty.

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Unfavorable Comments on Taxation

Josephine A. Dawson, Columbus, Ohio. I, along with countless others in this community, will appreciate a public statement from you as to why it is necessary to increase the Social Security payroll deductions as of January 1, 1942, in view of the extremely heavy war taxes being cast upon us. If, as we have always been told by our Government, these payroll deductions are used "for old age benefits", is it not true that at the present rate of deduction, there is ample funds to carry the fund -- even funds in excess of those necessary for current demands? * * *

George B. Hill, Los Angeles, Calif. As an investor, I have noticed with appreciation several moves of your Department to decrease red-tape-for-its-own-sake, but what is the sense of the 1941 revision of Form 1,000, Bond coupon ownership certificate? Why harass bondholders with a request for the date of issue of their Bonds, which has not heretofore been asked for, serves no obvious purpose, and requires the bondholder to do a job of research for each issue of Bonds that he holds? * * *

Edwin Ellett Gano, Public Accountant, Elizabeth, N.J. In addition to being a continual subscriber to War Bonds, I am now, together with all C.P.A.'s requested to interest clients in the issues of Tax Bonds, which I am doing gladly, and to date, have seen one client buy \$25,000, and will continue to buy more each month, and, while all this is going on, I am at a loss to understand why something is not done to collect amounts due from tax evasion cases, and especially one that has been in the Department ready to collect for 22 months, representing well over \$100,000. What Government employee is being paid a salary to allow such matters to drag along in this manner? I refer especially to the case vs. N. Marcalus, and Marcalus Manufacturing Company, and when I have tried to get information on the matter, I received nothing but evasions of the poorest sort, that would not be tolerated in any business enterprise, and surely are nothing to inspire confidence in the Treasury Department. * * *

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

October 15, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended October 7, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(init.) E. M. H.

120:9/27/42

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P
YFEDERAL RESERVE BANK
OF NEW YORK

October 15, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended October 7, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:10/27/42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In Millions of Dollars)

Week Ended October 7, 1942

Monthly
Summary

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	856.3(e)	426.6(e)	449.7	1,095.3(f)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.9	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 30.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	6.1	84.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3
June 4 - July 1	85.9	72.6	17.3	113.6	-	0.5	113.1	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3
July 2 - July 29	66.1	45.9	20.2	84.4	-	-	84.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	+ 0.2
July 30 - Sept. 2	72.2	52.9	19.3	116.1	0.9	-	115.2	+ 43.9	0.4	-	0.4	0.4	-	0.4	-
Sept. 3 - Sept. 30	58.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7
WEEK ENDED:															
Sept. 16	12.5	4.3	8.2	22.6	-	-	22.6	+ 10.1	-	-	-	0.1	-	0.1	+ 0.1
23	11.8	7.2	4.6	11.1	-	-	11.1	- 0.7	-	-	-	0.1	-	0.1	+ 0.1
30	12.3	7.9	4.4	21.0	-	-	21.0	+ 8.7	10.1	-	10.1	0.1	-	0.1	- 10.0
Oct. 7	21.6	15.3(d)	6.3	14.6	-	-	14.6(f)	- 7.0	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 34.5 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended October 7, 1942

Cumulation from July 6, 1940

\$ -

\$ 162.7

million

million

*For monthly breakdown see tabulations prior to April 23, 1941.
 **For monthly breakdown see tabulations prior to October 8, 1941.
 (See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$12.2 million deposited by the British Ministry of Supply.
- (g) Includes payment of \$8.0 million to Packard Motor Car Co. presumably on old contracts.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended October 7, 1942 CONFIDENTIAL

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Total Debits		Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.8
War period through December, 1940	477.2	16.6	460.6	707.4	536.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.8	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1942	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	21.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9
Apr. 30 - June 3	54.2	-	54.2	49.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	16.6	-	16.6	+ 1.4
June 4 - July 1	47.2	-	47.2	72.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	- 3.1	19.1	15.0	4.1	19.5	-	19.5	+ 0.0
July 30 - Sept. 2	65.1	0.2	64.9	77.3	15.4	-	-	61.9	+ 12.2	7.7	3.1	4.6	17.1	-	17.1	+ 9.0
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
WEEK ENDING:																
Sept. 16	13.7	-	13.7	10.9	2.2	-	-	8.7	- 2.8	0.5	-	0.5	0.5	-	0.5	-
23	9.3	-	9.3	9.8	3.6	-	-	6.2	+ 0.5	0.7	-	0.7	0.5	-	0.5	- 0.2
30	17.0	-	17.0	20.0	4.6	-	-	15.4	+ 3.0	13.0	10.5	2.5	14.5	-	14.5	+ 1.5
Oct. 7	8.2(a)	-	8.2	11.0(a)	3.0	-	-	8.0(b)	+ 2.8	0.6	-	0.6	1.9(c)	-	1.9(c)	+ 1.3

Weekly Average of Total Debits since Outbreak of War

through October 7, 1942 - \$ 9.3 million
 * For monthly breakdown see tabulations prior to April 23, 1941.
 ** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Does not reflect U. S. Treasury bill transactions.

(b) Includes \$2.9 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

(c) Includes \$1.0 million credited to Australia for account of Treasurer of the U. S. to be applied against U. S. currency and Treasury checks negotiated by

BRITISH MOST SECRET
U.S. SECRET

OPTCL No. 357

Information received up to 7 A.M., 16th October, 1942.

1. NAVAL

Repeated U-boat attacks on a homeward bound convoy from SAYARA during the night 14th/15th were driven off. One of H.M. submarines reports having torpedoed a large tanker off North East SARDINIA. Another of H.M. submarines has sunk two ships off NAPLES.

2. MILITARY

MADAGASCAR. By 13th evening our troops had captured the remaining French positions north of AMBOSITRA. The following morning our leading elements occupied the town. The situation is quiet.

3. AIR OPERATIONS

WESTERN FRONT. 15th. 23 Bostons with strong fighter protection bombed the docks at HAVRE and claim to have hit one ship. Four Mosquitos made a low level attack on an engineering and diesel engine works at ONGELO. Many bursts were seen on the objective. One Mosquito bombed the docks at DEN HELDER. Two trawlers and an E-boat were damaged by Hurricane bombers at a small port in North BRITANNY. One Spitfire is missing. 15th/16th. 289 aircraft were sent to attack COLOGNE. 18 bombers are missing and one crashed.

LIBYA. 14th. 3 U.S. Fortresses bombed TOBRUK and obtained hits or near misses on shipping.

MALTA. 14th/15th. 24 enemy aircraft approached the Island, one was shot down. 15th. 110 Spitfire sorties were flown against 251 by the enemy. In two out of four attacks escorted bomb carrying Messerschmidts were used. No material damage was caused. 14 enemy aircraft were destroyed, 4 probably destroyed and 13 damaged. Four Spitfires are missing, 3 pilots safe.

MEDITERRANEAN. 14th. Three Beaufighters bombed and machine gunned a small ship and one destroyer off HOMS. Results were unobserved, but two Beaufighters were shot down. At night a 7,000 ton enemy ship was torpedoed by a Naval aircraft east of HOMS (L).

RUSSIA. On the STALINGRAD Front German bombers attacked Russian troops and supply columns east of the VOLGA and claim to have sunk a medium sized ship. German dive bombers supported ground attacks on the road from MAIKOP to TUAPSE.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 16, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Japanese and United States Pacific Naval Losses

1. U.S. Naval communiques dated October 6 - 15, 1942, reveal the following additional Japanese and U.S. naval losses in the Pacific:

a. Japanese

- (1) Solomons. Sunk - one cruiser, 4 destroyers, one transport; probably sunk - one destroyer; damaged - one battleship, 4 cruisers, 3 transports, 2 cargo ships.
- (2) Aleutians. Probably sunk - one cargo ship; damaged - one cargo ship.
- (3) New Guinea. Sunk - one transport; damaged - one destroyer.
- (4) By U.S. submarine action. Sunk - one cruiser, 2 cargo ships, one tanker, one trawler; probably sunk - one cargo ship; damaged - 2 tankers.

b. United States: Solomons. Sunk - 3 cruisers (Aug. 8 - 9, 1942), one destroyer.

2. Losses announced in U.S. Naval communiques since Pearl Harbor total:

- a. Japanese: 171 vessels sunk, 33 probably sunk, 143 damaged.
- b. United States: 50 vessels lost, 12 damaged.

Table I

Total Japanese Vessels Sunk and Damaged
to October 15, 1942

Combatant Vessels

<u>Type</u>	<u>Sunk</u>	<u>Probably * Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	6	6
Aircraft Carriers	6	1	4	11
Cruisers	13	3	33 *	49
Destroyers	30	9	16	55
Submarines	6	1	7	14
Tenders	1	1	5	7
Others	<u>13</u>	<u>2</u>	<u>14</u>	<u>29</u>
Totals	69	17	85	171

Non-Combatant Vessels

Fleet Tankers	11	0	7	18
Transports	27	7	19 *	53
Cargo and Supply	50 *	7	21	78
Miscellaneous	<u>14</u>	<u>2</u>	<u>11 *</u>	<u>27</u>
Totals	102	16	58	176
TOTAL ALL TYPES	171	33	143	<u>347</u>

* Also several additional vessels.

Table II

American Naval Vessels Sunk and
Damaged to Oct. 15, 1942

<u>Type</u>	<u>Lost</u>	<u>Demolished to prevent capture</u>	<u>Damaged</u>	<u>Total</u>
Battleships	1	0	1	2
Aircraft Carriers	2	0	0	2
Cruisers	4	0	2	6
Destroyers	12	1	6	19
Submarines	3	1	0	4
Motor Torpedo Boats	2	1	0	3
Submarine Tender	0	1	0	1
Aux. Seaplane Tender	1	0	1	2
Mine Craft	5	2	0	7
Gunboats	3	1	0	4
Tankers	3	0	0	3
Tugs	0	1	0	1
Transports	4	0	2	6
Target Ship	1	0	0	1
Floating Drydock	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total	41	9	12	62

Table III

Japanese and American Vessels Sunk and
Damaged in the Solomon Islands
(Aug. 7 - Oct. 15, 1942)

Japanese Losses

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	2	2
Aircraft Carriers	0	0	2	2
Cruisers	1	0	16 *	17
Destroyers	5	2	5	12
Submarines	1	0	0	1
Tenders	0	0	2	2
Tankers	0	0	1	1
Transports	2	1	4 *	7
Cargo and Supply	0	0	6	6
Miscellaneous	<u>4 *</u>	<u>0</u>	<u>6 *</u>	<u>10</u>
Total	13	3	44	60

American Losses

Cruisers	4	2	6
Destroyers	3	2	5
Transports	<u>4</u>	<u>1</u>	<u>5</u>
Total	11	5	16

* Also several additional vessels.

Table IV

Japanese Vessels Sunk and Damaged in the Aleutian
Islands (June 15 - October 15, 1942) *

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Cruisers	1	0	5	6
Destroyers	6	1	2	9
Submarines	0	1	5	6
Transports	2	1	6	9
Cargo and Supply	4	1	6	11
Minesweepers	2	0	0	2
Miscellaneous	<u>1</u>	<u>0</u>	<u>1**</u>	<u>2</u>
Total	16	4	25	45

* No American vessels have been reported lost and damaged in this area to date.

** Also several additional vessels.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 16, 1942

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

Russian Submarines in Gulf of Bothnia

Reports from Helsinki indicate that Russian submarine operations in the Gulf of Bothnia are causing considerable worry to the Finnish authorities. During the past month, these submarines have destroyed three freighters outward bound from the Finnish port of Bjerneborg.

(O.S.S., "The War This Week", October 1-8, 1942)

Size and Disposition of German Army

In a memorandum of October 8, 1942, I gave the following British estimate of the distribution of the German Army:

Russia	178	divisions
Poland	9	"
Finland	8	"
France and Low Countries	36	"
Denmark	2	"
Balkans and Aegean	7	"
North Africa	4	"
Germany	<u>45</u>	"
Total	296	"

It now appears, from a later British report, that all of the divisions in Germany (now 47), Poland and Denmark, four or five of those in France, and 5 in Russia are merely either administrative headquarters or training divisions. This cuts the total figure to 230 or 231 regular divisions, and shows the German military position in Western Europe to be much weaker than as indicated by the earlier estimates.

(U.K. Operations Report, October 1 - 8, 1942)

Burma

Apparently the Japanese in Northern Burma are preparing for further military activities. United Nations' reconnaissance planes have reported a large increase in enemy air activity in this region. Construction work is in progress at a number of airdromes and there is evidence of increased shipping activity.

(O.S.S., "The War This Week", October 1 - 8, 1942)

10-16-42

INTELLIGENCE REPORT 45

TO THE DIRECTOR

CONFIDENTIAL

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OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7
Henry Morgenthau, Jr.

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The period covered by this report is the week of October 8 through October 14, except where otherwise specifically stated



ATTENTION FOCUS

Only the Navy's announcement that three United States cruisers were lost in the August attack on the Solomon Islands and fresh Nazi attacks in the Caucasus checked the week's flow of optimistic news from the fighting fronts. Press and radio kept public attention riveted on the successful defense of Stalingrad. American military action in New Guinea, the Aleutians, the Solomons, and the raid on Lille by Flying Fortresses, were all reported prominently and encouragingly.

The President's speech of Monday evening was the big domestic news of the week. Most reports emphasized its call for the drafting of 18- and 19-year olds. It is estimated that the speech was heard by 58.9 per cent of all radio homes in the United States, comprising some 45,685,000 adult individuals -- an audience larger by approximately eight and one-quarter million than that which listened to his Labor Day address on inflation. Congressional tax action and the scrap metal drive were also major home topics.

Sumner Welles' charges against Argentina and Chile and the postponement of President Rios' visit to this country were treated dramatically, though not as of first rate importance.

Wendell Willkie's Far Eastern visit received only secondary headlines.



EDITORIAL ATTITUDES

THE PRESIDENT'S SPEECH

To most editorial commentators, the President's fireside talk of Monday evening reflected strong leadership and a buoyantly hopeful attitude toward the progress of the war. Their discussion of it reflected a clearer sense of direction than they have exhibited at any time in recent weeks.

There was very little specific criticism of the address. Commentators applauded Mr. Roosevelt's generous commendation of Congress. A few objected to his verbal spanking of "typewriter strategists," but avoided inflating this into an issue.

The speech was discussed, for the most part, in terms of its delineation of the manpower problem. There was general satisfaction over the President's proposal to solve this problem by voluntary methods if possible. The New York Times, in a representative comment, said: "He is certain, and with good reason, that the country will accept a compulsory draft of manpower, if that is the best way or the only way to solve the problem; but his preference is wisely for a thorough trial of the voluntary method before that stage is reached."

On every hand, there was praise for the President's decision to bring 18- and 19-year old men into the armed forces. Even the New York Daily News remarked in this connection: "The question is not whether the younger men have finished their schooling, or whether their mothers do or don't want them to go to war. The question is what age group yields the best fighting

material; and the answer is as stated by Mr. Roosevelt."

ECONOMIC CONTROLS

Editorial comment about fiscal problems centered around opposition to the Treasury's proposed methods of collecting higher taxes, disappointment over the amount of revenue to be provided by the Senate Finance Committee's bill, dissatisfaction with specific levies, such as the "victory tax," and agitation for a sales tax as the panacea of all tax troubles.

Attacks on the Treasury, in large part, took the form of protests against the announcement that a new tax bill to raise additional billions will soon be offered. "It is not so much the extra burden proposed by the Treasury as the prolongation of uncertainty that is regretted," said the Philadelphia Bulletin in an editorial typical of press reaction.

Criticism of the Senate Finance Committee — much milder than that directed at the Treasury — was based chiefly on the argument that its bill will not raise enough revenue to prevent inflation. The Hartford Courant, for example, observed: "Nine billions taken out of the pockets of the people is not enough to close the gap between goods available and money on hand."

There was little comment and even less enthusiasm respecting the "victory tax." The Ruml plan received some support, but not in any considerable volume. In general, newspapers want a sales tax or some other form of taxation which will impose heavier burdens on the lower income groups.

Comment on the initial acts taken by Mr. Byrnes as Economic Coordinator was generally sympathetic. The one aspect of the President's directives in

respect to inflation control about which commentators were somewhat critical was the matter of wage stabilization.

The new Rubber Administrator, William Jeffers, evoked a round of editorial applause by his first appearance before a congressional committee. His "tough talk" in insisting that he would not be influenced by pressure groups was taken by most of the press as a good omen for the future. The appointment to responsible posts of such men as Jeffers, Wilson, Byrnes and Eberstadt has produced a mild wave of editorial comment that the Government is now buckling down to firm administration of its economic program.

PROGRESS OF THE WAR

Continued Russian resistance at Stalingrad has awakened a restrained jubilation among the news analysts. They warned readers that German strength must not be underrated and that the campaign in the Caucasus is still menacing. The Berlin announcement that German tactics at Stalingrad had been changed was generally viewed with skepticism.

A number of commentators, however, suggested that the successful defense of Russia's key industrial city may mark a genuine turning point in the war. The Hartford Courant, for example, thought it likely that the "Russian defenders of Stalingrad may have put Hitler on the road to his Waterloo." The Daily Oklahoman declared: "It is altogether possible that this global war may be decided by Russian soldiers...."

Hopefulness about the war against Japan was somewhat modified by the Navy's disclosure that occupation of the Solomons had been accomplished only at

the cost of three United States cruisers. For the most part, the Navy's explanation of its delay in making this announcement was somewhat grudgingly accepted as valid. The original reports, observed the Washington Star, were "intended to mislead the enemy concerning the extent of the damage he had done. If, incidentally, the American people also were misled, it must be assumed that the necessity of protecting the men remaining in the Solomons area was sufficient justification."

Commentators pointed to the loss of the three warships as further evidence of the strength and resourcefulness of the Japanese. There is growing uneasiness, moreover, concerning the continued Japanese landings in the Solomons. The Dallas News remarked, for example, that "Our forces there are not large and it is possible that they might be dislodged by a much larger enemy attack force." On the whole, editorial commentators have been giving the public a fairly sober and realistic view of developments in the Pacific sector.



DEVELOPING SITUATIONS

POST-WAR PLANNING

Recent statements by President Roosevelt and by other Government leaders have encouraged the American people to look forward to an improved social and economic organization of the world when the war is ended. Nevertheless, public thinking about post-war problems is wholly uncrystallized. Interviewing conducted by the Bureau of Intelligence has shown that only a very small minority of Americans has any clear or concrete hopes about the nature of the post-war

world.

Little has been done by media of information to promote thinking about post-war problems. A study of editorial comments in a nationwide sample of 125 newspapers during the months of August and September reveals a high degree of apathy concerning war aims and post-war planning. An overwhelming majority of these newspapers has refrained from endorsing any definite pattern of future international collaboration.

Some newspapers and editorial commentators, it is true, have urged that the Government undertake planning for the post-war world. But they have done little to explain its importance and have confined themselves largely to vague endorsements of the Atlantic Charter and the principles of the Four Freedoms. They argue that we must cooperate in the future with the rest of the world, but attempt no definition of the form which such cooperation ought to take.

Those who advocate preparation for post-war conditions are almost counter-balanced by a group of newspapers and commentators which argues that any consideration of the future is likely to detract from the war effort, must necessarily be visionary and impractical and may endanger the system of private enterprise. Prominent among these opponents of post-war planning are the Hearst and McCormick-Patterson newspapers, together with such columnists as Benjamin DeCasseres and Westbrook Pegler.

The need for current consideration of post-war problems has been strongly emphasized of late by authoritative Government spokesmen. In his broadcast of October 12, the President said: "It is useless to win a war unless

it stays won....We are united in seeking the kind of victory that will guarantee that our grandchildren can grow and, under God, may live their lives free from the constant threat of invasion, destruction, slavery and violent death."

Speaking in Boston on October 8, Under Secretary of State Sumner Welles declared: "One hears it said that no thought should be given to the problems of the peace, nor to the problems of the transitional period between war and established peace, until after the war has been won. The shallowness of such thinking, whether sincere or sinister, is apparent..."

Earlier, Secretary Hull gave the clearest impetus to post-war planning. He said in his address of July 23: "Without impediment to the fullest prosecution of the war — indeed, for its most effective prosecution — the United Nations should from time to time, as they did in adopting the Atlantic Charter, formulate and proclaim their common views regarding fundamental policies which will chart for mankind a wise course based on enduring spiritual values."

But others in the Administration and in Congress have decried present consideration of future problems. Representative Clare Hoffman of Michigan, for example, asked just recently, "Why not wait until the war has been won before dividing the earth's surface and people among the victors and determining the form of government which shall be given to all?"

In a speech at Cleveland on October 6, Senator Harold H. Burton stated: "We must not as a nation attempt to discuss the details of post-war conditions because we cannot know the detailed premises on which to plan them."

We must not as a nation spend our precious fighting time on preparing detailed terms of peace before we have won that peace."

In testifying before the Senate Agricultural Committee on October 12, the Rubber Administrator, William M. Jeffers, gave some encouragement, probably unintentionally, to the opponents of post-war planning. When Senator Bankhead of Alabama expressed fear that rayon producing plants might control the tire manufacturing business after the war, Mr. Jeffers said: "Our job now is to win the war. Let's quit talking about what's going to happen after the war."

Such concrete proposals as have been advanced for the post-war period have been largely in the sterile framework of autarchy and armament. Secretary of the Navy Knox, for example, told the American Legion convention that "adequate preparedness for war is the best possible guarantee against war" and advised them to "see to it that our nation never again is left without weapons in a world where he who would be free must be strong."

The indifference of press and public to post-war problems must be attributed, at least in large measure, to a failure on the part of governmental information policy to present clear-cut concepts of the post-war world. Perhaps clear-cut concepts can evolve only from the sort of specific action suggested by Secretary Hull. China's Minister of Foreign Affairs, T. V. Soong, made this point recently in urging that an executive council of the United Nations be established now as a means of evolving "a workable world order, an international instrument fully capable of dispensing justice and

enforcing law and order among nations during, as well as after, the war." The structure of the future can scarcely fail to be influenced by the foundations laid in the present.

In his address to the Foreign Policy Association on October 3, Elmer Davis said: "We in the information field are charged with a task which, if rightly done, may make easier a more extensive and more intensive military and diplomatic collaboration, for we believe that the more that is known about the compelling reasons for continued cooperation of the United Nations, the more surely that cooperation will be perfected and maintained." But little has yet been done to clarify and publicize either the "compelling reasons" or the nature of practical measures toward cooperation, such as Lend-Lease agreements, which have already been undertaken.

As things stand now, Americans have no positive specific goals to fight for. Nor have the United Nations any concrete, realistic program to which the neutrals and the conquered can be rallied. They fight as people who prefer to win rather than lose a war — not as people inspired by a hope and a faith in the future.

FOREIGN-BORN GROUPS IN MANHATTAN

Almost three million people born in Germany and Italy are living in the United States. One million of these have been in the legal status of "enemy aliens" but all, in some way or other, feel the special effects of having been born in one of these countries with which we are now waging war. Among them are some 90,000 refugees, most of them anti-Fascists, but sharing with German and Italian aliens the restrictions imposed by

the United States on "enemy aliens," due to their having been born in one of these countries.

The Italian-Born

A study recently conducted by the Bureau of Intelligence among foreign-born groups in New York City supports the thesis of Attorney General Biddle that most Italian-Americans are loyal. Even among those Italian-born people who feel a strong sentimental attachment for their homeland, there are relatively few who lack a sense of loyalty to the United States. The majority of the Italian-born people interviewed think of themselves as Americans; another large group think of themselves as both Americans and Italians.

Perhaps a third of the Italian-born people in the sample have vague or clearly defined pro-Fascist tendencies, and are therefore susceptible to Fascist propaganda. The most common complaint among the people in this group is that they have been made to feel like "second class" immigrants.

Even these people, however, must be sharply distinguished from those with pro-Nazi leanings among the German-born. Their tendency to approve many of the policies of their mother country is seldom the result of a systematic indoctrination with Fascist ideology and is rarely developed into a definite structure of beliefs. It stems rather from a nostalgic attachment to the particular region in which they were born, where, in many cases, they still have relatives and friends.

The contrast between the Italian-born and the German-born was one of

the most notable which emerged from the study. Because the sample was small and not altogether representative, the quantitative findings of the study are not believed to be altogether trustworthy, although its general conclusions are significant. Interviewing was completed before the recent announcement that most Italians will be removed from the enemy alien classification on October 19. It may be confidently expected that this step will strengthen the identification of aliens and citizens of Italian origin, wherever their present sympathies lie, with the United States. And it will weaken their identification with the present government of Italy, which they are already inclined to regard as an involuntary partner and semi-captive of Nazi Germany.

The Italian-born people interviewed are, in general, extremely confused in their thinking about the war. They disapprove strongly of America's major allies, Britain and Russia. But, although they have great confidence in the German military machine, they have no love for the Nazis. They are dissatisfied with America's conduct of the war. Nevertheless, the majority is confident that America will win. They are confused about our war aims and inclined to feel that this is not America's war.

Economically, the Italians have suffered a great deal as a result of the war. A number complain that they were barred from jobs because of their classification as enemy aliens. The increase in unemployment among New York's textile workers earlier this year hit the Italian group especially hard.

A majority of the Italian-born people interviewed are participating in

the war effort through buying war bonds, acting as blood donors, or engaging in civilian defense activities. While there is some correlation between participation in such activities and a feeling of devotion to the United States, participation is not an altogether reliable index of loyalty. Many of those who do not engage in civilian defense have a positive attitude towards it; some have been excluded from participation because they are not citizens. On the other hand, some pro-Fascists make patriotic gestures as a way of covering up their true sentiments.

The German-Born

The minority of German-born residents with Nazi tendencies, although they do not admit being pro-Hitler, are much more vehement than the Italians in revealing their viewpoints. Many of them justify their Nazi convictions with facts and arguments. And Germans are bound to their mother country not so much by a nostalgic attachment to a particular locality as by an intense nationalistic pride.

There is a difference, too, in the way in which the Germans and Italians feel bound to their respective homelands and to America. The Germans feel at least as well integrated as the Italians in American society. As many as two-thirds of those interviewed regard themselves primarily as Americans, and another sixth think of themselves as both Germans and Americans. The interviews revealed, however, that a number of people in both of these groups are definitely pro-Nazi. These individuals do not see any inconsistency in their pattern of allegiance; they maintain that America should be Nazified, and that only true Germans can be true Americans.

The Germans share the anti-British and anti-Russian feeling of the Italians, but put a somewhat higher appraisal upon the military prowess of these anti-Axis powers. They have no more use for the Italians than the Italians have for them. They are sharply critical of America's conduct of the war, both at home and on the fighting fronts, although a majority believe that the United States will ultimately be victorious. About a quarter of those interviewed -- including some worried anti-Nazis as well as some pro-Nazis -- are doubtful about the outcome of the war. A somewhat smaller group expressed the belief that the war would end in a negotiated peace or an outright Axis victory; and it must be remembered that other respondents may have concealed such opinions. There was a pronounced tendency to maintain that this war is no business of this country's and to blame the war on the United States, on England or on the existence of economic inequality.

In view of the prevalence of such beliefs, it is not surprising to find that many of the German-born group refrain from taking an active part in the war effort. As among the Italians, some of those who do participate in civilian defense activities evidently do so to conceal their anti-democratic leanings. Unlike the Italians, the Germans have not been adversely affected economically by the war, because of their concentration in occupations which are in great demand. Nor has lack of citizenship been a factor, since most of the Germans interviewed, both loyal and disloyal, have become citizens.

Refugees

A group of refugees, including both Jews and non-Jews, was also studied. Because of the short time these refugees had been in this country, only a

minority regard themselves as Americans. Only six per cent of the refugees had attained citizenship. But they have had enough first-hand experience with Fascism to understand why America is waging a war against it. They are better informed about war issues than any of the other groups studied. The older and better educated refugees show a notable interest in post-war problems and in plans for the reconstruction of Europe.

The flaws in the morale of the refugee group grow out of their very eagerness to win the war. Filled with anxiety as a result of their experiences in Europe, many of them succumb to defeatist psychology or become hypercritical of the nation's war effort. Many refugees are disturbed by the loss of status they have suffered as a result of having to start life over in a strange land.

As non-citizens, many refugees are excluded by local practices from participating in civilian defense activities. Participation in the war effort through bond buying, blood donations and similar activities is high.

Attitude Toward Alien Regulations

Considerable criticism of America's alien regulations was voiced by respondents in all groups. Most of those interviewed agreed that some alien regulations are necessary. But there was a general belief that existing rules, which will be changed October 19 for certain classes of Italians, are unjust and ineffectual. The most common argument was that disloyal individuals are usually naturalized citizens or, when they are aliens, clever enough to evade the operation of the regulations. Thus in practice, it is believed, these regulations affect the innocent -- and often the ardent anti-Fascists -- more severely than they do the disloyal.

These opinions may exaggerate the defects of present alien regulations, but the study suggests that there is no necessary correlation between loyalty and citizenship status. Loyalty depends upon the degree to which the immigrant is integrated into American society and the extent to which he accepts American values and purposes.

DAY-CARE OF CHILDREN

Delays in providing community facilities for the day-care of children continue to retard the recruitment of women into the labor force. In some places, too, the lack of such facilities is resulting in numerous absences and a rapid labor turnover among married women workers.

Here and there war plants have stepped into the breach by establishing day-care centers for children of their own workers. Such centers, however, entail undesirable paternalism and are likely to create employer-employee difficulties. Furthermore, few individual companies are in a position to furnish well-rounded programs. In addition to providing nursery schools, it is necessary to arrange for the care of small children within homes, either through placement with foster families or homemaker helpers; to provide supervision for somewhat older children before and after school hours; and to make counselling service available to mothers. The conception of what day-care must include is constantly expanding as new needs become apparent.

Experience to date suggests that adequate programs require the utilization of welfare facilities, schools and other community resources. The War Manpower Commission specifically recommends that programs be developed on

a community basis, not "under the auspices of individual employers or employer groups."

Federal funds have been provided for the upkeep of a coordinating office to expedite the establishment of such community programs. Money has also been appropriated for the expansion of the WPA nursery school program. The funds for the actual operation of all but the WPA nurseries must be sought within local communities, however, although federal grants-in-aid may later become available. Field work and vigorous informational efforts appear to be needed to make communities aware of the WMC policy respecting this problem and of the need for inaugurating programs.

JIM CROW ABROAD

Negro newspapers assert that the U. S. Army is carrying patterns of racial segregation into countries where color barriers have not previously existed.

Resentment on this score was recently given formal expression in a demand presented by the National Association for the Advancement of Colored People that the War Department "take steps to eliminate the friction in the American Expeditionary Forces caused by Southern white soldiers who desire to establish Jim Crow traditions in England." It is charged that Negro troops were at first cordially received in England, but that white soldiers protested against British friendliness to them.

In Hawaii, where racial prejudice receives no sanction in laws and little in public customs, people of many different colors mingle together freely. Aware of this, Negro troops are hurt more deeply than at home by the

discrimination they encounter from their white fellow-Americans. They feel that white service men and war workers fraternize more or less indiscriminately with the non-white residents of the islands -- Hawaiians, part-Hawaiians, Chinese, Japanese, Filipinos, Koreans, and others -- and draw the color line only against them.

It is reported that the USO is considering the establishment of a special center for colored troops in Hawaii. If separate facilities are provided for whites and Negroes, it will be one of the first instances when patterns of racial segregation have been institutionalized in Hawaii.

The discrimination Negro troops suffer, particularly in areas where it is not sanctioned by custom, inevitably weakens Negroes' identification with their fellow Americans and strengthens their identification with dark-skinned peoples. Some of the Negroes interviewed in a recent Bureau of Intelligence survey exhibited a marked tendency to align themselves with the people of India in their effort to secure freedom and expressed strong anti-British feelings. A number indicated that they felt the Indians were justified in resorting to violence to liberate themselves.

Intelligent Negro leaders understand that the Army is engaged in fighting a war, not in carrying on a program of social amelioration. But they feel that there is no justification for transporting social customs involving segregation overseas. Such a course, they argue, is bound to impair the morale of American Negroes. Additionally, it may undermine the confidence of colonial people and people of color throughout the world in the sincerity of the proclaimed war objectives of the United Nations. There is clear need for cooperation between appropriate OWI officials abroad and the military .

authorities in areas where such tensions have developed.

(These findings are based upon "Anti-British Attitudes of Negroes," Special Report #24, Division of Surveys, and "Morale in the Territory of Hawaii," Report #33, Special Services Division.)



ENEMY PROPAGANDA

THE PRESIDENT'S SPEECH

Axis propagandists resorted to belittling, ridicule, exaggeration, denunciation and distortion in their efforts to depreciate the President's Columbus Day address. The Nazis call F. D. R. the greatest "typewriter strategist" of them all and find evidence in his speech that he planned the war two years ago. His references to Axis weakness, they report, were met with "guffaws." Germany, the Nazis boast, can repel an invasion at any point on the continent.

Radio Tokyo claims the speech reveals a marked labor shortage, betraying the weakness of the American economy. Roosevelt's manpower proposals, say the Japs, mean the virtual enslavement of the American workers. The Japs paint a doleful picture of a United States whose schools are closed and whose factories are manned by oldsters.

THE BIDDLE SPEECH

Axis reaction to Attorney General Biddle's speech was delayed until October 14, evidently because their propagandists did not know how to deal with it. Finally, Radio Rome reacted (in Italian, to North America) with the charge that Italians were removed from the enemy alien category to win the good

will of Italian-Americans for the coming election. Rome attempts to minimize the step by stating that it will have no effect anyhow. A portion of the broadcast is devoted to a resume of the alleged persecution of Italians in this country, in an attempt to offset the effect of the U. S. move.

WEDGE DRIVING

Goebbels and Co. seized upon a number of events this past week for the familiar Axis propaganda device of wedge driving. Stalin's letter to associated press correspondent Cassidy was made the spearpoint of an attempt to alienate the Anglo-Americans and Russia. In broadcast after broadcast Goebbels' heart bleeds for the Russians, left in the lurch by their Anglo-American allies. American and English officials are presented as embarrassed and disturbed by the supposed deterioration of relationships among the United Nations. Ambassador Standley is pictured as returning to the United States because of a desperate need to reduce the tension between Russia and her Anglo-American allies.

Discord between the United States and Great Britain is also emphasized. Life's letter to the people of England furnishes ammunition for divergent broadcasts to the United States and Great Britain. Americans are told that the letter indicates that England planned this war in order to maintain her empire; the rest of the world is told that England has responded to the letter with criticisms of U. S. war aid. Berlin tells England that the American soldiers quartered there are paid more than the British soldiers, live much better, and sneer at the British while enjoying their hospitality. Radio Tokyo chimes in with the claim that an American submarine sank the

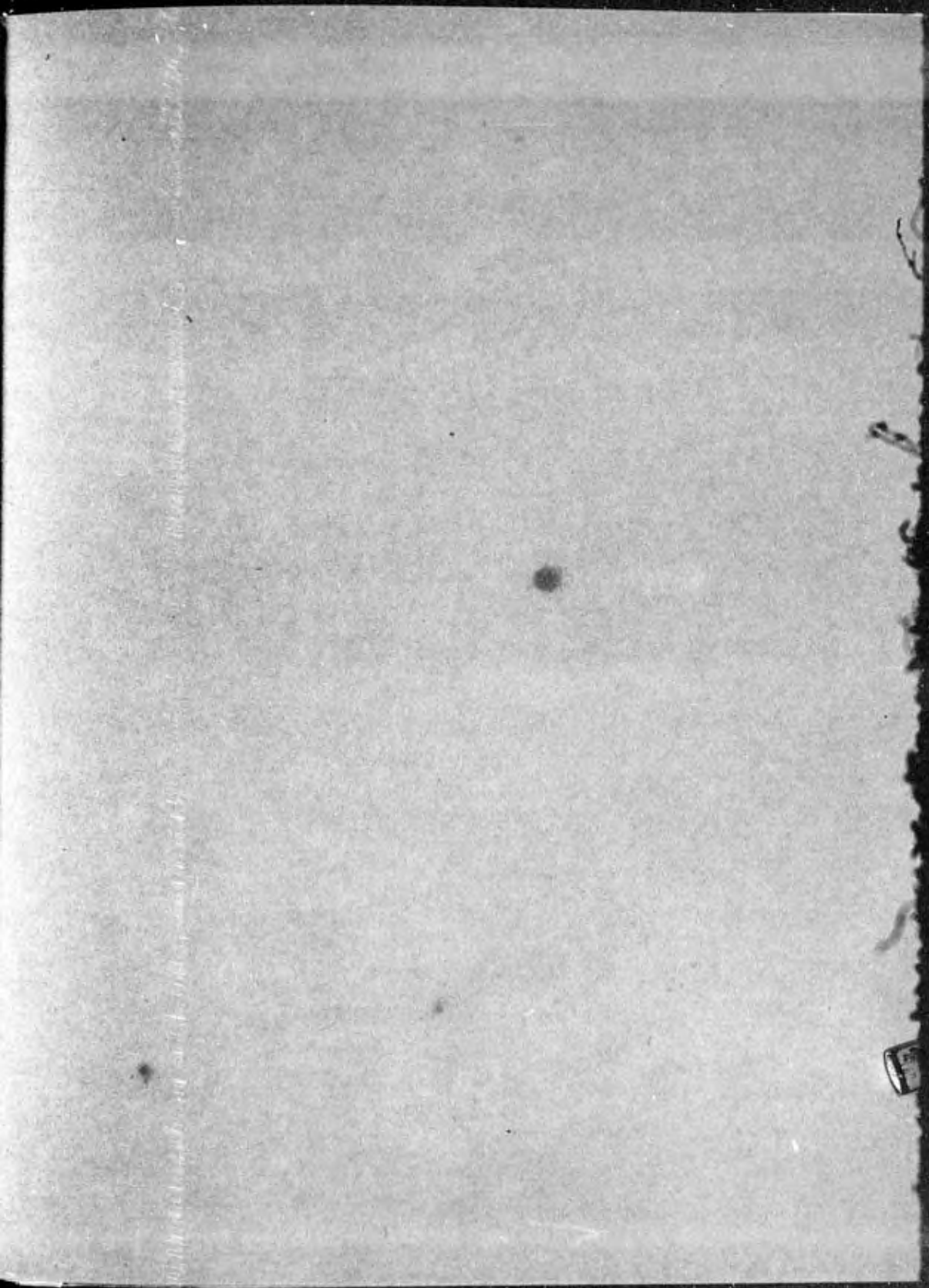
Lisbon Maru while she was carrying British prisoners. In alleged interviews with the survivors, they express great bitterness toward the United States. Germany capitalizes the supposed dissension among the United Nations domestically as well as internationally, to prove that there can be no second front.

To demonstrate and heighten inter-American conflict Axis propagandists use Welles' speech and the hostile reactions of Chile and Argentina to it. The reason for Welles' "insulting" remarks about the two South American countries, the Axis alleges, is his desire to "blackmail" them into the service of the United States. Chile and Argentina are portrayed as resentful and irritated at Welles' "impudence." Rome played upon these themes in many broadcasts to Latin America, scoring Welles for his "lack of tact and diplomacy."

TAILOR-MAKING GOERING'S SPEECH

A study of the manipulation of Goering's speech in commentaries and newscasts for American listeners gives insight into Nazi propaganda strategy. It was necessary for Goebbels to deal with many of the fears of the German people -- about British air raids, the German fuel situation, etc. -- in order to allay them. But since these themes suggest German weakness, they are not dealt with in broadcasts to North America. To impress Americans with Germany's strength, such themes as the ineffectiveness of the blockade and the satisfactory nature of Germany's food situation are given more emphasis in broadcasts to America than they received in the speech. Comments comparing the economic plight of Britain and Russia to Germany's "excellent position" also receive more stress.

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FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

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

Market purchases 1/ +
 Market sales 1/ -
 Direct purchases from Treasury +
 Maturities -

Column B shows price changes in 32nds, except for certificates which are true decimals.

STRICTLY CONFIDENTIAL

Last Week										Index	Description	This Week											
Oct. 5		6		7		8		9				10		Oct. 12		13		14		15		17	
A	B	A	B	A	B	A	B	A	B			A	B	A	B	A	B	A	B	A	B	A	B
+11.9	+25.0	.....	+111.1	.....	+63.8	.....	+88.0	.....	+36.5	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
-21.2	-21.1	.....	-22.8	.....	-35.0	.....	-9.0	.....	-5	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	-98.8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
-9.3	+3.9	.....	-10.5	.....	+28.8	.....	+79.0	.....	+36.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	3592.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
I. Summary																							
Market purchases																							
Market sales																							
Direct purchases from Treasury																							
Maturities																							
Total net increase or decrease (-)																							
Wednesday report of total portfolio																							
II. Taxable Securities																							
Bills - all issues combined																							
Market purchases																							
Market sales																							
Maturities																							
Total net increase or decrease (-)																							
Certificates																							
1/25 A - 11-1 42																							
5/8 A - 2-1 43																							
.65 C - 5-1 43																							
7/8 B - 8-1 43																							
Treasury notes																							
3/4 D - 3-15 43																							
3/4 D - 9-15 44																							
1-1/4 C - 3-15 45																							
3/4 B - 12-15 45																							
1 A - 3-15 46																							
1-1/2 B - 12-15 46																							
Treasury bonds																							
2% - 3-15 48-50																							
2 - 6-15 49-51																							
2 - 9-15 49-51																							
2 - 12-15 49-51																							
2 - 3-15 50-52																							
2 - 12-15 51-55																							
2-1/2 - 3-15 52-54																							
2-1/4 - 6-15 52-55																							
2-1/2 - 3-15 56-58																							
2-1/2 - 6-15 62-67																							
2-1/2 - 9-15 67-72																							
Guaranteed securities																							
RFC 7/8 U - 10-15 42																							
RFC 1-1/8 V - 7-15 43																							
RFC 1 W - 4-15 44																							
COG 1-1/8 O - 2-15 45																							
All taxable securities																							
Market purchases																							
Market sales																							
Direct purchases from Treasury																							
Maturities																							
Total net increase or decrease (-)																							

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

1/ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day.
 Less than \$50,000.
 r Revised.

FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

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

Market purchases $\frac{1}{2}$ / +
 Market sales $\frac{1}{2}$ / -
 Direct purchases from Treasury +d
 Maturities -m

Column B shows price changes in $\frac{1}{32}$ nds, except for certificates which are true decimals.

STRICTLY CONFIDENTIAL

Last Week												Index	Description	This Week											
Oct. 5		6		7		8		9		10				Oct. 12		13		14		15		16		17	
A	B	A	B	A	B	A	B	A	B	A	B			A	B	A	B	A	B	A	B	A	B	A	B
III. Tax-exempt securities																									
Treasury notes																									
Holiday																									
Treasury notes																									
1-3/4 0 - 12-15 42																									
1-1/8 A - 6-15 43																									
1 0 - 9-15 43																									
1-1/8 B - 12-15 43																									
1 B - 3-15 44																									
3/4 A - 6-15 44																									
1 0 - 9-15 44																									
3/4 A - 3-15 45																									
Treasury bonds																									
3-3/8 6 - 6-15 43-47																									
3-1/4 - 10-15 43-45																									
3-1/4 - 4-15 44-46																									
4 - 12-15 44-46																									
2-3/4 - 9-15 45-47																									
2-1/2 - 12-15 45																									
3-3/4 - 3-15 46-48																									
3 - 6-15 46-48																									
3-1/8 - 6-15 46-49																									
4-1/4 - 10-15 47-50																									
2 - 12-15 47																									
2-3/4 - 3-15 48-51																									
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2-3/4 - 12-15 54-57																									
Guaranteed securities																									
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USNA 1-3/8 - 2-1 46																									
FFNC 3 - 3-15 44-49																									
FFNC 3-1/4 - 3-15 44-46																									
HOLD 3 A - 3-1 44-46																									
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All tax-exempt securities																									
Market purchases																									
Market sales																									
Direct purchases from Treasury																									
Maturities																									
Total net increase or decrease (-)																									
+5.0 +4.5 +15.0 +7.0 +3.9 +4.1 +2.8 +7.5 +2.6																									

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

✓ Purchases and sales recorded as of day of transaction and not day of delivery. Transactions after 4 o'clock are included in the next day. Less than \$50,000.

BRITISH MOST SECRET
U.S. SECRET

OPTTEL NO. 358

Information received up to 7 a.m. 17th
October, 1942.

1. MILITARY

MADAGASCAR. Our forces have been delayed
by weather at Ambositra but the bridging train has
now joined them and should speed up the advance. Our
aircraft bombed French positions 4 miles South of
Ambositra.

2. AIR OPERATIONS

WESTERN FRONT. 15th/16th. COLOGNE.
473 tons of high explosive and incendiaries were
dropped, including three 8,000 lb. and 69 4,000 lb.
bombs. Early arrivals reported no cloud and good
visibility but later the main attack was hindered
by considerable cloud. Flares by Pathfinders were
rather dispersed but many fires some of them large
were seen in the town and other scattered fires on
both sides of the river.

16th. 6 Mosquitoes again bombed the Diesel
engine works at Hengelo, important parts of the
factory were hit. A Beaufighter Whitney and a
Wellington are missing from Biscay patrols.

16th/17th. 34 aircraft were sent sea
mining and five to drop leaflets. Four aircraft are
missing. A Beaufighter destroyed a German bomber off
Sunderland. Early this morning, a Junkers 88 was
destroyed off Beachy Head.

LIBYA. 14th/15th. Wellingtons bombed
Tobruk Harbour.

15th. Fighters and Fighter-bombers
attacked tanks and mechanical transport in the
Southern sector and a Railway station near El Daba.

MALTA. 15th/16th. Nine enemy aircraft
operated ineffectively against the Islands. One

was destroyed.

16th. 206 Axis and 125 Spitfire sorties were flown. Seven enemy aircraft were destroyed, 6 probably destroyed and 14 damaged. 6 Spitfires were lost. 3 pilots safe and eight more were damaged. One aircraft was destroyed and two damaged on the ground at our aerodromes.

MEDITERRANEAN.

15th. Beaufighters destroyed a Junkers 52 South of Crete.

Correction to OPTEL 357

Air operations, para. 3, third line

For "Ongelo" read "Hengelo"

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 359

Information received up to 7 A.M., 18th October, 1942.

1. NAVAL

ATTACKS ON SHIPPING. During the 3 days 14th - 16th inclusive, 14 ships reported torpedoed and sunk between 5th and 13th October - 9 ships sunk in Northwestern Approaches, 8 in one convoy (4 British, 1 Norwegian, 2 Greek, 1 U.S. and 1 Yugo-Slav), one British, 1 Greek, and 1 U.S. ship in CAPETOWN area. One British ship in South Atlantic and one British ship in Indian Ocean. One British ship previously reported possibly sunk in South Atlantic now known definitely sunk. 3 U.S. ships, one a tanker, previously reported overdue now presumed sunk.

2. MILITARY

MADAGASCAR. Operations continue. Some progress has been made southwards and roads have been repaired. Over 300 prisoners were taken in operations around ANTSIRABE.

3. AIR OPERATIONS

WESTERN FRONT. 16th/17th. A Hudson obtained a direct hit on a 4,000 ton ship off CALAIS.

17th. 88 Lancasters were sent to attack the Schneider Armament Works at LE CREUSOT and a transformer station south of LE CREUSOT. One aircraft is missing and another returned early with engine trouble and off BREST shot down 2 enemy aircraft. All other bombers attacked the objectives and dropped 153 tons of bombs in 6½ minutes. Hits were made on the steel works, the turbine building shop, the foundry machine shop, the rolling mills, factory buildings, the transformer station and many large fires were started. 6 fighters made successful attacks on locomotives and rolling stock in Northern France and the Low Countries. One F.W.190 was shot down off HASTINGS.

17th/18th. 7 Stirlings were sent sea-mining. Early this morning a JU 88 was shot down near DUNKIRK.

LIBYA. 15th/16th. 29 Wellingtons bombed TOBRUK harbour and SOLLUM. 16th. Fighter bombers attacked a landing ground west of DABA and M.T. and tents in the central sector.

MALTA. 17th. 245 enemy and 103 Spitfire sorties were flown. Enemy formations, with increased fighter escort, were intercepted and broken up before reaching the Island and no material damage was caused. 8 enemy aircraft were

shot down, 4 probably destroyed and 9 damaged, including 3 by A.A. 3 Spitfires are missing, one pilot safe.

RUSSIA. Heavy German bombing attacks have been made on ground positions at STALINGRAD and on Russian communications in the Central and Northern sectors.

4. HOME SECURITY

On 16th/17th 9 persons were killed and 6 are missing, believed killed, at SUNDERLAND.

101

Mr. Kuhn

Many thanks. I agree
that he should be
ignored - for the
present.

1/2

MR. CAIRNS

The Keel

L. L. B. ANGAS
INVESTMENT CONSULTANT
570 LEXINGTON AVENUE, NEW YORK

October 18, 1942

Hm'
.. H. M.

FROM AN ENGLISHMAN

Sir:

I have lived for seven years in America, and for twenty years have been writing on monetary matters ... (and have usually been right).

In my view, the American currency is now being rapidly sabotaged. If this happens, there will be a political revolution in the United States.

* * *

You will probably not agree with my argument; but I feel it my duty (to U.S.A.) to send it to you,---even though it may end in a waste paper basket, and perhaps not reach you at all.

However, I do so at the request of numerous American clients.

I have the honour to be, Sir,

Your obedient Servant,



Major L. L. B. Angas

1. A Summary of the Argument appears on page 1 of Digest 99.
2. Particularly read Nos. 99, 100, and 101.

TO:

Mr. Cairns 27

46

Angas seems determined to become a martyr. I'm not answering his letter, but I think you should see his second opus on the subject.

F.K.

MR. KUHN

"VICTIMIZING THE LENDER"

A PLEA FOR FINANCIAL STRAIGHTFORWARDNESS IN THIS WAR

by

MAJOR L. L. B. ANGAS

Digest 99

September 30, 1942

THE COLD FACTS OF WAR FINANCE

The cold facts are these:-

1. The war costs \$75 bns. annually.
 2. Current taxes bring in only \$25 bns.
 3. Voluntary loans bring in only \$10 bns.
 4. Deficit equals \$40 bns.
 5. Implying an inflation of \$40 bns. a year.
 6. Total (spendable) money of the country today is only a little over \$40 bns.
 7. Which suggests a monetary inflation of nearly 100% a year. (In 1941, it was only 12%; and has only averaged 15% per annum since 1938.)
 8. Price controls are (I think) incapable of keeping a 100% per annum monetary inflation (of demand deposits) in check.
 9. War finance must therefore be as ruthless as the war itself.
- * *
10. And if the war effort is to be two-thirds of the national monetary income, taxes *plus* voluntary *plus* compulsory loans must also equal two-thirds of the national monetary income — if inflation is to be avoided. (Not just 40%, as at present!)
 11. This means that forced *plus* voluntary loans must be twice the current scale of taxes, i.e., \$50 bns. in relation to \$25 bns. — so as to get \$75 bns. in all for the war.
 12. And if this is not done, you pave the way for wild inflation, which will get *cumulatively* worse *each* year, as Digest 100 will show.
 13. The Government therefore must stop the rot.
- ...You do not Lighten war burdens by Inflating (you Multiply them)...
14. Incidentally, in terms of *real* wealth, the public will not REALLY suffer any more from these harsh *monetary* proposals than they will automatically suffer from the war itself. Only one-third of the nation's production (total real income) will be available for consumption (due to reduced production of consumables) — so it does not really matter if only one-third of its total money income is left available, (and the rest taken by the Government in forced loans and taxes). It is just a simple mathematical equation — and quite reasonable.

"VICTIMIZING THE LENDER"

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15. Thus, it can be seen that sound financing of the war will benefit the nation, by avoiding the EXTRA danger of inflation. — Although of course it will not increase the amount of available consumables. It will however assist a more equitable distribution thereof — for a wild inflation would make fair distribution impossible, and possibly lead to semi-revolution.
16. And yet if the nonsense of bank borrowing is continued indefinitely (because a vote-hunting Congress votes war appropriations without voting parallel taxes and forced loans), you will certainly get your wild inflation, — because the elected would not risk their necks by telling and ruling the electors.
17. A wild inflation will prove the end of this Democracy. The objective of the war will be lost (just as Hitler has boasted) through internal instability and moral cowardice.

Stop Tricking the Lender

The history of government finance throughout the ages is disgusting. A failure to pay promised interest is not uncommon; and refusal of monetary repayment has been frequent. And what is nearly as bad, governments often repay their loans with money that has depreciated in purchasing power, owing to interim inflationary finance. Let us hope, however, for the sake of future generations, that the same thing will not happen as a result of this War. But it might — and that is what we now want to discuss — although it is the declared policy of the Government to prevent it.

With this Digest, I enclose a Government pamphlet on war bonds. Every dollar that goes into war bonds does at least five things: it helps to win the war; it helps to win the fight against inflation; it shows our enemies that we are solidly against them, and our fighting forces that we are solidly behind them; it gives the purchaser a sound and profitable investment; and it builds him up a fund for the economic readjustments which will lie ahead of the war.

But although I advocate the purchase of war bonds (in preference to stocks), I also advocate that every purchaser campaigns his Congressman in order that subscriptions may be made REALLY, as well as monetarily, safe. For, under certain conditions of weak Government finance, subscriptions to war bonds, made today, might turn out to be the reverse of really safe, even though redemption and interest may be monetarily paid in full. Let me explain by giving an example.

VOLUNTARY WAR BOND SUBSCRIPTIONS (THE RISKS)

Assume that the more patriotic element in the community puts up say \$12 bns. out of their private savings for voluntary war bond subscriptions. Assume however that, later on, owing to an inadequate supply of such patriotic persons (or owing to the absence of a compulsory loan system) wild inflation of retail commodity prices occurs as a result of inflationary borrowing from the commercial banks; ... then the patriotic persons who originally put up the \$12 bns will be positively punished for their patriotism. And for all future time Americans will have been taught by experience that it does not pay to be financially patriotic during wars.

In fact, I can imagine no greater financial disaster than that, after the intensive war bond sales campaign of the last few months, creeping inflation should be allowed to develop.

And yet it is not completely impossible — the way things appear to be going on at Washington. I refer of course (a) to the continued inflationary borrowing from the Commercial banks, and (b) to the recent hesitation in Congress to control (as distinct from talk about controlling) farm prices and wages, as well as other prices.

In my view, there ought to be compulsory loans almost at once ... so as to make the complaint as well as the patriotic fork out; and so as to avoid inflation.

There should, in addition, so think I, be (a law passed in cause) cessation of borrowing from the Commercial banks, — for that is the root cause of inflation, and not the partial failure (due to Congress) of Mr. Henderson's attempts at tough price control.

Price Controls Are Merely Bandages. They Do Not Prevent the Disease of Inflation.

The real point is that Mr. Henderson and his Office of Price Administration cannot turn off the inflationary gas: all they can do is temporarily to apply certain brakes on the results of prior inflation. Inflation proper (i.e. borrowing from the Commercial banks) is a problem for Mr. Morgenthau and Congress, rather than for Mr. Henderson. The latter is merely a nurse who applies surface bandages: and it is up to Mr. Morgenthau (and Congress and F. D. R.) now to prevent the underlying disease from spreading.

* * *

In addition, if the government is going to pretend to the public that temporarily successful price controls by OPA are the same thing as avoiding fundamental inflation, they are ipso facto (in my view) financially dishonest, — for they are just pretending that a bandage over an abscess eradicates the disease.

Certainly, poultices like the Office of Price Administration may be useful temporary palliatives; but if more puss in the form of continued bank loans is being pumped into the economic system, as a result of Congress not supporting Mr. Morgenthau, the disease of inflation will rapidly spread. Indeed, it is no use political physicians fixing their eyes on the poultice when they ought to fix their eyes on the root cause of the puss, namely bank borrowing. And yet that is what the whole trend of current thought around Wall Street, as well as around Washington, seems to be. The spotlight is deceptively turned on Henderson's price-fixing, and not on Morgenthau's continued borrowing from the banks. It is daring to say it, but surely it is true.

Patriotism (Some Angles)

Incidentally, although it is popular to state how patriotic the American people are financially, I personally do not believe that they are sufficiently "patriotic" to subscribe VOLUNTARILY to enough loans to enable the Government to avoid additional borrowing from the Commercial banks also. There ought therefore to be heavy forced loans as well. For it would be a tragedy if the recent patriotic buyers of war bonds turned out in the end to be suckers; and if those who refuse to buy war bonds now turn out to be the "prudent" people.

Actually, in the Press, Mr. Morgenthau is reported to be averse to compulsory loans, as yet. But somebody really ought to tell him that although most firms have persuaded, sometimes by force majeure, their employees to submit voluntarily to 10% pay deductions ... in order to provide our fighting boys with guns ... a great many of the payers of weekly deductions are becoming quite infuriated with the continued rise in the price of food and the general cost of living, and already have made up their minds to cash in their subscriptions quite shortly.

The general argument seems to be among heads of white collar families that "I would do my financial bit willingly enough if the Government would keep down the price of food, and (a) not cater almost solely to the votes of the farmers, and (b) see that retailers did not, by various subterfuges, evade the food price-ceilings which are "supposed" to be fixed ... but which any working housewife will tell you are being moved up month by month by innumerable cunning subterfuges ... coupled with the information, given by shopkeepers "that there are plenty of other people waiting to buy the stuff if you do not care to pay the price." And that is certainly the situation as regards the Eastern states.

In other words, if the Government does not stop making over the country to the farmers, and does not commence seeing that shopkeepers are not "cunning," not only will subscriptions to voluntary war loans, and also voluntary pay deductions, cease; but recent subscribers will "cash in" ... partly because they need more money to pay the higher costs of living and partly because they fear that inflation is getting out of control and their subscriptions to war loans are becoming unsafe. And some even say that (as soon as it is recognized that money placed in war loans is depreciating) the Government might withdraw "in the interest of the nation" the right to convert into cash (after a bond has been held 60 days).

The Parity Racket

In other words, though I hesitate to say it, such Congressional rackets as are now going on must stop if America is to be saved from inflation. And I advisedly use the word "racket," (a) firstly, because the original base for farm parity was the period 1909-14 which was the

record highest farm-price-ratio period in relation to "what the farmer buys" (very tricky!); and (b) because farm-labor and transportation costs were originally left out of the basic 1909-1914 index, because they would have then lowered it (very tricky!); and (c) when later transportation costs rose, the farmers managed to get transportation costs in; and (d) now that labor is rising they now want to get labor costs in also.

Oh yes, it all sounds very reasonable to the uninitiated; but nevertheless the whole thing savors of subtle jockeying, and a racket. And the public in the Eastern states are now beginning to know this; and the resentment is already quite frightening ... for faith in Congress is diminishing ... in wartime.

The Farm Group is, dare I tell them, indirectly busting the War Bond Campaign. And the same applies to certain groups of Trade Unionists.

If the Government Expects Prices to Go On Rising, the War Bond Campaign Is Not Quite Honest.

As regards the current War Bond Campaign, the point is this:— If the Government which loudly promises price stabilization really means to allow the farm price level, the wage level, and the cost of living gradually to slip upwards at about 10% per annum ... as a result of repeated adjustments to be made (always rationally) in the interest of "fairness" to various groups (which is what certain "Washington Letter Writers" seem to expect); it is quite dishonest of the Government to go on with a "voluntary" loan system on the grounds that Government loans are "perfectly safe" because they will be paid back in full (in terms of money). The Government would be indulging in a tricky "error of omission."

For the real facts would be these: that if prices creep upwards at 10% per annum, then in four years the "real" value of the money now patriotically lent would depreciate 40%; and that the interest received meanwhile (of around 8% per annum) would only amount to 12 money units out of the 40 real units of depreciation. Such voluntary loans would in fact turn out to be, from a REAL angle, loans without real interest at all ... but planned by the Government on the basis of a prospective real loss — which is not quite a gentlemanly way to treat the financially patriotic.

Forced loans, equitably imposed ON ALL, would be much fairer. For they would spread the REAL loss (if any) over ALL more EQUALLY.

Commodity Index Loans

I would not so much mind inflationary borrowing from the banks IF interest and capital redemption on voluntary savings were eventually payable in a (rubber) commodity dollar ... i.e. in paper dollars, the number of which would be based on the index level of retail prices ... for then it would not much matter to what level retail prices rose since the patriotic war bond subscribers would be paid parallel. But the idea that those who fork out first should eventually be victimized most (by inflation) is to me utterly repulsive. And yet there is a risk of it — if Washington is weak.

U.S.A. Is Ready for Forced Loans

The fact remains however that if wild inflation is to be avoided, there must either be higher taxes or forced loans. And from my own inquiries, I have come to the conclusion that many do not like the VOLUNTARY LOAN system at all — since (a) it enables the skunks to escape; and (b) escape by the skunks hastens on the inflation which automatically makes suckers of previous patriotic lenders.

As far as I (one humble individual) can make out, that is pretty much the opinion of most Americans ... especially the relatively poor whose life savings out of wages are small and who are simply terrified of having nothing except semi-worthless paper dollars, or paper bonds, or insurance policies on which to live during their old age. They think everybody ought to be FORCED to subscribe to war loans NOW.

Education Essential

The politicians of course argue that they too would like to avoid inflation (by resorting to forced loans), but that the public is not yet sufficiently educated to put up with the higher taxes and forced loans by which alone inflation can be avoided.

But if the people of a nation, owing to financial or military ignorance, do not appreciate either the need to sacrifice or the need to fight or the need to pay, the first duty of the Government is to educate them, instead of appeasing them by devious methods. That, I think, is the first duty of Washington if this country is not going to be eventually landed with financial chaos such as leads to revolution. See Digest 97.

I know of course the political difficulties surrounding the sudden imposition of forced loans, withholding taxes, sales taxes, etc., before the public is sentimentally quite ripe for it. And I am aware, of course, of the lazy argument that during wars there is never time to educate the public, and that the first practical thing is to try to keep them sweet ... no matter if it does lead to some inflation ... for inflation is not so bad as defeat. But my own argument is that not nearly sufficient attempts are yet made honestly to educate the public (and Congress) on the brutal realities of war financing, — with the result that the gas of inflation is continually turned on (borrowing from commercial banks) when at least HALF of it could, I think, be turned off at once, — and ALL of it if the Government would be politically brave enough to take the nation into its confidence and educate it.

Short-Sighted Financial Patriotism

Nor (again in my humble view) is nearly enough written by the Press about the danger surrounding voluntary war bond subscriptions IF (and please note this word "IF") the Government is going on borrowing from the commercial banks; or if it is going to allow farm prices and wages "gradually" to creep up. Of course, the Press hesitate to do anything which might reduce the volume of war bond subscriptions today; and they are naturally afraid of doing anything which might be labelled as unpatriotic, or interfering with the war effort.

But to my mind it is much more patriotic to guide the Government (and the public) into a sound method of financing the war (and reducing borrowing from the commercial banks) than to go on letting the public be bluffed (concerning the serious nature of the bank borrowing problem) just for the sake of getting, in the short run, a few more voluntary war bond subscriptions.

Since voluntary loans (and Taxes) today are inadequate, it is essential to resort immediately to compulsory loans IN ORDER TO MAKE THE RECENT VOLUNTARY LOANS SAFE. That is the gist of the matter today. The facts are indisputable. And the more Government propaganda that is devoted to the matter, and the more the truth is told about the dilemma (without hoodwinking), the better for America's financial future.

I personally would like to see the American and British Governments come out and quite brazenly and honestly state that unless the war is financed without borrowing from the commercial banks — i.e. by means of compulsory loans instead, there will be an ultimate retail price inflation eventually, even though Henderson and OPA etc. may be temporarily successful in covering the cancer by their widespread price-fixing poultices.

They should also admit that to take voluntary war loan money now is dishonest UNLESS they are going to finance the war without further Commercial bank inflation. Ugly words, these; but surely the Truth!

Financing the War Without Inflation

Actually, as I said in Digest 91, there is no need whatever to resort to inflation during a war ... if Congress has political courage, and the nation is really patriotic, and is kept well informed.

From the commodity (real effort) standpoint, the war is financed as it goes along by means of the extra hard work, and the extra abstinence practiced by the nation-as-a-whole. All the things used in war are produced during the war. And the financing thereof can be, and should be, simultaneous. Indeed, it is a fallacy to believe that there is "not enough money" today to pay for all that is produced today ... or that you cannot tax or borrow (by force) sufficient. You can! For it is merely a simple mathematical equation that if two-thirds of the nation's productive effort is devoted to so-called wasteful war expenditure - taxes (and forced, and voluntary, loans) could be, and should be, two-thirds of the nation's annual income; and not just 40% of it, as at present. [The rest OBVIOUSLY must come from (the hidden tax of) inflation.]

And all the tricky little business of hidden inflation taxes (which borrowing from the Commercial banks involves) should be tabooed by every honest Congressman. Indeed, if a Congressman does not think his constituents are yet patriotic enough (or feel the war serious enough) to put up with such burdens, he ought to take the first train down to his Congressional district and stump the country, lecturing his people on the simple truth of this financial situation. That would be more honorable, and wiser, than letting the Administration go on borrowing from the Commercial banks (and of pretending that effective Price and Wage Control (poultice work) was the only inflation problem). It is ridiculous to have taxes of only 25% of the national income when 66% (including forced plus voluntary loans) is obviously and mathematically essential and right.

Everyone of course detests being taxed, but I have enough faith in the American people to believe that if Congress did turn on the heat of propaganda, or rather financial education, as I have just suggested, they would be astoundingly surprised with the extent of which the great mass of people would welcome the sacrifice being spread simultaneously and compulsorily over all, instead of resorting (a) to voluntary temporary inflationary tricks such as keeping taxes low and letting inflationary bank borrowing surreptitiously pile up. True today there is not much support for such toughness even in Wall Street, but that is because many people, even in Wall Street, do not understand the monetary side of war production.

We Have the Money -- Without Inflation

The facts however are quite simple. Every penny spent on the War, say \$75 bns. annually, constitutes an income received from the War. And if war expenditure constitutes 66% of the total national monetary income, there is plenty of money paid out annually to pay for the War as it goes along — if taxes (plus forced loans) equal 66% of the national monetary income.* And this is how it should be, and will be, I hope.

The point is that if a combination of taxes, bona fide savings, and forced loans are not made to cover the cost of the war effort in full ... an additional disease, almost as bad as war itself (sometimes worse, since it often leads to revolution, see Digest 97), will be imposed on America, namely, surreptitious and wild inflation.

If the Administration is going to be honest with America, it should propagandize this danger as much or more than it propagandizes voluntary war bond sales now; and should (I think) propagandize the need for higher taxation and COMPULSORY lending so that the patriotic lenders do not run the risk of suffering more than the less patriotic abstainers.

Today's pre-election preference (in Washington) for bank credit inflation and for devious methods is most dangerous. It is really not fair to the American public — although some may rather like it that way at the moment ... largely through ignorance. The Government however should dispel the ignorance: not foster it.

The fact is that the only way to make existing VOLUNTARY war loans safe is to resort to COMPULSORY war loans immediately.

The Government therefore should immediately prepare the public mind for the all-round financial burdens which are immediately necessary ... if wild inflation is to be avoided. And the White House and WLB should give up pretending that the wages of workers or farmers "should" be raised parallel with the cost of living IN ORDER TO MAINTAIN THE REAL STANDARD OF LIVING. It just cannot be done in this War, for the simple reason that there will not be enough consumable commodities to go around ... to maintain NORMAL standards.

I repeat I would like to see the American Government come out and quite brazenly and honestly say that unless the war is financed without borrowing from the commercial banks — i.e. by means of compulsory loans instead, there will be an ultimate retail price inflation eventually — even though Henderson and OPA may be temporarily successful in covering the cancer with their widespread poultices.

They should also admit that to take voluntary war loan money now is dishonest UNLESS they are going to finance the war without inflation.

* The extent to which the burden of a war can be passed to future generations, by means of loans, was discussed in full in Digest 91.

Surely, such a statement today would make the public more ready to accept (necessary) forced loans immediately.

My Personal Angle

In offering the above essay, I am fully aware that I may be writing a prospective post-mortem obituary for these Digests; for many will (wrongly) regard my remarks as unpatriotic, and will think that my office should at once be closed down by OCD lest my writings might influence war bond sales.

The gist of the matter is however that Congress, the Press, and the White House have not yet the mental courage to face up to the real problem of financing the war, without inflation. Ten billion dollars have already been borrowed inflationarily for war purposes from the Commercial banks, and in the next twelve months another \$20 bns. (perhaps \$40 bns.) may be similarly borrowed, if nothing drastic is done.

So afraid however is Washington of telling the public the truth — or is it that they do not know enough — that a terribly short-sighted policy is being pursued of (a) hiding the risks attending voluntary purchases of war bonds (if bank borrowing is to continue unchecked), and (b) of financing the war largely by bank borrowing and pretending that it is not really inflationary — (on such completely false economic arguments as that bank money is not paper money (when actually it is, although the paper is kept within the banks, and does not have a Government stamp on it)).

And yet if nobody patriotically risks his neck (as *is* Billy Mitchell) in trying to speak the truth, — for fear of being short-sightedly labelled as pro-Nazi and seized by the FBI or OCD* — too little will be said too late, and America will get into as big a financial mess as England and France got into a military mess. One's clear duty is therefore to try and prevent it — even at the risk of being accused of being unpatriotic, and pro-German. [Let that be my own rather feeble contribution.]

But enough of these harrows. The fact is that the war can be (and should be) financed without dishonest inflation. And my next Digest will analyze the ability of individuals and corporations to pay the forced loans and taxes which I suggest. It is true they will lead to the cutting of dividends. But that, I am afraid, is the outlook for Wall Street — if America finances this war on sound grounds.

* I myself was "investigated" by the New York State Attorney General, with the SEC sitting in, in March, 1939, after a journey to Europe. I came back and published Digest 35, entitled, "Pandemonium Ahead" ... which forecast the War, and dozens of other things, which have since come true in detail. But such forecasting was then unpatriotic; though it is a pity more people at the top did not take notice, and indulge in a little rather obvious forward-thinking also.

And let not Congress think that it is being honest with the public merely by piously TALKING in favor of inflationary controls and then either (a) passing the buck to the President, or (b) impudently VOTING down anti-inflation measures. Does it not smack of political subterfuge?

This is a pretty hot remark and may be dangerous to myself, but it is written on the day (September 24th) when, despite the President's plea for price control, the vote-catching House has voted 284 to 96 in favor of still higher farm prices. [Is America to be governed this way perpetually? If so, what chance of winning the War? Or is the House not aware of the Anatomy of Inflation?]

Indeed, it might perhaps, be a positively good thing for the nation if one of the small EARLY voluntary war loans failed ... provided such failure caused Congress to stop voting inflationary measures, and to commence a realistic and non-inflationary attitude towards war finance. The general blessing of the public ought to be stopped EARLY; otherwise the inflation will soon get UNCONTROLLABLE.

THE MARKET (Common Stocks: No Hedge)

I should however add that even if inflation is allowed to develop at the cumulative rate of about 10% per annum (in retail prices), common stocks will not necessarily benefit — for corporation taxes would almost certainly rise much faster than retail prices. Therefore, it does not follow that just because you may believe in moderate inflation, you ought therefore to go off and buy common stocks as a hedge.

My own view is that, in order *partially* to check inflation, common stocks will be taxed to the bone (so as to reduce Governmental borrowing), even though such heavy corporation taxation is only a partial check on inflation. I still remain bearish for common stocks.

SUMMARY

1. Loans from the commercial banks are definitely inflationary.
2. Loans from the commercial banks are therefore the real inflation disease of America (due, of course, to the War).
3. Trying to control prices (Mr. Henderson's Department) is only poultice work. The real job is for Mr. Morgenthau's Department to eradicate the financial disease of bank borrowing — and for Congress to help him.
4. The gist of this Digest is that voluntary war loan subscriptions are safe if and only if the Government does not progressively borrow inflationarily from the commercial banks.
5. But it will have to borrow from the commercial banks if voluntary war loan subscriptions do not more than quadruple, or unless current taxes are nearly doubled.
6. Alternatively, you will have to have compulsory loans.
7. And if compulsory loans are not resorted to quickly, voluntary war loan subscriptions are unsafe — and will cease.
8. Inflation will therefore get CUMULATIVELY worse.
9. Borrowing from the Commercial banks (and inflating the currency) is merely a dishonest way of pretending to the Public that the War does not cost as much as it does.
10. And it is not "kind" of the Government to do this — for in the end wild inflation is just "brutal."

Can these blunt statements be honestly denied? I challenge you.

THE END

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ROAD TO RUIN ... AND ALL THAT

AN ESSAY ON THE ECONOMICS OF INFLATIONARY DEBT

by

MAJOR L. L. B. ANGAS

Digest 100

October 5, 1942

In this Digest, I am going to talk bluntly about Governmental borrowing in relation to your stocks and how the national debt will hit you.

I shall also show that it is not the SIZE of a debt which determines whether it is inflationary—but the SOURCE (i.e., who lends).

America's Assets

Since many people think that the amount of debt a nation can support *without inflation (or deflation)* depends on its assets, as well as on its income, let me give you a picture, not my own, of the assets of America. My figures come from page 149 of an unusually able book by Mr. Robert R. Doane entitled, "The Anatomy of American Wealth," published by Harper & Brothers, New York, 1940. This book only costs \$2.50: it is remarkably interesting: it should be owned by every serious investor.

From the 1938 figures which follow, you will see that America has two sorts of assets:

I. Income-producing	\$184 bns.
II. Comfort assets	\$204 bns.

... their ratio being roughly 50/50; and the combined total under \$400 bns (which is a sum many people expect the Federal debt to exceed before the present war is over).

I should add that since the following figures are based on assessed values, and since assessed values are often double current market values, the figures below especially for comforts are probably an over-statement, not an under-statement:

Summary, by Principal Categories, of the Total Physical Assets of the United States Year 1938

I. Physical assets used for PRODUCTION:	
Farm business buildings	\$ 4,000,000,000
Farm equipment including livestock	9,000,000,000
Farm land	26,000,000,000
Industrial and commercial building	84,000,000,000
Industrial equipment	20,000,000,000
Industrial and commercial land	30,000,000,000
Railroad buildings including tracks	13,000,000,000
Railroad equipment	5,000,000,000
Railroad land	2,000,000,000
Utilities buildings	13,000,000,000
Utilities equipment	7,000,000,000
Utilities land	3,000,000,000
Stocks of goods	11,000,000,000
Gold and silver coin and bullion	17,000,000,000

Total physical assets used for production \$184,000,000,000

II. Physical assets used primarily for COMFORT:

Farm dwellings.....	\$ 5,000,000,000
Nonfarm residential buildings.....	44,000,000,000
Nonfarm residential land.....	48,000,000,000
Public tax-exempt buildings.....	28,000,000,000
Public tax-exempt land.....	18,000,000,000
Motor vehicles.....	5,000,000,000
Ships of U. S. Navy.....	1,000,000,000
Chattel goods.....	39,000,000,000
Stocks of goods.....	16,000,000,000

Total physical assets used for comfort.....\$204,000,000,000

Total physical assets in the United States.....\$388,000,000,000

(End of Doane quotation)

DEBT IS NOT LIMITED BY REAL ASSETS

To what extent can the above assets be pledged, and debts superimposed upon them? Actually, they are already pledged, theoretically on paper, as to about 50% ...for the following was the state of debt in America in 1941:

1. Federal debt (direct, and indirect through guarantees and agencies).....\$ 50 bns.
 2. State and local governments..... 20 bns.
 3. Private long-term debt (including industrial corporations, railroads, etc.)... 75 bns.
 4. Private short-term debts (bank, personal, and instalment loans)..... 35 bns.
- Total.....\$180 bns.

But in the maze of modern finance, debts are not limited to pledgeable assets. For instance, a government can borrow \$50 bns. from its people (on the security of prospective taxes); and then the owners of the government bonds can go and re-borrow say \$30 bns. against them—and with the proceeds buy fixed assets. And then they can go and borrow against the fixed assets, issuing bonds as financial photographs. And then somebody else can go and borrow against the bonds. Thus, debts can be pyramided, while assets remain fixed. And debt can quite well exceed total assets. (And the joke of it is that people (not irrationally) regard their pyramided debt-certificates as assets, and as part of their "wealth"—which leads to a lot of double counting!)

Or, if you do not like the above illustration, take a family of four children (not the Cruise Family, this time), each of whom has \$1,000 worth of tangible assets, while the father has no fixed assets but \$1,000 in cash. The eldest son can borrow \$1,000 from his father to buy the assets of the second son (Loan 1). And then the second son can lend the money to the third son (Loan 2), who pays it over to the fourth son, say for work done. And the fourth son can lend it back to the father (Loan 3), just because he likes him and/or trusts him. And the father can re-lend the same money once again say to the second son (Loan 4). And the second son can lend it to the third (Loan 5). And so the re-lending, or debt-creating process, can spiral upwards until at last the monetary debt, on paper, vastly exceeds the total market value of the pledgeable assets. And neither the currency, nor trade, nor profits need necessarily be either inflated OR deflated by the size of the debt.

In other words, it is a fallacy to think that the federal, state, and local debt of a country cannot exceed its assets (of say only \$400 bns). Quite a fallacy! America can easily support an internal debt of \$1,000 bns. on paper without either industry or life stopping, or without the currency necessarily being inflated, or trade deflated!

The Cost of the War will not Stop it.

By the end of the War, it is expected that the national debt will rise to \$400 bns. (assuming no further inflation, in which case it would be more), so that everything in America, on an average, would be pledged.

But it is worth remembering that the annual national income of the United States is about \$120 bns. ... derived (at one or more removes) (with much double counting) from revenue-producing assets of \$168 bns. (Doane's figures).

Hence if the service of a debt of \$400 bns only costs 4% per annum, the service charges will only amount to \$16 bns which is only about 15% of the current national income of \$120 bns ... which does not make the national debt of \$400 bns per se insupportable—particularly if the debt is all held internally (no foreign loans), and the public are taxed to pay themselves, as in fact they rather amusingly are.

Indeed, as I showed in Digest 91, the rich are for the most part taxed to pay the interest on war loans which they or their fathers previously subscribed, hoping (I imagine) that the poor, and not they or their own sons, would be taxed to pay the interest in future decades. (But, actually, the capitalist classes usually get taxed to pay their own interest, so that in the long run the loans are virtually free of interest. And this phenomenon obviously makes common sense, for clearly a nation does pay its own interest on its own internal debt ... unless it can make foreign nations pay!) (And it does not much matter whether the War Loans are floated at 1% interest or 10% interest, in the above context!)

The Circuit Flow of Money (Mock Interest)

Floating internal national debts is in fact rather an amusing, or should I say tricky, procedure: (it depends on the way your mother brought you up to look at these things!) For if a loan-floating government really intends to tax the capitalist classes to pay the interest on the capital they put up during a war ... they darn well ought to say so honestly, and should tell the patriotic lenders outright in advance that they are not "really" going to receive interest at all, although they will get paid interest in terms of money (which money will be subtly and surreptitiously taken from their own dear selves, for Mock Interest!). But, of course, if a Government did speak like this, they might not get any subscriptions at all. And they could not go on with the war unless they had much higher taxes, or forced loans, or capital levies—(or wild inflation, which might lead to revolution).

POOR VS. RICH

On the other hand, if the Government honestly intends to tax persons other than those capitalists who originally put up the money, the only people whom they could tax would be the relatively poor ... which, by the way, is what I am fool enough to think is the general tacit implication behind any war loan ... that the poor will be taxed to pay off the rich after the war is over.

But no government that I know of, in our present vote-catching generation, is likely to tax the poor to pay off the rich, after a war is over. In fact, just imagine some post-war Secretary of the Treasury, or Chancellor of the Exchequer in England, asking Congress, or the Commons, to impose (openly or surreptitiously) a war loan interest tax so that the loan sharks of the previous war (formerly patriotic voluntary subscribers) could be paid their pound of flesh with promised regularity ... instead of having that pound of flesh lopped off their own foul bodies. (Why lop it off the bodies of the relatively poor voters, instead?)

Of course, the rich will pay their own interest as long as democracy survives. And if it is so, why not say so!

The Naughty Trick of Subsequent Inflation

Incidentally, you can of course equally deceive or swindle war loan holders by eventually inflating the currency and raising the general price level, say 5 times, so as to make the real burden of the old monetary debt only 1/5th of what it was originally. But that again is even naughtier, particularly if you do it deliberately.

N.B. Raising the price level 5 times tends to increase the national monetary income 5 times also, so that old percentage rates of taxes will bring in 5 times as much money, and make the service of old debts only 1/5th as heavy really.

Pay, Pay, Pay Again (The 1917 Conversion Loan)

I do not know if you have ever stopped to think what usually happens to a war loan, or to consider the extent to which nations get into financial messes, as a result of extensive government borrowing and of attempts (quite fallacious in theory and practice) to transfer what should be current tax burdens to future generations.

Take the tragically amusing example of the 4% war loan of \$570 mns of 1917, maturing in 1947. This 4% war loan is now 25 years old. Therefore already \$570 mns or 100% has been paid in interest upon it, and yet the war loan still remains unpaid. Nor is there any chance of it being paid off for many decades to come — except with the proceeds of another government loan. Not a chance — unless there is a wild inflation first which would be tantamount to constructive default.

And if this present war raises the American national debt to \$300 bns (or \$400 bns), as some suggest, then, over the next 25 years if the \$300 bns suffers the same experience as the 1917 War Loan, the American public will by then have paid in interest \$300 bns*; and yet the debt will still be outstanding. Meanwhile the public will be taxed each year sufficiently to pay itself, — most of the taxes probably falling on the original subscribers or their heirs and successors!

* Unless by luck the interest can be kept at 2 3/4% (which will be impossible if inflation develops).

As regards the 1917 War Loan, the point is this:— By the time it is eventually (and really) paid off, except by conversions, the public will probably have parted with three times the amount of the money (and real resources) that they acquired as a result of the original loan. And it will have been a mighty expensive transaction for the public ... if there is such a thing as "the public." Indeed, it would probably have been much better to have had a forced loan or extra taxes way back in 1917, instead of going to all the expense and bother of collecting taxes and paying quarterly interest over several decades ... just for the sake of "making the War popular" in 1917.

As regards the bluff:— It is quite okay if the rich are told honestly in advance that they will probably be involuntarily taxed to pay the interest on their own voluntary loans (as they have been). But if, instead of taxing the relatively poor to pay the interest (as is tacitly rather implied by all loans from the rich when they are floated), the rich are taxed instead, the rich have been merely swindled by a verbal ruse, — and the nation as a whole is burdened with the extra expense of keeping all the accounts relating to the Loans throughout their whole life. It is a funny business: and yet normal in most countries — and only justified on the principle (if it is a principle) that if the people as a whole prefer evasiveness to directness, then it is the duty of any "democratic" government to give it to them (and bluff them)!

The important factor is WHO LENDS — not THE SUM itself

There is of course no great objection to a government doing this, i.e., borrowing from one part of the public to pay another part (or itself), if the borrowing is of a non-inflationary nature, i.e., if it is out of the bona fide savings of the public and not from the commercial banks.

But borrowing from the commercial banks is highly inflationary, as Digest 101 will show, and is almost as bad as printing paper money.

In other words, it is not the AMOUNT of the borrowing which matters so much as the SOURCE of the borrowing. And it does not much matter if a country has an internally raised national debt of several times its national income, like England has, if the source of the borrowing is not, and was not, inflationary.

The following two tables show how the national debt can be doubled or trebled either (I) without resort to noticeable inflation; or (II) by violently inflationary measures:

CASE I: NON-INFLATIONARY BORROWING

Assume that a government starts a war with a national debt of \$40 bns.

Assume also that it requires \$78 bns annually for war purposes, and that it raises only \$24 bns by taxation. Thus, \$54 bns will have to be raised annually by loans.

So as to prime the war pump a little, let us permit our imaginary government, at the outset, to borrow several billions (say \$4 bna) inflationarily from the Commercial banks to finance preliminary war purchases. [But once only!]

Thereafter let it cease inflationary borrowing from the Commercial banks, and borrow the rest (by forced and voluntary loans) from the public only.

Under the above premise ... i.e., \$4 bns being borrowed initially from the Commercial banks, and \$52 bns borrowed from the public annually thereafter, the national debt would rise as follows:

	Forced Loans	Increase in Govt. Debt
<i>Initial bank debt inflation</i>		\$ 4 bns.
1st year	\$52 bns.	52 bns.
2nd year	52	52
3rd year	52	52
4th year	52	52
5th year	52	52
	<u>\$260 bns.</u>	<u>\$264 bns.</u>

The net result is that, although the national debt has increased by \$264 bns., only \$4 bns. thereof is of an inflationary nature; and neither the bank deposits nor the legal tender paper money of the country are increased (above \$4 bns extra).

Money is taken (syphoned) away from the public almost as fast as it is paid out in war expenditure. Neither quantitative inflation, nor an Inflationary Gap, develops. The debt per se is neither inflationary NOR deflationary!

CASE II: INFLATIONARY BORROWING

On the other hand, if the Government only borrows say \$12 bns a year from the public, and only taxes to the tune of \$24 bns a year, then, (if total war expenditure is at the rate of \$78 bns a year), the remaining \$42 bns will have to be borrowed inflationarily from the Commercial Banks.

The financial results would then be as follows:

	Taxes	Bona Fide Loans	Growth in Bank Money	Growth in National Debt
1st year	\$24 bns.	\$12 bns.	\$40 bns.	\$52 bns.
2nd year	24	12	40	52
3rd year	24	12	40	52
4th year	24	12	40	52
5th year	24	12	40	52
			<u>\$200</u>	<u>\$260</u>

Thus, if the total spendable money of the country, before the war, was only \$40 bns., the rise in bank deposits of \$200 bns would constitute a 500% inflation — which, despite all the Hendersons in the world, would probably cause the development of black markets and runaway prices. (See especially Note 5, which follows).

* * *

From the above two tables, it will be seen that, although in both cases the national debt was increased sixfold, in the first case, money (the bank monetary purchasing power) was only increased 10%; whereas, in the second place, it was increased 500%. And it is the second case which the American Government has to guard against, in this War. America in fact must make her tough choice.

NOTES ON THE ABOVE TWO "CASES"

Skip the first four Notes, unless you are "an economist"

1. **Savings Bank Deposits:**— Borrowing deposits from the Savings banks, as distinct from the Commercial banks, is not inflationary, since the money which the Savings banks invest in War Bonds merely constitutes the bona fide savings of the public ... and already appears largely in the deposit-figures of the Commercial banks or the Reserve banks.

2. **Time Deposits:**— Time Deposits within the Commercial Banks are not really part of the immediately spendable "money supply"; but are, strictly speaking, merely loans by depositors to the Commercial banks. They are thus rather similar in nature to deposits in the Savings banks ... even though they can in most cases be switched at short notice into current accounts, whereupon they do become part of the total spendable monetary supply. (But of course there are mongrel borderline cases)

But if the Commercial banks (as distinct from the Time-depositors) lend part of what they mentally regard as Time Deposits to the Government, new Demand Deposits are created (as will be shown in Digest 101), and the monetary supply is thereby inflated.

3. **Privately Hoarded Bank Money:**— Many people keep money idle in their banks as a store of value, in addition to the amounts they keep on deposit as a medium of exchange. If the Government borrows these hoarded deposits from the Public, the statistical volume of purchasing media is NOT thereby inflated.*

But if the idle money has been hoarded in the banks for some years by customers, the effect of Governmental borrowing thereof (direct from customers) is just as inflationary *in practice*, as if the Government borrowed direct from the banks ... for the money which was previously hoarded begins to circulate again WITH VELOCITY, and its practical effect is the same as if a new addition had been made to the supply. In fact, a Government does not avoid inflationary influences (as distinct from statistical inflation) by borrowing from the public money which for a long time has been kept idle and hoarded by them in the banks.

* If the banks lend hoarded deposits, statistical inflation does occur: for the new bank loans lead to the creation of new (so-called) deposits. See Digest 103 for a full discussion of this question of "the creation" of new so-called bank "deposits."

4. Note Inflation:- In countries which have not developed a widespread bank deposit system of making payments (check currency), an inflation of the total paper note supply is a good statistical measure of total monetary inflation. But in America or England, the amount of paper notes (bills) in public circulation outside the banks may signify deflationary influences, rather than inflationary influences. For instance, today much of the increase in notes outside the banks (from \$6 bna. in 1935 to \$13 bna. today) is due, not to fear of money, but to fear of other things. For instance, some people rather stupidly fear that the banks may fail again, as in 1932: therefore they hoard notes, instead of keeping their liquid funds within the banks. Others, fearing capital levies eventually, or the "freezing" of surplus deposits, hoard notes in strong boxes and elsewhere. And probably only a small part of the increase since 1935 is due to people holding more money for till money, pocket money, and wage-paying purposes (due to higher prices or a larger scale of general business).

In America today the printing (and use) of notes is a result rather than a cause of other inflationary (or deflationary) factors.

5. Cumulative Runaway Influences:- In case II above (Inflationary Bank Borrowing), I illustrated my argument by showing (in the table) how the bank deposits of America might be inflated 500% within five years if the Government persisted in inflationary bank finance. But I ought to add that although, as regards the third, fourth, and fifth years, I assumed (in my table) that Government expenditure would remain stationary at \$78 bna., this of course would not be the case: for such wild inflation of total bank purchasing power would, as stated, largely nullify efforts towards individual price control; and Government expenditures would increase with prices — thus, leading to still more borrowing from the Commercial banks: and still higher prices: and still heavier borrowing, in an ever rising cumulative upward spiral.

It would constitute, in a somewhat lesser degree, the same sort of cumulative uncontrolled inflation as occurred in Europe after the last War. But more will be said on this question of a cumulative runaway inflation in my next Digest. I agree it is "not very likely" in the United States; but it is certainly "quite possible," and ought to be discussed; for I can certainly envisage a 1000% inflation in U.S.A. if Case II (continued government borrowing from the banks) is allowed to continue unchecked, as today.

6. Bank Reserves:- I ought also perhaps to add that, if a Government cumulatively persists in financing its war deficits with inflationary bank loans, it will have to resort to various ruses so as to provide the lending banks with adequate legal cash reserves. But this is not a restraining policy in America today, as the Government can, merely by decree, say that the banks need not hold such large reserves with the Reserve banks: and it can similarly permit the Reserve banks to hold fewer gold certificates. There is in fact nothing, except Governmental wisdom, to prevent a wild runaway inflation in America — the possibilities of which will be discussed further in Digest 101.

WILD INFLATION - UNLESS

Let us now return to the barter aspects of the present American war effort. As was shown in Digest 99, if the country is going to devote two-thirds of its human and machinery effort to the War, obviously the country, taken as a whole, will have to live on what the other third produces.

This, I admit, is certainly not saying that the average standard of living must fall the full 66% — for the extra work done by both men and women during the war sends up the total output ... so that probably the AVERAGE standard of living only falls by say 20% or 30%.

But from the point of view of war finance — if the whole of the war is financed BY TAXATION AND FORCED LOANS ALONE — certainly taxes and forced loans combined will have to be two-thirds of the (increased) monetary national income. And there just ain't no getting away from it.

I repeat that if two-thirds of the nation's men, women and machines are going to be devoted to war-effort, (in terms of barter or real things), taxes plus bona fide loans (forced or otherwise) must equal two-thirds of the national income (monetary) — IF inflation is to be avoided.

And if the beloved public won't lend more than \$12 bna. a year voluntarily, and if the war is to cost \$78 bna. a year, and if federal taxes don't exceed \$24 bna. a year, then there will have to be an inflationary borrowing, or note printing, of \$40 bna. a year, (i.e., \$78 bna. - \$36 bna.).

I hope it won't happen. But if the current sloppy method, and scale, of war finance is continued, it definitely will; — so let us see to what extent prices "might" get inflated if the current nonsense continues.

MAGNITUDES OF PROSPECTIVE INFLATION?

The first question to arise is what percentage of existing national money would \$40 bna. a year represent.

- I. Cash (paper bills) outside Treasury and the F.R. banks in U.S.A. is..... \$12 bna.
- II. Since Time Deposits are not immediately spendable money, they don't count..... 0
- III. The Net Demand Deposits of the 101 cities' reporting member banks are..... 27 bna.
- IV. The Net Demand Deposits of the other non-reporting member banks are say..... 10 bna.

TOTAL SPENDABLE MONEY OF THE COUNTRY..... 50 bna. (or less)

Thus, \$42 bna. represents over 80% of America's existing spendable money, which means that if the war lasts four years ... without commodity prices rising, and with the same volume of war effort as that adumbrated above (78 bna. a year) ... the country's money will be inflated over 800% before the 4-year war ends. And I doubt if all the Hendersons in the world could prevent a commodity inflation from ensuing — under such conditions!

In other words, if wartime inflation is to be avoided, under the presently planned war effort, you have got to have much higher taxes, or forced loans, or both!

And I myself, though I hate being taxed, am much more in favor of forced loans, and higher income taxes, and/or sales taxes, THAN inflation. For don't forget that inflation is just as much of a tax as are income taxes. All this was explained in Digest 91.

* * *

And as far as I can see, no practical client of mine can expect the country or himself to get through the war without seeing his taxes almost doubled, over and above the current 1942 levels ... UNLESS the Government imposes forced loans, the interest on which will be collected by the tax-gatherer largely from the subscribers themselves, — which virtually turns the so-called forced loans back into time-spaced taxes, for the conscripted lenders won't get interest at all, "except on paper." The forced loans will turn out to be capital levies — often bigger than an individual's total annual income!

Indeed, if national taxation (or levies) as a whole are going to be doubled, some groups — on the principle of graduated taxes — will pay more than 100% extra, while others will pay somewhat less. The outlook for the rich is therefore just terrible ... unless there is going to be an inflation. And yet during an inflation, the rich rarely escape for inflations usually lead to semi-revolutions, in which they lose everything (see Digest 97).

Expect your standard of living to fall by one-half or two-thirds!

CAN CORPORATIONS PAY SUCH TAXES?

It may however be suggested, as a counter-argument to the above pessimism, that almost all corporations, except the Rails, are already running short of cash (working capital), since more working capital is required for the increased war effort. And that if the Government seizes more in taxes, dividends will have to be cut (to start with), which is precisely what I forecast; and that later the corporations will have to borrow working capital from the Government (RFC) to pay the taxes to the Government ... or so as to raise extra working capital ... which is practically the same thing. In other words, the companies will get in hock to the Government, and the Government indirectly will be merely paying its own taxes!

Sure, it will — to some extent. But that does not mean the end of the world. For it does not completely ruin a corporation, or a country, if companies do get in hock in a national crisis (either a war crisis or cyclical slump). It is unpleasant, of course. But it is better than wild inflation. And before this war is over, I personally expect a great many companies to be borrowing from the Government in order to pay taxes and/or to get sufficient working capital ... whichever way you like to word it.

DIVIDENDS WILL BE HALVED. (THE DOW IS TOO HIGH)

But dividends will, for the most part, be cut first. And since during wartime the size of dividends does not affect the incentive of either the managers or the workers (as I have said a hundred times), it is not much worth adducing the usual argument that "under capitalism, there must be profits so as to provide incentives, and to attract new capital."

If the Government puts up the new capital, that solves one problem. And if the managers, as distinct from the shareholders, are kept sweet, that solves another.

And that is what I expect will be done, (It ought to be done!), if the war is to be financed on a non-inflationary basis.

"MONETARY CHAOS - Happening Here"

AN ESSAY ON THE FLASH POINT, AND RUNAWAY PHASES, OF INFLATION

by

MAJOR L. L. B. ANGAS

Digest 102

October 12th, 1942

Successive "thoughts" are numbered 90 to 113 for future reference.

BENEVOLENCE IS THE FATHER OF INFLATION

90. In recent Digests, I have shown how inflation can, and ought to, be stopped. But that does not follow that it will be stopped, for Washington may prove to be too weak ... its weakness resulting from a desire to be kind and not to treat different (voting) groups harshly. In fact, as I showed in page 8 of Digest 95, the early phases of runaway inflation almost always result from a continued succession of attempts to be generous and "reasonable" on the part of a Government which is anxious to please (and afraid to annoy). Benevolence in fact is the father of inflation, (although I ought perhaps to add vote-catching as well).

WHAT HITLER WANTS

What Hitler wants more than anything else in America is internal economic and financial chaos, and a disgruntled populace no longer interested in the War. All his agents and sympathizers are therefore anxious to foster inflation, and a failure of its controls. And Hitler is rather helped in this matter, for anyone today who writes (anything more) about inflation is considered in the class of a crashing club bore. But that does not get rid of the problem.

Moreover, since the inflation wolf has been called by everybody for eight years — (ever since Roosevelt deliberately adopted a (quite reasonable) policy of priming the pump ... after the previous (unreasonable) Hoover deflation) — most people turn a deaf ear to those who still cry wolf, and accuse them (Goebbels smiling!) of suffering from inflatio-phobia.

Two other popular Hitler-pleasing fallacies are that America cannot suffer violent inflation (A) because of the size of her gold reserves, and (B) because of her huge productive capacity. But if, for physical reasons, production cannot be increased more than 100%, then, if bank deposits are inflated say 1,000% (10 times), you can get prices going up at least 500%. And unfortunately, as this particular Digest will show, violent inflation, when once it gets under way, tends rapidly to become cumulative — so that the people who originally cried wolf, should really have cried wolves (in the plural). And the idea that the fact that a country has huge gold reserves in any way limits an inflation is (if anything) just the reverse of true. It tends, if anything, to stimulate it.

America unfortunately is already well on her way towards uncontrollable inflation. Therefore, at the risk of being a club bore, I am going to let off some further fireworks on the subject.

[Oh yes, you had better read the rest of this Digest for it will be vitally important to your family fortune if, after this War, prices do not come down again (as they have done after all past American Wars), but stay up several hundred per cent as they did in France in the Twenties — where they rose 800%, relapsed to plus 500%, and then stayed more or less stationary. Sure, my dear Reader, it can happen here.]

DEFINITIONS (FOR CLUB BORES)

91. Inflation is an annoying word since it has so many different meanings. You can get inflation of gold-money without having inflation of bank deposits; inflation of bank deposits without having inflation of prices (or gold); inflation of Velocity (as in 1929) without having (much) inflation of money; inflation of stocks without inflation of any sort of money;

Stockholders were able to endure a period of low, or no, dividends in the peacetime slump of 1932. They can equally endure it for a few years in wartime, for Uncle Sam's sake. Oh, yes, this war will ruin lots of families, and make the old age of many most unpalatable. But old-age pensions can alleviate the situation so that no one will starve ... as distinct from suffer.

But, first, I envisage sharp cuttings of dividends, below current levels, if the war is to be financed WITHOUT wild inflation. And this, I believe, will transpire to be (already is) the Government's policy.

How Companies will be Squeezed Dry

The likely Governmental argument will be that the corporations have capacity to pay: that they are owned for the most part by the relatively rich: that stockholders have no organized political lobby: and that, before you can (or try to) get real wages down, it seems politically essential to be able to assure the workers that the stockholders have suffered disastrously first, and that the companies which employ them cannot afford to pay their workers higher wages to meet either their higher taxes or higher costs of living.

We therefore argue that companies will suffer much more than they have already suffered, even though many say that corporation taxation has reached its practical limits and will soon reach the stage of diminishing returns. (I just do not agree.)

SUMMARY

The whole matter of war finance can be summed up as follows: If the war effort is to be on the scale now projected, and if voluntary savings will not be at a pace greater than \$12 bns. a year, THEN you have either got to have (a) an inflation of about \$40 bns a year, or nearly 100% per annum; or alternatively (b) an increase in taxes or forced loans to double the current annual tax scale. See page 6 of this Digest.

And it is the latter which I forecast — with corporations suffering especially: with heavily cut dividends: sharp falls in stocks: and the Dow standing well below 80.

Why Gamble (foolishly) on Government Wisdom? (An Answer)

You may of course wonder why, with a "possible" commodity-price inflation of 1,000%, and with the Dow already down to around 100, I do not turn bullish, or partially bullish, — on the off chance that the Government will not have the fortitude, nor the public the patriotic endurance, to stand the scale of taxation and forced loans which I suggest as being "essential" in order to avoid wild inflation.

You may in fact ask me why I do not expect that Congress will, as usual, adopt half-hearted measures, too little, and too late, — with the implied result that even though taxes may be considerably higher, and some forced loans (of a sort) imposed ... that there will not also be "some" inflation, though perhaps not to the tune of 1,000%.

At first sight, such a suggestion seems pretty reasonable; and, to tell the truth, I personally am rather afraid of Congress adopting half measures and doing too little, too late, "in order to keep their voters sweet, and the War fairly popular."

But my counter-argument against recommending common stocks now is that even if considerable further bank-deposit inflation is resorted to, and even if commodity prices do wriggle away from Henderson and rise perhaps 100%, that even so, equity common stockholders will, in the interim, be so heavily taxed that their dividends will fall to a half or less, and that the Dow-Jones Index will fall similarly.

[And here I ought perhaps to remind you of the possibility of directors cutting dividends over and above the needs for extra taxation, solely to provide their busy war companies with extra working capital. See Digest 90.]

THE END

<p>The Angus Digests Issued as market conditions warrant. Minimum—fifteen per calendar year. 12, 6 and 3 mos.—\$25, \$15 and \$8</p>	<p>Stock Selection Letters Written Mid-weekly by Mr. M. Rich, name specific issues to buy or sell 12, 6 and 3 mos.—\$50, \$30 and \$18</p>	<p>Angus Wire Services High speed condensation of opinion at important points in the market 12, 6 and 3 mos.—\$25, \$15 and \$10</p>
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<p>Major L. L. B. ANGAS, Investment Consultant, 570 Lexington Avenue, New York</p>		

and inflation of commodity prices and inventories, without having inflation of stocks. And so you might go on.

Most people, however including myself, differentiate sharply between the inflation of money and the inflation of commodity prices, — since there is normally a wide Time Lag which is vitally important. In fact, price inflation usually develops in three phases; and America today would, I think, already be passing from the second into the third, or astronomical phase ... IF it were not for various price controls and restrictive governmental policies!

PART I. THE THREE PHASES OF INFLATION

92. As regards the speed of price inflation:— Do not think that the rise in prices usually keeps exactly parallel and proportionate to any rise in the quantity of money. There are three habitual time-lags, or phases.

- i. To start with, prices usually lag behind money.
- ii. Later, they catch up and move roughly parallel; and
- iii. Finally, they move very much faster than the quantity of money.

The reasons are these:—

PHASE I (The Pleasant Lag) ("Harmless" Stimulation)

93. To start with, nobody notices the quantitative inflation except a few fussy economists, like Professor Kemmerer (and myself), and the Government "gets away with" quite a lot of inflationary borrowing from the banks, or printing-press wickedness, before retail prices get marked up at all. In fact, prices usually only begin to rise when factories and mines at last become so fully employed, and delivery becomes so difficult, that they capture bargaining power from the consumer and are able to raise prices. Until this has occurred, and until inventories have fallen, business men are rarely able to raise prices. Competition prevents it to start with. Hence, the initial delay, or lag, between money and prices ... in Phase I. (And during the pleasant and profitable stages of Phase I, all long-run economists, like Mr. Kemmerer, are said to have lost sight of realities, and to talk antiquated nonsense.)

Everyone enjoys these "apparently harmless" stages of inflation. Nobody has any headaches (yet). The world, in fact, hallucinates happily.

PHASE II (Parallel Movements) THE FLASH POINT

94. But as soon as factories become FULLY EMPLOYED, and producers have captured BARGAINING POWER from consumers, i.e., when competition becomes unimportant, up prices go ... probably just as fast as money is cumulatively inflated. (The good old strict Quantity Theory of Money at last seems to work!) This is the FLASH-POINT. Then comes giddy Phase III.

Phase III (Prices FASTER Than Money) (Due to Velocity Inflation)

95. By this time, the public usually gets wise to the fact that an uncontrollable, or only half-controlled, inflation is in full swing; and anybody who holds paper money or idle bank money, or who owns contracts in terms of money, tends to try to get rid of them. He tries to get out of money-values into commodities. (That was the invariable experience of Europe in the Twenties.)

96. The net result of this attempt at economic self-preservation, is that a man who might normally keep idle (in his bank) an amount of money equivalent in purchasing power to say two automobiles, might, in order to avoid the hidden tax on idle money, try to reduce his holdings thereof to the equivalent in real purchasing power of only one automobile. He tries to avoid the depreciating asset, namely, money!

Hence if everybody is trying to get rid of money into commodities ... up go commodity prices still more — even faster than money is quantitatively inflated. That is giddy Phase III. The High-Velocity phase: The Flight from Money!

97. Of course, during Phase III, each man (on an average) may and will actually have (and need) many more units of money (in order to command only one car) than he originally used to hold when he habitually used to "command" two cars with money, (which makes this whole subject rather irritating and subtle to discuss). But in Germany in 1923, when money was quantitatively inflated by 566 quintillions (which means 15 noughts on the end of 566), the REAL purchasing power of the TOTAL money in existence (at the end of the fiasco) was only one-seventh of the "real" purchasing power which it (the total quantity) had prior to the inflation. Hans and Fritz did their very best not to hold money for more than a few minutes ... so as to avoid the hidden tax! They "velocitated" it fast, forcing up prices "faster" than money rose. Such is the nature of Velocity-Inflation and a general flight from money.

CUMULATIVE FORCES

98. The development of this economy of "real" monetary purchasing power (on the part of the public) is, however, very bad luck on a semi-bankrupt Government; for, whereas on the first injection of say a billion new units of inflationary money — which, for the sake of this argument, we will assume was worth (in real purchasing power) one-twentieth of the previously existing total quantity of money, — the Government was able to obtain (without honest taxation) say one billion units of "real" wealth or usable resources ... merely by inflating money 5% ...

... the fact is that if, at a later date, the public have got wise to the swindle, and, by their actions, have reduced the REAL purchasing power of the total money in existence by say one-half, the Government, by again inflating the then already inflated supply of money by another 5%, will only get HALF as much REAL value in terms of usable resources. They will in fact have to inflate 10%, to get command of the same amount of real resources as on the first injection! The disease — resulting from unbalanced budgets — is cumulative.

Runaway Tendencies. The Volcanic Phase

99. And the sad joke of it is that, if in the meantime commodity prices have doubled, the Government will have to inflate 4 bn. money dollars to obtain what it ORIGINALLY obtained, in terms of usable goods, by inflating only \$1 bn. That is why inflation, on the part of any Government which cannot balance its budget, ALMOST ALWAYS becomes cumulative and steps up its speed in the later phases. Not only does the Government have to print (or borrow from the banks) more and more inflationary dollars as prices progressively rise; but, in proportion as the public get wise to the inflationary tax on money, (and in consequence acts in such a way as to reduce the REAL value of the total amount of money in existence (see Thought 96)), so does the Government have to issue still more dollars in order to levy or "steal" surreptitiously from the holders-of-money any previously determined (or wanted) amount of REAL resources, or value.

And there you have the inflation picture — which is (possibly) (i.e. other things equal) on its way in America. It is perfectly capable of becoming astronomical ... especially if more bad people, like me, write more good articles, like this.

(Actually the purpose of this article is to urge prevention, and controls!)

Some Comments on "Sequences"

There are however certain minor aspects of the above "normal" 3-phase Inflation Cycle which require further elaboration. So please let me go back a little.

PHASE I. THE HONEYMOON (Something for Nothing -- Apparently)

100. As regards PHASE I, i.e., the augmentation of money without it (yet) increasing prices, note this, concerning the sequence of events:

A War government, by artificially augmenting the total volume of money (by printing-press methods, or by borrowing bank deposits), injects the new monetary purchasing power into general circulation. It gets, as already said, real values (guns) in exchange for the new inflationary money. The sellers of the guns then go off and buy "butter"; and this causes a boom in the butter industries — and makes the inflationary policy of the Government highly popular with the average not-greatly-thinking business man and worker, — who often does not look very far ahead, and usually prefers a bird in the hand to two in the bush. The pump is thus primed: business prospers: profits rise: the Dow Index rises. And everyone enjoys the first few stimulating cocktails! (And they say that MONETARY inflation does no damage!)

IRRATIONAL BEHAVIOR

101. But then begins the birth of headaches. A lot of orthodox financiers point out that the next phase will be higher taxes, particularly taxes on corporations, and on the high income brackets. All financially-illiterate conservatives in consequence become rather pessimistic, and, fearing the future, start following their old rules of behavior (when frightened) ... they increase their liquid resources, or as economists call it, augment their liquidity-demand for money, as a fear-inspired store of value.

BELIEVE IT OR NOT!

102. This augmentation of fear among (financially illiterate) conservatives, arising out of dislike of bad government finance, is a most amusing phenomenon; for the fun of it is that in so far as the mouse-hearted conservatives take money (bank deposits) out of general circulation and hoard it in the banks (when they ought theoretically to be dishoarding money), they automatically increase the total so-called "liquidity-demand" for money, (i.e., the store-of-value-part of total demand, as distinct from the medium-of-exchange part) *at the same time as* the Government is wickedly augmenting the supply — thus, to a large extent stultifying the practical effect (on prices) of the wicked quantitative inflation!

103. So the lucky though "vicious" little Government gets away scot free with its inflation for a while,—owing to the "stupid" nervousness of the financially illiterate rich ... which, incidentally, enables many (financially illiterate) Government spokesmen to say, "Look, we prime the pump, without inflating prices! Who cares a hoot for the national debt: raising it does good, not harm: let us therefore go on with the good non-vote-losing work."

104. What I want to emphasize, is that if a Government, accidentally or deliberately, creates enough FEAR among the (financially illiterate) relatively rich, it can get away with a vast amount of quantitative inflation *without* the inflation actually "catching" ... since it can augment the store-of-value demand for money almost as fast as, or even faster than, it inflates the quantitative supply,—an amusing facet of the Law of Supply and Demand, which can (temporarily) prevent a progressive augmentation of supply from depressing exchange value (and raising prices) for quite a while—i.e., if one of the two types of Demand (the Liquidity type, as distinct from the Medium-of-Exchange type) keeps parallel.

PHASE II: THE FLASH POINT (VELOCITY REFLATION)

105. But eventually (if the price level is left uncontrolled) the frightened conservatives or "malfactors of great wealth" (as they watch prices gradually rise) begin to feel that they have more than enough money idle, and become more and more aware of the cumulative nature of the quantitative inflation;—with the result that when most factories do at last become fully employed, and when commodity prices begin to rise rapidly (as distinct from gradually); they not only cease augmenting their hoards, but may also begin positively to unload them!

106: Whereupon, (unless prices are controlled by law), the top blows off the volcano,—for you then have a dual inflationary factor in force, namely (i) The continued inflationary spending by the Government, and (ii) The dishoarding, or re-velocityation of the previously idle money formerly kept immobile by terrified conservatives. Then, you get your real wild inflation, or dual inflation, in the very grand manner. (Velocity plus Quantity.)

Indeed, the longer the catching of inflation is delayed, the worse the eventual blow-off.

PHASE III: THE UPRUSH

But let us go back and see what happens to "butter" during this long drawn-out comedy of pleasant (war-time or peace-time) inflationary finance ... which all the time is a 'real' tax on money, though to say so is (to start with) regarded as out-moded financial nonsense among the younger men in our Brave New World.

The gradual pumping of inflationary money into circulation makes the "butter" factories fully employed, and the price of butter (i.e. all consumables eventually) gets shoved up. In fact, from a market point of view, butter eventually gets positively "scarce," (what with butter-hoarding, as well as increased consumption), although the output thereof may be at an all-time record high.

107. Then, at last it is seen that the supply of money has already exceeded the potential output of goods (quite regardless of extra bugbears, like lack of imports and war-caused scarcities). Competition to buy and hoard butter-products (all consumables) ensues. Manufacturers, middlemen, and consumers, obeying the Law of the Rising Market, all try to increase their inventories, either in the hope of, or fear of, rising prices. Inflation of prices has at last "arrived,"—because of inflation of the quantity of money—particularly, bank deposits which are "created" when the Government borrows from the commercial banks.—*For a commercial bank does not un-create the power of its existing depositors to draw checks when it lends those self-same deposits to the Government. In other words, I disagree with the Wall Street Journal leader-writers who say that the banks CANNOT create bank money by their loans. Eccles knows they CAN! And my own family once made a fortune out of it. But more of this also in another Digest.* But let us get back to our moustons.

THE NATURE OF THE (TAX) SWINDLE

108. As regards the Government: By every additional inflation of money it gains possession of resources, at current prices, and thus avoids ordinary taxation. But the taxation is there nevertheless. And the people who suffer, though with a time lag, are the existing owners of money ... including bank deposits ... for it depreciates in real purchasing power. All owners of paper credits, insurance policies, annuities, long-term debts ... in fact, all creditors, also suffer ... for they get paid back eventually, in terms of real wealth, much less purchasing-power-over-real-wealth than they originally expected.

A Fool of a Tax

109. But unfortunately, the Government does not get the whole of the REAL purchasing power that the wide galaxy of sufferers are surreptitiously done out of. Debtors usually reap a windfall for, at the end of an inflation it perhaps requires the sale of only one bushel of wheat to pay off a money mortgage which the debtor (say the farmer), and the lender, originally anticipated would require the equivalent of five bushels of wheat. Debtors positively benefit, for a while. (That's why farmers in all countries, who ghoul-like hope to profiteer at the expense of rentiers, trust-fund widows, hospitals, and pensioners, are usually ardent inflationists and soft-money men.)

The Inflation-Tax does more Harm than the Other taxes it Feebly Shirks

110. From the above remarks it will be seen that although inflation is a hidden Tax which obtains real resources for the government, it also redistributes wealth among the general public — farmers usually benefiting; rentiers suffering — but the good fortunes and misfortunes do not cancel out, for this reason:—

The rentiers certainly lose all around; but most of the so-called profiteers suffer from the phenomenon of "False Profits," described in Digest 90; and virtually everybody, except a few super-cunning speculators (say my clients) make real losses out of the inflation. The government "catches" them (almost) all around by means of its hidden inflation tax ... although of course in the 1930's many more people made millions (through understanding inflation) than will in the 1940's, where the government also has learned how to exploit the would-be exploiters. It is however a pity that the government can not capture for itself all the real losses made by the rentiers, and that a few highly educated economists (and their clients) should making a killing, while the simple, the honest, the sick and the old, are financially "killed" by the government (if not by the profiteers).

PART II. COLLAPSE OF GOVERNMENT CREDIT THE GALLOPING PHASE "CATASTROPHE BOOM"

111. The story of the three phases of inflation which I have just given you is bad enough. But in addition to a government having to print more-and-more paper (or bank credit) to obtain command of any given amount of real resources— (you will remember in Thought 99 we used the illustration of \$4 bns. as opposed to an original \$1 bn.)— the hard-pressed government simultaneously runs into a SECONDARY lot of troubles which make its inflation all the more painful and all the more cumulative ... For the-very fact that it is inflating so fast ACTUALLY DRIES UP the bona fide war loans* which would normally be forthcoming IF the government were NOT inflating so fast ... with the result that it has to inflate EVEN FASTER.

In other words, it has to raise (by more inflation) the real resources which it formerly raised by non-inflationary bona fide loans from the public. (say \$12 bns. per annum).

* I shall deal with this problem more fully in a later Digest on prospective interest rates.

It also has difficulties in collecting taxes punctually, for everyone (seeing money depreciate fast) does his best to delay paying his own taxes as much as possible ... hoping to be able to pay (a few months later) with further-depreciated money.

Moreover, since in most countries taxes are paid with a lag of one year, or even more, the old tax money (paid in respect of last year) is worth very little to the government, perhaps only a fourth of its previous purchasing power last year—so that the government gets TREBLY cornered.

In fact, such governments usually find they have not enough actual "money" to pay their postmen, soldiers, sailors, civil servants, etc., — let alone the monetary interest on the government debt — so that they go on printing paper money all the faster to meet their immediate wage bills (which may by this time have risen several hundred per cent) ... so as to keep government workers sweet, in view of the rapidly rising cost of living!

IT CAN HAPPEN HERE

112. The above represents, in brief outline, the ultra cumulative or galloping stage of inflation. It almost habitually goes on until the paper money, then current, become completely worthless; and some new (gold or paper) money is introduced to take the place of perhaps 1,000 or 1,000,000 units of the old paper money. (In Germany, in 1923 it was a matter of one new Reichsmark taking the place of one billion Hohenzollern Marks.)

And it can happen just as easily in America despite all her gold reserves, all her resources, all her productive skill, all the honest intentions of her government, and all the support which the public (including tax payers), and lenders (savers) are willing to give their beloved Uncle Sam, particularly in war time. These factors have virtually nothing to do with it.

What brings it about is the existence of a few unintelligent men AT THE TOP. (And do not think that unintelligent men do not frequently come to the top. When I was in Germany in 1923, where I had gone to watch, in practice, the wild inflation of the Mark (since monetary problems were then my hobby), Dr. Havenstein, the President of the Reichsbank, in his honest ignorance, actually saw fit to state that the wild inflation of the Mark then occurring (it had just slumped from 100 to the pound sterling to 43,000) was due not to the printing of paper money ... indeed Dr. Havenstein emphasized that there was a positive shortage of money in the banks (which there was), with short term loan rates then at 18% (subsequently, 106%) ... but to wicked speculation in the Mark (mainly by foreigners) who had been selling the Mark short abroad, and depressing it on the international exchanges ... thereby sending up the cost of all German imports ... and generally raising the German internal price level ... and setting in motion a wave of speculation in commodities within Germany, in consequence.

The poor honest man, — and I honestly believe him to have been just that, for I do not subscribe to the view that Havenstein (or anyone else in Germany) deliberately wrecked the German Mark (like Lenin *deliberately* wrecked the Russian currency "so as to produce revolution") (Lenin said so himself) ... the poor Doctor, despite his exalted position as head of the Reichsbank, just honestly knew so little about the fundamental Theory of Money, and the Anatomy of Inflation, that he just did not know what it was all about.

But of course there are no such people in America, near the top. Or are there? Certainly, Mr. Eccles (who is absolutely first class on monetary theory, despite his unpopularity in Wall Street and elsewhere) and Mr. Henderson do "know what it is all about". But there are certain other gentlemen in the Financial Press, and in the Farm Bloc, and in Wall Street, who (dare I, a foreigner, say so) either do not know what it is all about OR are definite public enemies.

My own view, of course, is that they just do not know what it is all about and that they are NOT conscious public menaces.

But the danger nevertheless exists; and certain selfish labor leaders, as well as the selfish Farm and Silver Blocs give me the impression that a few hours monetary study would not be a particularly bad thing for them (and beloved America). For, as I showed in Digest 97, wild currency inflation almost certainly (indeed absolutely certainly) leads to revolution ... and when I say revolution, I mean real revolution, not just strikes, i.e., utter chaos and wide bloodshed. (If you think I exaggerate, re-read Digest 97.)

PRODUCTIVITY (AND GOLD RESERVES) NO GUARANTEE

At this point, let me answer those who say that America — because of her intrinsic strength, huge national resources, and enormous productive capacity — is not an ordinary subject for wild inflationary influences.

The argument that productive facilities delay or prevent the maturity of wild inflation is only true up till the point when most factories become fully employed and/or labor becomes scarce. In other words, it is only true in the first phase of the above three normal Inflation Phases.

58
51

After that, productive facilities, either short run or long run, have no influence in delaying wild inflation whatever. From the flash point onwards (Phase II), productive facilities, being at a maximum, can have no more than a faint psychological influence. And if money is subsequently inflated several hundred per cent without it being possible to increase production any more than by a few per cent annually, you can get all your runaway phases (Phase III), even in a country as rich and productive as America.

Of course, in so far as a country can increase its production, such production does tend partially to counteract progressive inflation. But if inflation of money runs five times as fast as the expansion of production; inflation wins, and prices start to rise ... the rise rapidly gaining cumulative momentum (a) because Velocity increases also; and (b) because bona fide loans to the Government dry up, and the Government has to resort to even more inflation; and (c) because the rise in prices increases the Government's expenses so that they have to inflate all the more.

Thus, neither the wealth, nor the gold reserves, of America rule out the possibility of wild inflation HERE at all. In fact, it is already well on its way.

Moral of the Story

As I showed on page 7 of Digest 100, the outlook for America ... unless forced loans are resorted to immediately ... is a prospective inflation of 100% per annum ... even if prices (and the expenses of the Government) do NOT rise because of Mr. Henderson's skill.

Actually, however, (unless forced loans and higher taxes are resorted to) they WILL rise; and the Government's expenses will rise parallel; which will cause the inflation of bank money to become MUCH GREATER than the 100% per annum, adumbrated in Digest 100.

This danger already faces America ... and if it is not faced AT ONCE, the horse will soon bolt, and inflation will become uncontrollable despite Mr. Henderson, probably in 1943.

All the business of the Office of Price Administration, is a mere bagatelle compared with the business of stopping continued borrowing from the Commercial banks. It is up to Congress and Mr. Morgenthau to cut off the gas: for Mr. Henderson can only apply the brakes (i.e., bandages over the underlying inflationary cancer). And if Mr. Morgenthau does not cut off the gas, Mr. Henderson will eventually be blown to smithereens. [See Digest 96 for the step-by-step argument].

BLIND BELIEFS

Of course, nearly every American you meet, even though he may admit the theoretical possibility of cumulative runaway inflation, argues that the Americans are really much too sensible a People to allow such a thing to happen here; and that as soon as there is any sign of it beginning to happen, the Government will immediately put on the brakes, and the People will darn well make them. The average American in fact relies on the Government taking suitable action, when necessary.

But that is always the argument put forward in the early stages of every inflation. The fact remains however that it is behaviour (due to benevolence and/or vote catching) such as is now occurring in Washington ... i.e., a reluctance to tax sufficiently or to resort to forced loans when a expensive war is being waged ... which prevents inflation being stopped in its early stages (before it is too late).

As pages 1 and 7 of Digest 100 showed, the Government is only raising from taxes and non-bank loans about half of the annual War bill of \$75 bns. The rest, say \$40 bns, looks like coming inflationarily from the commercial banks; and since the total spendable money of the country is only slightly over \$40 bns, the prospective inflation in America is today about 100% per annum.

[Actually, however, as Section 99 of this Digest has explained, it is quite wrong for me to speak only of "One Hundred Per Cent annually." For if in the first year (1943) you inflate 100%; you will almost certainly have to inflate much more than 100% in the second year ... if the Government is going to pay for an equal amount of REAL war effort. (Re-read Section 99 of this Digest again.)]

The trouble is that the danger phase, or flash point, of inflation has *already* been reached in America — both monetarily and psychologically — and yet the Government still is doing virtually nothing about it. It plays with the "poulitess" of price control by OPA, when the real inflation dragon is progressive borrowing from the COMMERCIAL banks. In fact, the government seems to be virtually planning to borrow from the banks next year (1943) to the tune of about 100% of the total existing monetary purchasing power in the United States. [See top of page 7 in Digest 100.]

The above prospective inflation will virtually double the average individual bank balance of everyone in the country before end-1943!

Thus, those who argue that as soon as the inflation situation gets dangerous, the American Government will face up to the situation boldly, are, despite this proud and patriotic feeling already belied by the facts.

I repeat, we are in danger of monetary chaos. And unless the Public begin to chase their Congressmen ... and demand that they, the Public, be made to pay more, the chances are that wild inflation WILL happen here.

ADDENDA

I. Breakdown of Price Controls: In a later Digest (104F), I shall show how progressive inflation of the total spendable supply of money (including bank deposits) gradually burns a hole in people's bank pass-books, and overflows into other things (possibly including common stocks), until at last even the most rigid price controls, as now set up by law (OPA), get swamped (via black markets) by the rising flood of money. [I mentioned this gradual erosion process briefly on page 3 of Digest 95; but will deal with it fully in Digest 104.]

II. Omission: I apologize for not having made clear, in Digests 99 and 100, precisely what I meant by "loans from THE PUBLIC," as distinct from "loans from the COMMERCIAL banks."

Pages 5 and 6 of Digest 100 did, I think, explain adequately what sort of borrowing was inflationary, and what non-inflationary. It is however necessary for me to add that by the expression "non-inflationary borrowing FROM THE PUBLIC," I mean loans raised either from the savings banks, insurance companies, big and small corporations, rich men, and also poor men (by means of wage deductions at source). [The inflationary forms of borrowing are loans from the commercial banks and the reserve banks.]

Of course, when the Government pays out money borrowed from "THE PUBLIC", it swells the bank balances of the recipients; but national inflation of monetary purchasing power does not occur, because what is paid to B is first taken from A. It inflates the purchasing power for some people parallel with the deflation of that of others.

An early Digest, probably 103, will explain "How the Commercial Banks 'Create' Deposits Out of Nothing — And, By Financing the War, Cause Inflation."

III. Reasons for Recent Lags: The Government has already inflationarily borrowed \$8 bns from the Commercial banks since January, 1941; and the only reason why it has not had more than a 15% influence on the cost of living is because simultaneously private loans to the banks have been either called in or voluntarily reduced, thus, to some extent offsetting the augmented Governmental bank loans (borrowings). [Consumers are also reducing their private debts.]

IV. Playing with War Finance: As I write this Digest (October 8th) comes the news that the Senate has passed a Tax Bill with only a 40% combined income and surtax for corporations, and 90% excess profits tax. If the Committee or the House do not increase it again, I feel I shall be almost tempted to change round to the bull tack. In my view, Washington is merely playing with war finance. Wild inflation, I think, is bound to occur if you borrow \$40 bns annually from the commercial banks through a benevolent desire to please, and a hesitation to tax. It is all very kind, but utterly foolish with War costs of \$75 bns annually. In my view it is complacently sabotaging the currency.

And don't think I am exaggerating. Just the reverse! Budget Director Smith's own October 1942 figures are these:

	BNS
1942-43 Expenditures	85
" Tax Receipts	22
" Borrowing	63
" Loans from the Public	12
" Loans from the Commercial banks	51
Implying Monthly Average (next 9 months)	4.3
1942 Monthly Average (to date)	1.1
Monthly Average: required for next 9 mos.	5.4

....which is 6 to 8 times the quantity of Government obligations that the Commercial banks absorbed last fiscal year. That is why I entitle this essay "MONETARY CHAOS: HAPPENING HERE."

THE END

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Inflation Series (Essay No. IV)

PAYING FOR THE WAR

(You Personally)

by

MAJOR L. L. B. ANGAS

Digest 91

April 1942

Part I. Who "Really" Pays
Part II. Future Generations?
Part III. Finance by Inflation

Part IV. Capital Levies (Digest 92)
Part V. Forced Loans
Part VI. Using the Gold Devaluation Profit

My last three Digests were, "The Unworkable Bull Case"; "The Unworkable Bear Case"; and "British Accountancy Arguments (During Inflation)". This present Digest 91 will rather change the subject and deal with the problem of "Who Pays for the War." My purpose is to show how the War will be **PAID PERSONALLY**.

PART I — WHO REALLY PAYS

Successive "thoughts" are numbered 50 to 77 for future reference.

The Six Ways of Financing a War

50. There are six ways of financing a war:—

- (i) Foreign loans.
- (ii) Taxes.
- (iii) Bona fide loans from the public (including from savings banks, who merely relend what the public lends them).
- (iv) Forced loans (which pay interest, and are usually repaid). (N.B. Withholding taxes on wages are similar to forced loans.)
- (v) Capital levies, without interest and without repayment.
- (vi) Inflation (either of printing press money, or borrowing from the commercial, as distinct from the savings, banks.)

Who Pays Whom . . . In a War

51. The question of who pays for a war is always rather subtle. Nationally speaking, payment for the war is really in the form of "over-work and/or under-consumption, i.e. abstinence,"—although of course some violent internal wealth-redistribution probably occurs . . . some getting poorer, while a few get richer.

52. But accumulated capital is not destroyed (in the "real" sense); nor is it dissipated by the war, unless assets are sold to foreigners. Individuals of course may lose all their capital, but not the nation as a whole—even though the normal rate of capital expansion is usually impeded by the war effort.

Barter Economics

53. In terms of barter economics, it is obvious that (without the aid of foreign loans of war material or money) the armament workers are kept alive by the non-armament workers. The latter obviously support the former. (Though both "pay" in the form of hard work.)

And unless the non-armament workers can increase their output of consumables to an extent equivalent to the "displaced" output of the new armament workers, the standard of living of the country will obviously have to decline.

On the other hand, if the non-armament workers, by working overtime, or by calling in women, children and the aged as assistants, can replace the work previously done by the newly enlisted armament workers, the country can have both guns and butter . . . and feel no effect from the War, as regards CONSUMPTION, although they, the public as a whole, will be WORKING very much harder.

On the other hand, if the non-armament group cannot produce enough to maintain the national standard of living (after the armament workers have entered munition factories), some groups will obviously have to suffer, even if all do not suffer equally.

. . .

But that is only the barter side of the argument, which is simple. The workers "support" the fighters while the fighters defend the workers: a sort of fifty-fifty arrangement—although of course the workers help the fighters to fight, and the fighters help or "enable" the workers to work. Now let us turn to the financial, or monetary side.

54. When looked at from a "monetary" angle, the non-armament workers do not alone seem to have the monetary burden (or pleasure) of "supporting" SINGLE HANDED all the armament workers (and the army and navy) . . . as they rather appear to do under barter.

Of course, the non-armament workers are taxed to pay the armament workers for the armaments; but as also are the armament workers themselves! And that is how the burden of paying for the war is "monetarily" spread over all classes of the community (including the navy and army).

And the chances are that, if the War is on a large scale, all classes will (after a short time lag) SUFFER in terms of REAL purchasing power (despite harder work) . . . even though all money-wages may become inflated, along with commodity prices.

Thus, the people who monetarily pay for the War are "everybody" (in so far as taxation is at all equitable). And, as said before, unless the consumers' goods industries can get a special move on, everybody is bound to SUFFER (if you like, PAY) as a result of the War. *Less butter!* All classes contribute either money, extra work or abstinence.

But how about the question of Loans?

Do Loans Shift the Real Burden (Over Time)

55. At first sight, it always seems that if a Government can borrow to pay for the War, nobody is going to suffer at all, except a future generation. The real pain, burden, torture, or cost, is postponed!! (*But is it?*)

56. First let me throw out two or three thoughts:— (1) In an imaginary society where wealth and income were EQUALLY distributed, the interest on all loans would be paid "by the lender" via the government "through Taxation on himself." Secondly (2) the size of the national debt would be immaterial since we would not only "owe it to each other" but also "owe it to ourselves." But thirdly (3) in cases where wealth and taxation is NOT EQUALLY distributed the charges on a huge national debt (of say \$500 bn.: equivalent to England's today) become mainly a charge (a) on the equity of industry i.e. the common stock holder and (b) on the relatively rich, who have Ability to Pay. And doubling the debt would mean roughly doubling the charge on these two groups! (*Are you squirming?*)

57. But to return to the question of loans in America today. Certainly, the lending capitalists put up the money TODAY. And the Government spends the monetary purchasing power (which the capitalists might have spent themselves on other capital-goods), on employing armament workers and on producing munitions. The capitalists are happy to make the loans—though I am going to comment on this word "happy," later; the Government is happy to borrow the money; and the workers are happy to avoid the immediate higher scale of taxation on themselves that would (probably) be entailed if the capitalists did not lend to the Government at all. In fact, it all seems perfectly "lovely" to finance a war by loans . . . even if, as I shall show later, the REAL burden of the War is paid for, and suffered, as it goes along in the form of the extra work, overtime, worry and abstinence which are "put in" both by business men, statesmen, civilians and munition workers . . . and their wives, and children, and elderly aunts and uncles.

Happy?

But, as I shall shortly show, the capitalists (poor patriotic and/or greedy dupes) usually get taxed to pay their own interest on their own defense loans . . . and also to service their own eventual redemption charges.

And even the working public (dear fellows) also suffer a little bit of extra taxation too . . . So that although everybody WAS very "happy" that the Government originally resorted to loans instead of extra taxation . . . they all find out, sooner or later, that they (especially the capitalists) do not (because of the loans) escape any extra taxation worth speaking of at all. If you read on, gentle reader, you will see that this is so.

PART II — FUTURE GENERATIONS

The Present, Not the Future, Generation "Really" Pays

As already said, all wars are really paid for as they go along, by the extra amount of overtime and of REAL hard work that the men and women of the country put in. In terms of barter economics, there is no means of a country postponing the real payment for a war,—except by borrowing or getting gifts from abroad . . . which America is not doing.

58. Of course, all sorts of long-term MONEY-debts can be floated, which rather "efficiently" make it "look" as though REAL-payment was being postponed for another generation to pay. But such long-term money debts do not defer the REAL burden, and are IN FACT only a re-distribution of national spending today, and also later in a future generation.

All that the long-term war loans do is to bring it about that the subscribers voluntarily part with their current monetary purchasing power over real resources, (i.e. with the use of their monetary capital), today; and that the Government, instead of the lenders, spends it today on the services of workers producing armaments, which are actually produced today. (All armaments are paid for (roughly) spot cash i.e. today.)

Thus, the wealth of capitalists, i.e., past savings, are redistributed, by the loan process, to the Government, which redistributes the money (which has real purchasing power) to the armament workers. Hence, as far as the nation-as-a-whole is concerned, the workers consume what the capitalists might have consumed. Meanwhile the new armaments are actually produced, and paid for in terms of real services-performed (and money), today.

Economics of "Monetary" Repayment

59. Certainly, years hence if and when the money loans are paid back again to the lending capitalists, the general public are admittedly taxed to pay back the money (purchasing power over real resources) to the subscribers to the war loans (or their heirs). It is, however, the domestic lenders who pay for the war today, although the

domestic public theoretically reimburses them later. But as far as the nation-as-a-whole is concerned, the war is paid for AS IT GOES ALONG. The REAL effort, and sacrifice, are NOT passed along to and palmed off on some future generation. The loans are merely a method of DELAYING TAXATION on the general public.

The Lenders Usually Repay "Themselves"

60. Of course, the (patriotic) lenders, if they are simple minded, think (and are told) that it will be the rest of the (less patriotic or poorer) public who will pay them back eventually PLUS interest in the meantime.

But if they are not so simple minded, they are (or should be) fully aware that they themselves are going to be taxed to pay most of their own interest and eventual redemption money. In the meantime, the rich are often actually paid interest by the government out of their own capital, or out of (extra) taxes on their own incomes!

Thus, war loans are in theory merely a financial ruse by which both the lenders, and the whole of the rest of the general public, are SUPPOSED to escape crushing taxation TODAY . . . and with it the real burden of the War today. It is all a "keep 'em happy" ruse; but it is surely a ruse as I shall now explain.

The Ruse

61. What usually happens to the rich is as follows:—The money loans which they lend to the Government have to be serviced with annual interest and redemption allocations. This requires extra money taxation (unless inflation is resorted to); or alternatively the interest on the old loans is paid out of more and newer loans (pyramiding finance!).

And since the loans would (probably) not have been raised unless taxation of the masses had already reached its politically convenient limit, the chances are that the capitalists, who put up the money, will themselves be taxed to pay their own annual interest (and redemption-fund money) . . . which practically amounts to turning a part of the whole so-called loan-transaction into an additional annual tax-transaction, or if you like, a small annual capital levy.

Lend—or Levy?

62. And here I might add that if the capitalist-lenders (unpatriotically?) refused to lend their idle savings, the government would probably impose almost equal taxes, or capital levies, upon them,—since every war loan rather presupposes that it is politically inexpedient to TAX the relatively poor general public any more at the moment. I repeat, if the lenders do not VOLUNTARILY lend today, they tend involuntarily to suffer a capital levy . . . for capitalists cannot be permitted to "strike" and hold up a war for the nation's existence.

How the Lender is Made to Pay Himself

63. Thus, in the long run as well as in the short, the lending capitalists as a group do most of the "monetary" paying. And they are, on the whole, NOT paid back in the future. For politicians representing the public (i.e., the majority vote) usually find some cunning method of eventually jockeying the minority-group capitalists (or their heirs) out of true (as distinct from monetary) repayment of their loans . . . by taxing them so much (forgive me for saying it yet again), that they have to pay their own selves, not only as regards annual interest, but also as regards eventual capital redemption (as war loans are eventually paid off—IF they are paid off).

In fact, before the PRESENT War broke out in England, an elderly capitalist who had subscribed to defense loans in 1915, was in the following position. If today, or even in 1935, he had a total income of only \$16,000 (dollars) a year, a third of it coming from war loans, he was, and is, in fact paying all his own interest (except \$50) on his own particular war loan subscriptions! (Poor Lord Smith.)

64. But this fact, or "unavoidable swindle," was wrapped up so cunningly, and so well confused, and so well hidden from public view that, since he (the capitalist) did not usually know it, he did not much mind. He just grumbled at the high post-war scale of taxation: he did not know it was largely to pay himself back his own interest on his past (patriotic!) (greedy?) War Loans,—and also his own capital-redemption service too. Very pretty. He was "paid" (O.K.)! Government credit remained excellent. Although he really paid himself—which was "constructive default."

Let us hope it will not happen to War Loan subscribers "in America" in this War. But of course it will, especially as it is politically almost unavoidable.

Future Generations—The Only Influence on

65. Wars, I repeat, have got to be paid for by taxation eventually. And I have shown that the rich probably pay themselves in the end. But being mortal men (or rather mortal ostriches), they naturally rather prefer to avoid the chance of immediate virtual capital levies TODAY, in favor of the not quite certain, and long drawn-out, taxes or levies on themselves at a later date; which may hit their children rather than their mortal selves.

The point is that few elderly large capitalists expect to live fifteen years longer. Hence, the popularity of War Loans (and deferred and long-drawn-out taxation), in preference to immediate capital levies and/or immediate higher taxation during wars. After all, the loans might (just possibly) be paid off, as they were in the 1926-30 period in the U.S.A. And in the meantime they "might" die. The capitalists in fact like to bluff themselves and "hope," just as much as Washington (and Downing Street) likes bluffing them and letting them "hope".

And, financially speaking, from the point of view of national finance, there is nothing particularly unhealthy about the foregoing "highly ethical" please-everybody tricks and ruses. It is just a cute method of making the war loans popular today. [Although if, in private life, you borrowed money from Mr. J. P. Morgan and then stole additional sums from him to pay the interest thereon, you would soon be in The Tomb. But public financial ethics and private financial ethics are not exactly the same. Robbery is O.K. if supported by mass votes, and if sufficiently "devious".]

PART III — FINANCE BY INFLATION

Loans from the "Commercial" Banks are Different. (Inflationary)

66. The above remarks however refer only to *bona fide* loans made out of the "true" monetary savings of the capitalist classes. If, however, war loans are borrowed from the commercial (as distinct from the savings) banks, there are a thousand objections to such war loans . . . for defense bonds bought by commercial banks inflate the bank credit currency (net demand deposits). (I shall prove this point in Digest 93.)

And in so far as this is done, it is utterly folly to risk wrecking the monetary system of a country—just for the sake of pretending to the (gullible) public (especially the rich) that wars need not hurtfully be paid for by the rich or poor just yet. I repeat that it is utterly wicked to ruin the national currency just for the sake of spoofing people into believing that they can temporarily avoid the real burden and REAL TAXATION cost of the War. The hidden tax of "inflation" is, with a small time lag, a very definite current real tax TODAY even though it is hidden and misunderstood.* Read the footnotes. Furthermore, wild currency inflation does much more real damage to a country than wild taxation, or wild capital levies. And this applies both to the rich and the poor. (It always ends in revolution. See Digest 94.)

67. In theory, governments (no matter how deceitful they may be in their packaging of taxation) ought entirely to eschew the printing press and/or borrowings

* The government (or the banks) "print" money (which costs them nothing); spend it and obtain "real resources." The inflation gradually diminishes the real purchasing power or value of all money. That is the nature of the tax—which is a tax on all money-holders.

from the commercial banks. Let them play about with tricky bona fide loans from the general public, if they like. But don't let them prefer borrowing from the banks either to immediate capital levies or to higher immediate taxation.

Even the rich, as a class, do not escape the real burden (of hidden, or open, levies) by means of inflationary BANK loans. What real burden they appear temporarily to escape, they eventually lose by the damage done to their monetary capital by inflation.

Inflation, I admit, destroys nothing except money; but if cumulative, it also leads to virtually certain revolution (See Digest 94); and it is the rich who then particularly suffer in the end. No rich man should favor inflationary bank borrowing for the sake of avoiding forced loans, capital levies, or taxes. The rich don't escape, in any case; and the only way they can "hedge" against "paying for the war" is to die.

Inflation, I repeat, (including loans from the commercial banks) is the most disastrous form of all taxation. And it is utterly silly to go on with it today. (I shall prove all this in Digest 94.)

When Inflation is Good

68. And yet there is a school of thought which rather likes inflation . . . In fact I do myself at times, though only at certain (depressed) stages of the trade cycle.

My point is this:— If a trade slump has occurred due either (1) to general fear causing a decline in the velocity of money as in 1932; or due (2) to positive deflation of the total volume of bank credit money (caused either by calling-in or voluntarily paying-off, as in 1932); or due (3) to trade outstripping the supply of gold, as in 1929, 1893, etc., I certainly am one of those who favor deliberate reflation of total money, especially net demand deposits, by a process of deliberate governmental borrowing from commercial banks.

Such policy is, I admit, inflationary or reflationary. But it worked in the spring of 1933; it worked in the spring of 1938; and will always work if sufficient doses of inflationary reflation are applied. In fact I favor it.

69. But the fine art of scientific money management is not merely to fatten the skiny (at the right time); but also to lay off the inflationary injection-process, when adipose tissue begins to set in . . . and the belly swells beyond twenty-six inches, or if you like, the 1926 price level.

And, if Rising Monetary Velocity (after deliberate Reflation of the Quantity-of-money) spontaneously takes charge of the price level so that prices and/or trade start swinging up 100 high and getting out of balance (as they originally were on the down side) . . . then the scientific Money Managers should deliberately deflate again to counteract the increased velocity which their own previous deliberate reflation had engendered. Compensation is what is wanted. [Although of course the financial hillbillies around Washington and Wall Street (the Opposition) will delightedly accuse them of economic inconsistency and of never being able to make up their minds, and of doing first one thing, and then another, and generally bewildering (if that is the rude word) the public about. What a Civilization!]

Arc Wars Beneficial (To Trade)

70. But to return to our subject: Just as wars can cause general trade booms, because they cause governments to spend money like blazes, and borrow money from the banks like blazes (inflation); so also can the non-military Money Managers, in peace time, cause trade to re-boom. [And I here and now definitely must assert that a large scale war, or the preparation for a large scale war, if it comes at a moment when the trade cycle is in the slump period, can and will (assuming a certain number of inventory readjustments have already been completed) cause trade to boom again. It did in England early in 1939.]

71. But that does not say that wars are on balance beneficial to a community, or that in every cyclical slump in trade you should go off and deliberately declare a war so as to get a Trade boom.

Non-beneficial Booms

72. Indeed at this point we must ask ourselves what precisely we mean by the word "trade" in connection with the expression "trade boom". [N.B. There is hardly a single word in economics, that I know, which has a clear and single-minded meaning. The following words all have at least five meanings to me: inflation, money; credit, capital, confidence, demand, supply, inventories, etc. And when we talk about a trade boom (which some people think harmful and others beneficial) we certainly ought to clear our heads.]

73. War itself causes a production boom, especially if it is a big war,—for peace workers are diverted into armament industries, and there is of course a boom (statistical) in production, for you get the gun industries piled on top of the butter industries. And of course, employment and the transportation industries boom.

But despite the production-boom everybody may become worse off; and will do so unless the butter industries can expand sufficiently to replace displaced labor which is siphoned off into the armament industries. But, as I have said before, if you enlist the services of the aged, the very young, and the females, and if everybody works double-overtime; you probably can get the butter industries up to replace most of the displaced armament workers (if Mr. Hitler's submarines do not sink all the cows). The chances are however, as I have shown in this Digest, that, in a really big war, the peace industries will have to be curtailed; and the general consumption of the public reduced despite the boom in total (statistical) (including armament) production. It is happening here, and will shortly do so moreso.

And incidentally if you tax the corporations enough you can have a common stock slump, despite the boom in profits and the boom in production indices. [The word boom itself, as you will see, has at least 3 (30) meanings.]

Modern Monetary Magic (What it can, and can't do)

74. It is true to say that "by some curious modern monetary magic" you (or the Money Managers) can (in a modern money-profits economy) turn a slump into a boom. It is also true to say that Wars, "by curious monetary magic" can end trade-cyclical depressions . . . and improve slumping industries. But if it is a really BIG FAT WAR (as today), it is NOT true to say "the war makes the nation prosperous"—for the war absorbs too many men, materials, and bits of machinery to maintain the old standard of living (butter).

†Though of course a few armament workers and employers will get prosperous . . .

The Labor Leader's Dilemma

75. And I might rather objectionably add that even though at the present moment the trade unions and Washington seem to be planning to keep wages parallel with the rising cost of living . . . SO AS TO MAINTAIN THE REAL STANDARD OF LIVING OF THE WORKERS . . . they just will not be able to do so (let me tell them) because there just won't be enough butter produced in America to go around. And no amount of spoofing, political speeches, or promises to trade unions can prevent it.

And if the trade union leaders go on pretending that they will keep wages parallel with prices, they will have to stage a revolution (so as to find somebody else to blame, for their failure); for it just cannot be done, not even by trade union leaders!

If these gentlemen wish to preserve their own skins, they had better start making speeches AT ONCE, saying that it cannot be done (even by them). And that they (temporarily) have nothing to "sell" to their followers. And (let them blame Hitler; not Roosevelt, or Knudsen, or Wall Street!)

But these remarks are getting me rather far away from the question of borrowing from the commercial banks, and monetary inflation.

Theory of Avoiding War Inflation (Siphoning)

76. Of course, Washington could avoid inflation entirely, IF the public could (would) "take it."

The theoretically correct and non-inflationary method of financing a war is as follows:—"Borrow war-expenditure money (once only) inflationarily from the banks; spend it on munitions; borrow it back from the public (or tax the public) as fast as you can, and before the public have had time to spend it in forcing up general commodity prices. Use withholding taxes on labor-wages, if necessary. Deduct income at source (taxes) wherever you can. Keep your extra inflationary money circulating in the armament arena alone, without letting it overflow like a tidal wave onto general commodity prices. Then spend it again; and re-borrow it again (from the public, not the banks); or alternatively, tax it away quickly from the public."

77. All the above "sounds" easy on paper, but it needs some political guts. And the question arises whether the general public are patriotic enough, or far-seeing enough, or economically-minded enough to "take" it. [And if you want my own view (and I rather fear Washington thinks the same), the public are "the very devil," and just won't "take" it—until they have had three or four more Pearl Harbors, considerably nearer than Pearl Harbor.]

So in order to prosecute the war, Washington (and I mean Congress just as much as (or even more than) the White House) is probably darn well going to go on using the hidden tax of bank inflation, even though poor Washington will not itself get all the benefits of which the inflation-sufferers will be deprived. [Meanwhile farmers and other debtors (and my clients too) will, I fear, share in the spoils—and they are spoils too.]

But Washington probably knows as much about this subject as I do. Its chief difficulty is probably not lack of knowledge, but the unwisdom of the public, or if you like, politics. The test question in all democracies has to be, not is a thing theoretically sound, but is it politically possible—with the public.

Conclusion

Although I personally expect further wild bank borrowing (though I am against it) I do not expect an early boom in stocks, in consequence. In fact before that happens in the stock market, I personally fear a further sharp shakeout . . . for the very rude tax reasons already given in my last two Digests, 89 and 90.

THE END.

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Inflation Series (Essay No. F)

CAPITAL LEVIES AHEAD

FORCED LOANS AND USING THE GOLD PROFIT

[A sequel to Digest 91 "Paying for the War (You Personally)"]

by

MAJOR L. L. B. ANGAS

Digest 92

April 1942

PART IV — CAPITAL LEVIES

The war must be paid for: Inflation is unsound: taxes are terrific: bona fide loans may fail. What is a frantic Treasury to do? Will it resort to forced levies?

[Successive "thoughts" are numbered 78 to 80, for future reference]

Capital Levies

78. Unfortunately some notes on capital levies seem desirable. First of all let me try to de-bunk certain popular ideas. The poor look around and see all the wealth owned by the rich, their castles, their cars, their yachts, and their sables; and then, confusing wealth with money, say "Look at all the money the rich still have. Why not have a capital levy and spend the proceeds on the war; thereby saving the relatively poor from extra taxation which will damage their already strained standard of living." And at first sight it all seems very reasonable.

79. But for the rich to convert their diamonds into bank deposits (spendable by the government on munitions) they have got to find a buyer (who is also quite rich); with the result that if you suddenly had a capital levy aimed at turning the diamonds and yachts and old masters of the rich into deposit money, the price of diamonds would fall to almost nothing; and the government would get nothing. All sellers: No buyers! Only diamonds!

Incidentally it is little use giving the diamonds, the yachts and the Goyas to the government; because the government would equally have to find buyers; for yachts and Goyas, though offensive, are not munitions. Even stocks, like General Motors, are not much use, because they too have to be sold to raise money to pay munition workers.

But despite the difficulty of finding buyers, Italy in 1936 did have a capital levy (payable in cash) and such capitalists as did not possess idle cash were forced to throw their other assets on the market for what they would fetch. Stocks (and pictures) may slump for this reason at a later date in America . . . a great chance for the bargain hunters holding cash.

Money Levies

80. Even so, the only form of capital levy which is of any real use to a war-time government, is money. And certainly insofar as a large number of rich men (who fear their government) or who fear the future, are hoarding large amounts of idle bank money or notes, and are pounced upon and made to "give it up to the government" . . . Then, the government does get money all right . . . which it can spend on munitions . . . without taxing the general public any more. *Very nice.*

Sure, levies on hoarded MONEY, including idle bank deposits, would do the trick.

I

Lord Brown

81. But then the question of justice comes in. Why should Lord Brown (worth say \$1,000,000) suffer especially because he has invested "in money," whereas Lord Smith (also worth \$1,000,000) who has invested in yachts, or Goyas, or General Motors, or a modernistic mistress, escapes scot free!

82. [Incidentally, as a tricky theoretical side-issue connected with the LAW OF SUPPLY AND DEMAND, let me mention that the very fact that Lord Brown decided through fear of the future (or Mr. Jekes) to hoard money in his bank, is, to some extent, a social service—since he has enabled New Dealers in the past to inflate the total supply of money (by borrowing from the banks for social services), while he (Lord Brown) has very kindly simultaneously (though nervously) augmented his own liquidity-demand for money . . . and thus enabled the New Deal to get away with many inflationary government works . . . without inflating the actual price level at all. In fact, (patriotic) Lord Brown's increasing liquidity-DEMAND for Money has simultaneously negated the increased governmentally-created SUPPLY. Hence, no change in the "price" or purchasing-power of Money!]

Hence, if the government pounces on Lord Brown and seizes his \$1,000,000; then, immediately the government spends this sum, it will set in motion (potential) previously-dormant inflationary forces.* [So really it may be rather best for the government to go on keeping Lord Brown thoroughly scared, and not to disturb his hoarded pile at all! But more of these financial subtleties in a later Digest.]

* N.B. Emerging latent inflation is highly inflationary, although it does not show in quantity-of-money statistics. The effect of inflation on prices are NOT avoided: though further "inflation" is!

83. What the government really ought to do, according to the theory of capital levies, is to take toll of monetary income AS IT FLOWS . . . which is not really a capital levy at all, but just ordinary taxation.

And the smartest way to tax in this manner is to use sales taxes on the poor, and terrific income taxes on the higher brackets . . . just as England is doing today. [When does a tax become a capital levy? But I cannot go into that here! When does a lady become over-weight?]

PART V — FORCED LOANS (Seizing Idle "Money")

84. But I might mention that by calling a thing by a different name, the government can mop up idle bank money (if it wants to) by having forced loans on any idle bank deposits over a given amount (or as considered "unnecessarily large" by local boards of politicians who will pass on the "reasonable needs" of the relatively rich). And that too may happen here—forced loans!

85. But the re-velocation of the hoarded funds (forced loans) will be nearly as inflationary as new borrowings from the banks . . . so that the forced loans, although avoiding STATISTICAL inflation (of bank deposits) will not avoid the inflationary EFFECTS.

[Oh yes, I know that some will disagree with me on this "theory of Inflationary Re-velocation" . . . but I will enter the ring with them somewhere around Digest 94.]

The Real Target for "Levies" are the Under-privileged

86. Incidentally, in this particular war, in this particular America, the extra money being borrowed inflationarily from the banks by the government, is not going into the pockets (banks) of the relatively rich (whom taxation has already made relatively poorer) but into the hands (and mattresses) of munition workers in the relatively lower income brackets. And it is they, whose eventual spending on a reduced supply of consumables (butter) will inevitably force prices up (especially in the black markets) unless the government does tax them with sales taxes, or introduces WITHHOLDING TAXES ON WAGES (forced loans on the workers), or persuades them by patriotic propaganda to "invest in attack bonds".

87. But if the government does not do this fairly soon, the so-called Inflationary Gap will soon cause violent price inflation; for statistics show that in 1943 (and perhaps in 1942 also) the workers will be receiving \$66 bn. in money, whereas there will only be \$50 bn. worth of annually produced consumables, on which they can spend that money! Quite exciting.

[But I ought to add that despite all this "surplus money", I do not think that there will be much of a Poor Man's Boom in low priced stocks . . . since stocks will soon not be paying any dividends worth having . . . unless the Dow Index falls so low as to make stocks worth having. But more of that also in another Digest.]

Conclusion

88. Of course the general trend of this essay is that the government will be weak minded (the Public's fault of course!) and finance much of the war by inflationary borrowing from the banks . . . instead of meeting the whole financial burden out of pay-as-you-go taxation.

But although I personally expect considerable bank borrowing (though I am against it) I do not expect an early boom in stocks in consequence. In fact before that happens in the stock market, I personally fear a further sharp shakeout . . . for the very rude reasons already given in two Digests, 89 and 90.

PART VI — USING THE GOLD PROFIT

A Real Good Way of Paying For the War

89. In high finance, there are various ways of swindling your creditors respectably. In Chapter 24 of my book, "Investment for Appreciation," I told you how to swindle the public (if you were a financier), or how not to be swindled (if you were the public). But I did not deal in that pretty book with really, REALLY HIGH Finance.

The whole history of government (high) finance throughout the ages has been one of swindling the public, or clipping coins, or printing paper money, or capital levies on the Jews and on other creditors. And our own dear America has not been quite guiltless, even within the last eight years. I refer to the trick of devaluation, which presupposes the existence of gold-backed currency, (Don't forget it). And any really wicked government will always keep a gold-backed currency, so that it can swindle its creditors, and still "look" respectable, and do so (democratically) in the interests of the public. The trick is quite simple: it is really rather smart.

The recipe reads somewhat as follows:-

1. First of all, catch your golden rabbit at the rate of \$20.67 to the fine ounce, or (as from 1933 onwards) at one paper dollar for 13.71 grains of pure gold. [N.B. This you can do by fixing your foreign (paper) exchange rates below international purchasing power parity. Your goods will flow out. Gold will flow in! France did it in 1925.] U.S.A. today has 630,000,000 ounces, or 23,000 tons (one ton is about \$1,000,000 (today)); i.e. 80% of world's monetary supply of gold. Annual world production now about \$1.4 bn.]

2. Then on the fallacious argument that you must keep pace with the depreciations of other currencies, (or on the alternative argument that you might as well get some use out of your gold) raise the nominal price of gold to \$35 an ounce (and get a gold profit on paper of say \$2.8 bn.). (It is now a plucked "eagle".)*

[But of course don't forget to persuade someone to persuade the Supreme Court that all "promises to pay actual gold metal" appearing on the bank of all gold bonds, do not really promise to pay gold at all, but merely paper dollars! Stir the whole thing up (as in 1933). Make it confusing, so that nobody can know what a dollar is (despite the intentions of the framers of the Constitution). (See Records of Federal Convention of 1787; Max Farrand; Vol. II; pp 308-310).]

3. Then, make it legal to issue paper gold certificates in terms of dollars for the \$2.8 bn. gold profit.

Then, use the new gold certificates to pay off the old Government Debt, or to meet current expenditure, or to build a new battleship or sink a canal (or vice versa) according to your own feeling.

[Wisecrack a la Jimmy Durante:—Oh yes, the Government have only paid off two teenie, weensie little (1930) government debts with the gold devaluation profit of Jan. 1934, amounting to \$75 mns. in one case and \$600 mns. in another. The rest they have allocated to the Exchange Equalisation Fund, and hardly used at all.]

But they have stolen their first apple! The "principle" is established.

* Prior to Jan. 1934 the one-dollar goldpiece contained 232 grains of pure gold. Today (if re-minted) only 137.1 grains, i.e. 1/5th of an ounce, with power to devalue further to 2/7th.

Washington Giddy-Go-Round

(No Need To Get Dizzy)

by

MAJOR L. L. B. ANGAS

Digest 96

August 3, 1942 (Dow at 106)

Introductory

Digest 96 of July 22 dealt mainly with the political-psychological problem of whether or not Mr. Henderson could succeed in controlling prices effectively . . . and whether or not the White House would turn on the white heat of its support.

Statesman's Dilemma

The duty of all statesmen is to be fore-sighted—more fore-sighted than the masses, whom they lead. But in a voting democracy, even though a statesman may see the urgent need for some political action, his less far-sighted public may not yet have similar views . . . which leaves the statesman in a quandary, particularly if the necessary action required will take a long time to put into practical effect (for instance, a rearmament program, or the policing of retail prices).

The statesman's dilemma, in a voting democracy, is that if he does not see far ahead, he is accused of negligence; and if he does see far ahead, he is accused either of being a scare monger or of not having sufficient consideration for the public and the tax payer, and of wanting to do unnecessary bureaucratic things.

Of course, Government propaganda can do much to make the public catch up with the statesman's mind; but there are limits to what a democracy will "take," prior to its having fully realized the absolute need for sacrifices. Sacrifices therefore (and announcements) often have to be imposed in installments, so as not to make the public too mad too quickly.

At the beginning of this War, for instance, before Hawaii, if the White House had said we have got to fight alongside of England: you are going to be regimented almost as much as the Germans: your taxes are going to be as high as the British: and you will neither have business as usual, nor liberty as usual, nor life as usual . . . it is not impossible that (if such remarks had been made in time) that the White House would have lost all public support. New ideas must be imposed in installments, even if a statesman sees the whole ugly future in toto far ahead.

Some people of course will say that this is tantamount to arguing that all statesmen must, on principle, deceive the public. But I have not space to enter into all that.

New Deal Policy

In my own opinion, no one can understand the stock market battle between the inflationary bulls and their brothers, the bears, unless they acquire an airman's perspective of the war-time "political" economy of the New Deal. I cannot guarantee that I see it clearly myself, but the larger framework of the Political Big Picture seems to be somewhat as follows:

4. Then, get permission from Congress to devalue below \$35 an ounce so as to turn your gold hoard of \$22 bns. into say \$44 bns., or \$66 bns., or \$88 bns. Why not \$85 bns.? This would give a further gold profit of \$66 bns. And that with the aid of a little taxation, would just about pay for World War II. O.K., let us go about it.

5. Realize meanwhile that you need not part with your gold at all. You keep it all yourself. It never leaves Fort Knox (where only two-thirds of it is held), nor the various government Treasuries elsewhere.

6. All you do is to issue \$66 bns. more of gold certificates, each of which says that an equivalent value is held in gold by the U. S. Treasury, payable on demand . . . although of course you pass a law to prevent anyone, except foreigners, getting it (the gold) on demand.

7. Then, you deposit your new gold certificates with a Reserve bank (or any other bank) and get a credit with the bank in question for dollar deposit money,—which you can then go off and spend on more battleships, or even buying in War Loans you have already floated, and generally paying off the dear old Debt.

8. Gold certificates, or rather the bank deposits resulting therefrom, replace the Debt. You have still got your gold. You have paid off the Debt. [Why not have more Debt, and then do it again?]

9. The laws of America very nearly permit it, and a certain gentleman wrote a letter to the Wall Street Journal of 15th Feb., 1942 suggesting it . . . though the letter wore considerably more clothes than my own foregoing *risqué* Sally Rand argument. We have done it already (first apple). *Why not do it again?* It happened here. (Professor Warren's rather dangerous baby.) *The coin-stripper's bubble dances!*

Note by L.L.B.A.

The above is certainly not the intention of the present rulers at Washington. Eccles and Morgenthau know all about it, and hate it. But funny things can happen HERE. And all good citizens should campaign against them (it), as Mr. Eccles and Mr. Morgenthau are doing. For a country's money is quite important to its citizens. And the American gold/dollar eagle should not be clipped further. No! I do not think it is very, very wise to use the gold-profit (and inflationary bank deposits) for paying for the war.

Here endeth these Essays on Paying for the War.

THE END

In my next few Digests, I shall show (a) How Inflation is a Hidden Tax; (b) How it is utterly unfair; and (c) Why it usually leads to Revolution.

In other words, although you have already enjoyed or suffered five long Digests of my SPECIAL INFLATION SERIES, it will only be in Digest 93 that you will really begin to eat the strong meat of the general inflation problem. But unless you (and I) get our THEORY right, you and I are going to be fooled, and make, or lose, a million. For American capitalists are soon going to divide themselves into two separate armies, the one believing that inflation will occur and will send stocks up; the other believing either that inflation will not occur, or that even if it does, it will not send stocks up. And the two financial armies, who trade blows with each other, will be "reciprocal"—for one group will sell its cash to the other for stocks; and one will be left holding the baby. Which is the baby? Ah! Read my next few Digests.

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Despite the War, the New Dealers want to re-distribute annual national income (whatever it may ultimately prove to be) in favor of the relatively poor—so as to produce a happier, and more efficient, working class with a better and healthier batch of babies,—so that twenty years hence the "average" American will be generally "better" than anyone else. The New Deal want to give to the future masses some of the benefits of the "privileged" Victorian classes. And they do not intend their eyes to be diverted (by Hitler) from this major long-run strategy in the realm of domestic political economy. That is our Roosevelt, as I see him.

High Money Wages. Keep 'em Loyal.

Nor from a monetary angle do the New Dealers (probably) much mind seeing money wages forced up to rather high levels, for they feel that such action will leave money wages on a high post-war plateau, and that even if the Republicans come into power, it will be difficult to get money wages down again, particularly if trade unions have been made ultra strong by the New Deal. Hence, labor will not suffer too much in any post-war deflationary slump. There may be some unemployed (looked after by the State), but those who still keep their jobs will retain high money wages and an appreciable larger share of the real national income (whatever it is).

But although we live in a monetary economy, the New Dealers are tending more and more to look at the PHYSICAL national income rather than at the MONETARY national income. And they want to give labor as large a share of both as possible, and progressively to re-distribute wealth in favor of the poor.

By corollary, this is, from a long-run point of view, RELATIVELY bad for equity stockholders, in terms of percentages;—although if real national wealth increases enormously, both groups may be absolutely better off. And the New Dealers have no objection to this as long as Kapital does not re-gain too much power over labor, as in the Harding regime.

But no Government, in a voting democracy, can execute its long-run plans unless it keeps its votes and "plays" its public aright.

As regards the War, labor cannot safely be regimented too soon, i.e., before labor sees the absolute need for being regimented. Meanwhile labor must be kept sweet and "loyal". And if short-run minor subterfuges are necessary in order to keep voters "loyal," I am not too sure that they will not be resorted to.

Raising Their Brackets (*Sugar on the Surface*)

For instance, even though a rise in money wages may not make a worker really richer . . . on account of either rising prices or rationed commodities, most workers earning \$30 rather like to have their money wages raised to \$40. It gives them the feeling that they are "getting on," and moving up into higher income brackets. (England gives public benefactors peerages; not "real" benefits. And the psychological trick works effectively. The recipients "feel" better, although they are not richer.)

. . . And raising wages during the War not only makes workers feel better (even if they are not really richer), but may possibly cause them to become really richer after the War owing to wages having been pegged at a permanently higher "sticky" plateau, and commodity prices coming down.

One More Whirl (Then the Crack Down)

I therefore personally have a sort of feeling that although the Administration loudly says that money wages must be stabilized, they do not really much mind if they rise some 10%, or 15%, first. Such rises keep the workers sweet and loyal and make them "feel" good. Meanwhile the willingness of New Deal Governmental Departments, like the WLB, to grant higher money wages makes the workers feel that Washington is working for the workers . . . and this tends to give the New Dealers more votes.

Incidentally, a Machiavellian critic might also have the audacity to suggest that in so far as allowing money wages "one more whirl" is likely to attract an attack from the press, and also from the CONSUMING public, a psychological political situation

will be built up whereby it will become very easy (quite soon) for the New Dealers to crack down on any FURTHER rises in monetary wages, i.e., on TWO more whirls.

By Installments — Gentlemen, Please

And if one became even more Machiavellian, one might add that, to start with, the workers will be told that there will be no "attack" on wages: later on, when they see the War going badly, they will be told that wages must be stabilized, without any attack on the standard of living: and that finally they will be told that the War has become so serious that the production of consumables as well as durables has to be curtailed and that therefore the standard of living will (temporarily only) also have to fall.

And if these disagreeabilities are not imposed upon the workers TOO FAST, they will swing along loyally with Washington and not get too mad, nor strike, nor vote Republican.

Meanwhile labor leaders too must be kept reasonably popular, and given time gradually "to explain the War" to their followers: for the general public do not absorb new ideas, and the need for new sacrifices, very quickly. There must therefore always be some temporary playing for position, coupled with attempts on the part of each group to be the last, and least, to suffer. Indeed, it is only when the War outlook becomes particularly somber that everyone will become willing to swing along in line, and to do what is obviously necessary, despite the sacrifices (and possible inequality of sacrifice) involved.

That seems to me to be approximately the general framework of the situation in Washington. (No gentleman mentions these things, but investing gentlemen ought perhaps to look at them—lest they get their time factor rather wrong).

Behold the Capitalists First

Meanwhile the one great "political" fact remains that the Government cannot lower the real standard of living of the workers until it has torn the financial pants off all capitalists FIRST . . . which is a big bear point for all common stocks — even though the successive tax bills do impose on stockholders their miseries in polite installments.

In the long run, the common stockholder is going to suffer. He is also going to suffer in the short run.

Eyeless in Wall Street

But a great many common stockholders, and above all, their stock brokers who issue market letters, seem to confuse the political wood with the trees.

For instance, if the Government and the WLB are allowing wages one more whirl, and pretending that purchasing power of wages is going to remain fixed and that wages will be raised with each rise in the cost of living . . . their stock broker friends are rather inclined to say that, although such action may be described in Washington as "one more whirl," it will in reality only be the first of many more whirls . . . and that inflation is in a rising spiral: wages chasing prices, and so on . . . and they are therefore likely to say that inflation at last is out of control: the wolf is here: therefore buy the market.

They seem to forget completely and entirely that the higher wages will be paid in the main out of capital, and that it is the common stockholder who will get hit first, and hardest, in the process of paying for the War, both in terms of money and in terms of real commodity-sacrifice. The limit to taxes on corporations is the sky, for production during War is not governed by the profit motive. You merely keep the managers sweet . . . and make the common stockholders pay.

Economic Historians (Fallacy Boomlets)

The trouble about the inflationary bulls is that they are so steeped in economic history and economic precedent, and have acquired so many mental market rules of thumb, that they simply cannot distinguish between inflationary conditions as they rule today and inflationary developments as they occurred in the past. They are always looking back into past history and asking "what happened in the last War and what hap-

pened last time." They seem to think that Governments learn nothing from history and that economic and market conditions repeat themselves without variation. Which is nonsense! For governments (usually) learn *faster* than investment advisers.

Lunch With The Orthodox

If however anyone asks you to lunch down in Wall Street in the Parrot Room of Alice's Wonderland Restaurant, the conversation runs somewhat as follows:—

(1) **The Experienced Parrot:**—"We have inflation: we are going to have more: you simply **THEREFORE** must buy common stocks."

(2) **The Knife:**—"But since corporation profits and Excess Profits Taxes can take away net earnings faster than inflation increases them, dividends may fall, and stocks may slump—instead of rising, as theoretically they ought to. The old rules of experience may no longer hold good."

(3) Then, some fellow (**The Fork**) gets up and says, "Oh, we agree with you about the trend of net earnings, but why take such a short-run view? In the long run, inflation will double or treble the replacement cost of all fixed assets and machinery; and in the long run, these higher replacement values will somehow work themselves out in common stock prices. It may take some years, either during, or after, the War, but work out it will, most assuredly. Therefore buy common stocks now—for this is a sure long-run gamble. Of course, you may not get complete protection from inflation but equities will certainly afford some protection. Therefore, get aboard now and don't miss the bus."

(4) *There is, The Knife at once agrees, some soundness in this long-run asset theory, particularly as some new Government might come into power which tries to upset the trend towards State Socialism and to reinstitute the profit system. "But that, he says, is a terribly long way to look ahead; and seeing that it is so easy deliberately to deplete a nation's money, particularly its bank money (provided that the Government is no longer running into debt on account of a war), the chances are that when the War is over, there will be a deflation of money, and also of commodity prices (due to more production); and that therefore, with wages more or less pegged at high levels, the common stock owner may earn mighty little. Indeed, even though it might theoretically cost "plenty" to reproduce the existing factories, low earnings will prevent the common stocks from rising. Hence, it is probably wiser to wait until after the War before you start buying common stocks on nebulous post-war fixed-asset-replacement-cost values."*

And, in the short run as distinct from the long, the very fact that there is an Office of Price Administration, and heavy Excess Profits Taxes, makes it (in the Knife's view) rather foolish to buy common stocks (which you know are going to suffer throughout the War) just because you know the suffering may end some day, though perhaps not till several years after the War ends.

(5) Then comes the man in the middle of the table (**The Flower Pot**) who always speaks in generalizations and in terms of economic "tendencies." He says, parrot-like, that "inflation tends to inflate earnings: that all price ceilings tend to be rubber ceilings: and that gradually inflation will benefit common stocks, even if taxes are huge. Therefore buy stocks and lock them up. Why buck the normal probabilities and tendencies?"

(6) *But, says The Knife, such men seem to forget that, although in all the natural inflations (of the ever-recurrent bank credit cycle which used to occur before 1940) it was usually profits and prices which rose ahead of wages, today under our present more "managed" dispensation, wages rise before controlled prices . . . so that, instead of the common stockholder getting ahead with the ball, he, poor devil, is usually left behind. That (the lag) is the difference between this War and the last — between the normal and the abnormal. Governments (too) have learnt from past history.*

(7) Then, the traditionalist Parrot at the side of the table orthodoxly, though blindly, growls, "Inflation benefits common stocks. It always has done, and always will. All you have got to do is to frame your investment policy intelligently and select your common stocks exceptionally carefully — in the light of NEW conditions, economic and politi-

cal." "In France, for instance, in 1924-26, despite a 500% inflation, steel stocks went down because of surplus steel capacity due to the reacquisition of Alsace-Lorraine. They should have "gone up" in theory, but they did not. Conversely, public utilities which were partly owned by municipalities went up, though theoretically they should have gone down, because they sold at stereotyped prices, while costs were free to rise. But the municipalities, because they themselves had a share, allowed prices to rise for revenue purposes. And the utilities naughtily went up . . . so that an unthinking theorist or orthodox parrot who went bull of steels and bear of utilities, got doubly pated both ways."

"The trouble is that PAST economic history is not always an entirely safe guide, and that it is no use just rushing into the market and buying any well-spread list of 30 industrials just because inflation USED IN THE PAST habitually to benefit most common stocks."

* * *

This blaze of rationality on the part of the Parrot (which annoys the blunt Flower Pot, who thinks he is "slipping") is also rather disconcerting to the highly polished Knife—because he, poor devil, is left with the difficult problem of proving that a man (or a parrot) who is right about something (say one or two trees) can be totally wrong re something else (say a wood).

But the pompous Parrot has now established the fact that he "can" talk sense and "be reasonable" — so that the rest of the table interrupt the irritating and pessimistic Knife, and accuse him (*ad hominem*) of having no faith in the future of the American System.

All he can do is occasionally to butt in with the remark that "It is only if commodity prices are going to go up and STAY UP that the long-run buying of common stocks as a post-war gamble becomes at all a good one. And even then it is not necessarily safe." And that "Governments have learned the tricks of eliminating those benefits, and switching them over to themselves!"

* * *

The Parrot in future lunches with the Flower Pot; the Knife takes his luncheons all alone. And the financial papers only quote the Parrot. [The crowd however usually proves wrong. The Knife, in the end, turns out to be right. And the rich pay first and most for the War (and the Peace) — since Washington willed it so!]

One more whirl, in wages, maybe. But equities won't benefit. *Though no one can prove that anything "will" happen.* The lonely forecaster can only say what HE sees on the horizon. And what he sees (as also does Mr. Morris Rich) is the Beheading of the Rich, by the slow saw system.

* * *

Let us now turn to the question of Subsidies . . . for, in order to avoid raising prices in certain industries, Mr. Henderson wants to subsidize the higher-cost producers! There is also some talk of pegging the cost of living, and subsidizing certain groups in order to do so. And the bulls have seized upon this suggestion as constituting nothing but a method of trying to cure inflation BY MORE INFLATION. Which makes them all the more bullish!

Price Control Subsidies

At first sight, the thought of Government subsidies to high-cost manufacturers and distributors (who are suffering from high or rising costs), in order to prevent prices rising, looks quite ridiculous. For obviously such subsidies cost the Government more money, and positively accentuate the inflation of money, which is the root cause of the inflation of prices. Indeed, subsidies look like trying to cure inflation by means of more inflation . . . with the suggestion that the policy, if continued, will store up so much latent monetary dynamite that the eventual blow-off in general prices will tend to be greater than ever (if eventually the Controls break down).

* * *

True, you have to give each industry some profit in order to prevent it from ceasing production. But many argue that it is much the best to allow general prices to rise (so as to give the profit) rather than for the Government to subsidize.

If, however, the Government is the chief (or only) purchaser; and if the Government policy is to allow the producer "some" profit, it doesn't much matter whether the Government pays the profit either in the form of a higher price or in the form of subsidy.

But if the Government is not the sole purchaser; or if the various manufacturers concerned have different levels of costs; it seems much better to give subsidies to the few high-cost producers (in order to encourage marginal production) than to pay more to everyone all around.

Of course if excess profits are a full 100% and if the low-cost producers are paying excess profits, the Government does get back from the producers perhaps the whole of the extra money it might pay to everyone as a result of higher prices . . . and if this were true, it would again not make much difference to the Government if it paid higher prices all round, provided that it got the addition back (from the low-cost producers) in the form of levy-receipts from excess profits taxes.

But if excess profits taxes are not 100%, (and if the government is the chief buyer) subsidies are theoretically preferable to raised price ceilings . . . particularly if the low-cost producers are (a) paying excess profits taxes, and (b) constitute the major part of the industry.

Obviously, however, if the Government is not the only purchaser, and if the commodity in question forms part of the general cost of living, all arguments that the Government gets back the whole of its subsidies in one way or another fall to the ground.

Subsidies, nevertheless, do have this merit that they will enable the price level, as published in indexes, to be pegged. And if the public really believe that it is going to be kept pegged, they will not obey the Law of the Rising Market and start trying to stock up unduly, therefore creating artificial scarcities.

Moreover, if the indexes are prevented from rising, the labor unions will not be able to ask for higher wages on the score that the index has risen; and thus the factor of spiraling wages may be taken out of the factor of spiraling prices.

Pegging prices may in fact be the first, and the politically most prudent, step in pegging real (and monetary) wages . . . even if the insertion of the peg does cost something in the way of a few subsidies to the high-cost marginal companies in a few industries.

Incidentally, the more that prices (the index) are expected to be pegged, the less will be the hesitation of the public to subscribe to fixed-interest bearing war bonds.

Indeed although subsidies are admittedly a method of "trying to prevent inflation with more inflation," the idea has more merits than faults . . . so think I.

And Mr. Henderson will get most of his asked for subsidies, for he will use discretion in what he subsidizes.

Subsidies all around would, of course, be inflationary, but an occasional patch of them may be anti-inflationary, regarding the national economy as a whole.

N. B. If a Government, by spending half a billion so as to peg the Cost of Living index, succeeds in avoiding a 10% rise in the index . . . and if this avoids a 10% all-round increase in wages . . . Then, seeing that wages are about \$70 bna, a rise in wages of \$7 bna will be avoided . . . Thus, if the War Government indirectly pays and "employs" half the workers, it will be saved \$3½ bna in extra wages, as a result of a subsidy of only a half billion. Good business: and anti-inflationary, though inflationary!

PART II — THE BIG PICTURE

Price Control Is Only Part of the Problem

This Digest so far has primarily been concerned with Mr. Henderson and his ceilings on prices and wages. But the problem of Controls is only half the problem of preventing wild inflation . . . and sight must NOT be lost of this point. For after all, Mr. Henderson is only concerned with the super-difficult task of preventing ALREADY EXISTING inflationary forces from "catching." He has no power to shut off the inflationary engine; all he can do is to apply certain brakes.

The outstanding fact in the whole issue is that there are two completely different sides to the problem of checking inflation:

I. **AVOIDANCE**.—To check it at the monetary source, by reducing Government expenditure and/or taxing heavily, and avoiding borrowing from the commercial banks; (This, plus Forced Loans, will be done later, after Election); and

II. **BRAKES**.—Artificially preventing the (largely unavoidable) inflation of monetary purchasing power from "catching" and forcing up prices.

As regards I, the cure (i.e. avoidance) lies in forced loans, withheld wages, high taxes . . . and a reduction in borrowing from the COMMERCIAL banks.

As regards II, (namely the Brakes), you can't control prices for long unless you also control wages, and farm prices. Otherwise they spiral.

Mr. Henderson and the OPA are not concerned with the problem of avoidance . . . except in so far as the control of prices and wages prevents a tendency towards spiraling.

Avoidance is rather a question for Mr. Morgenthau and perhaps Mr. Eccles, i.e. the financing of the War, with taxes and bona fide loans rather than with borrowings from the commercial and Federal Reserve banks. In other words, complete success by Mr. Henderson does not necessarily mean that the danger of inflation is PERMANENTLY avoided . . . for if Mr. Morgenthau goes on borrowing from the commercial banks at say \$25 bna a year, the latent dynamite goes on being stored up, so that eventually, if explosions in prices begin to occur over and above Mr. Henderson's ceilings, black markets may develop as in England; and second-hand goods may sell at higher prices than new goods; and production may cease because it is unprofitable; and eventually, in order to get production started again (so as to prevent rising prices due to scarcity), Mr. Henderson may be positively ordered to raise his ceilings.

Such a condition is theoretically quite possible . . . though probably not this year.

The question therefore arises as to whether the Administration is willing to, and politically capable of, virtually ceasing borrowing from the commercial banks. Personally, I think so, for these reasons:—

(1) If the output of consumables has fallen so low that the average housewife, despite the higher wages of her husband, cannot buy washing machines, new cars, new carpets, and so on, she . . . especially if taxes on corporation profits are increased, and stocks are earning less and less each year . . . will probably be as willing to invest in Government Loans (whether forced or voluntary) as in anything else.

She may not want to clutter up her house with surplus furniture; and may not be willing to let her husband start buying real estate, especially if rents are controlled . . . for she will know that the safest and most profitable form of real estate, namely, houses for the workers, is likely to be augmented immensely after the War, when the Government has upon its hands the task of finding jobs for unemployed soldiers.

And many housewives will say to themselves that even if the Government does insist on 10% of wages being put into War Loans, that such savings are only the equivalent of five weeks' pay per annum and that even if such savings are forced upon her family for three years, it will only keep the family, at current standards of living, for fifteen weeks . . . which may not be much of an insurance if there happens to be a long unemployment slump, when peace occurs, with lots of discharged soldiers competing for her husband's job. In fact, instead of objecting to forced loans, she may be rather grate-

ful for a Government that steps in and makes her save . . . for are not most women, with cash in their purses, rather unable to resist that new hat?

And if she is a normal woman, she will not want to see her husband going too much to the horse races, or drinking too much, or beginning to speculate in dogs on the Stock Exchange.

And since she is sure that the War will end some day, she will not behave as in 1929, when most American ladies thought that a new era was here forever, and that therefore there was no need to save, and that wisdom consisted rather in borrowing. This time, the lady will expect a post-war slump (if her husband is an armament worker) and will be only too glad to pay off all her debts to the installment companies and to save for the eventual and inevitable rainy day. Moreover, it would be patriotic, and help to defeat the Japs and Hitler . . . and to avoid a rise in the cost of living.

My own view is that forced loans will not be objected to provided that everybody is made to subscribe, and that one pressure group does not get off because of political influences.

And if forced loans and taxes are adequate, there is no need to go on borrowing from the banks; and the inflation of bank deposits may be stopped.

That is how I see it eventually turning out . . . although all this will not happen before the next election.

And incidentally, every additional piece of bad military news will make the American housewife, and her husband, more willing to be careful, frugal, and patriotic.

Forced monetary loans will be unpopular only if Henderson is going to fail, and if the ultimate fear of the dollar is thereby augmented.

But if the Administration adopts a well-rounded out program, not only of controlled wages and farm prices, but also of forced loans to avoid progressive inflationary borrowing from the banks . . . almost everyone will gain renewed confidence in the dollar and feel that their forced loans are not risky at all, and, in fact, will subscribe to them almost voluntarily, though forced.

What is wanted is a well-rounded out policy without loopholes in either farm prices or wages or in any other segment of the economic apple as a whole. And that is undoubtedly the Government's policy. (Re-read Mr. Roosevelt's speech of April 28, 1942.) It cannot of course be put into process overnight . . . but it is already "on its way."

And personally, I feel sure that Mr. Roosevelt would resign rather than see his economic anti-inflation program break down. Incidentally, his whole personal reputation with history depends upon it!

Temporary Delays (But Don't Get Bullish)

But (as already said) America is a democracy, and it is difficult for an Administration to move very far ahead of the thinking of its public.

It may be fairly easy to get preventive (anti-inflation) bills through Congress in time; but to apply them EFFECTIVELY, it is perhaps prudent to wait until the moment is psychologically right, i.e., until it is a little late; and the public have CONVINCING proof of the need for action, and sacrifice.

That is what, I believe, the Administration have been doing—i.e., waiting for the public "really" to see the real need for rigorous action.

At the moment, with an election ahead, it "looks" as if Congress were unwilling to control either farm prices or wages. But that is only the surface appearance.

In fact, as soon as there is a risk of the retail price level rising fast, Congress itself is likely to climb on the anti-inflationary bandwagon, and desert the Labor-Farm bandwagon; for soon even farmers and laborers may begin to consider themselves more in the light of consumers than producers.

But Congress wants to keep Labor and the Farmers sweet and "loyal" (forgive a little repetition here), and the New Deal policy is to re-distribute the national income in favor of workers and farmers.

When, however, the re-distribution is virtually complete (as it nearly is), there will be nothing more to give to these two pressure groups; and even they will then (probably) see that any extra monetary gains they may get, must be paid for by extra monetary taxes on themselves. And then, they will no longer have any sound reason for objecting to more or less general price and wage control.

There is already little more to re-distribute in favor of workers and farmers. The capitalist group have been nearly (not quite) milked dry. And when this can be "proved," as it will be largely proved when the coming crop of dividends is announced, the New Deal will no longer be open to the accusation that it is trying to fleece the poor before fleecing the rich.

In fact Mr. Henderson is very soon virtually bound to receive the support of Mr. Roosevelt, whose own political future depends upon Henderson's success. And Mr. Roosevelt's first act will probably be to ask for still higher taxes on the rich!

Mr. Henderson's opponents may meanwhile say that Mr. Henderson and the OPA are trying to usurp the powers of WLB; and that the Administration is adopting the view that, "The Way to Win the War is to wage war on wages"; but the past record of the New Dealers disproves this.

The way to lose the War is to have a violent inflation. To prevent such inflation, wages MUST be controlled . . . and the workers will soon have the good sense to see it. So also will the farmers.

They merely need to be convinced that nobody is becoming a war millionaire, and that the relatively rich have suffered first.

* * *

Incidentally, neither the President, nor any other Washington big guns, have yet (27 July) bothered to hurl their propagandist projectiles into the inflation arena. True, the President did make his 7-point speech on April 28th, but the rest of the Cabinet have been totally hush hush, and Mr. Henderson has been left to fight his fight alone.

And the bulls, foolishly thinking this apparent desertion of Henderson to be permanent, have jumped to the conclusion that the battle against inflation is lost; that the President does not care; and that Congress rather wants it, because it wants to "please" both farmers and laborers . . . farmers, because it gives them higher prices and reduces the real burden of their mortgages—and labor, so that wages may not be controlled.

But all these views are very short-sighted. Workers are consumers as well as wage-recipients; and if wages are going to be raised only because the cost of living rises, wage-earners will suffer from the time lag . . . so they and their wives do not want to see the cost of living rise.

And trade union leaders will only want money wages to rise if the rises can be at the expense of profits (or the general tax payer) rather than at the cost of the workers themselves (in the form of higher prices).

And that point is nearly reached. So the trade unionists will soon agree to the fixing of wages for Uncle Sam's sake . . . or at all events won't rebel publicly much more than is outwardly necessary "in order to remain a trade union leader."

A Pre-Election Inflationary Boom?

The Administration may of course privately desire to wait till after the election before cracking down on prices or supporting Henderson; but although the President may be a great politician, he is also a great statesman. And if inflation sentiment shows signs of getting at all seriously out of control before the election, as it has been doing this mid-July, he and his Cabinet will act before the election.

Indeed, if inflation is given a little more publicity, Congressmen are likely to climb on the anti-inflation bandwagon. So also are farmers and labor.

I am therefore not one of the inflationary stock market bulls. I feel that both the President and Congress will give Henderson their full support quite soon; and that most of the inflationary arguments which are now being put forward by the bulls will fall to the ground.

Indeed, it is quite a fallacy to argue that even if commodity prices did rise another 50% owing to Henderson failing, common stocks must therefore automatically benefit. Additional taxes might meanwhile more than cut current profits in half! And that is what I see ahead.

* * *

Incidentally, if the War goes badly in Russia and Egypt, or elsewhere, the public will become much more ready to accept sacrifices than they are today. As I have often said, it may need one or two more Pearl Harbors to get the American public (farmers and laborers) really willing to wage the War all out, in such a way that financing the War will NOT lead to an inflation which will ruin the country, and which MIGHT lead to revolution.

The question of Revolutions (in rich and strung countries) will be dealt with in Digest 97.

THE END

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How Inflation Leads To Revolution

by

MAJOR L. L. B. ANGAS

Digest 97

August 5th, 1942 (with Dow around 106)

Revolutions are not a Question of Viciousness

It is well known that the wild inflations of the Twenties in Europe led to virtual revolutions in Germany, Hungary, Austria, etc. When, however, anyone, particularly a foreigner, gets up and says, "America might suffer a similar revolution," he is usually accused of being either crazy, or anti-American. But that is mere foolishness . . . for revolutions do not come because people are vicious, or because the country is uncivilized; but because something goes wrong in their lives of a nature so painful and disconcerting to their families, that the general public begin to feel that they simply must do something drastic about it quickly . . . otherwise their wives and children will starve, and life will no longer be worth living.

Unfortunately, both inflation, and deflation, are capable of bringing about this condition.

Moreover, let me immediately add that it makes no difference whatever how great are the natural resources, or the accumulated wealth, or the moral fiber, or the general good-will, or the gold reserves of the country in question. The simple fact is that if economic conditions become so bad, as a result of either inflation or deflation, that production (and above all, distribution) comes to a standstill and incomes cease, about the only thing that the people can do is to act in a way which constitutes revolution . . . and the chances are that the higher the normal standard of living and the greater the intelligence of the population, and the greater their political liberty, the more certain are they to get angry and go wild if they begin to see their families suffering starvation and themselves becoming financially declassed.

I have closely watched these developments in Europe. So forgive me for briefly mentioning them here.

Complete Breakdown—Revolution

When a wild inflation gets out of control, and when no businessman knows how high prices are going to stand a month or even a week hence, all long-term and short-term contracts become meaningless.

No producer of raw materials will take orders except on an escalator (price index) basis. Therefore no manufacturer will quote prices, except on an escalator basis, to retailers. And retailers, if they have seen prices rise several hundred per cent within the last few months, will feel that the cumulative price rise "must" soon come to an end; so that they simply dare not give firm orders to manufacturers (at higher prices) . . . lest some inflation-buster (like Monsieur Poincare in 1925) appear on the scene and suddenly stop the rot.

Retailers therefore refuse to give orders to manufacturers (although they are probably wrong about an early saviour like Poincare); manufacturers therefore refuse to give orders to raw material producers; and production itself comes to a standstill, and millions upon millions become unemployed.

Workers are then left without any money income, with which to buy the fantastically expensive commodities required for their living standard. Fathers see their wives and children starve. And in obedience to man's primary instinct, the Will to Survive, they loot the shops, for the sake of their children.

Meanwhile the police, if they do their duty, arrest (and occasionally have to be rough with) the family-loving fathers. "New" politicians then come to the front to organize loving fathers to be rough with the "brutal" duty-doing police. Inflation, I repeat, leads to revolution.

I myself have had the experience of seeing some of the wrecking of private homes which took place in Budapest when Bela Kun set up his Communist rule in Hungary—as a nominal antidote to the “mismanagement of money by the capitalist government” who mis-managed the capitalist system—because they did not understand the dynamics of inflation, and the latent dynamite in spiraling Government Debt.

* * *

Of course, there are always counter-revolutions, eventually. But why invite temporary revolution in America? And if (I said IF) the Government goes on borrowing from the COMMERCIAL banks enough, that is what, I assert, is going to happen HERE.

Week-Kneed Finance

Quite a few people outside Washington should (I think) ponder the subject more deeply. It is not enough just to shirk the problem comfortably, and say (1) that taxes are high enough already; (2) that to resort to forced loans would make the War too unpopular; (3) that therefore one must rely on bona fide loans as much as possible; and (4) that if they are inadequate, the rest of the War financing must be done by borrowing from the commercial banks (which is inflationary, although some pretend it is not). Nor is it any use (stupidly) saying that America's huge gold reserves rule out inflation.

Inflating bank money, in a modernized economy, is just as bad as inflating paper notes. And it is mere foolishness to say that “bank deposits are not money,” nor monetary purchasing power, and that therefore inflating bank deposits is not inflation—and that therefore it does not matter borrowing progressively from the banks.

It does matter, as I shall prove in a later Digest. And, if continued cumulatively, will lead to national ruin. I cannot stress this point too emphatically.

As Digest 92 showed, YOU, no matter how rich you are, should prefer high current taxes to either loans or forced loans. You should prefer forced loans and capital levies (Digest 92) to inflation (and revolution). And you should realize that borrowing from the commercial banks is just as much inflation as was the printing-press inflation of the German mark. It is merely the YOUTH of a note-inflationary movement.

For, as soon as bank reserves become strained, paper money is printed to support the reserve ratios.

And when this begins, the country is well on its way to INTERNAL REVOLUTION . . . regardless of how really rich it is, or how much gold it has, or the magnitude of its potential productivity.

Germany was still one of the physically richest countries in Europe in the early twenties. Yet, despite this, inflation completely wrecked her. Hence, Hitler.

* * *

As I have said in past Digests, the way to avoid and prevent inflation is:

- (1) To stop borrowing from the commercial banks, and resort to still higher taxes, forced loans, or capital levies, instead;
- (2) To siphon off excess monetary purchasing power (over and above productive capacity), even if it involves withholding wages, or taxing the workers so that their standard of living falls.
- (3) With so much productive capacity devoted to war material, you cannot maintain the real standard of living. To pretend that you can is just bluffing the workers.
- (4) If these things are not done, you will get your inflation and maybe revolution—just as Hitler hopes for and forecasts.
- (5) May the financial authorities in Washington (and also their opponents) see fit to save America IN TIME from financial foolishness . . . pursued just for the sake of avoiding the inevitably high taxes and forced loans which all global wars must automatically and unavoidably entail.

THE END

Inflation Series (Essay No. IX)

YOU CAN'T BEAT INFLATION

by

MAJOR L. L. B. ANGAS

Digest 98

August 5, 1942

Nobody Makes A Killing

Popular talk about inflation usually leads to a debate on what is the best hedge. (Though I admit that in most cases any discussion of the “best hedge” really means “How to make a killing.”)

Actually, very few people do make a REAL killing out of inflations. Their money, though more, may really be worth less! (False profits! See Digest 90). And even the few adroit speculators who do temporarily make a real killing (as well as a money killing) usually lose all their gains in the end, by misjudging the moment at which to get out.

[N. B. The Hugo Stinnes Group in Germany in 1923 owned about one-tenth of the industry of the country by the time the inflation reached its peak. But they did not know when to sell (and incidentally, they could not find buyers when they realized they were too late) . . . so that Group actually went nearly bankrupt!]

The Selling Problem

Persons speculating in commodities, etc., on borrowed money often make real profits during the inflation; but making the real profit is only the easiest half of the problem. Picking the selling point, and the point to pay off loans—and not being too soon, and not being too late—is much more difficult. For most people either sell too soon (because they just can't believe the wild inflation can go any further); or sell too late (because they do not realize that, under certain conditions, inflation can be stopped; and that men, like Poincare, Mussolini, and several others, are capable of stopping it, if they are ruthless enough: and have sufficient political power.)

Few Benefit

Of course, a few people may make a REAL killing. But obviously, the nation as a whole does not do anything except suffer, because inflation is a real tax on all money users, i.e., everybody. And it is just as difficult for large groups to make a killing out of inflation (the inflation tax) as it is for large groups to make a killing out of the income tax. And you can't, for the most part, make a killing out of parting with real resources to the government!

Incidentally, I myself tried to make a killing out of bearing the German Mark in London in 1922, starting at 524 to the pound. It went to many trillions; but the firm I used was not “firm,” and went bankrupt; (and I actually lost my deposit margin!) Nearly everyone, including the self-believed astute, suffer, from inflations! The chances of winning are not one in a thousand.

How the Poor Suffer

The next question to answer is, “Who suffers most?” the rich or the poor?

First, let me debunk a popular argument. The man in the street says, “The rich have all the money. Inflation is a tax on money. Therefore the rich must suffer most. And since the average worker has little money, he probably escapes the tax. Hail inflation.”

But although the rich are wealthier than the poor, they do not necessarily "have more money"; and since they are usually better advised on financial matters than the relatively poor, the rich collectively usually shift from money and bonds and other money-obligations into other assets, or foreign exchange . . . to avoid the inflation-tax on money.

In fact, the segment of the rich which suffers most seriously, as a rule, are those with trust funds which have to be invested in fixed-interest securities. And they suffer plenty.

But the majority of fixed-interest securities are as it happens, not owned by the rich, but by the relatively poor, particularly in the case of America. Let me prove it.

First of all, let us look at the distribution of the Government Debt. (1940 figure of \$45 bns.) Of this, 60% was held by banks; the other 30% by universities, churches, foundations, insurance companies, and other institutions.

What hits the poor when bankrupt governments inflate wildly is the real losses they suffer from the money they have put into savings banks and insurance companies. Oh yes, they get paid their "money" all right. But it may only have one-twelfth of its real purchasing power, enabling the aged saver to live only one month out of twelve! They are the fellows who really "pay" the inflation tax.

N. B. There are 60 million policy holders in America, most people holding two policies each. And there are nearly 50 million depositors in savings banks.

Women

Now let us turn to the ladies: secretaries, teachers, government employees, shop girls, domestics. They are usually on a salary basis. And their employers usually have excuses (connected with either the rising cost of living, or their own shortage of working capital, blah, blah, blah) as to why they cannot raise wages and salaries. All these ladies really "pay" the inflation tax. The Government gets the real resources which they might have commanded, IF prices had not risen.

Wage Earners

But how about the boy friend? In the EARLY stages of inflation, most workers gradually become fully employed, and (while their employers are making large money profits, which are usually false profits, see Digest 90) they are able, with the aid of their trade unions, and because of the competition among employers for labor, to get their wages put up IN ADVANCE OF the cost of living. Indeed it has been happening gaily in America recently; and the workers probably like the New Deal cum War Inflation (so far).

But when inflation really gets on the move, (particularly in a War when patriotic workers cannot politely strike), wages tend eventually to lag very heavily behind prices. At all events, it has always happened in all past inflations. And America, though she rather seems to think that "Things are different here," will probably not escape this normal time lag. For employers always complain that the rising cost of living is due to rising wages, not vice versa; and they invariably run short of working capital during inflations (as well as making false profits). (See Digest 90); and after a bit employers say, "I would rather close down than move wages up every time the cost of living rises . . . for the simple reason I just can't make any forward sales contracts, and the whole thing is driving me mad. I would rather speculate with my working capital in diamonds, than in labor."

In other words, do not think, my dear reader, that because labor has so far (early 1942) beaten the New Deal cum War Inflation it will continue to do so if inflation gets worse. It just won't.

And if you happen to be a workman who is reading this Digest, ask yourself, if C. I. rises 100% (and your wife will tell you about it!), what chance you have of getting a full 100% increase in money wages. Personally, I rather fear you will suffer from the time lag. Go talk it over with your boss.

Oh yes, the "little people" pay, although so far (in U. S. A.) some of them have made inflation pay.

How to Hedge Against Inflation

Personally, I know of no perfect hedge unless you can find a foreign country which is not inflating at all . . . and by that I do NOT mean one that is merely not inflating so fast as one's own . . . although it certainly does *relatively* pay to be in the frying pan, rather than the fire.

(i) Of course, if you can borrow on a margin of 10%, and if the commodity markets are not controlled, you can probably beat inflation, i.e., not merely make a lot of "money," but also retain your real wealth. But governments today have learned sufficient to control the commodities in which it is easiest to speculate on margin. (They too have learnt the tricks of tricking the would-be tricky.)

(ii) Then, in theory, you can go and sell bonds short, if anyone will let you. But you usually find that you can't find anyone "to get on with" who will loan you his bonds to sell short; for it immediately puts the bondholder on his guard that he too ought (perhaps) to sell out and go short. And if he is in a legal position to lend his bonds, he is also in a legal position to sell. No go, usually!

And before I forget it, let me repeat that you have got to guess the time when to pay off your loans. Nor must you not override your bear bond market.

(iii) Then, you can buy high-g geared equities in highly levered industries, assuming that the price of their product is not controlled. But it usually is in all such cases. Just look around the New York Stock Exchange list today. Even the products of distillers are controlled.

(iv) Then, you can buy that farm, or cattle, or real estate, or timber which grows and gradually gets more valuable yearly, or a young orchard, or some married pigs, or a fox ranch. And maybe you will get "really" richer, and escape, either totally or partially. But if you go out into these "to you unknown businesses," some smarty usually gyps you; and the foxes turn out to be all gentlemen; or the trees to have diseases; or the real estate cannot be maintained (for lack of workers); or something else goes wrong. (It always does!) And even if you buy silver or gold dishes, it may go out of circulation. And your diamonds may get stolen, or your rents may be restricted; or your undeveloped mining claims may be nationalized (in the coming inflation-caused economic revolution); and heaven knows what.

(v) The only way to escape, if you can escape, is to be ultra-nimble, and hop from the ownership of one thing to another *just before* the various markets in your temporarily-lucky "one thing" get sat upon by governmental interference; and a few months before the next lucky thing (other things) get sat upon. Only kangaroos escape inflation, so says old-man Kangaroo Angus.

Propaganda (Your Duty)

Actually, dear reader, if you want a hedge against inflation, the best thing you can do is to yell like hell (as this Digest is doing) against the Government resorting to inflationary measures (like borrowing from the COMMERCIAL banks) because it wants to please the public, and keep them temporarily sweet.

1. First of all, you can lend all you can and make bona fide loans to the Government to save the Government from going to the commercial banks (which is inflation).
2. Secondly, you can go down to Washington and scream at your Congressmen to pass a law to prohibit any further borrowing from the commercial banks. Advocate more taxes and capital levies instead! And the poorer you are, the more you should do it. Go ask to be taxed. (But can I see you doing it?)

How to Lose Money

Some of us perhaps would love to make a fortune out of the War . . . but we won't. We'll probably lose . . . especially as almost all market letters today are filled with the

fallacious arguments with which I began this Series of Inflation Digests, namely Digest 88, THE "UNANSWERABLE" BULL CASE, wherein I let my forecasting venom fall on all the unsound "orthodox" arguments now being widely trotted out.

If you want to lose a fortune RATIONALLY, then go buy the peace babies on every early peace scare; then, when it looks as though the War will last longer, go buy the war babies; then, as a regular habit, buy near the top of every recurrent short-run inflation-talk cycle; and above all, buy the stocks selling below their fixed-asset values. *It is all so reasonable*, especially as, if enough people do it, you will actually get a (fallacy) boomlet!

Really, however, one ought to have the horse sense to distinguish between inflations which WILL be allowed to "come through" to common stocks (as always in the past) and an inflation which will not (as today).

POLICY

Don't go off and buy common stocks . . . till I tell you.

THE END

—

The Angus Digests

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Major L. L. B. ANGAS, Investment Economist, 570 Lexington Ave., New York.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 19, 1942

STRICTLY CONFIDENTIAL

MEMORANDUM FOR THE FILES

Mr. Hamilton of the State Department phoned me this morning that the State Department had under consideration the question of negotiating a new treaty with China on extra-territorial rights. In this connection there will probably be included a provision which will eliminate all questions of the Boxer Indemnity. He asked if this Department would have any objection.

I said that it had been the long-established policy of this Department to recommend the remission of the Chinese Boxer Indemnity payments to this country. As he knew, they had been used for a number of years for educational purposes. In view of this stand, I was quite certain that we would not only not object to the cancellation of the indemnity provision of the old treaty, but would probably strongly recommend that it be cancelled.

owb



OCT 19 1942

Dear Ed:

This is in reply to your letter of October 10, 1942, concerning receipt from the Treasury of information on the ability of certain countries receiving lend-lease assistance to finance their purchases of goods in the United States.

The Treasury will be glad to facilitate the regular provision of the available data you request. I think it would be helpful to both agencies if the transmittal of these and other data from the Treasury to the Office of Lend-Lease Administration was routinized to the greatest extent possible. However, as you may know, the amount and type of information which the Treasury has on the different countries varies considerably. For this reason, I suggest that a member of your staff confer with Mr. White's office to decide the data your office should receive periodically.

Very sincerely yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

Mr. E. F. Stettinius, Jr.
Administrator,
Office of Lend-Lease Administration,
315 22nd Street, N.W.,
Washington, D. C.

TME/crs
10/15/42

COPY

Office of Lend-Lease Administration
Five-Fifteen 22nd St., N.W.
Washington, D. C.

E.R. Stettinius, Jr.
Administrator

October 10, 1942.

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

Dear Mr. Secretary,

From time to time I have requested the Treasury for information regarding the ability of certain foreign governments to pay for goods procured in this country.. Dr. White's office has always been most cooperative in supplying the information desired.

It would be most helpful if such information were forwarded to me periodically, and I am wondering if it would be agreeable to you to have this done.

I desire particularly to be kept informed with regard to the following Lend-Lease countries: Belgium, Brazil, Czechoslovakia, Fighting France, Greece, Iceland, Iran, Iraq, Netherlands, Norway, Poland, Turkey, U.S.S.R., Yugoslavia, United Kingdom of Great Britain and Northern Ireland and the Dominions included in the British Commonwealth of Nations.

Sincerely yours,

Sgd. E.R. Stettinius, Jr.

E.R. Stettinius, Jr.

OCT 19 1942

My dear Mr. Stettinius:

This is in reply to your letter of October 12, 1942, concerning the lend-leasing of Treasury silver to friendly foreign countries for industrial uses essential to war production.

The Treasury will be glad to consult with the Lend-Lease Administration and the War Production Board regarding the class of Treasury silver to be used in meeting such approved Lend-Lease requisition.

The Treasury will also be glad to discuss with the Lend-Lease Administration an appropriate form of agreement for the return after the war of an equivalent number of ounces of silver by countries to whom Treasury silver is made available under Lend-Lease provisions.

Very truly yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury

Mr. Edward R. Stettinius, Jr.
Office of Lend-Lease Administration,
325 - Third Street, N. W.,
Washington, D. C.

EBB:as
10/15/42

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

E. R. Stettinius, Jr.
Administrator

My dear Mr. Secretary:

This Administration is willing to lend-lease Treasury silver for industrial uses essential to war production provided that in each case the usual criteria of the Lend-Lease Administration for providing lend-lease aid are satisfied. The preferable method of transferring Treasury free silver is for this Administration to direct you, under the authority and subject to the limitations of Section 3(a)(2) of the Lend-Lease Act, to transfer from the Treasury stock of free silver specified quantities of silver, which it will be necessary for you to value. To transfer Treasury monetary silver for lend-lease purposes, under existing silver statutes, it appears to be necessary for this Administration to authorize the Treasury through the employment of lend-lease funds to redeem silver certificates.

Inasmuch as the procurement of Treasury free silver for lend-lease purposes is considerably less costly than the procurement of Treasury monetary silver, we would naturally prefer to draw upon free silver for lend-lease purposes, but would be willing to draw upon monetary silver if this should be deemed necessary in order to conserve the free silver for domestic use in war production. We are informed that, at the present time Treasury free silver alone is available without cost for domestic non-consumptive use in war production, although legislation now pending in Congress would, if enacted, make Treasury monetary silver also available for such use.

We recommend, therefore, that in the case of each approved lend-lease requisition for silver, representatives of the War Production Board, the Treasury and this Administration determine whether the lend-lease need should be met out of free or monetary silver.

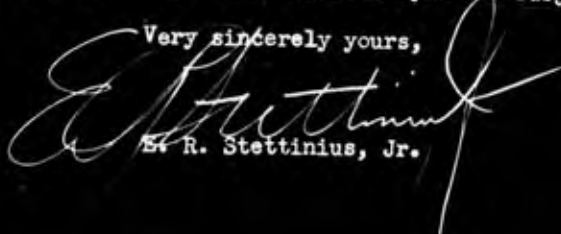
There are cogent reasons why silver which is lend-leased should not be made the subject of a special agreement providing for the return of an equivalent number of ounces



of silver. We are willing to adopt such an agreement in the case of Treasury silver, however, if in your opinion it is necessary.

Before embarking upon any program for lend-leasing silver we should wish to give to the Appropriation Committees of the two Houses of Congress notice of our intention so that if they saw fit they might express an opinion upon the subject.

Very sincerely yours,

A large, stylized handwritten signature in cursive script, appearing to read 'E. R. Stettinius, Jr.', is written over the typed name.

E. R. Stettinius, Jr.

The Honorable

The Secretary of the Treasury

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 55 - Aircraft Despatched
- for week ended October 13, 1942.

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

October 19, 1942.

MOST SECRET

STATEMENT NO. 55AIRCRAFT DESPATCHED FROM THE UNITED STATES.WEEK ENDED OCTOBER 13TH, 1942.

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DEL'D FOR USE IN CAN.
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	U.K.		4	
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.	10		
<u>DOUGLAS</u>					
Boston IIIA	U.K.	Canada en route		2	
<u>FAIRCCHILD</u>					
Cornell PT.26	Canada	Canada			6
<u>CURTISS</u>					
Kittyhawk	Middle East	Port Sudan	7		
"	West Africa	Takoradi	16		
<u>LOCKHEED</u>					
Hudson VI	West Africa	Takoradi		8	
" "	Middle East	Middle East		1	
<u>GRUMMAN</u>					
Martlet IV	U.K.	U.K.	16		
<u>NORTH AMERICA</u>					
Mitchell II	U.K.	Canada en route		5	
" "	Canada	Canada			1
Harvard II	South Africa	Durban	40		
" "	" "	Capetown	19		
" "	India	Bombay	10		
" "	Middle East	Port Sudan	6		
<u>NORTHROP - Vengeance</u>					
	U.K.	U.K.		2	
<u>VOUGHT SIKORSKY</u>					
O.S.2.U.	South Africa	Capetown		3	
"	Jamaica	Kingston		14	
				<u>143</u>	<u>20</u>
					<u>7</u>

NOT TO BE RE-TRANSMITTED

COPY NO. _____

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 360

Information received up to 7 A.M., 19th October, 1942.

1. NAVAL

8th. One of H.M. Submarines sank a small eastbound ship off DERNA. 10th. One of H.M. Submarines sank a 900 ton ship and torpedoed two others. Another of H.M. Submarines sank an 8,000 ton escorted ship off the southwest coast of GREECE. 16th. One of H.M. Corvettes shot down an ME 109 off ALEXANDRIA.

CORRECTION: OPTEL 356 for "Canadian Armed Yachts" read "Unarmed Newfoundland Railway Steamer".

2. AIR OPERATIONS

WESTERN FRONT. 18th. Three pairs of Spitfires attacked a gun position, locomotives and trains in Northern France.

MALTA. On 17th/18th and 18th 287 enemy sorties were flown against 92 Spitfire and six Beaufighter. The aerodromes at HAL FAR, LUQA and TAKALI were cratered and the engine repair hangar at KALAFRANA was damaged. Three enemy aircraft were destroyed, one probably destroyed and two damaged. We lost two Spitfires, one pilot safe.

RUSSIA. 16th. The German air force continuously attacked Russian forces in STALINGRAD and battery positions east of the VOLGA. Heavy attacks were also made on railways in the KALININ-TOROPETS Sector.

BURMA. 15th. Twelve U.S. medium bombers escorted by 11 Tomahawks bombed LASHIO Town and Aerodrome.



Return to H.M. to

GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

OCT 20 1942

To: Secretary Morgenthau
From: General Counsel

You have requested my advice on the question whether, under the Federal statutes, your wife would be prohibited from purchasing United States Savings Bonds.

If your wife uses her own separate funds, that is, funds in which you have no interest, and if she acts entirely on her own responsibility and without any previous arrangement or understanding with you, I am inclined to the view that a purchase of United States Savings Bonds by your wife would violate no Federal statute. However, it appears to me that the design and purpose of the relevant Federal statute is such that the purchase might result in criticism because of ethical implications.

Section 243 of the Revised Statutes of 1873 (U.S.C., 1940 ed., title 5, sec. 243) provides, in part, as it appears in the Code:

- 2 -

"No person appointed to the office of Secretary of the Treasury * * * shall directly or indirectly * * * be concerned in the purchase or disposal of any public securities of any State, or of the United States, * * * and every person who offends against any of the prohibitions of this section shall be deemed guilty of a high misdemeanor and forfeit to the United States the penalty of three thousand dollars, and shall upon conviction be removed from office, and forever thereafter be incapable of holding any office under the United States; * * *"

That statute was first enacted as section 8 of the Act of September 2, 1789, 1 Stat. 67, the same statute that created the Department of the Treasury. There is no escape from the proposition that a purchase of United States Savings Bonds by a Secretary of the Treasury is specifically prohibited by section 243. That position was taken by my predecessor, Mr. Oliphant, in an opinion to Under Secretary Magill, dated March 11, 1938. He there said:

"It seems clear that section 243 of the Revised Statutes prohibits the Secretary from purchasing United States bonds, since making a purchase is obviously being 'concerned in' the purchase. Moreover, such an interpretation

- 3 -

is warranted by the evident purpose of the restriction, which was to eliminate the possibility that motives of private interest might influence the judgment of the Secretary in matters pertaining to the public debt."

I agree entirely with that statement of the law.

You will note that section 243 not only prohibits the Secretary of the Treasury from purchasing public securities of the United States, but prohibits him from being "concerned in" the purchase of such securities. Furthermore, the Secretary of the Treasury may not be so concerned either "directly or indirectly". Obviously, if a Secretary of the Treasury were to supply his wife with funds in order that she might purchase public securities of the United States in her own name, but really for his account, there would be a violation of the statute.

On the other hand, section 243 is a highly penal statute, and the Attorney General of the United States has said that, therefore, it should "be taken strictly, and not extended by construction". (1873)

14 Op. Atty. Gen. 352. Section 243 says nothing about the purchase of public securities by the Secretary's wife, and, accordingly, I am constrained to the view that it is technically not applicable to the wife of a Secretary who, from her own separate funds and entirely on her own account,^{1/} purchases public securities of the United States.

Nevertheless, it seems to me that an ethical problem is presented where one who is intimately connected with the Secretary seeks to do that which the Secretary himself is prohibited by statute from doing. Some persons might criticize such action as out of keeping with the declared policy of the law, though permitted by its letter. I call your attention to the fact that my predecessor, Mr. Oliphant, in his opinion

^{1/} Under sections 50 and 51 of the New York Domestic Relations Law (McKinney's Consolidated Laws of New York, Book 14, secs. 50 and 51), a wife may have separate property and exercise separate control over it. I have not considered what the situation might be in case a Secretary came from a state which has community property or which does not recognize in a wife entirely separate rights and control over property.

- 5 -

to Under Secretary Magill, dated March 11, 1938, found an ethical question in the more remote case of the purchase of public securities of the United States by the Under Secretary's wife.

Handwritten Signature
General Counsel

11, BRUTON STREET,

LONDON, W. 1.

Mayfair W195.

October 20, 1942.

Dear Alan:

I have been trying to get in touch with Dr. White, as you know, but since he is out of town, as you informed me yesterday, I have not been able to do so.

Mr. Hays has cabled me asking if Dr. White would kindly look over the proposals that have been received from the British Treasury, and the Companies' reply, relative to the unfreezing of film revenues and possibly show them also to Secretary Morgenthau if the latter wishes to see them. Mr. Hays would also appreciate Dr. White's advice whether it is in order for us to transmit the Companies' reply directly to Sir Frederick Phillips.

I shall be greatly obliged, therefore, if you will mention this matter to Dr. White on his return and ask him to be kind enough to see me at that time if it is convenient from his standpoint. The Companies are, of course, anxious to conclude the matter as promptly as possible.

With kindest personal regards,

Sincerely yours,

(Signed) F. W. Allport
F.W.Allport.

Mr. Alan N. Steyne
The American Embassy
Grosvenor Square
LONDON W.1.

THE BRITISH TREASURY'S PROPOSALS AS CABLED OCTOBER 9, 1942:

The proposed outline below which is receiving serious consideration by the U.S. film concerns has been received from the United Kingdom Treasury.

The motion picture companies agree to accept the proposals for changing the regulations regarding quota as set forth in the attached Memorandum "A".

The Treasury, however, cannot at the present time undertake to provide for the transfer from sterling into dollars of the earnings of the companies for the twelve months' period ending 24th October, 1943, beyond the amount of \$20,000,000.

The Treasury, in addition, reserves all rights with respect to all taxation which may hereafter be imposed and which might affect the incomes of the American companies in the United Kingdom.

Should the companies be prepared to agree to the preceding proposals the Treasury is prepared to permit the transfer into dollars of the sterling balances accumulated by the companies on October 24th, 1942, in so far as these balances are monies which under the Defence (Finance) Regulations would have been transferred during the previous three years had there been no special restrictions made in the Film Agreements. You must, of course, appreciate that it is impossible to give more favorable terms in this connection to film companies than to other subsidiaries in the United Kingdom of

- 2 -

the U.S. parent companies. However, it is not expected that the dollar amounts which will be remittable by the motion picture companies will actually be substantially less than the sterling balances at their disposal on the 24th October minus any capital amount which may be included therein.

The British Treasury is of course prepared to discuss with the film concerns any technical details which may occur to them with respect to the date of the release of said dollars. The suggestion that I would offer is that as large amount as can safely be transferred, according to the auditors' certificates, should be transferred not later than the end of October, 1942. The remaining balances should if possible be transferred at the end of December, 1942, provided the auditors have then finished their work. Should the companies accept these proposals I suggest that the detailed drafting of any agreement can best be done in London.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

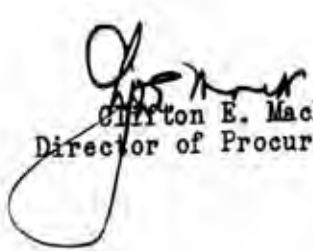
October 20, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended October 17, 1942.

Within the past few days the Foreign Requirements Branch of WPB has started to rerate existing Russian contracts under the recent confidential order of WPB which provides for AA-1 priority ratings for all U.S.S.R. protocol requirements. The production against the contracts in question has fallen behind seriously because the original priorities applied became ineffective in many cases due to higher ratings issued to manufacturers for other requirements. If the proposed procedure recently initiated is maintained, AA-1 priorities will enable meeting the revised delivery schedules.

A copy of the second protocol has been received from Major General Burns of the Munitions Assignment Board, and is being used in connection with our preparation of the 1943 budget to cover items to be procured through Treasury Procurement Division.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF OCTOBER 17, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2325.4 (2100.4)	\$1153.4 (1140.7)	\$661.3 (643.7)	\$56.7 (56.7)	\$3.7 (3.7)	\$450.3 (255.6)
Purchase Authoriza- tions (Requisitions)	\$1745.3 (1712.9)	\$1025.3 (1014.7)	\$663.4 (642.0)	\$40.0 (40.0)	- -	\$ 16.6 (16.2)
Requisitions Cleared for Purchase	\$1643.8 (1609.1)	\$ 994.5 (980.4)	\$593.3 (573.1)	\$39.9 (39.9)	- -	\$ 16.1 (15.7)
Obligations (Pur- chases)	\$1548.3 (1515.3)	\$ 971.1 (952.6)	\$522.1 (508.2)	\$39.9 (39.9)	\$2.5 (2.4)	\$ 12.7 (12.2)
Deliveries to Foreign Governments at U. S. Ports	\$ 644.0 (627.5)	\$ 512.7 (499.8)	\$107.4 (104.1)	\$20.1 (20.1)	- -	\$ 3.8 (3.5)

* Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of October 10, 1942.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 361

Information received up to 7 A.M., 20th October, 1942.

1. NAVAL

A Fighting French submarine while on patrol off the N.W. Coast of NORWAY on the 18th damaged a ship which went aground and on the 19th sank a ship at the entrance to VEST FJORD. One of H.M. submarines attacked an escorted convoy off the Coast of TUNISIA yesterday but was slightly damaged in counter attack.

2. MILITARY

MADAGASCAR. 17th. Our troops successfully attacked French positions west of AMBOSITRA and advanced southwards.

3. AIR OPERATIONS

WESTERN FRONT. 19th. Between 7 A.M. and 1 P.M. about 35 enemy aircraft taking advantage of low cloud made a series of scattered raids and reconnaissance, mainly over East Anglia. Fighters shot down one, probably destroyed two and damaged three, combined gunfire from Naval AA and a trawler destroyed another.

EGYPT. 18th. Beaufighters damaged about 25 lorries in eastbound convoy between SIDI BARRANI and MERSA MATRUH.

MALTA. Between 6 P.M. 18th and 5 P.M. 19th about 285 enemy aircraft, including some bomb carrying fighters made ten raids. Apart from two Hurricanes damaged on HAL FAR aerodrome no material damage has been reported. Several formations were intercepted some miles off shore, some jettisoned their bombs and others made off. Our fighters shot down two enemy aircraft, probably destroyed one and damaged four without loss.

4. HOME SECURITY

Yesterday morning bombs were dropped mainly in the Coastal Districts of East Anglia, damage of some consequence was reported from NORWICH, IPSWICH, COLCHESTER, CHELMSFORD, SOUTHEND and BRENTWOOD. Slight damage occurred at one U.S. aerodrome. Casualties so far reported 19 killed, 75 seriously wounded.

Am. Viscose Co. 93
Case

October 21, 1942

rec. 10/24/42

MEMORANDUM FOR THE FILES

I talked to Mr. Fulton in New York at 5:18 p.m. today and told him that it was impossible to ascertain the facts from the files. I told him also that the Secretary had handled the matter personally and inquired whether it would be satisfactory if he could wait until the Secretary returned from London. He said that would be quite satisfactory and would not inconvenience him at all. He said that he was seeing the Dillon & Read crowd this afternoon and could probably ascertain some of the facts from them. I said I would call him as soon as the Secretary returned. He said he would probably be away himself next week and we could get together as soon as he returns, providing the Secretary is back himself at that time.

IK

*Good
JWB*

October 21, 1942

Dear Mr. Juran:

The Secretary of the Treasury is away from Washington and I am, therefore, acknowledging your letter of October 16, which encloses the final report of the committee on Lend-Lease Export Procedure. I know that Mr. Morgenthau will be much interested in seeing this material, and I shall be glad to bring it to his attention as soon as he returns to his office.

Many thanks for your courtesy in the matter.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary

Mr. J. M. Juran, Chairman,
Office of Lend-Lease Administration,
515 Twenty-second Street, Northwest,
Washington, D. C.

QEF:el

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

October 16, 1942

Dear Mr. Secretary:-

You will recall that you and Mr. McCabe set up the Interdepartmental Committee on Lend-Lease Export Procedures last April. //

Attached is the final report of the Committee. I urge especially that you see the enclosed chart which shows, rather strikingly, how the Committee effected a drastic reduction in paper work in this problem.

Yours very truly,



J. M. Juran, Chairman

Attachment

The Honorable

Henry L. Morgenthau, Jr.,

Secretary of the Treasury.

FINAL REPORT
OF THE
COMMITTEE ON LEND-LEASE EXPORT PROCEDURE



OFFICE OF LEND-LEASE ADMINISTRATION
OCTOBER 14, 1942

FINAL REPORT

COMMITTEE ON LEND-LEASE EXPORT PROCEDURE

Organization and Objectives of the Committee

This Committee was organized early in May, 1942, following a discussion between Secretary Morgenthau and Mr. Thomas B. McCabe, with respect to the difficulties encountered in movement of Lend-Lease goods, arising from the associated paper work.

The Committee developed two objectives:

- (a) Investigation and correction of delay in export of Lend-Lease goods arising from paper work procedures.
- (b) General conditions of duplication and of burdensome procedures which do not bring about delays in the ordinary sense of the word, but which clearly add to the effort required to do the over-all job.

The specific items of investigation, along with their associated results, are outlined below:

General Conditions of Excess Paper Work

The prevailing export procedures as the Committee found

them were essentially the old peace time systems, but containing some patching up to meet the needs of the war. In its earlier deliberations, the Committee attempted to make minor improvements here and there in the procedures, but found that the pattern was too closely interwoven to permit such action. Accordingly the Committee abandoned such efforts and undertook to develop a new system specially designed for war purposes.

The Committee found that great simplification was possible because where formerly the participants in the export procedure were various private organizations, the situation is now that the Government is on many sides of the transactions. Possibilities for improvement can be seen in the attached chart which was prepared as a proposed War Department procedure, and which the War Department is in process of putting into effect.

Improvement in War Department Procedure

The attached chart shows that export of War Department goods involved eighteen principal documents along with some minor documents not shown on the chart. The situation was studied in considerable detail by a Sub-Committee of which Captain E. C. Whitmore of the International Division, Services

of Supply, was Chairman. The result of the Committee's deliberations was to reduce the number of principal documents from eighteen to nine. This was accomplished by:

- (a) Combining certain documents which were almost identical anyway.
- (b) Use of extra copies of basic documents to become equivalent to new documents through endorsement of additional items of information.
- (c) Designing some documents in such a way that they registered with each other and could therefore be duplicated in one set-up of a machine.

The net result has been:

- (1) Reduction of the number of times that something has to be typed.
- (2) Greater accuracy because papers duplicated in one set-up are bound to be alike while re-copying breeds mistakes.
- (3) Greater ease of association of papers because there are less papers to associate.
- (4) Less delay because papers do not need to halt to be re-copied.

- (5) A very sizeable reduction in the man-hours of effort required generally.

It has not been possible to compute the amount of effort which will be saved in the War Department through the use of this revised procedure, but the Committee believes it to be enormous.

Problems in Navy Department, Department of Agriculture and Maritime Commission

These Agencies use export systems involving papers much like those shown in the upper half of the attached chart. Nevertheless, the Committee has not urged any change on these agencies because the work in these agencies is proceeding smoothly, and the Committee has been constrained to leave well enough alone. However, the techniques developed in the case of the War Department are available for use by any of these agencies if they should decide to go into a further simplification of their paper work procedures.

Procedures in Treasury Procurement

The volume of the export of the Treasury Procurement goods is very considerable, and there has been substantial evidence of goods arriving at port without papers, and of excess

paper work. The Committee is of the opinion that action should be taken to improve the Treasury procedures. The officials of Treasury Procurement are generally aware of this situation, and are working toward improving it. They have suggested that Treasury Procurement be made the consignee of goods and documents at port. Officials of Treasury Procurement feel that this will go far to correct the situation.

Goods Arriving at Ports Without Essential Papers

The Committee obtained from the forwarding office of the British Ministry of War Transport (now War Forwarding Corporation) lists of cargo arriving at port without papers. Analysis of these instances disclosed that the principal difficulty was encountered in goods received from the Army Air Corps. The situation has been largely cleaned up by the use of a new procedure involving essentially:

- (1) Decentralization of the physical doing of much of the paper work while retaining centralized control for uniformity.
- (2) Reduction of the number of times that a document has to be recopied so as to minimize errors and effort involved.

The attached chart shows in detail the nature of change made in the Air Corps procedure.

Similar lists of cargo on which essential papers were missing were obtained by the Committee from Moore-McCormack, the forwarding agents for the Soviet Purchasing Commission. Although there is general knowledge of what the causes are, there has been no quantitative determination as to how these cases were caused. In the absence of such quantitative determination, the Committee is unable to know whether the steps being taken by Treasury Procurement will clean up the situation. The Committee has designated a Subcommittee to be available to Treasury Procurement on demand.

The Committee wishes to make grateful acknowledgment to the people who variously attended the meetings and to the organizations they represented for the very generous aid they gave the Committee in carrying out its assignment. A list of these people is attached herewith.

The Committee:

C. G. Cornwell
Charles Bunn
Donald C. Riley
John Miles
Howard McClure
J. W. Montigney
Capt. E. C. Whitmore
Lt. Col. Marvin H. Dixon
Lt. A. J. Moran
W. R. Johnson
A. J. Walsh
J. M. Juran (Chairman)

War Shipping Administration
State Department
Bureau of the Budget
Board of Economic Warfare
Department of Commerce
Office of Defense Transportation
War Department
War Department
Navy Department
Bureau of Customs, Treasury Dept.
Procurement Division, Treasury Dept.
Office of Lend-Lease Administration,

Consultants, Alternates, and Interested Visitors

Who Collaborated in the Study

British Purchasing Commission

Captain W. G. Coventry

British Ministry of War Transport

Mr. E. H. Romaine

Mr. T. H. Andruss

British Army Staff

Lt. Col. G. P. Taylor

Soviet Government Purchasing Commission

Mr. P. A. Golikov

War Department

Lt. Col. E. C. R. Lasher

Major Richard C. Moore

Captain M. A. Darragh

Lt. John C. Doub

Lt. V. Q. Harmon

Mr. C. W. Trotter

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Mr. L. W. Armour

Navy Department

Ensign F. M. Morton

Agricultural Marketing Administration

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Procurement Division, Treasury Department

Mr. C. F. Hughitt

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Mr. H. E. Newman

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Mr. Arthur Thielmann

Department of Commerce

Mr. Ernest J. Engquist, Jr.

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Mr. L. P. Johnson

Mr. E. F. Thompson

Office of Lend-Lease Administration

Commander W. J. Rague

Mr. Edward Jay

Mr. Willis C. Armstrong

Mr. E. G. Meyers

Mr. E. I. Abell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 21, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

1. During the week ending October 13, 1942, 170 planes, including 89 combat planes, were sent from the United States to British forces.

2. Of these shipments, 39 went to the British Isles, and 100, including 65 trainers, were sent to the Middle East. Ten trainers went to India, but for the second week no combat planes were sent to the British forces there.

Table A - Shipments by Area

	Week Ending <u>Oct. 13, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
<u>To the United Kingdom</u>			
Light and medium bombers	19	655	1,816
Heavy bombers	0	146	250
Naval patrol bombers	4	81	183
Pursuit	16	1,003	1,314
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	39	2,004	3,737
<u>To the Middle East</u>			
Light and medium bombers	9	537	867
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	23	704	1,552
Army Cooperation	3	58	58
Trainers	65	231	373
Total to the Middle East	100	1,536	2,861
<u>To the Canadian Forces</u>			
Light and medium bombers	1	79	247
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	6	665	1,906
Total to Canadian Forces	7	798	2,257
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	145	245
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	0	12	117
Total to Pacific Forces	0	357	752
<u>To the British Indian Forces</u>			
Light and medium bombers	0	174	174
Pursuit	0	40	40
Trainers	10	53	53
Total to Indian Forces	10	267	267
<u>To the British West Indian Forces</u>			
Army Cooperation	14	20	20
Total to West Indian Forces	14	20	20
<u>Totals</u>			
Light and medium bombers	29	1,590	3,349
Heavy bombers	0	147	256
Naval patrol bombers	4	110	247
Pursuit	39	1,977	3,341
Army Cooperation	17	197	228
Trainers	81	961	2,473
Grand Total	170	4,982	9,894

Table B - Shipments by Types

	Week Ending Oct. 13, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>Light and medium bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	10	22	22
Douglas Boston I, II, III	2	26	518
Lockheed Hudson	9	562	1,532
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura Bomber	0	314	314
Martin Marauder B-26A	0	57	57
Baltimore	0	285	353
Maryland	0	0	150
North American B-25	6	117	117
Northrop Vengeance	2	144	144
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy bombers</u>			
Boeing B-17	0	42	62
Consolidated Liberator	0	105	194
<u>Naval Patrol Bombers</u>			
Consolidated Catalina PBX-5B	4	110	247
<u>Pursuit</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	23	905	1,287
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	16	127	127
Lockheed Lightning	0	3	3
North American Mustang	0	565	645
<u>Tray Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogiro	0	0	5
Vought-Sikorsky OS2U	17	70	70
Vultee Stinson O49	0	10	14
<u>Trainers</u>			
Cesena Crane I-A (AT-17)	0	97	97
T-50	0	86	700
Fairchild PT-26 Cornell	6	139	139
North American Harvard II	75	342	1,238
Stearman PT-27	0	297	298
Total	170	4,982	9,894

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly average of shipments in 1941	35	2	3	27	1	29	97
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	77	17	0	17	0	30	141
July 14, 1942	42	11	3	24	0	1	81
July 21, 1942	66	8	3	0	2	4	83
July 28, 1942	39	0	2	0	6	46	93
August 4, 1942	32	0	4	27	38	8	109
August 11, 1942	59	9	6	70	8	19	171
August 18, 1942	60	3	7	20	0	11	101
August 25, 1942	25	0	11	26	0	26	88
September 1, 1942	33	0	8	81	17	28	167
September 8, 1942	31	0	13	11	0	6	61
September 15, 1942	57	0	4	139	6	36	242
September 22, 1942	58	2	2	36	20	35	153
September 29, 1942	30	1	2	9	0	106	148
October 6, 1942	11	1	10	56	0	47	125
October 13, 1942	29	0	4	39	17	81	170
Total shipments since Jan. 1, 1941 to date. ^{1/}	3,349	256	247	3,341	228	2,473	9,894

^{1/} Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

Treasury Department
Division of Monetary Research

Date.....Oct. 23.....1942

To: Secretary Morgenthau

From: Mr. White

Original of this report appended
to prepared letter to President

October 21, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending October 10, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending October 10, 1942 amounted to \$14,564,000 as compared with \$30,947,000 during the previous ten-day period. No planes or tanks were reported as exported during this period. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$1,885,000. Military equipment accounted for sixty-two per cent of the total. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland amounting to \$237,000.

ISF/efc
10/23/42

cmB

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations received
During the Period Indicated 1/

(In thousands of dollars)

	10-day Period ended Oct. 10, 1942	10-day Period ended Sept. 30, 1942	Total Domestic Exports Aug. 1, 1942 to Oct. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. R.	\$ 14,564	\$ 30,947	\$ 265,071	\$ 742,941
China	1,885	902	6,903	97,730
India	3/	80	394	2,858
Netherlands	237	338	1,244	11,537
Sweden	3/	1	2,508	18,096
Portugal	2	254	563	9,743
French North Africa 2/	—	47	2,088	6,305

Treasury Department, Division of Monetary Research

October 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

Less than \$500.

10/21/42

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - October 10, 1942 1/
(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,558
Mar. 20 - Mar. 31 4/	2	42,835
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	52	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,359
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,885	14,564
TOTAL	\$ 107,226	\$1,008,832

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

October 20, 1942

ISF/efs 10/20/42

APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
TOTAL EXPORTS			\$ 14,564
Principal Items:			
Industrial machinery and parts	-	-	2,696
Aluminum and aluminum alloys	Lb.	6,524,920	1,907
Aircraft parts and accessories	-	-	1,746
Copper, brass and bronze bars, plates, sheets, etc.	Lb.	4,603,687	1,046
Meat products	Lb.	3,707,041	854
Electrical machinery and apparatus	-	-	821
Motor trucks, automobile replacement parts, engines, etc.	-	-	614
Ammunition			558
.30 caliber balls	No.	978,000	
.45 caliber balls	No.	1,646,000	
.50 caliber tracers	No.	286,000	
.50 armor piercing	No.	300,000	
75 mm. high explosive shells	No.	12,000	
Wire and manufactures	-	-	554
Iron and steel billets, bars, rods, plates, etc.	-	-	497
Dried egg products	Lb.	455,271	456
Lead, nickel, zinc, quick silver or mercury	Lb.	1,124,256	365
Leather and manufactures	-	-	287
Explosives	-	-	263

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APPENDIX C (Con't)

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Military trailers	No.	27	136
Sub-machine guns .45 caliber	No.	5,850	118
Parts and accessories for tanks	-	-	37
Parts and accessories for bridge building	-	-	20
Links and belts for small arms ammunition	No.	100,000	7
Military equipment, n.e.s.	-	-	3

Treasury Department, Division of Monetary Research

October 21, 1942

W/efs 10/21/42

Regraded Unclassified

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS **\$ 1,665**

Principal Items:

Military equipment	1,161
Printed matter	255
Tools	145
Electrical machinery and apparatus	83
Lubricating oils	50
Truck, bus and other casings and tubes	45
Wire rope, cable & electric welding rods & wire	40
Writing paper	38
Automobile replacement parts, hand trucks and push carts	24
Scientific, surgical and medical instruments	11
Steel bars, plates, etc.	10
Chemicals and related products, n.e.s.	9
Industrial machinery and parts	3

Treasury Department, Division of Monetary Research October 21, 1942

MVF/efs 10/21/42

NOT TO BE RE-TRANSMITTED.

COPY NO. _____

BRITISH MOST SECRET
U.S. SECRET.

OPTTEL NO. 363.

Information received up to 7 a.m. 21st October, 1942.

1. MILITARY.

MADAGASCAR. On 19th, our troops captured Ivato, 8 miles South of Ambositra. Prisoners taken 134 Europeans, including one Regimental Commander, 353 Calagache, together with a considerable amount of equipment.

2. AIR OPERATIONS.

WESTERN FRONT. 20th. Mosquitoes, 1 missing, bombed Bremen, Minden and Varel Hafen (near Wilhelmshaven).

EGYPT. 18th/19th and 19th. Hits were made on shipping in Tobruk harbour.

19th. Two aircraft destroyed on the ground and fires started at landing ground near El Daba. Four enemy fighters probably destroyed in the air. Beaufighters destroyed a locomotive and petrol tanker and damaged about 17 lorries near Mersa Matruh other Beaufighters destroyed a schooner off Crete and a Junkers 52.

MALTA. 20th. Between 5.40 a.m. and 1.15 p.m. about 10 high flying Messerschmidts 109, some carrying bombs attacked Takali and Luga aerodromes using cloud cover, the runway at Luga was hit.

MEDITERRANEAN. 18th/19th, and 19th/20th. Aircraft operating from Malta attacked the following ships:- 5,500 tons off Pantellaria, left sinking 6,000 tons South of Lampedusa severely damaged, 6,000 tons off Lampione damaged by bombs. Also following tankers - 8,000 tons Ionian Sea torpedoed and later seen stationary, 5,500 tons off Tripoli(L) torpedoed.

TREASURY DEPARTMENT

109

INTER OFFICE COMMUNICATION

DATE Oct. 22, 1942

TO Secretary Mergenthau

FROM Mr. Hoflich

Subject: American General Grant Tanks

1. American tanks have a bad reputation in the Russian Army, according to the appended article by Leland Stowe, U. S. war correspondent, based upon conversations with Red Army officers in the field. This reputation is due to the performance of the only American tank well-known to the Russians -- the old M-3 (General Grant) - which is said to be outranked by both Russian and British models of similar size.

2. The Russians told Stowe that (1) the General Grants take fire too easily - "burn like torches" - due in considerable part to the use of gasoline rather than diesel motors; (2) the turret is too high, making it an extremely vulnerable target; (3) the treads are too narrow for use in mud and swamps.

3. On the favorable side, the Russians praised the Grant for its firepower, ammunition, and radio equipment, and for its nose construction, slanted so as to ricochet the enemy's fire.

(Washington Evening Star, October 16, 1942)

By LEONARD STONE.

War Correspondent of The Star and Chicago Daily News.

WITH THE RED ARMY ON THE RZHEV FRONT.—From the time we reached the first front zone headquarters I began hearing comments about American tanks, but not exactly the kind to make you throw your hat in the air. The major general expressed it bluntly when he said, "They burn like torches."

It should be noted that this remark concerned the only American tank which has yet seen plenty of action in Russia, the original M-3, which is called the Gen. Grant. These tanks have been used on the Rzhev front for several months now, along with Russian tanks and British Matildas.

But because the newer and improved American models have not yet undergone battle tests, it is unfortunate, but true, that American tanks at present have a decidedly bad reputation in the Red Army. On performance over this exceedingly difficult marshland terrain, they are widely outranked—the M-3 medium, that is—by both Soviet and British models of similar size.

First Hand Testimony.

The major general and brigade commander both cited to me some of the major failings of the Gen. Grant tank. I also learned that in one recent operation, three out of four tanks lost were American. It was a rather sharp blow to some American's industry-conscious egotism to hear their factual reports—but that is part of the price that is exacted for the United States' failure to create an up-to-date war industry years ago.

That, of course, does not make it any easier on the young Russian tankmen who also have to risk paying the price in American Gen. Grants.

I decided I must talk with Russians who fight in our tanks. In another sector, many miles away, another general arranged for me to do so. The major of a battalion of American tanks and several of his tank crewmen were brought back from their battle positions so I could get absolutely first-hand testimony of M-3 performance along the Rzhev front in the past several months of fighting.

Maj. Ivan Irmakov, 32 years old, has been a tankist for 10 years in the Red Army and has been handling Yankee Gen. Grants for the past six months. He is a slender, keen-eyed, extremely intelligent officer and obviously a first-class technician.

Firepower Is Very Good.

"We used American tanks in combat here for the first time about four months ago," Maj. Irmakov said. "When we got more of them I was assigned to command a battalion of American tanks."

"Have you actually fought in American tanks?" I asked.

That brought a smile to Maj. Irmakov's face.

"Naturally. I lead our tanks in attack quite often. I have led attacks in American tanks 13 times. Once I was wounded in one."

I explained that I wished the major and his men would be completely frank in telling what they considered good and what they considered bad about the M-3, on the basis of their combat experience.

Then Maj. Irmakov began to give me his findings, item by item. It sounded exactly like an engineering expert's report after having "given her the works" on an Army testing ground—plus the fact that these tests were made with the major's life at stake.

"Let's take the positive, first," Maj. Irmakov said. "The American tank's firepower is very good, both cannon and machine guns. Its munition is good and its nose construction, slanted so as to ricochet the enemy's fire, is also very good. This is the model which you call the M-3's. Yes, it has its cannon down low, on the right side instead of on top.

Difficult to Maneuver.

"Now as to the negative. First, the tank's turret is too high. It makes too much target. The British Matilda's turret is much lower and it's much better in this respect.

"Second, the American tank takes fire very easily. Its motor used

airplane gasoline. It is not Diesel-powered, like our Soviet tanks and the flames from its gasoline make the whole tank burn quickly. You can't do anything to put it out. Then, third, is the fact that the American tank's treads are much too narrow for the kind of muddy, swampy ground we have in Russia. For this reason, your tanks bog down more easily than ours do, and they are difficult to maneuver."

So far Maj. Irmakov had mentioned criticisms of the Gen. Grant which we had heard before but never from some one so qualified to speak with final authority. As regards American tanks in Russia, these particular weaknesses long ago created to be a military secret as far as the Germans are concerned. But the Red Army's tank battalion commander had by no means finished his report.

Suggested Improvements.

Major Trunakov cited five more specific points about the M-3 tank which either heightened its vulnerability or handicap to a notable degree its offensive capacity. He explained each point clearly, convincingly, and in some cases told how improvements could be made with a comparatively simple alteration here or there. These, however, are not matters to be reported in daily newspapers in wartime.

Nevertheless, there was no particular consolation for American pride in the fact that, with the second World War already under way, such a great industrial power as the United States should produce a medium tank with less than eight serious faults or weaknesses. With only 20 years of industrialization, the Soviet Union had produced an infinitely stronger and less inflammable tank than the Gen. Grant, a very considerable period before the Finnish war.

I hastened to explain to the major and his men that Soviet engineers had spent more than 10 years designing and building tanks before the war began, whereas America's tank industry was only created in less than two years.

They're Too Comfortable.

"There is a newer and improved American medium tank," I said, "and it is certain that some of the faults you mention have been eliminated. Whether all of them have, I don't know. One thing, however, you can count on: Americans are an extremely adaptable people and quick to learn by experience. Our industrialists have certainly improved their tank technique and they will continue to do so."

"We had expected that your tanks would be among the best," the major replied, simply. Then he added: "There are one or two other things on the good side I meant to mention. Your tank's radio equipment is extremely good. Also, your 37-mm. cannon has an excellent angle for use against airplanes. But there's another thing."

The major grinned: "You know, inside your American tank is typically America. It's very comfortable. It has special head and bump protectors and looks very handsome. But really, that's not for war. Your tanks could be made cheaper without those dress-up touches and be made more quickly—and for fighting, they would be every bit as good."

Trade With Tanks.

I pressed the Russian tank corps major in regard to the percentage

of losses of American tanks here, as compared to Soviet and British tanks. But he clearly didn't want to appear to be deliberately painting a dark picture. He merely replied:

"When our tanks take fire, we can extinguish the fire quickly, or we can even take them back while

burning and then put out the fire. But the American M-3's go up in flames immediately."

I asked: "Which tanks have you lost the most of on the Rahev front?"

Again the major paused. Then he answered in another fashion:

"For burning, American tanks have no rival," he said. "Our tankmen have more confidence in our own Soviet tanks than any others. So far, they are not at all anxious to get assigned to foreign-made tanks. But if they must take them, they prefer the British tanks."

That, too, was what I had heard on other sectors of the front.

All We Had to Send.

It seemed only fair for me to explain that the first model tank the United States produced had been sent to Russia because at that time it was all we had to send. Improvements on the first models had only been made after battle experience. Now America was producing better and also much bigger tanks: some of 50 or 60 tons or more.

When those last tonnage figures were translated, one of the major's tankmen, Sergt. Ivan Balaikin, from Siberia, looked at a Leningrad

youngster alongside of him and grinned a very broad and delighted grin.

Judging by that grin, there is still a chance for the American tank's reputation as he received in Russia—if our new American tanks are designed out of the lessons from the old—and if we get them over to the Russian front fast enough.

Tank Sergt. Balaikin, won't care how big they are—so long as their American comfort is chiefly concentrated on fire protection.

(Copyright, 1942, by Chicago Daily News.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 21, 1942

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

Archangel

It is predicted in a British report that Archangel will be ice-free this year until about November 20.

(U.K. Operations Report, October 8-15, 1942)

Soviet Submarines

Four or five Russian submarines are operating in the Baltic, and 43 in the Black Sea, according to a British report.

(U.K. Operations Report, October 8-15, 1942)

British-Fighting French Relations

It is reported that De Gaulle, in his negotiations with the British, has given up the demand for military control in the Levant. It is said that he has also yielded in the matter of the elections, proposing that they be held in April, 1943, rather than this fall.

(O.S.S., "The War This Week", October 8-15, 1942)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 21, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Japanese Strategy in Gilbert and Ellice Islands.
(Map attached).

1. Within two days after the attack on Pearl Harbor, the Japanese sent a naval task force to take over the northern Gilbert Islands. They recently have occupied the southern Gilberts, and apparently are now engaged in occupying Funafuti in the Ellice Islands.

2. This Japanese activity, according to a survey by the Far Eastern Section of the Office of Strategic Services, is one of several moves made by the Japanese in attempting to counteract the advantages gained by the United States in occupying the southeastern Solomons. Other such Japanese moves include (1) the recent abortive drive toward Port Moresby, (2) the unsuccessful attempt to gain control of the China Strait by occupation of Milne Bay, and (3) occupation of the islands of Nauru and Ocean west of the Gilberts.

3. The objectives of the Gilberts infiltration are presumed to be (1) to outflank the Solomons on the northeast side, (2) to extend the range of Japanese reconnaissance and attacks upon supply routes from the United States, (3) to provide stepping-stones to the south toward Fiji and Samoa from Japanese bases in the Marshall Islands, and (4) perhaps ultimately to support an attack on Fiji and Samoa.

4. Conditions in the Gilbert and Ellice Islands are not particularly favorable for the Japanese occupying force. Virtually all supplies will have to be brought in, due to the scarcity of food and water. Docking facilities can be provided only for very light ships, and seaplane

- 2 -

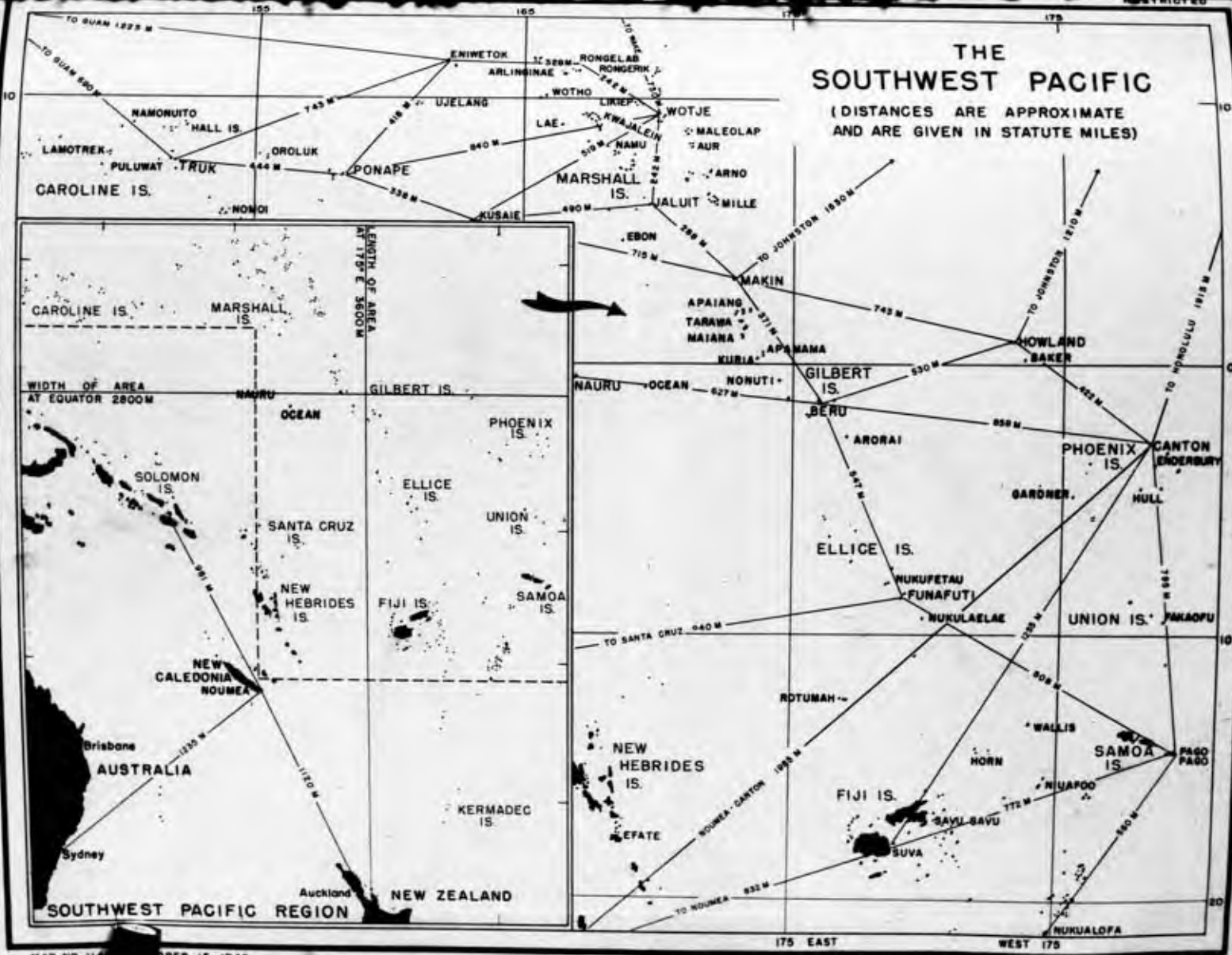
anchorage only during favorable weather. A few small airfields could be constructed, but no level or cleared spaces appear to be immediately available.

It would, however, be "dangerous to discount the value of the islands as bases for light naval vessels and seaplanes....Whatever light forces the enemy can base on the Gilberts or Ellices will be available to join such battleship and aircraft carriers as may come down from stations nearer Japan, making the whole task force that much less dependent on a supply train. Whether the Japanese can continue to hold the Gilberts and to menace the Ellices is something else again; but as long as they do, their forces, big or small, flank our supply route from Hawaii to the Solomons. The importance of that one strategic fact is very considerable."

(Office of Strategic Services, "The War This Week",
October 8 - 15, 1942)

THE SOUTHWEST PACIFIC

(DISTANCES ARE APPROXIMATE
AND ARE GIVEN IN STATUTE MILES)



MAP NO. 114 OCTOBER 15, 1942

DRAWN BY GEOGRAPHY DIVISION, O & S

Regraded Unclassified

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INTELLIGENCE REPORT

REALISM AND THE OFFENSIVE SPIRIT

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

Such recommendations and suggestions as may appear in this report have not been cleared in advance with the Director of the Office of War Information and do not necessarily reflect his views or those of the Office of War Information. Recommendations and suggestions, if they do appear, are only submitted by individuals in the Bureau of Intelligence who have assembled the data and they are offered for the consideration of appropriate authorities.

The Bureau of Intelligence of the Office of War Information uses a variety of procedures and techniques to obtain its data on the attitudes of people and on what is brought to their attention. These procedures and techniques have been found reliable after extensive experimentation over a period of years.

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IMPLICATIONS OF THE REPORT

Confidence in American military strength and a prevailing recognition that the war can be won only through offensive action have promoted a general expectation that the United Nations will soon be able to wrest the initiative from the enemy. Many Americans believe that the war can be won within a period of two years. This hopefulness, together with the belief that American military might is far superior to that of the enemy, may lead to dangerous complacency.

The pronounced inclination among Americans to consider Germany a more formidable and dangerous foe than Japan may reflect an unhealthy tendency to underrate the military potency of the Japanese. It seems probable that the focussing of interest in recent weeks upon the problem of opening a second front in Europe has diverted attention from the seriousness of the war in the Pacific.

Confidence in production and shipping appears to be on the increase, although the public does seem to have a fairly clear realization of the serious shipping problem we now face. The belief held by a majority of the public that America is now the major source of supply for the United Nations war effort suggests a need for informational efforts to promote understanding of the contributions made to the common cause by other members of the United Nations.

In general, the public shows a high degree of satisfaction with the Army's treatment and training of its troops. Few feel that there is any serious discontent among enlisted men; only a small minority is critical of Army training.

A need for greater understanding of the war's problems is especially pronounced among people on the lower educational levels. These people are peculiarly susceptible to the overconfidence which derives from blind patriotic fervor. They are more prone than persons of superior educational background to think that American military strength is greater than that of our allies or our enemies. And they also tend, in much greater degree, to anticipate a war of short duration.

Information policy should be designed to place national pride and confidence on a basis of solid realism. There is need for fuller explanation of the magnitude and complexity of the military task ahead in order to promote full public recognition that strategic decisions must be left in the hands of qualified military and naval authorities.

"We cannot wage this war in a defensive spirit. As our power and our resources are fully mobilized, we shall carry the attack against the enemy -- we shall hit him and hit him again wherever and whenever we can reach him." -- President Franklin D. Roosevelt, January 6, 1942.

REALISM AND THE OFFENSIVE SPIRIT

INTRODUCTION

Americans have been taught that the road to victory must be opened by offensive action. They have watched their growing military strength move to strategic positions all over the globe. Each fresh convoy of troops and shipment of supplies has sharpened their hope that the time for American seizure of the initiative is close at hand. Recently, the blunt demands of Josef Stalin, the exhortations of Wendell Willkie, have focussed their thoughts upon the possibility of attack on specific fronts.

Military strategy cannot, of course, be determined by public opinion. But a shift from defensive to offensive action must be accompanied and supported by a healthily balanced civilian outlook. Such an outlook will be characterized, on the one hand, by a genuine desire to take offensive action; on the other hand, by a sober appreciation of the manifold problems involved which will leave to the properly constituted military authorities the decisions as to when and where to strike.

Along with the careful weighing of military capacity to undertake any such move, then, should go an equally objective assessment of civilian attitudes. For only through an information policy which encourages a realistic public

appraisal of the task presented can the proper cushion be provided against the shock of high casualties attendant upon full-scale attack.

The evidence here is not presented as a complete examination of public sentiment on all the problems connected with the launching of an offensive; it does, however, represent findings of the Bureau of Intelligence on a number of the most vital issues involved.

TIMING OF THE OFFENSIVE

In considering public reactions to any future opening of new fronts, it is in point to note how people characterized the strategy we have employed thus far. In early September, half of the American public described the fighting we were engaged in at that time as largely defensive rather than offensive in nature. About a third believed we were fighting "mainly on the offensive."

However, practically all of those who described our fighting as defensive were convinced that another year would find us on the offensive, and almost a third of them expected such action before the close of 1942.

"Would you say the United States is now fighting mainly on the offensive or mainly on the defensive?"



Asked of those who said "defensive":



in view of enemy attacks throughout the summer in Russia, North Africa and the Pacific, these responses suggest that a considerable body of Americans have an unrealistic appraisal of the military situation. Even in May, before the first important American offensive action was launched in the Solomons, the same question evoked very similar results. At that time, 30 per cent said, "Offensive," 46 per cent, "Defensive," and 24 per cent, "Don't know."

The general approval which will greet the anticipated switch to the offensive is perhaps indicated by the fact that in September nine out of ten Americans thought we were "doing the right thing" in sending our men overseas to fight. Very little isolationist or purely defensive sentiment was evidenced.

Intimately bound up with people's hopes and desires as to the kind of war to fight must be their estimates of how long it will be before victory is achieved. In the face of much expert opinion to the contrary, half the population believed in September that the war would be over within two years or less. This figure represented the highest tide of confidence reached since May and early June. During the spring, the bombing of Tokyo, the 1,000-plane attack on Cologne, and the success of the Midway battle had bolstered public opinion to a point which was widely considered overconfident and complacent. Optimism which waned during the summer appears to be on the rise again, and millions of Americans are obviously not psychologically prepared for a long war.

EUROPEAN SECOND FRONT

Naturally there is greater resistance to the undertaking of specific

offensive action than to the general idea of offensive strategy. When the national sample interviewed in September was asked about the desirability of attempting a second front invasion of Europe within the near future, a majority expressed approval. But a quarter of the public indicated opposition to such a venture. The findings illustrated below reflect attitudes measured after the Dieppe raid on the continent — but before a full account of Canadian losses there had been released.

"Do you think in the next two or three months the Allies should try to land an army on the continent of Europe for a real invasion?"



One reason for the strong minority opposition to a second front venture at this time may lie in the fact that invasion of Europe has been tied, in the public mind, to the issue of "saving Russia in order to save ourselves."

A third of the American people is not convinced that we would lose the war even if Russia, China and England were all defeated.

A majority of the public, moreover, believed in September that Russia could hold out against Germany until winter, even without increased assistance from her allies. Varying estimates of Russian endurance clearly influence attitudes toward the necessity for an immediate second front invasion:

70 per cent of those who believe Russia will not be able to hold out until winter unless saved by an allied invasion, as compared with

56 per cent of those who believe Russia will be able to hold out against Germany until winter, are in favor of an invasion of the continent within the next two or three months.

As the following chart indicates, most of the skeptics who doubted Russia's ability to hold out were, however, certain that the Soviets could be saved if the Allies should land an army in Europe in the next two or three months:

"If Russia does not get more help from the Allies than she is getting now, do you think Russia will be able to hold out against Germany until this winter?"



Asked of those who answered "No" or "Don't know"

"Do you think Russia would be saved if the Allies should land an army in Europe in the next two or three months?"



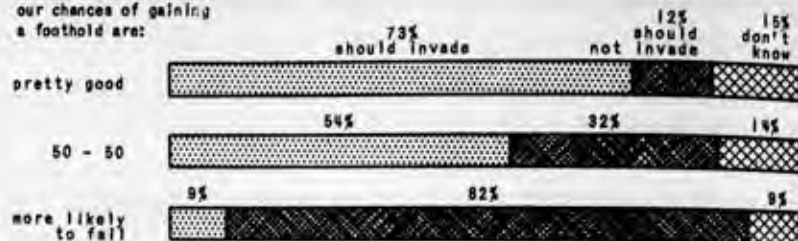
EXPECTATION OF SECOND FRONT

The majority who favored an early second front in Europe was matched by a majority of slightly greater size which expected that such an attack would be launched before winter. Quite naturally, those who favored a second front were much more certain that it would be opened this fall than were those opposed to a European invasion.

Over half of the whole sample felt that the chances of success in such an attempt were "pretty good," while eight out of ten were convinced that the odds on success were at least even. Those who considered such an attempt likely to fail — only 10 per cent of the whole sample — were overwhelmingly against the move. On the other hand, a majority of the people who thought the chances of success "fifty-fifty" were willing to have the Allies take the risk.

"Do you think that in the next two or three months the Allies should try to land an army on the continent of Europe for a real invasion?"

Of those who feel that our chances of gaining a foothold are:



It seems significant that persons with relatives and friends in the service, or about to go in, voted just as strongly in favor of an early invasion of Europe as those who had no close relationship with the service.

Better educated groups showed a greater belief that the United States needs support to win the war, but curiously enough were more cautious in recommending a second front and more pessimistic about its chances of success than were less educated groups -- perhaps because of a greater appreciation of the magnitude of the job. Acceptance of the imminence of an invasion of Europe was, however, greatest on the upper educational levels. They were more prone than others to expect an invasion in spite of the fact that they advocated it less strongly.

These expressions of opinion about a second front in the future are by no means intended as a measurement of popular reaction in the event that an actual invasion of Europe should be attempted. Public opinion is, in large part, a response to leadership and to action. Much of the current opposition to an invasion effort may be based on nothing more than an assumption that

military leaders have failed thus far to undertake the effort because they consider it impractical. There is good reason to believe that action launched by trusted and competent authorities would, as in the past, be supported by overwhelming popular approval.

CONFIDENCE IN OUR ARMED FORCES

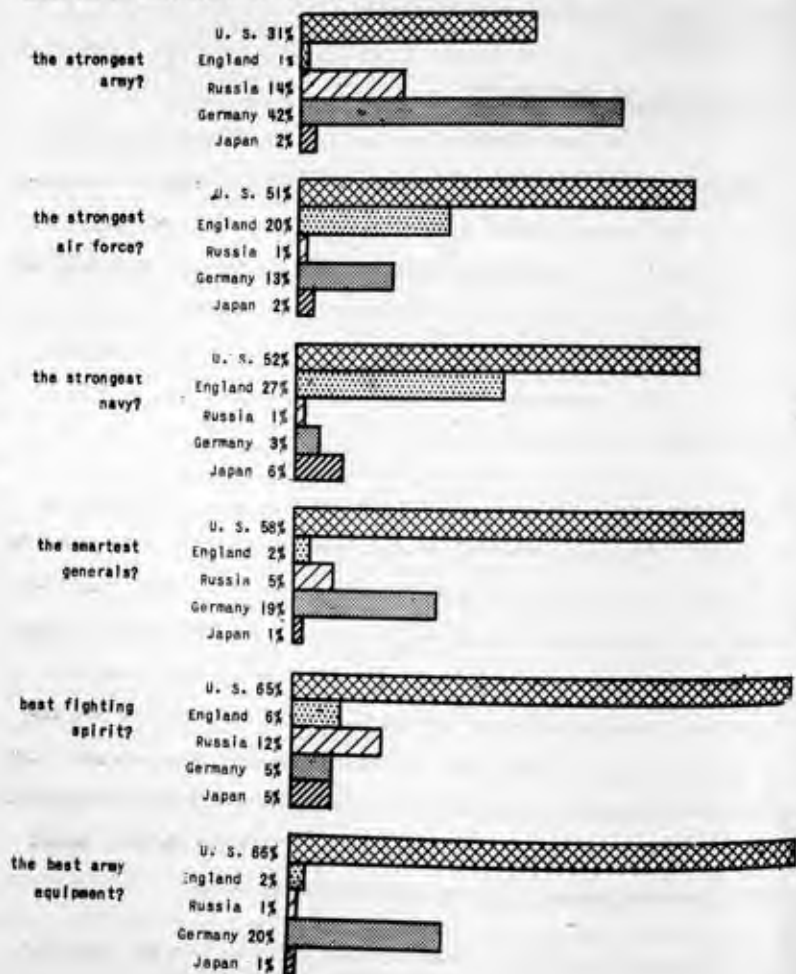
Any shift to an all-out offensive strategy will be regarded by the people in the light of their confidence in our military establishment. In September, this confidence appeared to be on a very high level. The quality of our leadership, the fighting spirit of our men, our military equipment and the strength of our Navy and Air Force were all considered far superior to those of Germany and Japan. A healthy national pride is undoubtedly reflected by these sentiments. They may, however, connote more patriotism than realism.

As the chart on the following page illustrates, Americans overwhelmingly rated their own armed forces higher than those of the other major powers on all points of comparison save one; four out of ten gave Germany credit for having the strongest army in the world. But, despite the numerical superiority of the German army, and despite the actual combat experience which it has had, three out of every ten Americans still felt that our own Army was stronger. It is fairly plain, moreover, that even those who gave first place to the Wehrmacht thought that our own Army was potentially superior. Many of them held that we have smarter generals than the Germans, better fighting spirit and the best Army equipment in the world.

This confidence that total American military strength is unchallengeable,

QUALITY OF AMERICAN FIGHTING FORCES COMPARED WITH OTHER COUNTRIES

Which one of these countries would you say is...



even by the Germans, was evidenced by the answers given to a somewhat similar question asked of a national sample in August: "From what you know or have heard, would you say the all-around fighting ability of the American armed forces is better, about the same or poorer than Germany's?" Fifty-seven per cent said that our all-around fighting ability was greater than Germany's, while only 15 per cent confessed that they considered it inferior.

Nevertheless, respect for the Nazi army — the army which will face American troops invading the continent — has some influence upon civilian sentiment in regard to the opening of a second front:

64 per cent of those who think the United States has the strongest Army, but only

54 per cent who believe Germany's army strongest, favored the invasion of Europe this fall.

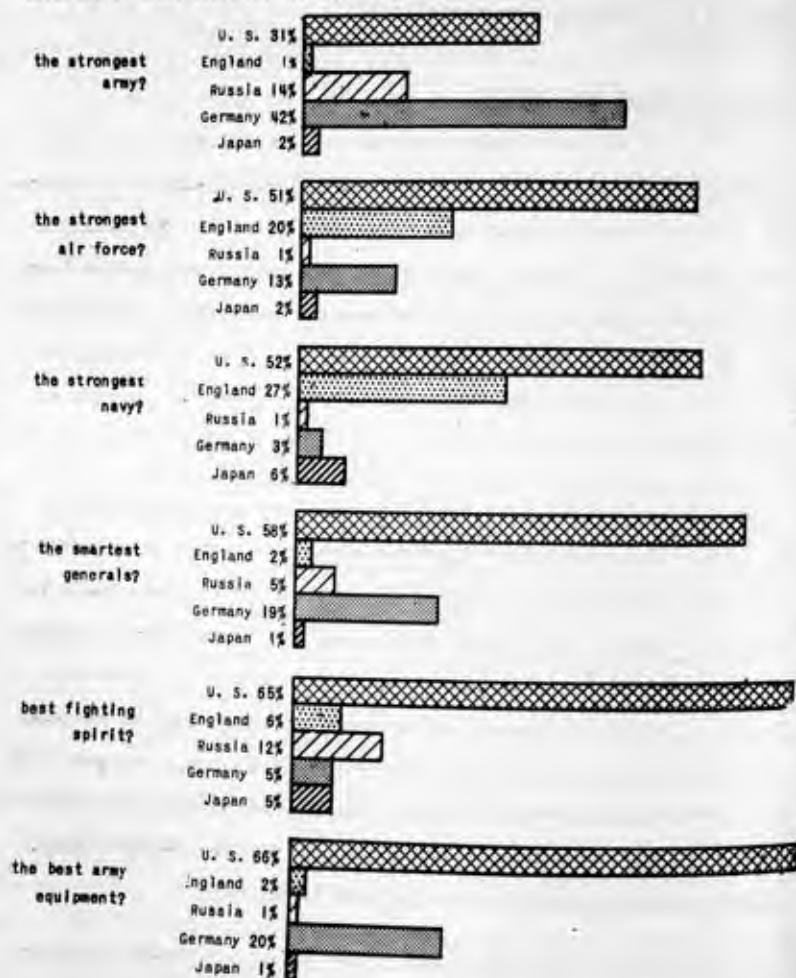
EVALUATION OF THE JAPANESE

The comparative rating of military capacities gives added emphasis to other indications that Americans consider the Germans a more dangerous and more formidable foe than the Japanese. It seems significant that this relative disregard for Japanese military strength was registered at about the time when Assistant Secretary Bard and ex-Ambassador Grew were warning that Japanese ferocity and might must not be underrated.

This tendency to regard Japan as a subordinate foe may stem from a lack of information among large sectors of the American public. A surprisingly large proportion of the population — almost half — manifested ignorance of the fact that the Japanese had occupied American territory in the Aleutian Islands. It is possible that some of those interviewed

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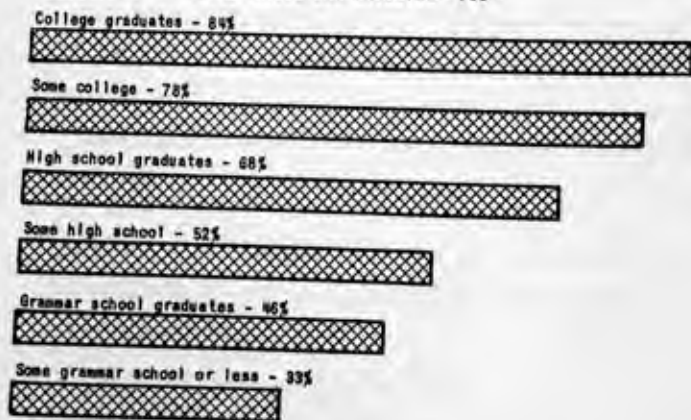
misunderstood the question and answered negatively on the assumption that it referred only to those Aleutian Islands close to the Alaskan mainland -- rather than to the westernmost tip of the Aleutian chain.

There is a direct relation between education and awareness that the Japanese have landed troops on American soil in the Aleutians. Among persons at the lowest educational level, two out of three were ignorant of this fact. Even among people who had gone to college, two out of ten had no knowledge of the Japanese footholds. The following chart illustrates the extent of ignorance and the relationship between education and information on this particular subject.

"From what you have heard or read, have the Japanese succeeded in occupying any of the Aleutian Islands -- that is, our islands near Alaska?"



Educational level of those who answered "Yes"

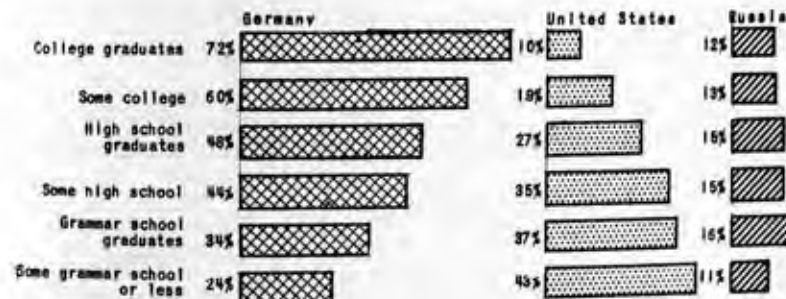


EFFECT OF INFORMATIONAL LEVEL ON CONFIDENCE

There are other signs that the high confidence in our armed forces rests more upon national pride than upon a sound foundation of information and realism. On every phase of our military strength tested, the less educated groups showed the most overwhelming confidence.

As the following chart shows, college graduates were seven to one in rating the strength of Germany's army over that of our own; in addition, they tended to credit the Nazis with more able generalship than their own country -- and they were about equally divided on the relative strength of the American and British air forces.

"Which country has the strongest army?"
(Based on educational levels of respondents)



respect for our allies and enemies was reflected in greater force among the more educated groups -- with one exception: Evaluation of the power of the Russian army held practically constant on all educational levels.

Even among the most educated, however -- though by a relatively small

margin -- the United States was considered to be the strongest naval power, to have the best equipment for its army, and to possess the outstanding fighting spirit among the great world powers.

SPECIFIC CRITICISMS OF THE ARMY

There was little evidence of any particular civilian criticism of the army which might be influencing evaluation of our might and ability to launch an offensive. Although a fifth of the American public had heard of instances of discontent in the army camps in this country, only three per cent considered this discontent serious enough to hurt the fighting spirit of the army. Such instances as were recalled may have been conventional grumbling or mere rumor.

"Have you heard of any cases of discontent among soldiers in the army camps here in the United States?"



Asked of those who had heard of discontent:

"Do you think this discontent is serious enough to hurt the fighting spirit of our army as a whole, or do you think it doesn't amount to much?"



Less than a quarter of the people interviewed expressed any conviction that pull or influence is necessary for a person to become an officer in our army. Only about one out of five persons expressed any dissatisfaction

with the amount of training our soldiers are receiving before being dispatched to foreign posts.

Even among those with immediate relatives in the armed forces, 79 per cent had not heard of any discontent among our soldiers at home. This group was no more critical of politics in the choice of officers than were persons who had no close connection with soldiers. And they were even somewhat more inclined than others to feel that our fighting men were getting ample training before being sent into battle.

68 per cent of those with friends or relatives in the armed forces, as compared with

58 per cent of those with no such connection with the military, felt that American soldiers were getting enough training before they go into battle.

Women were slightly more critical than men of the adequacy of army training. There was not more than six or eight percentage points difference between the sexes, but it may furnish evidence of some need for greater reassurance among women regarding the preparation given to soldiers.

Not only did suspicion of the merit system within the army seem to be confined to a relatively small group, but the people who did have these doubts apparently did not look on the matter as affecting the army seriously. At least, they did not differ from other civilians in their estimates of either the strength of the army or the ability of United States generals. However, impressions of discontent among our soldiers, though certainly not widespread at present, are a factor to be reckoned with:

68 per cent of those who had not heard stories of "discontent" in army camps, while only

50 per cent of those who had heard of such grumbling, rated the United States first among world powers in fighting spirit.

CONFIDENCE IN PRODUCTION AND SHIPPING

The behind-the-lines task of supplying and transporting war materials is vital to any serious consideration of a successful offensive. And the people's judgments of our progress in this direction will be a part of their total attitude toward the subject.

The public's evaluation of our war production as measured in September was a mixture of strong confidence in the future, some reservations regarding present achievements, and a good deal of ignorance concerning the actual situation.

Production in General

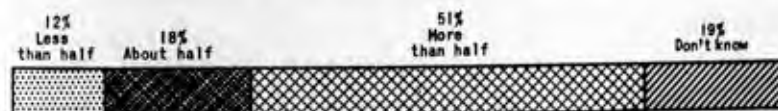
Almost half of the American public (44 per cent) felt in September that our over-all production of war materials was progressing "only fairly well" or "poorly." This, however, represented a decided gain in confidence over the previous month when, apparently, news of WPB shufflings and the cancellation of war contracts for lack of materials had raised this critical group from 25 per cent in June to 54 per cent in August.

In short, from June to August, there had been a marked increase in critical thinking on the production picture, so that September showed the public to be more pessimistic than they were earlier in the summer, but not as

pessimistic as they were in mid-August.

Americans appear to be imbued with the concept of their nation as the arsenal of democracy. Even in August fifty-one per cent of them believed that the United States was providing "more than half of the war materials used by the allies." Eighteen per cent thought that "practically all" of the United Nations' war equipment was made in the U.S.A. In view of the great productive efforts which are being carried on in Britain and Russia, these opinions seem somewhat unrealistic and perhaps reflect a widespread failure to appreciate the contributions other members of the United Nations are making to the common cause.

"From what you have heard, would you say the United States is producing less than half or more than half of the war material used by the Allies?"



Asked of those who answered "more than half"

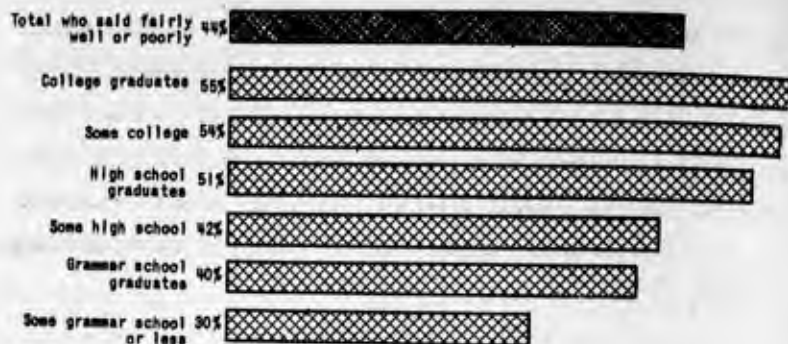


EDUCATIONAL DIFFERENCES

Criticism of production was distinctly a mark of the more educated groups, however, for 55 per cent of the college graduates as compared with only 30 per cent of those who had never completed grammar school said production was going only fairly well or poorly.

"In general, do you think that production of war materials in this country is going along very well, only fairly well, or poorly?"

(Based on educational levels of respondents)



Steel Shortage

In September, the Bureau asked its national sample the question: "From what you have read or heard, would you say we have enough steel on hand to build the ships and other war materials we need?" Half of the sample answered the question affirmatively. Only a third indicated an awareness of the steel shortage inhibiting production at that time.

Quite naturally, those who were unaware of any steel shortage were better satisfied with the general progress of production:

56 per cent of those who were unaware of the steel shortage, but only

46 per cent of those who realized a shortage existed, felt that the production of war materials was going very well.

Paradoxically, there was a striking inverse relationship between education and awareness of the urgent need for steel:

57 per cent of the college graduates, as compared with

45 per cent of those who had never completed grammar school, were of the opinion that we had enough steel on hand to build the ships and other war materials we need.

Awareness of the steel shortage has undoubtedly been greatly advanced during the past weeks by the emphasis given by newspapers and radio broadcasts to the campaign for the collection of steel scrap. The American Institute of Public Opinion reported early in October that 94 per cent of the American people said they have read about the scrap collection drive in their newspapers. But it is significant that, on the eve of the scrap campaign, such widespread lack of appreciation of the steel shortage should have existed.

Shipping

Seven in ten persons -- perhaps conditioned by stories of Kaiser record-smashing and the launching of 174 ships on Labor Day -- believed that production of ships was up to schedule or even ahead of schedule. On the other hand, most of them were aware that shipping is a major war problem today, for only about a quarter of the population maintained that we now have enough ships to carry our war materials to the fighting lines. And while only 14 per cent of them felt we could be doing more than we are to meet the submarine menace, a little more than half were unwilling to say we would have Atlantic shipping under control within the next few months.

Furthermore, a Gallup poll published in early August reported that people named shipping more than anything else (36%) when asked what constituted the most important problem the United States faces today in winning the war.

Nevertheless, there was a slight but consistent increase in optimism from August to September on all of the questions pertaining to shipping. Considered individually, no one of them would be significant but taken together they probably indicate a distinct trend.

	<u>August</u>	<u>September</u>
We do not have enough ships to carry our war materials to the fighting lines	58%	54%
Production of ships is not up to schedule.	18	14
We are not doing all we possibly can to prevent submarine sinkings in Atlantic.	16	14
It will be over six months before the submarine menace will be under control.	41	39

The direct bearing which shipping has upon the launching of a major offensive may be inadequately understood.

CONCLUSIONS

1. The American public desires offensive action and believes it can be undertaken soon. But its expectation appears to be based, in part, upon unrealistic appraisals of our armed strength compared with that of our enemies and upon overconfidence about the progress of the war.

2. Lack of realism is especially prevalent among persons on the lower educational levels.

3. Americans tend to overestimate their country's contribution to the production efforts of the United Nations. Moreover, they are not fully aware of the shortages and other difficulties which impede production.

4. Sound informational measures are needed to temper the eagerness for offensive action with realism and to provide a healthy public appreciation of the price which must be paid for victory.

- * * * -



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

117

October 22, 1942.

MEMORANDUM ON CABINET MEETING

The President said that Myron Taylor was just back and he had a very good report to make. He said that the Vatican apparently was not now in favor of a negotiated peace as it had been in the past, but was more inclined to favor the side of the Allies. Of course, he said, they are virtual prisoners, but nevertheless they had a strong feeling that the Allies are going to win.

He then went into a discussion of the huge tax bill that was put on his desk and the lengthy report from the Treasury on it. He said the bill might as well have been in a foreign language; that he didn't understand it and didn't think the Treasury understood it. It was handed to him late in the afternoon of Wednesday and told he had to sign it that day in order to save some \$60 million revenue, so he was forced to sign it without reading it. He made quite a joke of the whole thing.

He then turned to the Secretaries of War and Navy and said he had a copy of a press release which Steve Early had drawn up concerning the foot ball game between the Army and Navy Academies, which stated that the game would be played at Annapolis, and that tickets would be sold only to people in and around Annapolis. He said to the two Cabinet Officers that he didn't want to pick up the paper the following morning and see where the high ranking officers of the Army and Navy were present at this game. Secretary Stimson said he had already issued orders to his office and Secretary Knox said he would do likewise.

Secretary Hull had nothing.

I had nothing to report.

Mr. Biddle said he had prepared a bill and submitted it to Congress which would correct some of the authority that was found lacking in the trial of the saboteurs. The President asked him if it wouldn't take a long time to get such a bill through Congress. Mr. Biddle said that curiously enough, there was an interest in it and he thought Congress was going to pass it in a few days.



- 2 -

Frank Walker had nothing to report. The President asked him if he had done anything to create a stamp which would honor the United Nations which had been overruled by the Axis powers. He said no he had not. Apparently the President had sent him a memorandum which he had not yet received. The President then said that arrangements are now being made to move Bolivar (he didn't know where he was buried) to Caracas. He thought it might be well to look into the matter of providing a stamp commemorating this move. He said he thought it would be very popular in Bolivia, Peru, Venezuela and the Central American States. Secretary Ickes then spoke up and said he wondered why the Treasury didn't sell albums with Savings Stamps in them to collectors. I said that we had authorized the use of the stamps for collectors and we had authorized the use of stamps to collectors' magazines, but I had not heard of the suggestion of placing them in albums. I would look into it.

Secretary Knox said he had noticed in the morning paper that Secretary Stimson had taken a rather strong stand on the Liquor Bill pending in Congress. He thought it was an excellent letter Secretary Stimson had written so he went to his office and wrote one himself and joined in the recommendations of Secretary Stimson. There was some discussion then between the President and Jimmie Byrnes as to the procedure in getting a Lee bill or Lee amendment, which covers this matter, eliminated.

Secretary Ickes said there were very few people in the country who understand how to operate high octane gasoline plants. There are several of them now under construction and will be coming into production early next year. As this process is only about three years old, he estimates there are about 100 men in the country who understand it. Most of them are young men who have gone into the Army and he is afraid the plants will be ready next spring and no one to operate them. The President said he should take it up with the Secretary of War and work out some arrangement whereby these particular men can either be deferred or put in uniform and detailed back to the plants.

Secretary Ickes then brought up the question of food in Puerto Rico. The situation is quite bad because of lack of shipping. The President said that something should be done to get Puerto Rican families to grow their own food. Secretary Ickes said they had done something along this line but they hadn't yet been able to get all the land out of the hands of the large land owners. What they would have to do would be to take care of the immediate problem in some manner and adopt a long-range policy of getting the local residents to grow their own food. He said there is a resolution in Congress, introduced by Senator Chavez, which authorizes an investigation of the Puerto Rican situation aimed largely, he thought, at Rex Tugwell. The President asked

- 3 -

the Vice President and Jimmie Byrnes as a committee to see if they couldn't have the proposed resolution shelved and not put through.

There was then quite a discussion of the fishing boats which the Army and Navy had taken over from Interior. The President raised the question as to whether there could not be a lot of fish caught by local residents along the Atlantic Coast Line and stations with refrigeration set up every few miles to buy this fish. He knows there is a lot of fishing taking place just along the coast lines and some very good fish are caught, but many of them are thrown back because there is no market. He thinks that Secretary Ickes should go into this.

Secretary Wickard again referred to the labor problem that he discussed at last Cabinet meeting. He said they had about sixty workers who had come to work down in Arizona on the basis of the previous discussion. He hoped that it would work out all right.

Jesse Jones had nothing.

Madame Perkins referred to the Ramspeck bill which had been introduced and had some support which attempted to cover situations where employers and employees had come to some agreement not to strike or ask for increase of wages during the emergency. She thought the bill was all wrong and some attempt should be made to get it killed.

There was then quite a discussion of the longer week which the President said he had asked about on his recent trip. He found that when a factory had longer weeks they had a great deal of sick leave. When asked the cause of sickness, the answer in the majority of cases was that they were just too tired. There was also a discussion of the matter of registering women and the whole manpower problem. There was also a discussion of the public works such as work that is now being carried on in Washington around the local parks. It was the thought of the group that that could be done away with during the war and the manpower used for it could be used on something more vital to the war effort.

Mr. McNutt discussed at some length the question of doctors. He said there was certain to be a shortage of doctors within the next year or so.

Jim Landis discussed the hospital facilities. He said it appeared to him that there would have to be some drastic action taken in certain sections. He referred to Jesse Jones' home town of Houston

- 4 -

where, he said, war factories had sprung up and hospital facilities were not anywhere near enough to take care of the situation. He said many of the towns were so small before the war factories came along they didn't have a hospital and now they have several thousand people thrown into the picture and with no hospital it becomes rather serious.

John Blandford reported that he had gotten the \$600 million appropriation and they were now proceeding with their program. The main question they would have to work out would be the priorities with Donald Nelson.

Donald Nelson, Jimmie Byrnes and Vice President Wallace had nothing to report.

The President then said there was one other thing he wanted to refer to and that was the last borrowing of the Treasury which was not a huge success. He said the Treasury borrowed \$4 billion and got it, but it didn't go over very well. He said he had been giving it some thought and had talked to a number of people, particularly labor people, and he felt there was a great need for a Government annuity. He wanted the Treasury to study the matter. He said Great Britain had had annuities for a long time and in England today you find a great many old people who are living on annuities which they took out in their younger days. I told him we had given a great deal of thought to annuities and that the Savings Bond program grew out of our consideration of that matter. Many people today are buying Savings Bonds each month so that ten years from now they will have an annuity paid to them on a monthly basis. I said that while the British Government had sold Government annuities for a period of fifty or sixty years, the last time I looked at their public debt statement there was only eleven or twelve million pounds of annuity liabilities outstanding. We had not felt that there was a great deal of money in annuities and furthermore we did not feel that the Government ought to get into the life insurance business. However, I said that we would be glad to look into it again as we wanted to put out every obligation that will siphon off some of the excess purchasing power.

Henry Wallace brought up the question of the spendings tax. I told him that one beauty about the spendings tax was that it didn't necessarily freeze the present assets of an individual. I told him we had \$13 billion of demand obligations in the form of Savings Bonds outstanding at the present time on which the holders have been promised they can cash their securities at any time they want to after sixty days. I believe that to tell them they couldn't cash them, which we would have to do in case of enforced savings or enforced lending, would be a distinct shock. The spendings tax would have the advantage of merely putting a tax on the holders if they do

- 5 -

cash them and spend the money. I said it had the further advantage, if the rates are high enough, of putting huge sums into the Treasury in the form of taxes if the money is spent, and if the money is not spent it creates a tremendous reservoir of savings for Government securities. It also leaves with the individual the discrimination as to what form his savings shall take: he can leave them in the bank in the form of deposits; he can buy insurance; pay off debts, or he can buy Government securities directly. If he chooses any other method than the purchase of Government securities, then the Government can borrow that money or its equivalent and it is not inflationary. Secretary Wallace said he couldn't understand why the people didn't like it because to him it was the best thing that had been suggested yet for controlling inflation. He hopes that it will be pushed.

SWB



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

M. S. SZYMCAK
MEMBER OF THE BOARD

October 22, 1942

Dear Mr. Secretary:

For your information I am attaching a short biography of the Polish Minister of Finance, Mr. Henryk Strasburger, which was forwarded to Mr. Szymczak by Ambassador Ciechanowski.

Cordially yours,

W. G. McLenighan

W. G. McLenighan
Secretary to Mr. Szymczak

*accepted by
Stephens -*
Attachment

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

HENRYK STRASBURGER, POLISH MINISTER OF FINANCE

Born in Southern Poland in 1887, descendant of a family of mining industrialists. Doctor of Law and Political Economy.

From 1918 to 1924 he was Under Secretary of State in the Polish Ministry of Industry and Commerce, contributing much towards its organization and smooth running. During that time he negotiated several commercial treaties.

In 1921 Mr. Strasburger took part in the Peace Negotiations with Soviet Russia in Riga, where he represented the idea of economic collaboration with Russia.

In the following year he represented Poland at the International Conference in Genoa, and later that year at a Conference for regulating regulations with Soviet Russia in the Hague, where he met and exchanged views with Mr. Litvinov, the present Ambassador of the U.S.S.R. to Washington.

In 1924 he left the post of Under Secretary of State to become Polish Commissioner General in the Free City of Danzig, which post he held until 1932. During this period he often represented Poland at the Council of the League of Nations in economic matters as well as matters concerning Danzig.

Mr. Strasburger frequently acted effectively in liquidating various serious disputes in Danzig which were instigated by the Germans; in Danzig he stood firm by the authority of the League of Nations and worked for the increase of shipments through Danzig and Gdynia.

- 2 -

From 1932 to 1939 he was President of the Central Organization of Polish Industries and was on the Board of several companies. He was also Polish Delegate to the International Chamber of Commerce.

Mr. Strasburger has written several books on political and economic problems, in which he has advocated the idea of international economic cooperation.

Two years before the outbreak of the war he wrote a book on the question of Danzig which aroused widespread interest among the Poles and abroad, and in which he pointed out the threatening conflict and aggression coming from Germany.

Mr. Strasburger has also published a book on the significance of foreign trade for Poland. He was professor of economics at the Lwow University and the Universal College in Warsaw.

He has been also a strong supporter of closer Polish relations with Czechoslovakia.

It was on the 16th of September 1939, that he crossed Poland's southern frontier into Rumania and came to France.

After the collapse of France he left for Great Britain on the 20th of June 1940, sailing from Bordeaux on the British destroyer H. M. S. "ARETUSA".

Since 1939 he has been Minister of Finance in General Sikorski's Cabinet.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



M. S. SZYMCAK
MEMBER OF THE BOARD

October 15, 1942

Dear Mr. Secretary:

The Polish Minister of Finance, Mr. Henry Strasburger, I am advised, will be in Washington from November 11th to the 14th.

I have invited him to luncheon here at the Board, through the Financial Counselor. He promises to be here on the twelfth, at one o'clock.

Should like very much to have you attend, if at all possible. Have conveyed this message to your office this afternoon by telephone.

Cordially yours,

M. S. Szymczak
M. S. Szymczak

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

11, Bruton Street

London, W.1.

Mayfair 4195

October 22, 1942.

Dear Dr. White:

I should like you to have the enclosed letter, which I transmitted to Sir Frederick Phillips at the Treasury this morning, relative to the British proposals for the release of the impounded sterling of the film Companies.

I will keep you informed of further developments in this matter and trust that it will be possible to reach a conclusion shortly.

With kind regards,

Sincerely yours,

s/s F. W. Allport

F. W. Allport.

Dr. H. D. White
Cleridge's
LONDON W. 1.

C O P Y

11 Bruton Street
LONDON W.1.

October 22, 1942.

My dear Sir Frederick;

Mr. Hays has cabled me the text of the proposals relative to the release of impounded sterling that were recently transmitted to the Agreement film Companies in New York, and has also sent me their reply to these proposals, as enclosed, which I have been asked to transmit to you.

You will note that the Companies suggest in paragraph 4 of their reply that the amount of the transfer for 1942-43 be held open for further discussion. If this suggestion meets with the Treasury's approval, the Companies propose that all other provisions of the 1941-42 Agreement should remain in force pending such discussion and eventual agreement on the matter of the 1942-43 transfer. This suggestion is designed, of course, to avoid the confusion that would arise if the present Agreement should terminate before it is replaced by a further agreement or by some other acceptable basis of operation.

It will be greatly appreciated if the Treasury will consider the Companies' reply at an early date as the Companies are naturally anxious to complete arrangements for the release of the impounded sterling as promptly as possible. I shall be glad to discuss the specific provisions of the release agreement as soon as the Treasury is prepared to do so.

Yours sincerely,

F. W. Allport.

Sir Frederick Phillips, K.C.M.G., C.B.,
The Treasury
Whitehall
LONDON S.W.1.

C O P Y

1. All Companies will accept the proposal for altering the quota regulations as set out in memorandum attached to the proposal and hereto attached. It is respectfully pointed out that United Artists is now using the footage quota basis and that Universal Pictures cannot obligate its British licensee or distributor on quota matters since such is the sole responsibility of such licensee or distributor.

2. All Companies will agree to the suggested terms for the release for transfer into dollars of the sterling balances accumulated by the Companies at October 24, 1942. It is assumed that the plan of procedure used by the Companies and accepted by the Control Board and the Treasury for calculating the amount of remittances under the Film Agreement 1941-42 (defreezing agreement) will similarly be used in calculating the amount available for transfer at October 24, 1942.

3. The Companies stand ready to discuss immediately any technical details which may arise as to the date of the said release of dollars. The Companies suggest that only a very small percentage of the total sum should be retained after October 24 and then only for such period of time as will permit the individual companies to submit necessary audited figures to substantiate the exact amount due for remittance on the specified date.

- 2 -

4. We note the statement that the Chancellor of the Exchequer cannot at this time undertake to provide facilities for the transfer for the twelve months ending October 24, 1943, in excess of the sum of \$20,000,000. As we had been informed at the last conference that the matter of the 1943 transfer would be the subject matter of further negotiation, we suggest that the matter of the transfer for 1943 be held open for discussion, and that we be given the opportunity of presenting the reasons why there shall be no restrictions placed upon the remittal of our funds for the coming year.

5. The inherent right of Government to exercise its powers of taxation is recognized. However, the Companies respectfully suggest that they retain the right to protest any proposed tax which might be unfair and or discriminatory.

6. All Companies agree that the detailed drafting of the agreement may be done in London, concluding all matters herein referred to except as to next year's transfers, which as suggested above should be a subject of further discussions.

NOT TO BE RE-TRANSMITTED.

COPY NO. 3

BRITISH MOST SECRET.
U.S. SECRET.

OPTEL NO. 364.

Information received up to 7 A.M. 22nd Oct.

1. NAVAL.

NORTHERN WATERS: Photographic reconnaissance on 21st showed TIRPITZ, VON SCHEER and HIPPER under way at Narvik.

BLACK SEA: 10th. A Russian submarine sank a 6,000 ton ship off River Danube.

ATTACKS ON SHIPPING: From 17th to 20th Oct. (inclusive) 7 ships were reported to have been attacked by submarines. One U.S. ship sunk in northwestern approaches and a Newfoundland Passenger Ferry sunk in the Cabot Strait. Off Trinidad a British ship was sunk and a U.S. ship torpedoed but reached port. A U.S. ship was sunk in the Guiana area and a Dutch ship in the West Atlantic. A British ship was sunk on 30th September in the Freetown area. In addition a Russian ship was reported mined in North Russia. One British ship was reported overdue.

2. MILITARY.

MADAGASCAR: By 20th our advanced troops were 20 miles south of Ambositra. Prisoners captured at Svato now amount to 707.

3. AIR OPERATIONS.

WESTERN FRONT: 21st. 15 U.S. Fortresses attacked Keroman Port area (south of Lorient) and nine bombed Maupertus Aerodrome (Cherbourg). Hits reported on both targets. Preliminary reports indicate nine enemy fighters destroyed, six probably destroyed and 6 damaged. 3 bombers missing. 17 squadrons of Spitfires supported these operations. 3 Mosquitos bombed a factory near Norden, Leeuwarden Aerodrome and Stork works at Henglo. Mustangs attacked targets at Meppen and Lathan (Northwest Germany). A Hampden torpedoed a 3,000 ton ship west of Mandal (Norway). Six enemy aircraft flew over south coast. 1 destroyed, 1 damaged. Temporary dislocation caused to railway.

21st/22nd. 7 aircraft (1 missing) despatched sea mining. About 8 enemy aircraft flew over east coast. Damage caused was not extensive.

MALTA: 21st. A total of 195 high flying fighters some carrying bombs attacked Luqa and Takali without causing serious damage. 1 enemy aircraft destroyed, 1 damaged.

EGYPT: 19th/20th. One ship bombed in Tobruk Harbour and near misses made on three others. Landing grounds at Sidi Haneiso and El Daba were attacked. Enemy aircraft sank a tanker in Gulf of Suez.

21st. Strong attacks made on enemy landing grounds at Fuka and El Daba. Beaufighters destroyed or damaged 26 M.T. Vehicles, 2 railway engines and a small W/T station between Mersa Matruh and Gambut. 11 enemy aircraft shot down and 5 damaged, 12 of our aircraft missing.

BURMA: 20th. 12 Blenheims bombed landing grounds, railway sidings and buildings at Monywa.

RUSSIA: German bombers attacked strong points in northern suburbs of Stalingrad. Russian transport train and river transports were bombed in lower Volga area.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 372

Following is supplementary resume of operational events covering period 15th to 22nd October, 1942.

1. NAVAL

Northern Waters. TIRPITZ, HIPPER, SCHEER and KOLN are still in Norwegian waters. Russian submarines in the BALTIC have torpedoed the TRELLETORG Ferry Steamer when carrying German troops.

MEDITERRANEAN. 1 Destroyer, 1 ship (8,000 tons), 3 medium sized ships reported sunk by British submarines, 3 small ships and 1 other medium sized ship torpedoed, other attacks reported but details not available. Russian submarines claim 2 Roumanian Destroyers and a 6,000 ton Roumanian ship sunk in BLACK SEA.

Submarine Warfare. U-boats most active in North Atlantic. TRINIDAD, WEST AFRICA and CAPE TOWN areas quieter. 14 ships lost by U-boat during week. 4 ocean convoys totalling 79 ships arrived UNITED KINGDOM without loss but 9 ships lost out of 2 other convoys. 3 outward bound convoys totalling 79 ships arrived without loss. 1 promising surface attack and 2 promising air attacks on U-boats reported.

Trade. During week ending 17th imports in convoy into UNITED KINGDOM 684,000 tons, including 201,000 tons oil.

2. MILITARY

FAR EAST. BURMA. Small band of Allied guerrillas attacked a Japanese force which had penetrated into CHINA HILLS, casualties inflicted but later our guerrillas forced to withdraw. Japanese outposts north and west of MYITKYINA recently withdrawn but some indication of Japanese intention to advance in FORT HERTZ direction after the rains. Japanese strength in BURMA now estimated four divisions. One believed at RANGOON, 1 in CENTRAL BURMA, 1 covering western frontier and fourth stationed around MYITKYINA and along BURMA ROAD.

3. AIR OPERATIONS

WESTERN FRONT. LE CREUSOT. Course taken by Lancasters entailed a round flight of about 1720 miles, including 660 over enemy occupied territory. Identification easy. 81 aircraft dropped 256 one thousand lb. high explosive and 2,896 thirty lb. incendiary bombs. Works consist of two steel plants and a processing plant. It appears all 3 factories were hit and some buildings completely demolished. Other large scale daylight operation involved 90 United States bombers to LORIENT submarine pens. Owing to deterioration in visibility 69 turned back before reaching French coast. Remaining 21 were engaged in running fight with about 3 dozen Focke Wulfs 190. 15 bombers attacked, dropping 30 two thousand lb. bombs. Mosquitos continued light bombing attacks by day on various objectives in the Low Countries and GERMANY, and single seater fighters, American-built Mustangs, penetrated to GERMANY for the first time. One major night operation to COLOGNE was made under poor bombing conditions. 190 sorties in search of U-boats and 30 HISCAY patrols.

MALTA. Since 10th, casualties in the air. Enemy - 120 destroyed, 53 probably destroyed and 149 damaged. Ours - 31 Spitfires, 17 pilots safe.

MEDITERRANEAN. At least 6 Axis ships hit and 1 schooner sunk, including a 7,000 ton ship, 5,000 ton tanker, a 6,000 and a 4,000 ton ship torpedoed by naval aircraft.

RUSSIA. Owing to weather deterioration, less activity except in STALINGRAD area. Marked Russian activity in MOZDOK - TEREK sector, where bombers and fighters continuously attacked enemy land forces. KRASNODAR aerodrome raided 3 times. German Air Force heavily attacked Russian troops in STALINGRAD and communications on and east of the VOLGA. Railways behind most sectors of the front were bombed and much damage claimed to Russian rolling stock.

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

GENERAL NOTES. German Government has suspended all further insurance against war risks of property in the HAMBURG and BREMEN districts. Reliable informant reports that recent attacks have caused panic in some places in GERMANY, also apprehension even in towns not raided - for example, BADEN-BADEN where the Gauleiter appealed for calm and confidence. There is shortage of roof tiles and almost complete lack of glass. Stuttgart's emergency food supplies stored in KARLSRUHE were destroyed. Special relief arrangements for bombed areas are delayed. The first consignment of clothing, extra rations, etc., for KARLSRUHE arrived some six weeks after the attack.

SEA MINING. Between August 21st and September 23rd, 6 ships aggregating 2352 tons and 3 small Danish ships reported sunk and 5 ships totalling 7889 tons plus one small German ship damaged by mines in waters between DENMARK and SWEDEN.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British and Allied</u>		<u>Enemy</u>		
	<u>In the Air</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	35*	5	3	9
Fighters	2	59	44	26
Coastal	8	2	Nil	Nil
Total	45	66	47	35

* Includes 4 United States bombers omitted last week.

The totals for enemy fighters includes 48 destroyed, 38 probably destroyed and 19 damaged, claimed by United States bombers, omitted last week.

MIDDLE EAST (Incl. MALTA)

<u>British and Allied</u>			<u>Enemy</u>		
	<u>In the Air</u>	<u>On the Ground</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	4	1	19	11	20
Fighters	33	1	32	10	31
Others	1	Nil	1	Nil	1
Total	38	2	52	21	52

The crews and 10 pilots are safe.

Of the above, anti-aircraft destroyed 4 and damaged 3.

FAR EAST

<u>British and Allied</u>		<u>Enemy</u>	
	<u>In the Air</u>	<u>Destroyed</u>	<u>Prob. Destroyed</u>
Unspecified	5	23	1
		6	Nil
		22	Nil
		51	1

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

6. HOME SECURITY

Four factories damaged manufacturing ball bearings, arc lights, steel and boots, also a granary and a food store. Estimated civilian casualties week ending 6 A.M., 21st - killed 41, seriously wounded 96.

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NUMBER 54

SECRET

OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

October 15-22, 1942

Printed for the Board of Analysts

Copy No. 6

To Secretary of the Treasury

OCTOBER 15-22, 1942

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Office of Strategic Services

THE WAR THIS WEEK

In the face of notable air and naval losses, the Japanese continue their steady encroachment on the American position at Guadalcanal, and events are now shaping a final decision in the struggle for the southern Solomons. The recent concentration of Japanese effort in Middle Melanesia has been accompanied by withdrawals in New Guinea and the Aleutians and by quiet elsewhere in the Far East. The intensity and concentration of the current Japanese offensive is a measure of the store they set by conquest of this area—at once the base for harassment of the American lines of supply to Australia and an essential protective shield for the Japanese flank in the event of future offensive action against Siberia, China, or India. With the end of the monsoon, indeed, observers are canvassing the possibilities of a limited Japanese offensive into Assam which would seriously embarrass the already slender program of Allied air supply to China.

In the northern suburbs of Stalingrad the Germans have improved their position by driving a wedge through a factory district to anchor their lines on the west bank of the Volga. At the same time, northern Africa is prey to uneasiness: Axis defensive preparations in Egypt suggest expectation of a British attack, Nazi propaganda expresses "alarm" over an Allied invasion of Northwest Africa, and French authorities appear worried lest Mussolini exploit possible Tunisian disorders to invade that colony.

Suspense at Guadalcanal

The tempo of Japanese activity in the southern Solomons has declined momentarily, but the battle for Guadalcanal is

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apparently moving slowly toward a dramatic climax. The Japanese so far appear to have been unable to render our airfield untenable for any length of time, and for the present they have confined their efforts to occasional bombardment of our positions. This they have been able to accomplish with a certain amount of freedom, apparently, but not without suffering damage themselves.

Little ground activity has been reported since October 15, when Japanese troops on the island were reinforced with men and artillery put ashore under the protecting guns of a naval force, which included at least one battleship.

Despite these reinforcements, the Japanese may still be slightly outnumbered on the ground, and it is likely that some additional troops will be landed before a full scale attack is launched. The Japanese may also wish to develop their artillery positions further, since they appear to hold some tactical advantages for the use of artillery fire. Heavy and continued ground bombardment of our positions might well accomplish what Japanese bombers and Zeros have been unable to do. The Japanese positions, however, have themselves been under fire, both from our aircraft and our surface vessels, and it is unlikely that the situation on the ground will long remain static.

Air and Sea Action

Air and naval forces meantime have borne the main burden of the action. Our air forces at Guadalcanal continue to shoot down a disproportionate number of Japanese planes—19 out of 40 in one raid intercepted by Grumman Wildcats, with a loss of but 2 of our planes, and an entire flight of 14 bombers on another occasion, when anti-aircraft fire also contributed to the destruction.

Since October 15, our air attacks in the northern Solomons have resulted in reported damage to one heavy cruiser, and

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possible damage to two cruisers and an undetermined number of cargo ships or transports. In the southern Solomons, torpedo boats, planes, and shore batteries since the night of October 13-14 have reported damage to a battleship, two cruisers, some destroyers (not specified), and perhaps five transports, of which at least two were beached and destroyed. But no warships have been sunk, and the Japanese still have large forces available in this area for action, including both battleships and aircraft carriers.

No fleet engagements have been reported, although we have lost two destroyers. The Japanese shelled our Guadalcanal positions on the night of October 15-16 and again, October 17-18, after our vessels had shelled Japanese positions the previous night.

The Coming Decision

The seriousness of the situation on Guadalcanal is self-evident. In view of our present widely publicized handicap in fighting "a two-ocean war with a one-ocean navy," a decision in our favor would weigh heavily in psychological as well as in military results.

Since their defeat in the Coral Sea battle in early May, the Japanese in the Southwest Pacific theater have revealed a certain mental stasis. Their inability to proceed successfully toward the occupation of Port Moresby and the consolidation of their positions in the Solomons apparently surprised them. They have for some time underestimated their foe. When they were surprised and set back in the lower Solomons and at Milne Bay, the Port Moresby venture by sea became next to impossible, but the Japanese still attempted to accomplish all results at once—the overland capture of Port Moresby and the recapture of the Solomons. In the latter project, they have wasted much air strength and have given our forces more time to prepare against a

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serious counterattack than they had presumably anticipated.

The Japanese now apparently have decided to put all their Southwest Pacific eggs in one basket, regain Guadalcanal and perhaps start again where they were six months ago—before they lost the naval battle for Port Moresby. Meantime they are showing indications of strain both in air power and in shipping. On New Guinea, where they have been pushed back to within six air-line miles of their main forward base at Kokoda, no Japanese air forces have attempted seriously to challenge our air supremacy. At Kiska in the Aleutians, air interception of our continued bombing attacks has been virtually non-existent. The appearance near Kiska this week of two destroyers carrying crated cargo may indicate, not an attempt to "disguise" the destroyers, as press dispatches suggested, but a possible shipping stringency.

Limited Campaign in India?

In India, where the end of the monsoon season again brings the threat of Japanese action, observers believe the enemy is still capable of a limited offensive. With the probabilities of a major new campaign in Siberia steadily dwindling, and with an all-out campaign against India also unlikely, the Japanese might find their most favorable opportunity in a limited land campaign against Assam and Bengal. Such a campaign would be designed to impede still further our aid to China and possibly to gain a foothold for a later concerted sea-and-land attack against India, should Allied defenses be disrupted by internal disorder.

While there were evidences of some troop movements into Thailand during September, no large concentrations have been reported in Burma. Some reports have suggested small-scale Japanese movements northward from Akyab, but an overland offensive of any size in India is not yet in sight. The Japanese in Burma recently have been active in the con-

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struction and improvement of airfields, but these activities might be interpreted as indicating defensive rather than offensive intentions, since Japanese installations in Burma have been under increasing Allied air attack. The possibility of offensive action against India can not be ruled out, however. While a limited offensive toward Assam would meet severe obstacles of terrain and transport, it is believed that these difficulties are not insurmountable (see Appendix III). By occupying northern Assam, the enemy would double the length of our air route between India and China. Payloads would be reduced, and the chances of successful air interception would increase to such an extent that even our present "token" aid might end.

Mounting Economic Hardships in China

Such a reemphasis of Chinese isolation would come at a difficult time for China. This would be notably true with respect to the Chinese economic position. Drought, spring frosts, and locust plague have contributed to the development of a severe famine in the province of Honan. Chekiang and Kiangsi are suffering keenly from the looting and destruction of foodstuffs which accompanied the recent Japanese campaign in those provinces, and difficulties of transportation have reduced the beneficial results of the good harvests elsewhere in China.

Prices continue to spiral upwards. Heavy government war expenditures, only partially covered by taxation, have been met by the sale of bonds to official banks, which in turn use the bonds as cover for the issue of paper currency. Difficulties of production have led to increasing scarcity of consumer goods. The index of prices has registered the results. Wholesale prices, on the basis of an index of 100 for the first six months of 1937, rose to 1400 in June 1931; 2400 in December 1941; 4300 in April 1942; and 5930 by the beginning of September.

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Imported goods are almost prohibitive in price. Coffee and cocoa are CNC\$150 a pound; baking powder CNC\$110 a pound. A pack of American cigarettes, if it can be found, costs CNC\$100. Chewing gum is CNC\$15 a pack, while ice cream (illegal by government decree) is bootlegged at CNC\$10 a dish. Such luxuries can be dispensed with, but to low salaried American missionaries and relief workers it is a grim fact that evaporated milk is CNC\$75 a can, and that a second-hand suit of Western-style clothes, in reasonably good condition, costs CNC\$2,000.

The Mahasabha Turns to the United States

In India the official policy of repression, while producing a measure of outward calm, has as yet failed to eliminate popular discontent. Fabrication of bombs in the home is apparently becoming a popular indoor sport, and reports tell of the establishment of special classes in bomb-making at Bombay, and the planting of more than 20 bombs in one day in that city. Faced with this situation, the Hindu Mahasabha has appealed to President Roosevelt to intervene in the interests of Indian independence and the formation of a national government. The use of India as an Allied military base, the Mahasabha warns, is no longer merely a domestic problem, and unless decisive action comes quickly, it may soon be too late for a friendly settlement between India and Britain.

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SECRET

On the British side there is still no hint of compromise. But the arrival of General Auchinleck in India has aroused speculation to the effect that his appointment as either Viceroy or Governor of Bombay is in the offing. The terms of the incumbents of both these offices expire in April. Such an appointment might be meant as a friendly gesture toward India on the part of the London government, which considers that Auchinleck had a liberal record when he was Commander-in-Chief in India. New Delhi observers suggest, however, that General Wavell would object to the appointment as Viceroy of an officer junior to himself, and that hence the Governorship of Bombay is a more likely possibility. Meantime, one Indian member of the Viceroy's Council has predicted in confidence the further Indianization of that body in the very near future.

Encirclement in the Stalingrad Suburbs

The crushing German attack on the Dzerzhinski Tractor Plant in the northern suburbs of Stalingrad has apparently outflanked the Soviet defenders of the Rykov factories just to the south, and has given the Nazi attackers a northern anchor on the west bank of the Volga. In these newly-won positions the Germans will probably emplace artillery for counter-battery against the Russian artillery across the river. Meanwhile, the attackers have captured the Barricades Munitions Factory in the Rykov district. The defenders still control the Red October Metallurgical Plant and the nearby petroleum plant. But with the Germans again pressing the attack in the streets of the city proper, Stalingrad's chances of continued resistance are apparently diminishing.

In the Grozny area, the German advance toward Darg-Kokh has evidently reached the Russian main line of resistance. On the shore of the Black Sea the threat against Tuapse from the east has grown, as the Germans have

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advanced to a point almost within artillery range of the port. The classic Soviet tactic of defense in depth, however, is apparently proving effective in the wooded hills around Tuapse, which afford the Germans little scope for extended maneuver. North of Tuapse the Nazi column advancing toward the port of Gelendzhik has taken two villages.

Elsewhere on the front, rain and mud have paralyzed the opposing armies. And with the continued resistance of Stalingrad, Helsinki observers are becoming less confident about predicting an attack on Leningrad this autumn. The reported construction of fortified lines to the east of Narva, Estonia, and along the Luga River across the Russian border may indicate that the Germans have abandoned the idea of an assault and are making preparations for another winter of siege. Reports further suggest that the number of Nazi troops garrisoned in Estonia is still very low.

The End of the Military Commissars

The decree of October 9 abolishing the institution of military commissars is not so sweeping a change as one might at first suppose. A supplementary order of the Commissariat of Defense, coupled with editorials in the official press, have made it clear that political influence in the Army is not a thing of the past, but will now be in the hands of line officers (probably former military commissars), who will serve as second-in-command of the various Army units.

The chief objection to the previous system was apparently the division of command that it entailed. For this reason, during the Winter War with Finland, Stalin deprived the commissars of their military authority (subsequently, after the defeats of 1941, he revived this authority—apparently doubting the loyalty of some of the Army officers to himself

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and to the military system established after the purge of 1937). In the view of an American observer, the insuring of unity of command was not the sole motive behind the present change. Stalin had apparently become convinced that officers of all ranks were loyal to him, and he had developed personal ties with the principal generals. Moreover, the line officers themselves objected to the system—evidently feeling that they had proved their loyalty on the field of battle. Lack of confidence between officers and commissars was, moreover, impairing morale at the very time that the government was seeking to build it up in preparation for a winter of difficulties. Finally, there was a lack of officer material to replenish the ranks of both line officers and commissars; under the new system, many of the military commissars, after a short period of training, can become effective line officers.

The Second Front Again

Agitation by the Soviet press and populace for a second front has not diminished during the past few weeks. The chief notes still seem to be, first, that a second front is perfectly feasible, in view of current German troop dispositions; second, that if Britain and the United States do not open a second front this year they will be ignoring an implied promise. New themes have been added by one major-general, who has attempted to explode the theory of victory through air-power alone, and by the historian Eugene Tarlé, who has analyzed the miscalculations of British diplomacy in past wars. At least one speaker has made capital out of Mr. Willkie's statement that some people in Allied countries might need to be "prodded" on the second front issue—pointing out that Mr. Willkie was the personal representative of President Roosevelt and the political representative of 22 million voters.

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In analyzing the reasons behind this Government-sponsored agitation, one observer has suggested that it represents both an effort to put all possible pressure on Britain and the United States, and an attempt to deal with the disappointment of the Russian people, whom the Government had led to expect a second front this year. By placing the blame on the Anglo-Saxon countries, and by indicating that Russia is doing all in its power to induce them to open a new front, the Soviet Government may hope to deflect popular irritation from itself. Furthermore, the Government is apparently making an effort to acclimate the Red Army to the idea that it can expect no substantial relief from the West until next spring at the earliest.

Preparations in Egypt

Events in Egypt continue to indicate Axis defensive preparations in anticipation of a possible British attack. If such an attack should develop, observers suggest that in its early stages it will probably be far less a war of movement than previous desert battles, because both ends of the battle line are for the first time anchored to natural barriers. Moreover, both sides have organized defenses in some depth. Infantry and artillery would play a major role in this period of trench warfare, and the superior Allied supply situation in ammunition would be a favorable factor. Axis strength in medium tanks is now estimated at more than 500.

The continuing raids on Malta presumably have covered shipments to Rommel and perhaps to Tripolitania. During the first 6-day period of attack, small groups of JU-88's, escorted by about 50 fighters, conducted a continuous offensive against Malta that is estimated to have cost the Axis 92 planes destroyed, 35 probably destroyed, and 109 damaged. Planes from Crete and North Africa were brought to Sicily to participate in these raids.

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Axis Alarms Regarding Northwest Africa

Axis-controlled propaganda organs continue to voice their alarm over a coming Anglo-Saxon descent on Northwest Africa, an attack which, it is alleged, will be coupled with a British offensive in Egypt in a grand effort to drive the Axis out of Africa. The collaborationists in Paris are reported to be urging the Germans to take over the defense of North Africa to forestall the Allies, and German officers on the scene have frequently advised this step. Vichy, however, has as yet shown no sign of adopting such a program.

French shipments to Dakar have increased markedly during October, but this may be only to compensate for previous lags in supply. Meanwhile, Vichy has been developing airfields in the Dakar area. Rumors are circulating that Darlan and units of the Toulon fleet may shortly move to North Africa; but recent weeks have seen only very minor changes in the disposition of the French Navy. Press reports of major fleet movements are without foundation.

Problems in Tunisia

The Bey of Tunis is becoming increasingly restive under French control, according to several reports from Tunisia. His immediate efforts are directed at the removal of Admiral Esteva and at greater Arab participation in the government of the Protectorate. An American observer believes the Bey, who came to power only in June, is well liked by the populace. He and his entourage are reported to be willing to cooperate with Vichy, but they may be driven toward the Axis by the persistence of French authorities in their traditional colonial policy. For his own reasons, Laval would also apparently like to see Esteva displaced, though feeling that the latter's removal at this time might have the appearance of a concession to the Bey that would be detrimental to French prestige in the area.

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At the same time French officials in Tunis have once again expressed the fear that Mussolini is watching for any internal disorders in Tunisia which would favor his alleged invasion plans.

Laval Cautious as the Labor Program Meets Resistance

Laval's efforts to get French workers for the Nazis continue to meet serious obstacles, and it is quite evident that German demands will not be met, according to reliable advices from Vichy. Strong methods are producing minor results in the Occupied Zone, where the French Government is also resorting to heavy pressure to induce interned Spanish refugees to work for the Reich. In Unoccupied France Laval has encountered a wave of slowdowns and strikes, spreading from Lyon to almost a dozen other centers. Most of the strikers have returned to work, but slowdowns persist.

An example of Laval's difficulties is the report of a plant in the Lyon area in which 700 workers out of 4,000 were designated to go to Germany. Only 30 actually agreed to go. The rest were deprived of their jobs (the only sanction used to date in support of the September 4 decree). Unemployment is a serious threat, and the workers are now prohibited from enlisting in the French armed services as an escape. The Communists, however, promptly pledge up many of these thrown out of work, and seem to have enough money to support them. This development worries conservatives, already irritated by the Communist "monopoly" on patriotism. Some industrialists are, therefore, themselves reported to be supporting their patriotic unemployed.

Sensing (with characteristic accuracy) the depth of feeling aroused by this issue, Laval is acting with great caution. He is using police power to maintain order and minimize sabotage; but he has taken no judicial action against the strikers, despite the "illegality" of strikes in Vichy France.

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Indeed, Laval has shown no inclination to use force, and has apparently convinced the Nazis that the prestige of the police would be shattered if they should enter workers' homes to send the latter to the Reich. The Nazis are apparently not anxious to take upon themselves the onus of labor conscription, even in the Occupied Zone. They seem willing to secure what workers Laval can get, and in the meantime keep him in power under continual pressure, according to advices from Vichy. Pétain has expressed the pious hope that the world will sympathize with the difficulties of his Government's position.

Economic Aspects of the Occupation of Madagascar

British forces this week pushed slowly south of Ambositra into southern Madagascar, enveloping a minor French stronghold. Still ahead of them are understood to lie about 3,000 French and native troops; the British, nevertheless, have for some time enjoyed control of the important parts of the island.

Allied occupation brings to an end the two-year blockade of Madagascar. The simple native economy has not greatly suffered during this period, but normal exportable surpluses have decreased. Now the United Nations will have the opportunity to replenish their low stocks of high-grade graphite and mica, as well as to get small quantities of sisal, beeswax, and hides; and substantial quantities of foodstuffs should be obtainable for the use of our armies in Africa and the Near and Middle East. Increased production of these strategic materials for the United Nations can be obtained if fuel, vehicles, machinery, and consumer goods are sent to Madagascar.

Cabinet Crisis in Iran

The wheat problem has precipitated an acute internal situation in Iran, with the Cabinet reported as likely to resign.

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Increasing discontent over financial issues and the treatment of Iran by the United Nations has been brought to a head by the present failure of the British to meet Iranian demands for wheat, in the face of a shortage to which Allied consumption has largely contributed. The British apparently feel that supplies can be secured from the provinces and that wheat should be offered only on an exchange basis—to which the Irani object that "exchange" thus far has proved highly one-sided.

Chile Changes a Cabinet and Perhaps a Policy

Following arduous and skillful maneuvering by Chilean prodemocratic elements and an exchange of cordial messages between the Presidents of the United States and Chile, the political struggle set in motion by Sumner Welles' Boston speech has now developed its own momentum. As a result, former Foreign Minister Barros Jarpa has lost not only the initial psychological advantage which he gained by exploiting wounded Chilean pride, but his position in the cabinet as well. Without openly endorsing Mr. Welles' remarks and indeed explicitly rejecting their implied reflection on Chilean honor, anti-Axis forces adopted the tactic of supporting President Ríos and his decision to postpone his trip, but at the same time attacked Barros Jarpa as the chief obstacle to better relations with the United States. This pressure on Barros appears to be the immediate cause of the cabinet crisis which has now given Ríos his opportunity of changing foreign ministers and thereby taking a long step toward fulfilling Chile's hemispheric obligations.

Central American Contretemps

A spat between Presidents Ubico of Guatemala and Somoza of Nicaragua brought their respective countries this

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week to the verge of a diplomatic rupture, as both Costa Rica and the United States made last-minute efforts to mediate the dispute. The publication of an attack on Somoza in the government-controlled press of Guatemala City had brought an energetic protest from the victim. As the altercation developed, Somoza indicated his willingness to accept a token gesture of reproof against the author of the article; but Ubico remains adamant. Thus far, there is nothing to indicate that the controversy involves anything more than a personal and quite irresponsible feud between the two presidents. However, it has provided Axis agents and sympathizers in Central America with a first-class opportunity to increase hemispherical disunity.

Góes Monteiro Departs

On October 20, the Brazilian Government announced that General Pedro Aurelio de Góes Monteiro, Chief of Staff, has been granted an indefinite leave of absence "because of poor health". Since Góes has actually been ill for some time, observers are inclined to accept the official explanation. But this scarcely lessens the significance of his departure: the General had been until recently leader of the pro-Nazi bloc in the Vargas administration. His retirement from the scene should give no little encouragement to democratic forces within Brazil.

Cuba Establishes Relations With Russia

Cuba and Russia, hitherto estranged, have now established diplomatic and commercial relations. Soviet assistance to the Loyalists in the Spanish civil war, and, more recently, the gallant defense of Russian armies against Hitler, developed widespread Latin American sympathy for the U. S. S. R., especially in countries with well-organized anti-fascist move-

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ments. Recent statements by responsible political leaders in Uruguay and Mexico indicate that these countries may soon follow Cuba's example, and Colombia, according to its new Foreign Minister, Turbay, will shortly exchange diplomatic representatives with the Soviet Union, implementing its 1935 agreement.

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APPENDIX I

THE SOUTHERN RUSSIAN FRONT: SEPTEMBER 1- OCTOBER 21, 1942¹

The close of August 1942 brought with it a significant change on the Russian front. The Soviets abandoned their tactics of withdrawal, which had permitted the Germans to advance at an average rate of 15 miles a day throughout July and (in the Caucasus) through mid-August. Since the beginning of September the Nazis have made no important territorial gains on the Eastern Front (see map).

Soviet strategy has been consistent since the beginning of the war, and the campaign of 1942 has shown marked similarities to that of 1941. In 1941, the Russians made decisive stands, first to the east of Smolensk, and then at Leningrad, Moscow, and Rostov. This summer the Red Army broke off its retreat at Voronezh, Stalingrad, Grozny, and Tuapse. For two months the Germans have been unable to capture any of these points, and the front is tending to become as "positional" as modern mechanized warfare will permit. In 1941, the Soviets required five months' "withdrawal time" before they could contain the German blitz. In 1942 they needed only two months.

Prelude to the Struggle for Stalingrad

On July 29, 1942, mobile German forces arrived in the vicinity of Kletskaya, 80 miles northwest of Stalingrad, after driving eastward for almost a month. About the same time, German troops reached the west bank of the Don near Kalach, 50 miles due west of Stalingrad. One week earlier, the *Wehrmacht* had driven to Tsimlyanskaya, on the Don River midway between Rostov and Stalingrad, established a bridgehead in the face of stiff opposition, and struck south into the Caucasus. Despite continued Soviet air and ground attacks on the hastily constructed German pontoon bridges, the Nazis widened their bridgehead near Tsimlyanskaya. Fresh reserves turned toward the east and managed by August 5 to reach Kotelnikovo, 95 miles southwest of Stalingrad on the Stalingrad-Tikhoretsk Railroad. The stage appeared set for a conventional pincer movement with the points at Kletskaya and Kotelnikovo, perhaps buttressed by a German drive due east from Kalach.

At this point, however, although heavy front-line clashes continued, the German forward advance stalled. The necessity of converting the Likhaya-Stalingrad Railroad as far as it had been captured, of amassing supply reserves, and of bringing up fresh forces probably all played a part in the delay. The Stalingrad front did not change appreciably until August 21. Then the Russians acknowledged that German tanks had forced a break in their lines at Kotelnikovo, and by August 25 the Germans were 25 miles southwest of Stalingrad. Northwest of the city, German tank and troop crossings of the Don near Kletskaya began on August 20, and on August 25 the Russians admitted German successes in the Don-Volga corridor. August 25 is generally accepted as the date the direct push on Stalingrad began. By the end of August the

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

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pincers had closed to Kachalino and Abganerovo at least. Then came another lull while the Germans gathered strength for what they had probably planned as the final blow.

The Battle of Stalingrad.

This blow came on September 7 when, abandoning their attempts to encircle the Soviet defenders, the Germans struck in a frontal attack from the neighborhood of Kalach. German attacks from three sides followed in rapid succession through September 15. Then began the unparalleled house-by-house resistance of the Russians, as German forces finally drove into the city's outlying streets.

The tactical details of the Stalingrad struggle since mid-September do not merit extended discussion. Gains and losses of either side were measured literally in streets and even in houses. During the first few days in October, however, increased Russian pressure began to make itself felt north of the city. Ten Russian divisions from Western Siberia joined the defenders, perhaps striking from the neighborhood of Kletakaya and Kachalino, in an effort to drive in the Germans' exposed left flank and trap the Axis forces fighting within Stalingrad itself.

On October 9 the Berlin radio announced that the German High Command had changed its tactics. The doggedness of Russian resistance and mounting German casualties (Moscow claimed the latter had reached 200,000 killed) compelled the utilization of heavy artillery and dive-bomber barrages to reduce the city before German infantry could take possession. The threat on Stalingrad's north flank remained strong, and may well have been one reason for this German move. October 11 marked the first lull at Stalingrad in 48 days. Four days later, however, the Germans resumed the attack, with two infantry divisions and 100 tanks driving at the northern suburbs of the city.

Meantime, at Voronezh, the Russians maintained the initiative against the northern anchor of the German offensive. This threat of a major action may have prevented the Germans from shifting forces of significant size to the Stalingrad area.

The Caucasus

By September 1 the German forces which had passed through Rostov on July 24 had captured Temruk and Krasnodar in the western portion of the North Caucasus, had occupied most of the oil fields of Maikop, and were advancing toward Novorossiisk and Tuapse. To the east, fighting had reached the vicinity of Mozdok. In this sector the Russians had halted their withdrawal about the middle of August, and German progress became slower and costlier. The battle for Stalingrad, at the same time, did not permit the invaders to strengthen their Caucasian armies.

On September 1, the Germans captured the small Black Sea port of Anapa. Mopping up the Taman Peninsula, opposite Kerch, the Nazis entered Tamanskaya on September 5. By September 6 the Germans had reached Novorossiisk, but were unable to capture this important Black Sea port and naval base until the twelfth. Fighting in this area has continued on a moderate level since mid-September, but the Germans have made no further substantial progress.

The eastern prong of the Caucasus drive has likewise made little headway.

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probably owing both to a lack of reserves and to stronger Russian resistance. During September the Germans made no concrete gains. With the beginning of October, however, they began to exert stronger pressure along the railroad loop east and south from Prokhladnaya. The Germans claimed to have stormed Elkhotovo on October 3, and Malgobek, about 20 miles south of Mozdok, on October 7. The Malgobek claim has been specifically denied by the Russians. The indecisive nature of the fighting in this area suggests that any concrete German gains probably must await a decision at Stalingrad.

Air Losses

The following tables summarize the official communiqué figures on air losses of both sides from late August to the present:

A. RUSSIAN REPORTS

Week ended	German losses claimed	Russian losses admitted
Sept. 6.....	460	250
Sept. 13.....	415	281
Sept. 20.....	310	205
Sept. 27.....	206	156
Oct. 4.....	257	137
Oct. 11.....	123	78
Oct. 18.....	130	49

B. GERMAN REPORTS¹

Period	German losses admitted	Russian losses claimed
Aug. 25-Sept. 4.....	49	1,062
Sept. 6-7.....	5	168
Sept. 9.....	4	137
Sept. 10.....	8	128
Sept. 12-14.....	23	227
Sept. 15-28.....	77	990
Sept. 29-Oct. 9.....	36	459

C. AIRPLANE LOSSES FOR THE MONTH OF SEPTEMBER²

Russian		German	
German claims	Russians admissions	Russian claims	German admissions
2,134	915	1,435	141

¹ Occasional German reports furnish no data for September 8, 9, 11.
² Where necessary, linear interpolation was used.

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Both sides agree that this summer's air conflict reached its peak of intensity during the first two weeks of September—including the first week of the assault on Stalingrad. Press reports of 1,000 German planes attacking Stalingrad check with available information on Nazi air dispositions and with the Russian estimate of 1,500 sorties on certain days. The Germans sustained activity at a high level for a period of three weeks, after which they reduced their scale of air combat; the Russian figures for the past week are, in fact, the lowest since mid-April. It is possible that this reduction stemmed from a decision to shift planes held in reserve near Stalingrad to other parts of the front, as, for example, Leningrad. Yet in view of the Germans' apparent resolve to take Stalingrad at all costs, such a supposition seems unlikely. One can reasonably conclude that heavy losses and a lack of adequate replacements on the part of the Germans have been the chief reason for the recent decline in air activity.

APPENDIX II

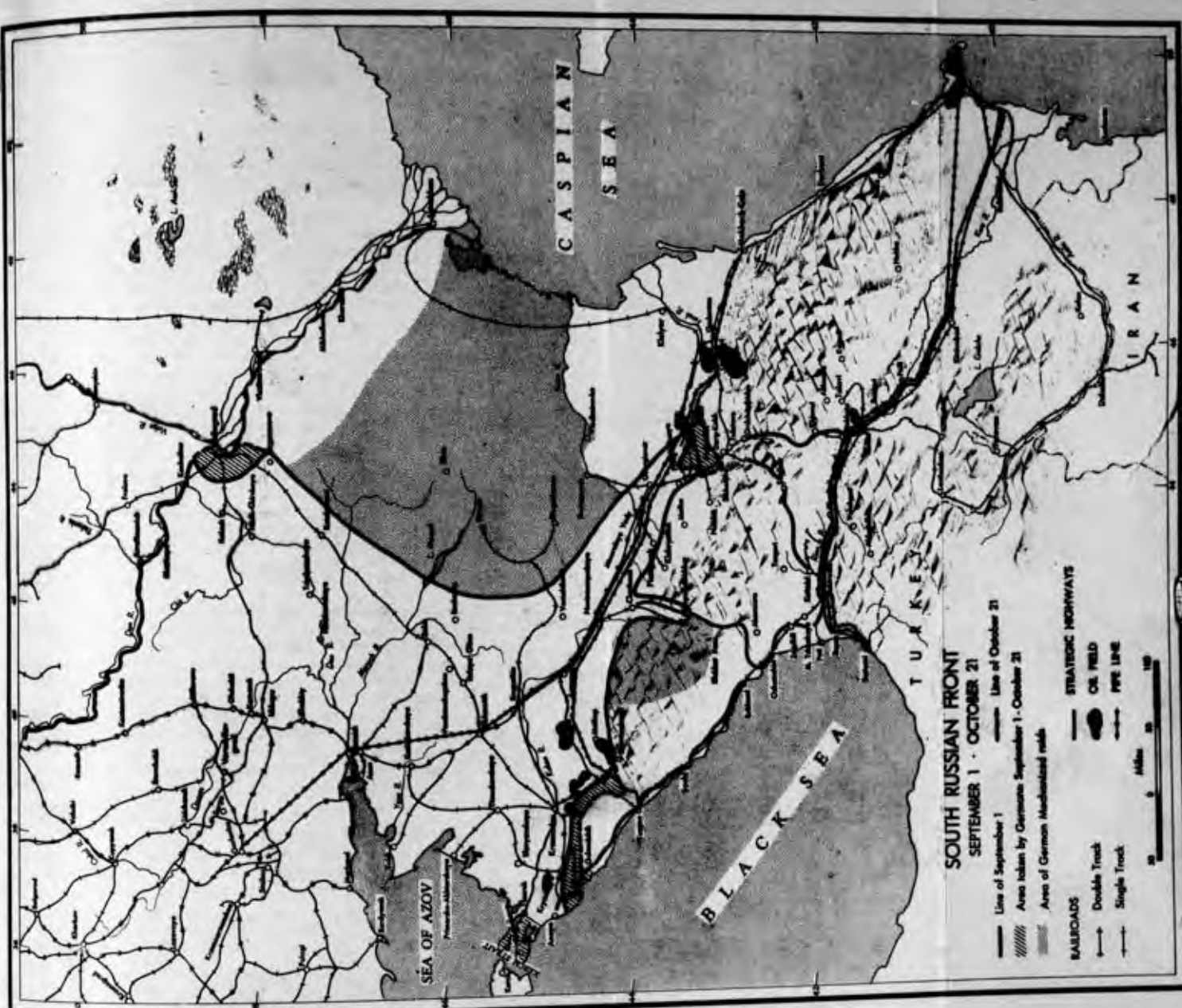
GREEK FOOD OUTLOOK FOR 1942-43¹

Last winter the Greek food situation was the most critical in all Europe. Today, conditions are slightly less ghastly—not because there has been any basic improvement, but because since last April the Greeks have been receiving monthly shipments of wheat from Canada. Although the goal is 15,000 tons monthly, shipments have probably not been up to that level. However, the fate of the Greek people during the coming winter seems almost wholly dependent on the continuance of such shipments, which, although meager, spell the difference between life and death for the million inhabitants of the Athens-Piraeus region. It is in this urban area that suffering has been most intense. The self-suppliers in the provinces have fared badly, but in general have managed to ward off actual starvation.

Conditions, 1941-42

In the Athens-Piraeus region last winter, death from starvation became very common. The toll was heaviest among the homeless war refugees, many of whom, weakened by undernourishment, succumbed to the cold. After a bitter night, garbage trucks would gather up the stiff bodies from doorways and the recesses of buildings, along with the refuse, for burial in mass graves. Among the regular inhabitants the suffering was less spectacular, but little easier to bear. In the popular quarters, about half the families had one or more of their members in bed, suffering from physical weakness and sometimes mental deterioration, due to undernourishment. Among all classes were (and doubtless still are) found oedematous swellings, which begin at the extremities and gradually consume the entire body. The simplest cure for these swellings is a small quantity of olive oil and lemon juice; but olive oil, like all other fatty food, is unavailable in the urban areas.

¹ Based on a memorandum prepared by the Economics Division of the Office of Strategic Services.



SOUTH RUSSIAN FRONT

SEPTEMBER 1 - OCTOBER 21

Line of September 1 Line of October 21

Area taken by Germans September 1 - October 21

Area of German Mechanical units

RAILROADS

Double Track
Single Track

STRATEGIC HIGHWAYS

OR FIELD
PVC LINE

0 50 100 Miles

Rations

When one considers the meager rations on which the Greeks in this area have been largely dependent, the record of mass starvation is not surprising. The only food which the Greek Government has even attempted to distribute regularly is bread. Normally, average bread consumption amounted to 160 kilograms a year (about 438 grams daily), supplemented by 90-100 kilograms of other foods—chiefly potatoes, meat, olive oil, and dried vegetables. Until May, 1941, the Government managed to distribute a daily ration of 320 grams of bread. From that time on, until December, the ration steadily decreased, and at times ceased altogether. In mid-December the ration was 150 grams daily—about one-third of pre-war consumption. Moreover, the quality of the bread had deteriorated seriously, and consisted of 60 percent corn flour to 40 percent wheat flour. In January, rations were reduced to 128 grams, and were made entirely from corn flour. After that, distribution ceased altogether for several weeks.

During the summer and early fall of 1941 there were a few small distributions of other foods, such as meat, rice, sugar, and olives. In November, 300 grams of dried vegetables per person, from the International Red Cross Committee, were disbursed. In December, 80 grams of olive oil—the first in eight months—and 600 grams of sugar—the first in six months—were distributed.

Food from Other Sources

Besides the government's distributions, some non-rationed foods were available and some rationed foods could be obtained on the black market during the summer of 1941. There were enough of these in the Athens-Piraeus area to enable the average person to eat fairly well—at prices five times higher than before the war. Since last autumn, however, difficulties of communication and exhaustion of reserves have about dried up these sources of supply.

Communal Feeding

During the winter months, communal feeding became increasingly important. Soup kitchens for the people were operated in most urban areas, both before and during the war. After the war, when famished and homeless refugees began to flood the cities, an effort was made to extend these facilities. Most of the food-stuffs which it was possible to centralize were set aside for these canteens. But they by no means met the need. By the summer of 1942, some half a million persons were being served—not always a meal each day, but in some cases a meal every second day. The rations were small, of poor quality, and without any trace of fat. But even operations on such a scale would have been impossible without the shipments from the International Red Cross Committee, which sent in dried vegetables, chiefly from Turkey.

Reasons for Food Crisis

In order to judge whether, in the coming winter, the food situation will show any improvement, one must understand the reasons for the current shortages. The very grave situation in 1941-42 resulted chiefly from:

1. complete cessation of commercial imports after the armistice;
2. greatly reduced domestic supplies;
3. the breakdown of the distributive system within Greece itself.

Even in peacetime the Greek people were less well nourished than those of many other nations. Only 15 percent of the land was cultivated, and the nation depended on imports for nearly half its food supply. Greece was self-sufficient only in fruits, fresh vegetables, wine, and olive oil.

Cessation of imports, then, had very serious results for the Greek people. Before the Red Cross arranged regular shipments from Canada in the late winter, no systematic provision was made for any food to be received from overseas. Germany and Italy apparently each sent small quantities. Serbia also may have sent some. But total Axis shipments very probably were not more than just sufficient to furnish 4 to 4½ ounces of bread daily to the million inhabitants of the Athens-Piraeus region.

Such Axis shipments as were made cannot be considered net additions to Greece's food supplies. Although the Italian army of occupation has been supplied from Italy, the German forces are living off the country. Moreover, the relief to the food situation expected in the summer of 1942 as a result of seasonal vegetable and fruit crops was lessened by the presence in Greece of a large number of German civilians, and by shipments to Rommel's army in Africa.

At the same time, domestic production in 1941 was curtailed by as much as one-third to one-half of the pre-war period. Perhaps the greatest blow to Greece was the cession to Bulgaria of eastern Macedonia and western Thracia, areas of highest yields. These lands, in fact, had constituted Greece's granaries. They had also accounted for over one-fourth of Greece's livestock. Even on the Greek territories remaining, crop yields fell very low, due to shortages of labor, draft animals, power, and fertilizer.

Even if domestic production had been considerably greater, the food situation in the Athens-Piraeus area would not have been markedly different, because the distributive system broke down almost completely. This breakdown was due partly to lack of transportation facilities, which had been drastically reduced by army requisitioning of vehicles and by the fuel shortage.

After the armistice, the Government was left with very low reserves; and all its measures to procure foodstuffs from producers—particularly cereals, oil, dried vegetables, potatoes, and fruit—have failed completely. It is believed that the Athens Government acquired virtually none of the 1941 harvest, and there appears to be small prospect of its faring any better with the 1942 crop. Of the breadgrain harvest, now estimated to be about 300,000 tons, the government has requisitioned barely 35,000 tons. Such a quantity would be sufficient for only 4 ounces of bread per person daily if the distribution were confined to the million inhabitants of the Athens-Piraeus region. Spread over all the non-producers in Greece, the daily ration would be infinitesimal.

It seems doubtful, however, whether the Government will be able to collect even this small requisition from the Greek peasants. The Government has also requisitioned the entire 1942 olive crop, estimated at about 100,000 tons. But lack of transportation, as well as peasant resistance, is reported to be hampering its movement, and the Germans seem to have made no attempt to remedy this situation.

Outlook for 1942-43

The fate of the people in the Athens-Piraeus region during the coming winter, therefore, seems to depend chiefly on what can be acquired from overseas. At

present, the only agreement in operation appears to be the one made through the International Red Cross Committee, for Canadian wheat; but Argentina has also promised to send some. If 15,000 tons were distributed monthly in the Athens-Piraeus area, it would provide a bread ration of 450-500 grams daily—or about the pre-war average bread consumption. It would, however, constitute virtually the entire diet of these people, with the exception of the meals served in soup kitchens.

The continuance of these soup kitchen meals is at present not assured. Where the peas and beans to provide them are to come from is still unsettled. Last winter, most of them came from Turkey; but available stocks there are now exhausted, and blockade authorities refuse to admit them from other Middle-Eastern countries. Recently, the Greeks proposed substituting 2,000 tons of dried vegetables for 2,000 tons of the wheat from Canada. In September the Greek Legation asked for 2,000 tons of dried vegetables and beans a month from Lend-Lease. But, so far as is known, no definite arrangement has yet been made.

If Greece received regularly the supplies asked for, the 1942-43 winter would be somewhat better than 1941-42, especially if the Germans made some provision for the Greeks to obtain control of olive oil supplies. With bread, dried vegetables, and olive oil, most of the population should be able to survive. At present, however, there is no certainty that even the Canadian wheat shipments will be continued—chiefly because their continuance depends on transportation in neutral Swedish vessels. If Sweden enters the war, the program will collapse—at least temporarily—until some other arrangement can be made. There is, in any event, no cause for optimism concerning the coming winter in Greece.

APPENDIX III

ROUTES AND TERRAIN ON THE BURMA-INDIA BORDER¹

At a time when the Japanese may be very reluctant to undertake a full-scale attack on India, they might well soon envisage a campaign of limited liability, calling for the occupation of the upper Brahmaputra Valley, with the objectives of cutting the India-China air route, capturing India's main domestic source of oil, and establishing a "jumping-off place" for a possible wider drive to the west and south. Japanese occupation of northern Assam would almost double the length of the air route between India and China and would so reduce pay-loads and increase vulnerability as practically to eliminate even the token value of the route.

Analysis of the terrain of the India-Burma borderland indicates not only that such a limited attack would be feasible from the viewpoint of supply routes, but that once having seized this sector the Japanese would be hard to dislodge (see accompanying map).

The most probable route for such a "limited offensive" runs from Ye-U in Burma to Manipur Road in Assam. This line, supplemented by the use of

¹ Based on a memorandum prepared by the Geography Division of the Office of Strategic Services.

water routes for the first 100 miles is the only one in this region which possesses real military utility, and would apparently suffice to carry the volume of matériel necessary for an expedition of this scope.

Possibilities of Attack and Defense

Once at Manipur Road, the Japanese would encounter no significant natural obstacles to seizing the oil fields and refineries at Digboi. To take Sadiya—the key landing area on the India-China air route—they would have to cross the Brahmaputra by ferry or pontoon bridge, not a particularly difficult feat, since the river here is relatively narrow and is reported to have comparatively little swampy land along its margins. Furthermore, in their advance into Assam, the Japanese would have greatly weakened the defenders in the upper Valley by capturing their supply routes: the Brahmaputra, the all-weather road south of it, and the Assam-Bengal Railway. Since Allied communications along the northern side of the river would be extremely tenuous, due to the dense tropical forest, the turbulent Himalayan streams, and the virtual absence of trails, the Japanese invaders would have a strong strategic advantage.

Attempts by United Nations forces to oust the Japanese from the valley would encounter tremendous natural obstacles if the enemy should succeed in pushing our covering forces from the Garo, Khasi, and Jaintia hills. On the south face of these Assam hills is a steep, rugged escarpment, 4,000 feet high in places and covered with an extremely dense tropical forest. The rainfall here is very heavy (424 inches annually at Cherrapunji compared, say, to approximately 40 inches at Washington). Only two routes traverse the hills from south to north—the road from Gauhati to Sylhet and the railway from Luming to Silchar. Both these routes could be effectively blocked at the southern escarpment where the railroad passes through six vulnerable tunnels. Once established in this range, the Japanese should feel relatively secure in their grip on northern Assam.

Barriers of Weather and Terrain

One reason why Japan has not pushed this overland assault before now has been the weather over the Bengal-Assam area. During the rainy season all land approaches to the Brahmaputra region from Burma are impassable to wheeled traffic; only pack animals and troops on foot can negotiate the roads, and these only with difficulty. In the mountains torrential rains destroy the light bamboo bridges, make crossing by raft or boat exceedingly dangerous, and cause landslides along the trails. Moreover, clothes tend to rot from constant wetting; weapons rust quickly; tropical diseases take their seasonal toll.

The monsoon, however, is now lifting, and the roads and trails of this district, such as they are, will soon be usable. If the Japanese push is to occur, it can begin at any time now.

The area which the attack would traverse is sparsely populated. The valley of the Chindwin River makes up the eastern section. In the west an unbroken line of mountains extends southward from the Himalayas. These ranges are narrow and at several places may be crossed at an altitude of about 6,000 feet. However, their steep slopes, constricted valleys, heavy rainfall, and inadequate roads have previously proved a formidable block to invaders.

The Main Route

Starting from the Burma State Railway, the Ye-U-Manipur Road route is passable in fair weather as far as Palel, across the border, and at all seasons from Palel to Manipur Road—which is on the Bengal-Assam Railway. Its total length is 386 miles.

The auxiliary water route, using the Chindwin River to Kalewa and Sittaung, is of great significance, since it would enable the Japanese to transport heavy equipment to the base of the main mountain range without overcrowding the roads. In fact, if the Japanese do plan an attack here this fall, they will undoubtedly already have shipped this matériel as far as Kalewa, since, during the dry season just beginning, the freight capacity of the river dwindles from 20,000 tons a month to 3,000.

A rough estimate of the volume of traffic which the road from Ye-U to Manipur Road can handle was obtained in the civilian evacuation of Burma last spring, when a capacity of 160 motor buses a day was reached. Subsequently, the section of the road still held by the United Nations was improved, and it can be assumed that the Japanese have worked on the parts which they control. The road, therefore, should be capable of accommodating moderate troop movements. Whether the section from Ye-U to Kalewa could carry the heavy equipment and the supplies required for a more ambitious invasion of India proper is very dubious.

Section by Section

As of June, 1942, the condition of this road was reported to be as follows:

1. From Ye-U on the Burma State Railway to Kaduna, about 20 miles north, the road was passable by motortruck all year.
 2. From Kaduna 67 miles west to Kalewa on the Chindwin River the route was a rough track under construction but passable during the dry season.
 3. From Kalewa to Tamu, 101 miles north, the road was under construction through level to rolling country with dense jungle. Most rivers were fordable during the dry weather, but ferries were needed at some points, and bamboo bridges required reinforcement. The last 18 miles were metalled but so narrow and winding that speeds in excess of 10 miles per hour were impracticable.
 4. From Tamu to Palel (35 miles northwest) the road climbs 4,500 feet to the crest of a mountain range, then descends 2,500 feet to Palel at the edge of the valley in which Imphal is located. This section was dangerous at all times and became impassable during the rains. Where the road cut through shale and rubble, serious landslides were expected during the wet weather. At the north end of this section, the road descends steeply to Palel.
 5. From Palel to Manipur Road, 163 miles north, the route is metalled and open in all weather. Relatively level to a point about 20 miles north of Imphal, the road then enters the Naga Hills, becoming narrow and winding. One-way traffic operates on schedule to permit passing at a point 67 miles south of Manipur Road. The highest elevation is 6,000 feet.
- Good defensive positions on the route are located in the section between Tamu and Palel and along the narrow mountain road between Imphal and Manipur Road. There is some possibility that either defenders or invaders might utilize a route leading from Imphal approximately 85 miles west to Silchar, which is on the railroad and the navigable part of the Surma River. This route, which

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includes 55 miles of pack trail, climbs 2,500 feet over the mountains, and then descends 4,000 feet to the Surma Valley. It affords excellent defensive positions but introduces serious transportation problems for all but light troops.

Alternative Routes

In general, routes from Burma to India lying north and east of the Ye-U-Manipur Road decrease in military significance as one goes northward.

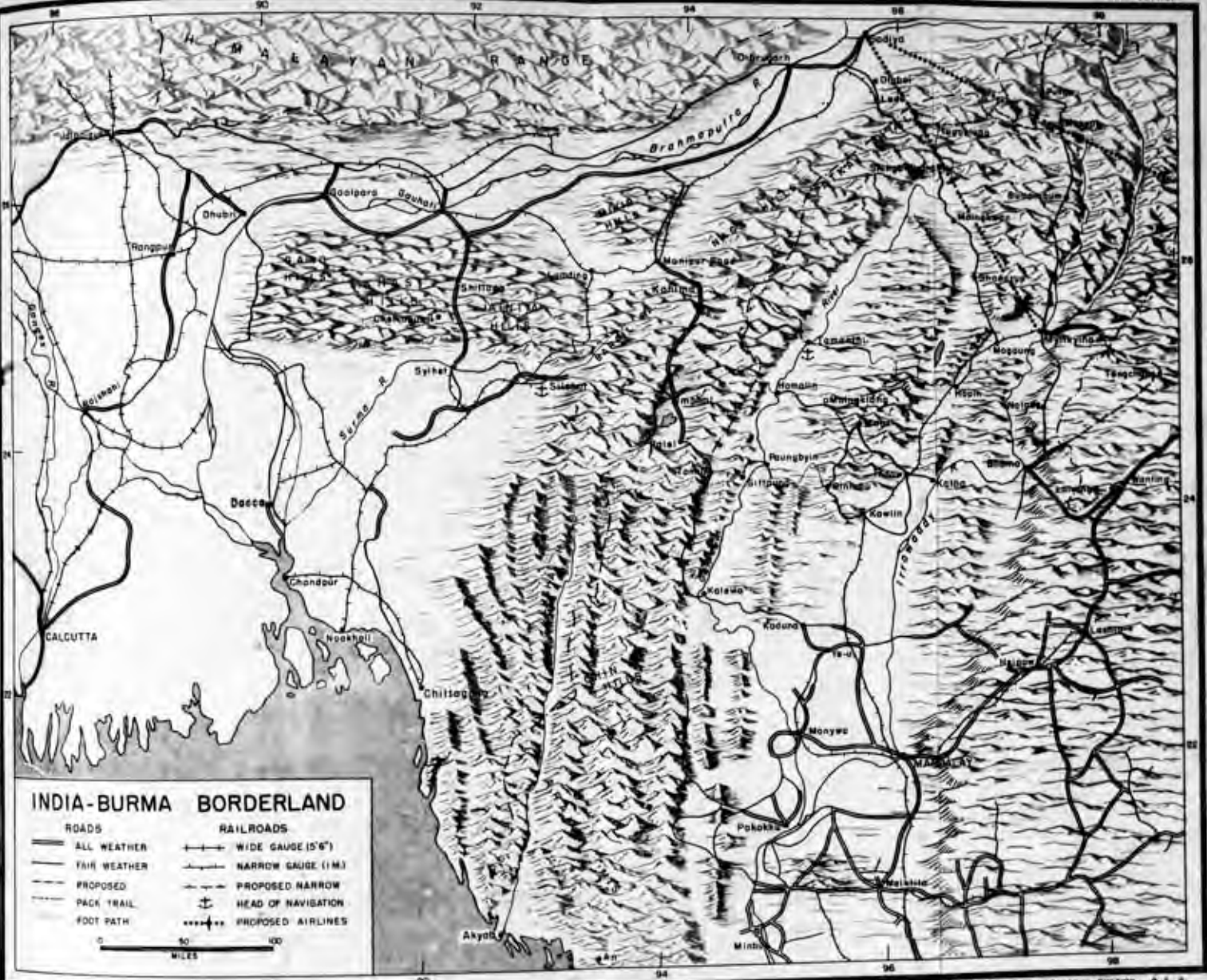
(a) The southernmost route, which starts from Kawlin on the Burma State Railway, has been generally used by pack animals and pedestrians, and the 36-mile section from Sittaung to Tamu (described as a graded elephant path) might be improved as a supply route from the Chindwin River.

(b) Part of the next route north might be used as a link between the Chindwin at Homalin and the town of Imphal. As the distance in this case is 75 miles over foot trail, it appears probable that this route would be used only by light troops seeking to cut off defenders fighting farther south.

(c) Another trail from Tamanthi, head of wet-season navigation on the Chindwin, to Kohima north of Imphal, joins the road at a critical point but is too long and difficult to be important (157 miles, half pack-trail, half foot-path).

(d) The next trail to the north leads from Mogaung 280 miles to Ledo. In the dry season, motor trucks and bicycles use this route for about 75 miles to Maingkwan, and carts can travel to Shingbuiyang, 30 miles farther. North of this point the route becomes an extremely precipitous trail through the mountains to an improved stretch of about 25 miles near Ledo. This route might be made passable for vehicle traffic and one "jeep" is said to have traversed the entire length during the dry season. However, unless improved since June, 1941, it should be considered only a potential route for light troops attempting a diverting attack on the defenders' rear.

(e) The northernmost route from Myitkyina through Monyak to Ledo is long (393 miles) and is too difficult for any extensive military use. Large parts are passable only on foot and a preliminary survey indicated that improvement for military traffic was impracticable.



October 23, 1942

MEMORANDUM

Because of the decrease in mail receipts this week, and the fact that no new subjects were discussed by correspondence, the weekly mail report will be omitted. Statistics on the current week, together with quotations from some noteworthy letters, will be combined with those of the forthcoming week in the abstract dated October 30.

J. G. Forbush

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

October 23, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended October 14, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

(Init.) E. M. B.

inc:10/26/42

C
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P
YFEDERAL RESERVE BANK
OF NEW YORK

October 22, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended October 14, 1942, showing dollar disbursements out of the British Empire and French Accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosures

Copy:ims:10/26/42

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS			CREDITS					Net Incr. (+) or Decr. (-) in \$ Funds (d)	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Total Debits		Gov't Expenditures (e)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
First year of war*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(f)	416.6(f)	449.7	1,095.3(g)	900.2	195.1(h)	+229.0	
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1	
Second year of war**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1	
Third year of war***	1,235.6	904.8	330.8	1,361.5	21.8	5.5	1,334.2	+125.9	18.5	-	18.5	4.4	-	4.4	- 14.1	
1942																
Sept. 3 - Sept. 30	56.1	37.1	19.0	81.6	-	0.5	81.1	+ 25.5	10.1	-	10.1	0.4	-	0.4	- 9.7	
Oct. 1 - Oct. 28																
Oct. 29 - Dec. 2																
Dec. 3 - Dec. 30																
WEEK ENDED:																
Sept. 23	11.8	7.2	4.6	11.1	-	-	11.1	- 0.7	-	-	-	0.1	-	0.1	+ 0.1	
30	12.3	7.9	4.4	21.0	-	-	21.0	+ 8.7	10.1	-	10.1	0.1	-	0.1	+ 10.0	
Oct. 7	21.6	15.3	6.3	14.6	-	-	14.6	- 7.0	-	-	-	0.1	-	0.1	+ 0.1	
14	6.3	3.8	2.5	14.6	-	-	14.6(f)	+ 8.3	-	-	-	0.1	-	0.1	+ 0.1	

Average Weekly Expenditures Since Outbreak of War
 France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) 27.6 million
 England (since June 19, 1940) 34.3 million

Transfers from British Purchasing Commission to
 Bank of Canada for French Account

Week ended October 14, 1942
 Cumulation from July 6, 1942

162.7

million
 million

*For monthly breakdown see tabulations prior to April 23, 1941
 **For monthly breakdown see tabulations prior to October 8, 1941.
 ***For monthly breakdown see tabulations prior to October 14, 1942.
 (See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (e) Includes payments for account of French Air Commission and French Purchasing Commission.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) Includes: \$4.9 million received from Defense Supplies Corporation in connection with the purchase of Australian wool;
\$4.5 million deposited by British Ministry of Supply;
\$1.0 million to be held for credit of U. S. Army.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended October 14, 1942

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS			CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds
First year of war*	323.0	16.6	306.4	304.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war***	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.9
Oct. 1 - Oct. 28																
Oct. 29 - Dec. 2																
Dec. 3 - Dec. 30																
WEEK ENDED:																
Sept. 23	9.3	-	9.3	9.8	3.6	-	-	6.2	+ 0.5	0.7	-	0.7	0.5	-	0.5	- 0.2
30	17.0	-	17.0	20.0	4.6	-	-	15.4	+ 3.0	13.0	10.5	2.5	14.5	-	14.5	+ 1.5
Oct. 7	8.2	-	8.2	11.0	3.0	-	-	8.0	+ 2.8	0.6	-	0.6	1.9	-	1.9	+ 1.3
14	20.1(a)	-	20.1	16.6(a)	9.8	-	-	6.8(b)	- 3.5	0.8	-	0.8	10.7(c)	-	10.7	+ 9.9

Weekly Average of Total Debits Since Outbreak of War

Through October 14, 1942 \$ 8.4 million

*For monthly breakdown see tabulations prior to April 23, 1941.

**For monthly breakdown see tabulations prior to October 8, 1941.

***For monthly breakdown see tabulations prior to October 14, 1942.

(a) Reflects changes in all dollar holdings payable on demand or maturing in one year.

(b) Does not reflect U. S. Treasury bill transactions.

(c) Includes \$2.7 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

(d) Includes \$10.0 million to be held for credit of U. S. Army.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 367

EGYPT.

Eighth Army offensive started at ten p.m. 23rd according to plan after 20 minutes intensive artillery bombardment by 800 guns.

Northern Sector. By three thirty a.m. 24th our troops had captured their first objective and by five thirty a.m. succeeded in the main in reaching their final objectives. By six twenty a.m. a portion of our armoured formations with one brigade of Second New Zealand Division were starting to pass through the gaps in the enemy minefields created by our initial advance. At ten a.m. Ninth Australian Division, First South African Division and 51st Highland Division of Thirtieth Corps had reached points three and half miles west of TEL EL AISA and one mile south east of DEIR EL DHIB.

Central Sector. Fourth Indian Division of RUWEISAT RIDGE raided as far as one mile south east of DEIR EL SHEIN.

Southern Sector. By five twenty-five a.m. 24th our advanced elements had reached three miles west of QARET EL HIMEIMAT but later were heavily counter attacked by tanks and forced to withdraw. Our troops in this sector were delayed by machine guns and anti-tank guns in the foremost enemy minefield and had some difficulty in clearing the second minefield.

NOT TO BE RE-TRANSMITTEDCOPY NO. 23BRITISH MOST SECRET
U.S. SECRETOPTEL NO. 365

Information received up to 7 a.m. 23rd October.

1. NAVAL.

A Fighting French sloop developed a serious fire from unknown cause and is being towed to Capetown.

2. MILITARY.

RUSSIA. Little more than local activity on the whole front north of Stalingrad apart from several Russian attempts to cross to the western bank of the Don. Weather conditions are deteriorating. At Stalingrad the Russians continue to attack the German northern flank while they appear to have slowed down German progress in the factory area. Little German advance in the western Caucasus where weather conditions are impeding operations.

3. AIR OPERATIONS.

WESTERN FRONT. 22nd. 9 Wellingtons taking advantage of cloud conditions bombed Essen and 4 attacked Lingen from a low level, all returned safely. 44 Spitfires and Mustangs made low level attacks on shipping and minor military objectives in the low countries and northern France. One Spitfire is missing. 22nd/23rd. 124 bombers were despatched--Genoa 112 Lancasters, sea-mining 12 Stirling. All aircraft returned safely. 100 attacked Genoa in perfect weather and bright moonlight, operation considered most successful with large concentrations of fires at the aiming point. Three very large fires seen in the docks area.

GIBRALTAR. On the evening of the 20th and 21st, a total of 6 Italian aircraft approached and bombs were dropped harmlessly east of the rock and in Spanish territory.

MALTA. 22nd. 7 high flying formations totalling 165 fighters and fighter bombers operated against 3 aerodromes. Spitfires destroyed 3 enemy aircraft, probably destroyed one and damaged 7 without loss. Our A.A. destroyed 1 German fighter.

LIBYA AND EGYPT. 20th/21st. Tobruk Harbour was bombed 21st. Light and fighter bombers attacked enemy landing grounds and objectives in the coastal sector. Escorting fighters destroyed 3 enemy fighters and damaged 6 more, 2 are missing. Beaufighters destroyed 8 M.T. vehicles near Gambut.

4. HOME SECURITY.

22nd. Resulting from bombs dropped in widely separated coastal districts casualties so far reported 20 killed, 26 seriously wounded.

10-23-42

INTELLIGENCE REPORT 46

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

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The period covered by this report is the week of October 15 through October 21, except where otherwise specifically stated.



EDITORIAL ATTITUDES

SWING

The news of mounting enemy strength in the Solomons prompted a sudden swing away from the optimism which characterized editorial comment during the preceding week. A major battle for Guadalcanal is expected. Press and radio are waiting grimly for word as to its outcome.

Commentators are decidedly uneasy about the South Pacific situation. While they do not concede victory to the enemy, they are by no means optimistic in regard to the pending engagement. Like Major George Fielding Eliot, they feel that "the present Japanese operations in the Solomons represent a full-dress attack intended to expel us from the Guadalcanal-Tulagi area at any risk and regardless of cost." Our recently reported naval losses, together with admissions that the Japanese have repeatedly landed reinforcements and have been able to employ surface craft against our shore installations, have had a thoroughly disheartening effect.

Some commentators, viewing the situation darkly, tend to blame American military and naval leaders for putting our forces into an untenable position; a few reproach Secretary Knox and Admiral Nimitz for their optimistic statements. Others, however, point out that we are doing the best we can with the men and munitions at our disposal in the Pacific and that the taking of risks is essential to sound strategy.

In many observations about the Solomons, there is an undercurrent of feeling, inspired perhaps by the belated announcement of our losses in the

original attack, that the full facts about the situation are not being disclosed. Fletcher Pratt, for example, discussing the loss of our three cruisers, raises the question: "Must every victory or gain, every achievement we have, end in a sour note of doubt whether we are being given the whole story and given it accurately?"

DIPLOMACY

Editorial analysts continue to discuss our relations with Argentina and Chile. Most of them have expressed approval of the rebuke administered to these republics by Under Secretary of State Sumner Welles. The prevailing view is that the attitude of Argentina, and to a lesser extent Chile, imperils the safety of their neighbors in the Western Hemisphere and that it is necessary to prod them off the fence.

Nevertheless, a critical minority feels that we have no right to force other nations into a decision. Some fear that the Welles statement may carry implications of North American imperialism to our neighbor republics. The Detroit Free Press, for example, observed that the Welles speech had "grossly and unnecessarily offended the very peoples whose good will and cooperation we have been trying to win."

The open letter to the British people by the editors of Life focussed editorial attention once more upon Anglo-American relations. Overwhelmingly, newspaper commentators condemned the Life letter. The objection most frequently raised regarding it was representatively expressed by William L. Shirer, who pointed out that it gave the Nazi propagandists useful ammunition to hurl over the airwaves to Britain.

The letter was also assailed vehemently as unfair to the British people. Indeed, it evoked the warmest expressions of esteem and admiration for England which have been expressed by American commentators since the mass German air attacks on London.

Wendell Willkie's return from his round-the-world cruise was greeted by a burst of applause. Even the Scripps-Howard papers, heretofore extremely caustic, had a good word to say about him this week because of his support of a unified command. Most commentators agreed that Willkie had given expression to the hopes and aspirations of the common people of the world. "It is probable," observed the Portland (Maine) Press Herald, "that Mr. Willkie's visit did more to make the United Nations really united than all the official, cautious exchanges that have been made by ambassadors and legates in the last ten months."

HOME FRONT

Taking a cue, apparently, from the President's recent praise of Congress, commentators who, until very recently, were harshly critical of the legislative branch began referring to it in much more friendly fashion. Ernest Lindley, for example, observed that the recent behavior of Congress "is restoring the prestige of the legislative branch and confidence in our political system." He attributed the change to "the President's reassertion of leadership" and to the prodding of press and radio.

The dominant current issue in editorial minds continues to be the manpower problem. Response to the President's call for voluntary rationing of manpower in industry was rather lukewarm and somewhat confused.

While commentators were glad that he elected to postpone compulsion, they tend to feel that voluntary measures will prove ineffectual.

There was general satisfaction with the statement issued by Secretary Stimson as to the size of the United States Army. Mark Sullivan called it a "tonic for the country's morale." According to the Chicago Sun, it has "laid at rest the alarming, and in our opinion, nonsensical reports that the army might reach from 10 million to 13 million in 1943....."

A good many comments, however, questioned the wisdom of raising an Army as large as 7,500,000. Some suggested that it would be wiser to put more of our manpower into arming and equipping our allies. The New York Times argued that economic and industrial experts must have an equal voice with the military in deciding the size of the Army.

INFORMATION

Commentators gave warm praise to the Office of War Information report on American military and naval aircraft and to Elmer Davis' speech in Canada. But they employed these as occasions for renewed attacks on Government information policy.

The New York Times cited the Office of War Information report as a model for future Government statements on the progress of the war and the New York Herald Tribune called it "an example of the effective way in which to provide information, in times when ballyhoo is not wanted or needed, to a public which is sufficiently adult to understand and respect the

facts." In most comments, there was a plain implication that this sort of reporting is considered entirely atypical.

Mr. Davis' compliments to Canada on the "candor and common sense" of its information policy seemed to the Washington Post to be an "indictment of our own policy for the lack of both qualities." Commentators continue to insist angrily that war news in general is being spoon-fed to the American people.



POPULAR REACTIONS

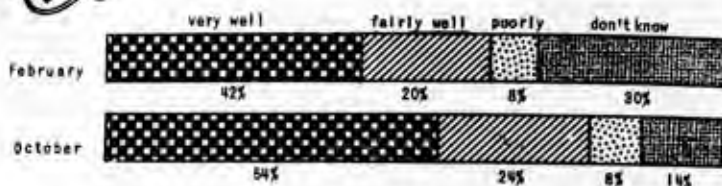
CIVILIAN DEFENSE

Public confidence in the management of civilian defense activities has increased appreciably since the period last winter when OCD was under vigorous attack in the newspapers. Interviewing in October showed that more than half the people throughout the United States think that civilian defense is being run "very well" in their communities. An additional quarter of the public say at least that it is being conducted "fairly well." A small minority of eight per cent continues to feel that local civilian defense activities are "poorly" handled. A like percentage expressed this disapproval when questioned on the subject last February. It is significant, however, that, while in February nearly a third of the public said they didn't know if these civilian efforts were being managed satisfactorily, only half as many express such doubt today.

The following chart presents a comparison of opinions registered in response to an identical question posed to national samples in February and in October:



How do you think Civilian Defense in your community is being run?



ENEMY AIR ATTACKS

Public interest in one phase of civilian defense activity has waned considerably. The fear of enemy bombing attacks which prompted energetic air raid precaution efforts early in the year has strikingly decreased.

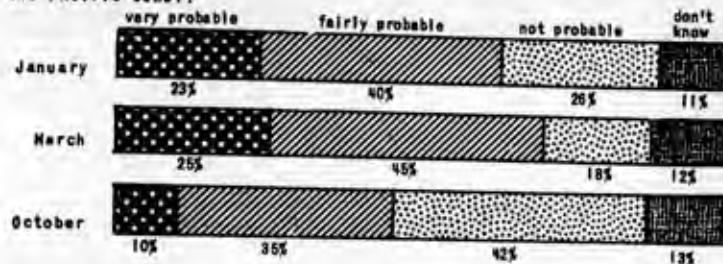
Today, less than half the public thinks there is much likelihood that the enemy will bomb our West coast cities any time in the near future. Only about a third of the public sees any immediate probability of bombing raids along our Atlantic coast.

The development of opinion about enemy air raids on our shores is indicated in the chart on the opposite page, which shows the responses given by national samples to identical questions asked in January, in March and in October.

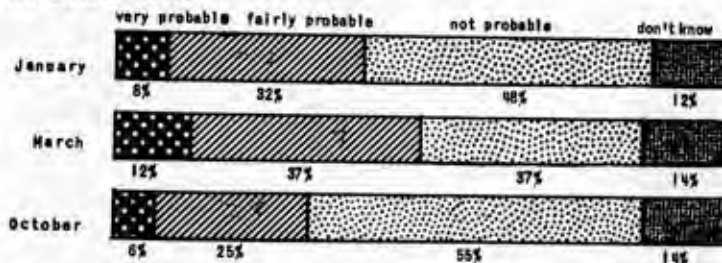


How much chance do you think there is of an enemy air raid within the next few weeks...

on the PACIFIC COAST?



on the ATLANTIC COAST?



ROAD TO VICTORY

Americans tend to doubt the efficacy of air attack as a means of overcoming Germany's hold upon the continent of Europe. Three-fifths of them believe that the road to victory must be opened through a land invasion by the allies. The following chart shows the division of responses to a question on this subject asked early in October.



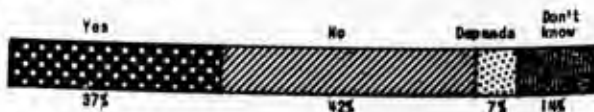
To beat Germany, do you think the Allies will have to invade the continent of Europe, or do you think we can defeat her by just increasing our air attacks?



This belief that the Nazis can be conquered only through the comparatively hard, slow advances of ground troops seems a great deal more realistic than a concurrent feeling now widespread in America that the German people are out of sympathy with Hitler and may revolt against him in the near future. As is indicated below, only a minority of the public is convinced that the enemy is strongly united. Almost as many take the optimistic view that the German people themselves will contribute to a United Nations victory by overthrowing their Government. These opinions suggest strongly that informational measures are needed to promote greater popular awareness of the difficulty of the military task ahead.



The way things look now, do you think there is a good chance of the German people revolting against Hitler in the next year?



PRODUCTION SHORTCOMINGS

American confidence in the efficiency of our production program has mounted slightly since mid-summer, although it is not now at the high level of last spring. In September, 53 per cent of the public said they thought the production of war materials was progressing "very well." An additional 41 per cent said they thought production was going "only fairly well." Only three per cent declared that production is going "poorly."

Despite the emphasis which has been placed lately on difficulties in the way of production arising from raw material shortages, Americans tend to put the chief blame for production shortcomings upon labor. When they were asked in September, "What do you think is the chief reason why war production is not going as well as it might?" the explanations most frequently offered centered around labor difficulties, strikes and the self-interest of workers.

This tendency of the public to find fault with labor is indicated by the answers to another question asked in October, "Do you think strikes are holding back war production now?" There was an almost precisely even division of opinion on this topic: 46 per cent answered "Yes"; 45 per cent answered "No"; nine per cent had no opinion.

When the same question was asked in June, however, only 38 per cent said "Yes," while 53 per cent said "No." Apparently public confidence in labor is waning, in spite of the general adherence of workers to their no-strike pledge — perhaps because newspapers have focussed attention upon occasional work stoppages.

DRAFTING YOUTH

As previously reported, eight out of ten people interviewed in September, said they thought that the Government should draft 18- and 19-year olds before drafting married men with children. Further analysis shows, naturally, that people were influenced in this choice by the presence of an 18- or 19-year old boy in the home. Women over 40 who had 18- and 19-year olds in their families (presumably mothers) voiced the greatest opposition to this proposal. But even in this group, almost two-thirds preferred the drafting of young boys to married men with children.

The boys themselves, according to a Gallup release this week, are overwhelmingly in favor of the new draft.

LOOSE TALK

There is widespread recognition throughout the United States that careless conversations on certain subjects should be avoided in war time. Americans are not accustomed to guarding their words. They have always lived in an atmosphere of freedom, and the current necessity for caution is probably not fully understood. But interviewing conducted with a small national sample during the second week of October indicates a prevailing recognition that loose talk is dangerous, at least in regard to military, shipping and production topics.

Interviews on this subject were introduced by the assertion, "The Government is trying to get people not to talk about certain things that will get back to the enemy." Each respondent was then asked, "What sort of things do you think people should be careful not to talk about?" Only 13 per cent

showed complete unawareness of what topics ought to be avoided.

The topics most frequently mentioned as taboo centered around military affairs. Production problems were also cited by many members of the sample. Multiple answers were permitted. The following table shows the percentages which recommended caution against careless conversations in regard to several broad, general subjects.

<u>Should not discuss:</u>	<u>Per cent of people mentioning</u>
Military matters	54
Production and supplies	40
Shipping affairs	15
Low morale	13
Miscellaneous mentions	8

It seems significant that most people put their emphasis on the kind of loose talk which might give information of strategic value to the enemy. There was much less awareness of the danger involved in loose talk in the form of rumors and idle gossip. This latter consideration may have been in the minds of the 13 per cent who urged the avoidance of careless talk about matters of morale.

Most of the responses, however, referred to such things as

- Information about battleships
- Troop train movements
- Debarcation of soldiers
- Location of troops
- Production of war plants
- New inventions and patents
- Materials used in war work
- Ship departures
- Movement of war materials

Among those who stressed the avoidance of discussion about morale, typical

strictures suggested were, in contrast:

Stories about Government inefficiency
Arguments about the second front
Criticism of the Government's handling of defense work
Criticism of our allies

It is evident, of course, that the statement with which these interviews were introduced encouraged responses about the type of loose talk which might give information to the enemy. The question asked does not reveal the degree to which people realize the danger lurking in their own words nor give any measure of their actual behavior in a conversational situation.

Apparently, however, the public has an appreciation of a large number of things which should not be discussed and is receptive to further reminders that "loose talk costs lives." There seems to be a special need, in addition, for informational efforts to promote an understanding that loose talk of a sort which does not involve information of interest to the enemy may have injurious effects upon national unity and public confidence in the Government.

REALISM AND THE OFFENSIVE SPIRIT

Confidence in American military strength and a prevailing recognition that the war can be won only through offensive action have promoted a general expectation that the United Nations will soon be able to wrest the initiative from the enemy. Many Americans believe that the war can be won within a period of two years. This hopefulness, together with the belief that American military might is far superior to that of the enemy, may lead to dangerous complacency.

The pronounced inclination among Americans to consider Germany a more formidable foe than Japan may reflect an unhealthy tendency to underrate the military potency of the Japanese. It seems probable that the focussing of interest in recent weeks upon the problem of opening a second front in Europe has diverted attention from the seriousness of the war in the Pacific.

Confidence in production and shipping appears to be on the increase, although the public does seem to have a fairly clear realization of the serious shipping problem we now face. The belief held by a majority that America is now the chief source of supply for the United Nations war effort suggests a need for informational efforts to promote understanding of the contributions made to the common cause by other members of the United Nations.

In general, the public shows a high degree of satisfaction with the Army's treatment and training of its troops. Few feel that there is any serious discontent among enlisted men; only a small minority is critical of Army training.

A need for greater understanding of the war's problems is especially pronounced among people on the lower educational levels. These people are peculiarly susceptible to the overconfidence which derives from blind patriotic fervor. They are more prone than persons of superior educational background to think that American military strength is greater than that of our allies or our enemies. And they also tend, in much greater degree, to anticipate a war of short duration.

Information policy should be designed to place national pride and confidence on a basis of solid realism. There is need for fuller explanation of the magnitude and complexity of the military task ahead in order to promote full public recognition that strategic decisions must be left in the hands of qualified military and naval authorities.

(These findings summarize the principal implications of a Special Intelligence Report, Realism and the Offensive Spirit, issued October 21 and available to authorized individuals upon request to the Bureau of Intelligence.)



ENEMY PROPAGANDA

ATTACKS ON THE UNITED STATES

Axis propagandists are paying growing attention to the United States. In the past week the proportion of broadcast time devoted to attacks on America increased significantly.

The basic nature of the attacks remains unchanged. The week's broadcasts were aimed at two perennial Axis propaganda objectives: defeatism and divisionism. The draft of 18-19-year olds was treated in such a way as to serve both purposes. The Germans grieved that "young, ill-trained men" would have to be pitted against seasoned Axis troops. To heighten controversy about the measure lowering the draft age, the Axis contended that it represented a fresh betrayal of President Roosevelt's promise not to sacrifice American youth.

The Navy's delay in announcing the loss of three cruisers during the occupation of the Solomons was given somewhat similar treatment. The Axis attempted to prove the superior truthfulness of its military reporting and charged that

the United States habitually conceals its losses. To increase discussion within the United States, the Axis attacked the "cheaply sensationalistic" American press, claiming that it is manipulated by Roosevelt and the Jews.

Axis broadcasts also made much of troubles in the United States on the economic front. Again a defeatist note was struck: it was claimed that stringent restrictions loom ahead and that war production cannot proceed because of lack of material. Criticism of domestic economic policies from American sources was used in distorted fashion in order to appeal to the Roosevelt haters.

The Axis also attacked Communists and Willkie as a means of widening cleavages. To arouse anxiety and prove America's immorality, Radio Debunk and Radio Manila both attempted to show that promiscuity, prostitution and venereal disease abound in Army camp regions and in port cities.

GOEBBELS TAKES THE DEFENSIVE

The primary purpose of Goebbels' Munich speech of October 18 was evidently to deal with the complaints which are arising in Germany over the difficulties of daily life. Goebbels asserted that the Germans are not fighting "for regional interests...for Socialism, and for National Socialism; for questions of proletariat and bourgeoisie...today it is for more important things we are fighting: for coal, for iron, for petroleum, and above all, for wheat for our daily bread." The claim that the Nazis are not fighting for territorial, ideological and political ends is, of course, not to be taken seriously. It is significant, however, that Goebbels felt that emphasis had to be placed at this time on those war objectives most likely to

still the swelling volume of complaints within the Reich. In effect, Goebbels attempted to show the German people that victory would preclude the possibility of Germany's suffering in the future as she is suffering today.

ENEMY VERSIONS OF THE MILITARY SITUATION

Nazi short-wave broadcasts and German domestic media this week emphasized German submarine "successes" to the neglect of the Russian front. The Germans claimed to have extended submarine operations to the Western and Southern coasts of Africa and to have sunk British troop transports off Capetown. Since the "destruction" of the recent United Nations' Arctic convoy, America and England have not dared to send more supplies to Russia by the Northern route, the Nazis boast.

Following its usual policy of silence during the early stages of a campaign, Tokyo has not made any mention of Guadalcanal since the beginning of its strenuous attempt to retake the island. The Japanese-controlled station at Saigon made a laconic statement on October 18 to the effect that the Japanese have landed on Guadalcanal but that no important land battles have occurred. It should be remembered that the Japanese have never acknowledged the loss of the Guadalcanal air field.

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FEDERAL RESERVE OPERATIONS IN GOVERNMENT SECURITIES

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

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

Column B shows price changes in 32nds, except for certificates which are true decimals.

STRICTLY CONFIDENTIAL

Oct. 12	Last Week										Index	Description	This Week										
	13		14		15		16		17				Oct. 19		20		21		22		23		24
A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Holiday																							
I. Summary																							
Market purchases																							
Market sales																							
Direct purchases from Treasury																							
Maturities																							
Total net increase or decrease (-)																							
Wednesday report of total portfolio																							
II. Taxable Securities																							
Bills - all issues combined																							
Market purchases																							
Market sales																							
Maturities																							
Total net increase or decrease (-)																							
Certificates																							
1/25 A - 11-1 42																							
5/8 A - 2-1 43																							
.65 C - 5-1 43																							
7/8 B - 2-1 43																							
Treasury notes																							
3/4 D - 3-15 43																							
3/4 D - 9-15 44																							
1-1/4 C - 3-15 45																							
3/4 B - 12-15 45																							
1 A - 3-15 46																							
1-1/2 B - 12-15 46																							
Treasury bonds																							
2% - 3-15 48-50																							
2 - 6-15 49-51																							
2 - 9-15 49-51																							
2 - 12-15 49-51																							
2 - 3-15 50-52																							
2 - 12-15 51-55																							
2 1/2 - 3-15 52-54																							
2 1/4 - 6-15 52-55																							
2 1/2 - 3-15 55-58																							
2 1/2 - 6-15 52-57																							
2 1/2 - 9-15 57-72																							
Guaranteed securities																							
EFC 7/8 U - 10-15 42																							
EFC 1-1/8 V - 7-15 43																							
EFC 1 W - 4-15 44																							
000 1-1/8 C - 2-15 45																							
All taxable securities																							
Market purchases																							
Market sales																							
Direct purchases from Treasury																							
Maturities																							
Total net increase or decrease (-)																							

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

1/ Purchases and sales recorded as of day of transaction and next day of delivery. Transactions after 4 o'clock are included in the next day.

2/ Less than \$50,000.

October 24, 1942

Gentlemen:

In the absence of the Secretary this will acknowledge the receipt of your letter of October 13, 1942. Upon his return I shall be glad to bring it to his attention.

Very truly yours,

(Signed) D. W. BELL

Under Secretary of the Treasury

Morgan Stanley and Company,
2 Wall Street,
New York, N. Y.

NLE

Original to Mr. Bell 10/15

MORGAN STANLEY & CO.
Two Wall Street
New York

New York, October 13, 1942

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

Dear Mr. Secretary:

On behalf of Dillon Read & Co. and ourselves we are enclosing herewith copies of letters received from Mr. Hugh A. Fulton, Counsel for the United States Senate Special Committee Investigating the National Defense Program, of which Senator Truman is Chairman, making certain inquiries regarding the American Viscose Corporation transaction. In view of our past discussions of this matter and the reference to the Treasury Department in the letters we thought we should advise you of their receipt. We are preparing answers to the inquiries, which we expect to communicate to the Committee shortly.

Very truly yours,

Morgan Stanley & Co

October 8, 1942

Dillon, Read & Co.
28 Nassau Street
New York City

Dear Sirs:

The Committee is informed that you and Morgan, Stanley and Co., Inc. headed groups which purchased the controlling interest in the American Viscose Corporation from British interests and which sold the securities represented thereby to the American public.

If you have a bound volume containing the papers with respect to the transaction, such as the bankers' purchase contract and underwriting agreement, opinions of counsel, registration statement, etc., the Committee would appreciate it if you would loan it a copy of the bound volume. In the event that you do not have such a volume, please furnish the Committee with copies of all of the important papers.

The Committee would also appreciate it if you would furnish it with the statement showing the gross amounts made by the banking group as a result of the American Viscose transactions, broken down to show the amounts received by each of the members of the group. The Committee would also appreciate receiving a statement of the expenses incurred by the banking group and the breakdown indicating the nature thereof. The Committee understands that the Department of the Treasury requested the banking group to consider a reduction of their profits, and would appreciate being informed as to whether and when such a reduction was made and the amount thereof and the mechanics by which it was made.

The Committee would also appreciate being informed as to how the transaction first came to your attention and as to who first proposed the banking group and how it was organized.

In addition, the Committee would appreciate receiving a list of the other instances, with dates, in which Morgan, Stanley & Co., Inc. and Dillon, Read and Co. acted as joint managers of a banking group. The Committee would also appreciate being informed as to any other transactions in which Dillon, Read and Co. has participated in the banking group, dealing in any way with the acquisition of British or other foreign securities in the amount of \$5,000,000.00 or greater since September, 1939.

A copy of this letter is being sent to Morgan, Stanley & Co. Inc. with a request for similar information from it, but information received from either company need not be duplicated by the other.

Very truly yours,

HUGH A FULTON
Chief Counsel

HAF:mt

WV

Harry S. Truman, Mo., Chairman
Tom Connally, Tex.
James M. Mead, N.Y.
Mon. C. Wallgren, Wash.
Carl A. Hatch, N. Mex.
Clyde L. Herring, Iowa
Harley M. Kilgore, W.Va.
Joseph H. Ball, Minn.
Ralph O. Brewster, Maine
Harold H. Burton, Ohio
John A. Fulton, Chief Counsel
Charles P. Clark, Assoc. Chief Counsel
Anne L. Campbell, Clerk

(COPY)

UNITED STATES SENATE

Special Committee Investigating
the National Defense Program

October 8, 1942

Morgan Stanley & Co.
2 Wall Street
New York City

Dear Sirs:

The Committee is interested in the transactions involving the controlling securities of the American Viscose Corporation and understands that together with Dillon, Read and Co. you headed a banking group to acquire such securities and to sell them to the American public.

The Committee would appreciate receiving from you copies of the bankers' contract, opinions of counsel, registration statement and other important papers relating to such transactions, together with a statement of the gross profits of the banking group broken down to show the amounts received by each and a statement of the expenses incurred by the banking group, broken down to show the nature thereof.

The Committee would also appreciate being informed as to how the transaction first came to your attention, who proposed that the banking group be headed by Dillon, Read & Co. and your company, and how the members of the banking group were selected.

The Committee has been informed that the Department of the Treasury requested that consideration be given to a return of a portion of the profits made by the banking group in the transactions involving the American Viscose Corporation and would appreciate being informed as to whether and when and in what amount and by what method such profits were returned.

The Committee would also appreciate being informed as to any other acquisitions of foreign securities since September, 1939 in an amount in excess of \$5,000,000.00 which you have made or in connection with which you have participated in the banking group.

Very truly yours,

/s/ Hugh A. Fulton

HUGH A. FULTON
Chief Counsel

HAF:mt
HH

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 56 - Aircraft Despatched
- for week ended October 20, 1942.

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

October 24, 1942.

STATEMENT NO. 56

AIRCRAFT DESPATCHED FROM THE UNITED STATES
WEEK ENDED OCTOBER 20TH, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DEL'D FOR USE IN CAN.</u>
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	Canada en route		2	
<u>BOEING</u>					
Fortress IIA	U.K.	Canada en route		2	
<u>DOUGLAS</u>					
Boston IIIA	U.K.	Canada en route		1	
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			10
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.		10	
<u>GRUMMAN</u>					
Martlet IV	U.K.	U.K.		13	
<u>LOCKHEED</u>					
Hudson VI	Middle East	Middle East		1	
"	West Africa	Freetown		14	
Ventura	South Africa	South Africa		6	
<u>GLENN MARTIN</u>					
Baltimore IIIA	Middle East	Middle East		2	
<u>NORTH AMERICA</u>					
Mitchell II	Canada	Canada			1
Harvard II	India	Bombay		9	
<u>STEARMAN</u>					
Stearman PT 27	Canada	Canada			1
TOTAL			32	28	12

BRITISH AIR COMMISSION
OCTOBER 24th, 1942.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via N. R.
 DATE: October 24, 1942, 9 a.m.
 NO.: 1216.

The following message, TF64, is the weekly economic report for the Secretary of the treasury from Mr. Adler.

1. September prices in Chungking:

Wholesale: (approximately 7 per cent more than in August)

General	6330
Food	4050

Retail: (approximately 4 per cent more than in August)

General	5980
Food	4540

It should be noted that 5720 is the revised retail general index for August.

2. I have been informally asked by Dr. Kung to raise the question of the Government of China buying from the U.S. Treasury U.S. dollars 20 million of gold with funds from the American loan to China. Subject to the consent of the Treasury this purchase of U.S. dollars is contemplated independently of whether or not scheme is adopted for a free gold market as mentioned in 2 and 3A of TF63 of October 8. I was informed by Dr. Kung, in respect to this scheme, that Chiang Kai-shek has still not consented to it due to the possibility that some of the gold might get into the hands of the enemy.

The Ministry of Finance, Monetary Division, has made available the following information in respect to an inquiry on the currency situation in territory occupied by the enemy. The information is based on the National Military Council's intelligence reports.

(a) At the end of August fapi exchanged for currency of puppet government or other puppet government assets by population of Anhwei, Shanghai, Chekiang, Nanking and Kiangsu amounted to CN\$1,215,000,000.

(b) On the 3rd of January 1942 the amount of puppet Central Reserve Bank currency in circulation was approximately \$262,000,000; on August 10, 1942 Central Reserve Bank \$922,000,000 the currency was approaching CRB\$1,700,000,000 at the end of September. The rapid rise of currency in circulation of the

Central

-2-

Central Reserve Bank reflects both the inflationary developments and economic deterioration in occupied territory and the determined efforts of the Japanese to drive fapi out of circulation in those territories.

(c) Federal Reserve Bank of North China currency in circulation:

<u>Amount</u>	<u>Year</u>
FRB \$922,000,000	1942
FRB \$966,000,000	1941
FRB \$715,000,000	1940
FRB \$458,000,000	1939
m FRB \$182,000,000	1938

(d) As to amount of military yen notes in circulation, there is no information. Due to the fact that issues are not numbered it is difficult to estimate possible circulation.

GAUSS

TREASURY DEPARTMENT

155

INTER OFFICE COMMUNICATION

DATE Oct. 24, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Japanese and United States Pacific Naval Losses

1. U. S. Naval communiques dated October 17 - 22, 1942, reveal the following additional Japanese and U.S. naval losses in the Pacific:

(a) Japanese

(1) Solomons. Damaged - 2 cruisers, one destroyer, 2 transports.

(2) Aleutians. Probably sunk - 3 destroyers; damaged - one destroyer, one cargo ship.

(b) United States

Solomons. Sunk - 2 destroyers.

2. Losses announced in U.S. Naval communiques since Pearl Harbor total:

(a) Japanese: 171 vessels sunk, 36 probably sunk, 150 damaged.

(b) United States: 52 vessels lost, 12 damaged.

Table I

Total Japanese Vessels Sunk and Damaged
to October 22, 1942

Combatant Vessels

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	6	6
Aircraft Carriers	6	1	4	11
Cruisers	13	3	35 *	51
Destroyers	30	12	18	60
Submarines	6	1	7	14
Tenders	1	1	5	7
Others	<u>13</u>	<u>2</u>	<u>14</u>	<u>29</u>
Totals	69	20	89	178

Non-Combatant Vessels

Fleet Tankers	11	0	7	18
Transports	27	7	21 *	55
Cargo and Supply	50 *	7	22	79
Miscellaneous	<u>14</u>	<u>2</u>	<u>11</u> *	<u>27</u>
Totals	102	16	61	179
Total all types	171	36	150	<u>357</u>

* Also several additional vessels.

Table II

American Naval Vessels Sunk and Damaged
to October 22, 1942

<u>Type</u>	<u>Lost</u>	<u>Demolished to prevent capture</u>	<u>Damaged</u>	<u>Total</u>
Battleships	1	0	1	2
Air craft Carriers	2	0	0	2
Cruisers	4	0	2	6
Destroyers	14	1	6	21
Submarines	3	1	0	4
Motor Torpedo Boats	2	1	0	3
Submarine Tender	0	1	0	1
Aux. Seaplane Tender	1	0	1	2
Mine Craft	5	2	0	7
Gunboats	3	1	0	4
Tankers	3	0	0	3
Tugs	0	1	0	1
Transports	4	0	2	6
Target Ship	1	0	0	1
Floating Drydock	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total	43	9	12	64

Table III

Japanese and American Vessels Sunk and Damaged
in the Solomon Islands (Aug. 7-Oct. 22, 1942)

Japanese Losses

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	2	2
Aircraft Carriers	0	0	2	2
Cruisers	1	0	18 *	19
Destroyers	5	2	6	13
Submarines	1	0	0	1
Tenders	0	0	2	2
Tankers	0	0	1	1
Transports	2	1	6 *	9
Cargo and Supply	0	0	6	6
Miscellaneous	<u>4 *</u>	<u>0</u>	<u>6 *</u>	<u>10</u>
Total	13	3	49	65

American Losses

Cruisers	4	2	6
Destroyers	5	2	7
Transports	<u>4</u>	<u>1</u>	<u>5</u>
Total	13	5	18

* Also several additional vessels.

Table IV

Japanese Vessels Sunk and Damaged
in the Aleutian Islands
(June 15 - Oct. 22, 1942) *

<u>Type</u>	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
Cruisers	1	0	5	6
Destroyers	6	4	3	13
Submarines	0	1	5	6
Transports	2	1	6	9
Cargo and Supply	4	1	7	12
Minesweepers	2	0	0	2
Miscellaneous	<u>1</u>	<u>0</u>	<u>1 **</u>	<u>2</u>
Total	16	7	27	50

* No American Vessels have been reported lost and damaged in this area to date.

** Also several additional vessels.

NOT TO BE RE-TRANSMITTEDU.S. SECRET
BRITISH MOST SECRETCOPY NO. 13OPTEL No. 366

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

1. NAVAL

On the 8th and 9th one of H.M. Submarines sank a 3,000 ton ship laden with petrol, a southbound coaster and a schooner off Tunisia; on the 19th she sank a ship in south-bound convoy and one of the escorting destroyers near Lampedusa. On the 20th one of H.M. Submarines sank an escorted ship laden with motor transport north of Tripoli (L).

21st/22nd

One of H.M. trawlers was torpedoed and sunk by enemy aircraft at the Northern end of the Red Sea.

French Equatorial Africa

Yesterday morning one of H.M. Cruisers was torpedoed by submarine off Pointe Noire but reached port. A British ship independently routed outward bound with war stores was torpedoed 550 miles north of the Azores on the 23rd.

2. MILITARYRUSSIA

Local fighting continues on the Don Front with the Russians trying to extend their Bridgehead in the Yelansk area. The Germans are making only very slow progress in their attack on the northern part of Stalingrad. A slight German advance has been made towards Tuapse. Heavy rain is falling in the Western Caucasus.

3. AIR OPERATIONSWESTERN FRONT22nd/23rd. Genoa.

About 180 tons dropped from about 10,000 feet in equal proportion H.E. and incendiaries, also many flares. Excellent visibility, no cloud, streets and buildings easily seen. One aircraft which did the whole journey out and back on 3 engines and consequently arrived late reported fires had taken firm hold. Smoke screen drifting out to sea therefore ineffective.

23rd.

Seven Wellingtons attacked Essen and four Krefeld. Cloud prevented observation. All returned safely. Three mosquitos bombed the Diesel Engine Works at Hengel, one is missing. Fighters carried out harassing operations over Holland and France. Twelve locomotives were damaged. One spitfire is missing.

23/24th

139 bombers were sent out-Genoa 112, including 91 heavy, sea-mining 17. Attack on Genoa from preliminary reports believed successful though weather less favourable than previous night. Some aircraft attacked Turin and Savona. Numerous fires resulted. 3 aircraft missing, one crashed.

EGYPT21/22nd

Our aircraft attacked Maleme Aerodrome, Crete and landing grounds, Camps and M.T. in the El Daba-Fuka area.

22nd

Allied aircraft continued their operations over the battle area, 6 enemy fighters were destroyed and 6 probably destroyed, 8 lorries and a tractor towing a large gun were set on fire. 7 aircraft missing.

MALTA23rd

Between 5.30 A.M. and 3 P.M. 171 enemy sorties, spitfires destroyed one enemy aircraft and damaged 3. A.A. destroyed two more. One spitfire missing. Several enemy formations were intercepted and turned back before reaching the Island. Takali Aerodrome cratered.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 368

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

1. NAVAL

Attacks on Shipping. During three days 21st to 23rd October four ships were reported attacked by submarines. Two British ships in outward bound convoy were torpedoed in North Western Approaches, one of which was sunk and the other a tanker is still afloat, one U.S. ship was torpedoed in West Atlantic and one British ship in Gulf of Oman. A British ship torpedoed on 13th October in Indian Ocean has reached port in tow and a Greek ship reported torpedoed in home-bound convoy on 14th October has arrived undamaged. One British ship is overdue at BOMBAY and a U.S. ship is overdue at NEW YORK.

2. MILITARYEGYPT. See OPTEL No. 367.

MADAGASCAR. By 23rd evening our forward troops were 35 miles south of AMBOSITRA and meeting some French resistance. Obstructions on the road are delaying our advance.

3. AIR OPERATIONSWESTERN FRONT. 23rd/24th.

GENOA. About 145 tons of H.E. and incendiaries were dropped 24th. 88 Lancasters escorted by Fighters as far as the French Coast set out for MILAN. 73 of them attacked in the evening and dropped about 127 tons of H.E. and incendiaries including twelve 4,000 lb. bombs from between 4,000 and 100 feet. Operation considered most successful and photographs confirm many bursts in the town. Three Aircraft are missing and one crashed on return. Spitfires damaged a 1,000 ton dredger off OSTEND and a 900 ton ship off DUNKIRK. 24th/25th. 107 bombers were sent out - MILAN 71, sea mining 25, leaflets, occupied France 11. Weather over MILAN was very cloudy and most aircraft bombed on estimated time of arrival, 7 are missing and 1 crashed. About 12 enemy aircraft flew over northeast ENGLAND, night fighters probably destroyed 1 and damaged another.

EGYPT. 22nd.23rd. Our aircraft bombed enemy landing grounds.

23rd. A total of 84 escorted fighter bombers made 4 attacks on EL DABA landing ground. 234 fighters flew offensive patrols over the forward area and destroyed 8 enemy aircraft, probably destroyed 2 and damaged 3 for the loss of 5 of our Fighters.

- 2 -

MALTA. 24th. 124 enemy fighters and fighter bombers were operating. Only very minor damage was done to our aerodromes. 58 Spitfire sorties were flown, three enemy aircraft were destroyed including one by A.A. and another was probably destroyed for the loss of one Spitfire.

4. HOME SECURITY

24th/25th. Some bombs were dropped in LINCOLNSHIRE. There was a direct hit on a shelter at GRANTHAM. Casualties reported 35 killed including nine service.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, October 26, 1942.

Press Service
No. 33-81

The Secretary of the Treasury today announced the offering, through the Federal Reserve Banks, for cash subscription at par and accrued interest, of \$2,000,000,000, or thereabouts, of 7/8 percent Treasury Certificates of Indebtedness of Series D-1943. In order to insure widespread participation not only on the part of banks, but by corporations and others who may be interested in this type of security, the subscription books will remain open two days. There will be no restrictions as to the basis for subscribing to this issue. At their maturity, the certificates will be redeemed in cash, and will carry no exchange privileges.

The certificates will be dated November 2, 1942, will be payable on November 1, 1943, and will bear interest at the rate of seven-eighths of one percent per annum, payable on a semiannual basis on May 1 and November 1, 1943. They will be issued in bearer form only, with two interest coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

When the Treasury resumed the offering of Certificates of Indebtedness in April 1942, the securities industry was asked by the Secretary to call attention of nonbanking investors to the issue. This procedure resulted in considerable distribution outside the banking system. It is expected the Victory Fund Committee will approach the same types of purchasers, calling attention to the new series now offered.

- 2 -

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 2 percent of the amount of certificates applied for.

Subject to the usual reservations and within the amount of the offering, subscriptions for amounts not exceeding \$25,000 from banks which accept demand deposits, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over \$25,000 from banks which accept demand deposits will be allotted on an equal percentage basis, to be publicly announced.

Payment for any certificates allotted must be made or completed on or before November 2, 1942, or on later allotment. As previously announced, Treasury Certificates of Indebtedness of Series A-1942, which mature November 1, carry no exchange privileges, but such maturing certificates will be accepted at par in payment for any certificates of the series now offered which may be allotted.

The text of the official circular follows:

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES D-1943

Dated and bearing interest from November 2, 1942

Due November 1, 1943

1942
Department Circular No. 700TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 26, 1942.Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series D-1943. The amount of the offering is \$2,000,000,000, or thereabouts.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated November 2, 1942, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semiannual basis on May 1 and November 1, 1943. They will mature November 1, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes and will not bear the circulation privilege.

4. Bearer certificates with two interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The certificates will not be issued in registered form.

- 2 -

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions and securities dealers generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions and securities dealers will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 2 percent of the amount of certificates applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, and within the amount of the offering, subscriptions for amounts up to and including \$25,000 from banks which accept demand deposits, and subscriptions in any amount from all other subscribers, will be allotted in full; subscriptions for amounts over \$25,000 from banks which accept demand deposits will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted hereunder must be made or completed on or before November 2, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 2 percent of the amount of certificates applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Treasury Certificates of Indebtedness of Series A-1942, maturing November 1, 1942, will be accepted at par in payment for any certificates of the series now offered which shall be allotted.

- 3 -

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, proscribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

D. W. BELL,
Acting Secretary of the Treasury.

October 26, 1942

CABLE TO THE SECRETARY OF THE TREASURY:

Sent requested papers today.
Treasury misses its Chief. Best
regards.

HENRIETTA S. KLOTZ

War Department
Office of the Chief of Staff

SECRET

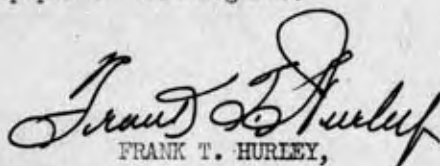
October 26, 1942

MEMORANDUM FOR Mrs. H. Klotz

Paraphrase of radio received from Mr. Morgenthau:

"Feeling fine. Please send TIME, LIFE, interesting
clippings, and latest newspapers. Best regards.

Please answer."



FRANK T. HURLEY,
Major-A.S.C.,
Exec. Asst. to Secretary, Gen. Staff.

SECRET

October 26, 1943.

Dear Mr. Stettinius:

On behalf of the Secretary, who is away from the city, I am acknowledging your letter of October 23, enclosing a personal copy of the report on the status of the Soviet Aid Program. This material will be placed in his hands just as soon as he returns to his office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable E. R. Stettinius, Jr.,
Administrator, Office of Lend-Lease
Administration,
Five-McCoy Hall Street, N.W.,
Washington, D. C.

* Returned to Stettinius at his request, 8/24/43

EP/dbs

EP/dbs

SECRET

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

172

E. R. Stettinius, Jr.
Administrator

October 23, 1942

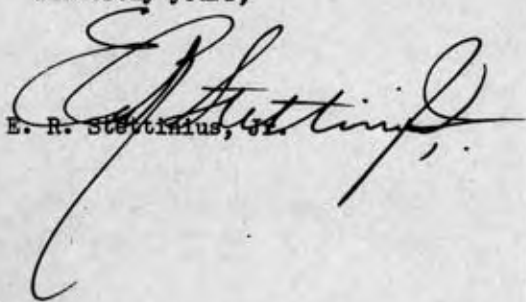
The Honorable Henry Morgenthau
Secretary of the Treasury
Room 280, Treasury Department
Washington, D. C.

Dear Mr. Secretary,

Attached herewith is your personal and private copy of the report on the status of the Soviet Aid Program, as of September 30, 1942.

Needless to say, you will recognize the extreme secrecy of the data contained therein.

Sincerely yours,


E. R. Stettinius, Jr.

Enclosure

Report on status of Soviet Aid Program
as of 9/30/42: Returned to Stettinius
at his request, 8/24/43

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Oct. 26, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

During the week ending October 20, 1942, only 72 planes (52 combat planes and 20 trainers) were sent to British forces from the United States. This is substantially below the weekly average of 117 planes during the first six months of 1942.

Table A - Shipments by Area

	Week Ending Oct. 20, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	11	666	1,827
Heavy bombers	2	148	252
Naval patrol bombers	2	83	185
Pursuit	13	1,016	1,327
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	28	2,032	3,765
<u>To the Middle East</u>			
Light and medium bombers	23	560	890
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	0	704	1,552
Army Cooperation	0	58	58
Trainers	0	231	373
Total to the Middle East	23	1,559	2,884
<u>To the Canadian Forces</u>			
Light and medium bombers	1	80	248
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	11	676	1,917
Total to Canadian Forces	12	810	2,269
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	145	245
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	0	12	117
Total to Pacific Forces	0	357	752
<u>To the British Indian Forces</u>			
Light and medium bombers	0	174	174
Pursuit	0	40	40
Trainers	9	62	62
Total to Indian Forces	9	276	276
<u>To the British West Indian Forces</u>			
Army Cooperation	0	20	20
Total to West Indian Forces	0	20	20
<u>Totals</u>			
Light and medium bombers	35	1,625	3,384
Heavy bombers	2	149	258
Naval patrol bombers	2	112	249
Pursuit	13	1,990	3,354
Army Cooperation	0	197	228
Trainers	20	981	2,493
Grand Total	72	5,054	9,966

Table B - Shipments by Types

	Week Ending Oct. 20, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>Light and Medium Bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	10	32	32
Douglas Boston I, II, III	1	27	519
Lockheed Hudson	15	577	1,547
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura Bomber	6	320	320
Martin Marauder 8-26A	0	57	57
Baltimore	2	287	355
Maryland	0	0	150
North American B-25	1	118	118
Northrop Vengeance	0	144	144
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy Bombers</u>			
Boeing B-17	2	44	64
Consolidated Liberator	0	105	194
<u>Naval Patrol Bombers</u>			
Consolidated Catalina PBV-5B	2	112	249
<u>Pursuit</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	0	905	1,287
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	13	140	140
Lockheed Lightning	0	3	3
North American Mustang	0	565	645
<u>Army Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogiro	0	0	5
Vought-Sikorsky OS2U	0	70	70
Vultee Stinson O49	0	10	14
<u>Trainers</u>			
Cessna Crane I-A (AT-17)	0	97	97
E-50	0	86	700
Fairchild PT-26 Cornell	10	149	149
North American Harvard II	9	351	1,248
Stearman PT-27	1	298	299
Total	72	5,054	9,966

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly average of shipments in 1941	35	2	3	27	1	29	97
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	77	17	0	17	0	30	141
July 14, 1942	42	11	3	24	0	1	81
July 21, 1942	66	8	3	0	2	4	83
July 28, 1942	39	0	2	0	6	46	93
August 4, 1942	32	0	4	27	38	8	109
August 11, 1942	59	9	6	70	8	19	171
August 18, 1942	60	3	7	20	0	11	101
August 25, 1942	25	0	11	26	0	26	88
September 1, 1942	33	0	8	81	17	28	167
September 8, 1942	31	0	13	11	0	6	61
September 15, 1942	57	0	4	139	6	36	242
September 22, 1942	58	2	2	36	20	35	153
September 29, 1942	30	1	2	9	0	106	148
October 6, 1942	11	1	10	56	0	47	125
October 13, 1942	29	0	4	39	17	81	170
October 20, 1942	<u>35</u>	<u>2</u>	<u>2</u>	<u>13</u>	<u>0</u>	<u>20</u>	<u>72</u>
Total Shipments since Jan. 1, 1941 to date. ^{1/}	3,384	258	249	3,354	228	2,493	9,966

^{1/} Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

OCT 26 1942

My dear Mr. President:

I am enclosing report on our exports
to some selected countries for the period
ending October 10, 1942.

Faithfully,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

The President,
The White House.

Enclosure

10/26/42
10/26/42

cmf

FILE COPY

October 21, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending October 10, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending October 10, 1942 amounted to \$14,564,000 as compared with \$30,947,000 during the previous ten-day period. No planes or tanks were reported as exported during this period. (See Appendix G.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$1,885,000. Military equipment accounted for sixty-two per cent of the total. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland amounting to \$237,000.

ISF/efe
10/23/42

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations received
During the Period Indicated 1/

(In thousands of dollars)

	10-day Period ended Oct. 10, 1942	10-day Period ended Sept. 30, 1942	Total Domestic Exports Aug. 1, 1942 to Oct. 10, 1942	Total Domestic Exports July 28, 1941 to July 11, 1942
U. S. S. R.	\$ 14,564	\$ 30,947	\$ 265,071	\$ 742,941
China	1,885	902	6,903	97,723
India	2/	80	394	2,858
Netherlands	237	338	1,244	11,537
Sweden	2/	1	2,508	18,056
Portugal	2	254	563	9,743
French North Africa 2/	—	47	2,088	6,305

Treasury Department, Division of Monetary Research

October 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

Less than \$500.

W/afn 10/21/42

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
 as reported to the Treasury Department
 July 28, 1941 - October 10, 1942 1/
 (Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	17,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,558
Mar. 20 - Mar. 31 4/	2	42,455
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,434
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,845	14,564
TOTAL	\$ 107,226	\$1,008,832

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 5-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

October 20, 1942

HSF/efs 10/20/42

SECRET

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APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
TOTAL EXPORTS			\$ 14,564
Principal Items:			
Industrial machinery and parts	-	-	2,696
Aluminum and aluminum alloys	Lb.	6,524,920	1,907
Aircraft parts and accessories	-	-	1,746
Copper, brass and bronze bars, plates, sheets, etc.	Lb.	4,603,687	1,046
Meat products	Lb.	3,707,041	854
Electrical machinery and apparatus	-	-	821
Motor trucks, automobile replacement parts, engines, etc.	-	-	614
Ammunition			558
.30 caliber balls	No.	978,000	
.45 caliber balls	No.	1,646,000	
.50 caliber tracers	No.	286,000	
.50 armor piercing	No.	300,000	
75 mm. high explosive shells	No.	12,000	
Wire and manufactures	-	-	554
Iron and steel billets, bars, rods, plates, etc.	-	-	497
Dried egg products	Lb.	455,271	456
Lead, nickel, zinc, quick silver or mercury	Lb.	1,124,256	365
Leather and manufactures	-	-	287
Explosives	-	-	263

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APPENDIX C (Con't)

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Military trailers	No.	27	136
Sub-machine guns .45 caliber	No.	5,850	118
Parts and accessories for tanks	-	-	37
Parts and accessories for bridge building	-	-	20
Links and belts for small arms ammunition	No.	100,000	7
Military equipment, n.e.s.	-	-	3

Treasury Department, Division of Monetary Research

October 21, 1942

W/efs 10/21/42

Regraded Unclassified

APPENDIX D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 1,865
Principal Items:	
Military equipment	1,161
Printed matter	255
Tools	146
Electrical machinery and apparatus	83
Lubricating oils	50
Truck, bus and other casings and tubes	45
Wire rope, cable & electric welding rods & wire	40
Writing paper	38
Automobile replacement parts, hand trucks and push carts	24
Scientific, surgical and medical instruments	11
Steel bars, plates, etc.	10
Chemicals and related products, n.e.s.	9
Industrial machinery and parts	3

Treasury Department, Division of Monetary Research October 21, 1942

MVF/efs 10/21/42

OCT 26 1942

My dear Mr. Secretary:

I am enclosing report on our exports to some selected countries for the period ending October 10, 1942.

Sincerely yours,

(SIGNED) D. W. BELL

Acting Secretary of the Treasury.

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

Enclosure

EDW/cfs
10/21/42

DMB

FILE COPY

October 21, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending October 10, 1942.

1. Exports to Russia

Exports to Russia as reported during the ten-day period ending October 10, 1942 amounted to \$14,564,000 as compared with \$30,947,000 during the previous ten-day period. Military equipment accounted for about twenty per cent of the total. (See Appendix G.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$1,555,000. Military equipment accounted for sixty-two per cent of the total. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland amounting to \$237,000.

ISV/efs
10/21/42

APPENDIX A

Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
from Export Declarations Received
During the Period Indicated 1/

(In Thousands of Dollars)

	10-day Period ended October 30, 1942	10-day Period ended Sept. 30, 1942	Total Domestic Exports Aug. 1, 1942 to Oct. 30, 1942	Total Domestic Exports July 26, 1941 to July 31, 1942
U. S. S. R.	\$ 14,964	\$ 30,947	\$ 245,071	\$ 742,941
Free China	1,805	908	6,903	97,730
Spain	1/	80	394	2,028
Sweden	237	138	1,244	11,277
Switzerland	1/	1	2,328	12,025
Portugal	2	254	243	9,743
French North Africa 2/	-	47	2,028	6,395

Treasury Department, Division of Monetary Research

October 21, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

Less than \$500.

77/cds 10/21/42

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 26, 1941 - October 10, 1942 1/
(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 26, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	11,315
Feb. 10 - Feb. 20	4,855	26,174
Feb. 20 - Feb. 28 1/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,528
Mar. 20 - Mar. 31 1/	2	42,518
Apr. 1 - Apr. 10	4,836	51,694
Apr. 11 - Apr. 20	5,358	66,906
Apr. 21 - Apr. 30	2,827	50,928
May 1 - May 10 1/	296	28,642
May 11 - May 20	1,872	14,000
May 21 - May 31 1/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,219
July 1 - July 10	7,900	32,657
July 11 - July 20	520	35,240
July 21 - July 31 1/	3,066	35,669
Aug. 1 - Aug. 10	208	16,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 1/	2,850	118,428
Sept. 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,554
Sept. 21 - Sept. 30	902	30,947
Oct. 1 - Oct. 10	1,825	14,564
Total	\$ 107,226	\$1,008,632

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1, figures are given for 10-day period instead of week, except where otherwise indicated.
3. 5-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce, this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research October 20, 1942

IAN/cfs 10/20/42

APPENDIX G

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS**\$ 14,564****Principal Items:**

Military equipment	2,688
Industrial machinery and parts	2,696
Aluminum and aluminum alloys	1,907
Meat products	894
Electrical machinery and apparatus	821
Motor trucks, auto replacement parts, engines, etc.	614
Copper bars, pipes, tubes, wire, etc.	558
Wire and manufactures	554
Iron and steel billets, bars, rods, plates, etc.	557
Brass and bronze plates, sheets, etc.	491
Dried egg products	456
Lead, nickel, zinc and quick silver or mercury	365
Leather and manufactures	287
Rubber and manufactures	274
Cotton manufactures	219
Molybdenum ore and other metal, n.e.s.	216
Tools	174
Coal-tar products	112
Textile manufactures, n.e.s.	102
Dairy products	99
Relief supplies	91
Industrial chemicals	79
Grains and preparations	73

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APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
October 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 1,885
Principal Items:	
Military equipment	1,161
Printed matter	255
Tools	186
Electrical machinery and apparatus	83
Lubricating oils	50
Truck, bus and other casings and tubes	45
Wire rope, cable & electric welding rods & wire	40
Writing paper	38
Automobile replacement parts, hand trucks and push carts	24
Scientific, surgical and medical instruments	11
Steel bars, plates, etc.	10
Chemicals and related products, n.e.s.	9
Industrial machinery and parts	3

Treasury Department, Division of Monetary Research October 21, 1942

TS/42/42

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 369EGYPT.

24th. In the extreme North an enemy counter attack was repelled and our troops mopped up isolated resistance in their original final objective. One of our armoured brigades was engaged in the evening with German tanks in the area some 5 miles West of TEL EL MAKH-KHAD but the engagement was inconclusive owing to poor visibility. The passage of our armoured forces during the night 24th/25th through the gap made in the minefield was delayed somewhat by enemy air and artillery action but eventually it was completed soon after dawn 25th. There has been no major tank battle so far but an armoured brigade of the First Armoured Division was reported in action against German tanks 25th morning and claimed several destroyed. In the Southern Sector early on 25th an armoured formation passed through the gap made in the minefield by our Infantry but was held up by anti-tank gun fire from about 30 German tanks in hull-down position and by intense artillery fire. Numerous enemy prisoners were taken during this operation.

OPTEL No. 370

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

1. NAVAL

MEDITERRANEAN. A Naval demonstration simulating a sea-borne landing was timed to co-operate with advance of the Eighth Army at 10 P.M. 22nd. Three destroyers with eight motor torpedo boats, some tank landing craft and a convoy of 4 ships took part. The motor torpedo boats were attacked by aircraft and one was hit but all ships and craft returned safely.

BLACK SEA. 21st. A Russian submarine sank a medium sized escorted ship off the SULINA CANAL.

2. MILITARY

BURMA. 25th. Japanese occupied BUTHEDAUNG and MAUNGDAW, a small force of our troops opposed them and then withdrew across the NAAP RIVER.

3. AIR OPERATIONS

WESTERN FRONT. 24th/25th. MILAN. About 55 tons of bombs were dropped. 5 New Zealand aircraft took part, two among those missing. 25th. 1 JU 88 was damaged over this country and 1 Beaufighter destroyed, crew safe. 25th/26th. A Hudson attacked a tanker off ST. NAZAIRE obtaining near misses.

EGYPT. 23rd/24th. Bombers and Fighter Bombers attacked enemy gun positions, mechanical transport and camps securing many hits. Bostons laid smoke screens in front of our troops. 24th. Our main bomber effort directed against enemy mechanical transport near gaps in their minefields. Many direct hits on vehicles. Our Fighter Bombers successfully attacked mechanical transport in the battle area and landing grounds at EL DABA. Special Hurricanes obtained hits on 18 tanks. During this 24 hour period a record of over 1,000 sorties were flown. Enemy air opposition slight, one Messerschmidt destroyed. 11 of our aircraft are missing.

MALTA. 25th. 160 enemy and 65 Spitfire sorties were flown. At SUDA airdrome one Beaufighter was destroyed and 1 Spitfire damaged. 3 enemy aircraft were destroyed including 2 by anti-aircraft, one probably destroyed and one damaged. One Spitfire is missing.

4. HOME SECURITY

Bombs dropped in TORQUAY area killed 18 persons. 6 others were killed and 6 are missing at SEAFORD.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 26, 1942

TO Secretary Mergenthau
FROM Mr. Heflich
Subject: United States Military Strategy

The following summarizes briefly the grand military strategy for the United States as advocated by Colonel Ivan D. Yeaten of Military Intelligence Service (in conversation on October 22, 1942):

1. The United States should abandon the policy of wide dispersion of its forces. We should concentrate our full military and naval strength in one area where it can be effective.

2. We can make most effective use of our full striking power by concentrating our forces in the Pacific to deliver a knock-out blow to Japan. This calls for (1) withdrawing Lend-Lease aid from other areas, including Great Britain and Russia, (2) concentrating virtually the entire U. S. fleet in the southwest Pacific, (3) gathering together a great invasion force in Australia, (4) making our way to Japan step by step, and (5) finally defeating the Japanese on their own soil. This process might require a year, possibly longer.

3. After eliminating Japan, we would be in a position to move through India, Iran, Iraq, Turkey and the Caucasus, and attack Germany on her eastern front with our full military strength.

4. This is the only possible way to attack Germany. The Nazis are so well prepared all along the European coastline that an invasion is impossible. We cannot establish an effective second front now in the Middle East because we cannot transport armed forces to that area as fast or in as great numbers as Hitler can.

- 2 -

5. It will make little difference if the Nazis, in the meantime, defeat Russia and Great Britain, and fully consolidate their grip on all of Europe. Additional manpower, productive facilities and natural resources have no military importance for the Nazis, who are already manufacturing military equipment faster than it is being destroyed.

Comments: It is interesting to note that Colonel Yeaton's strategy does not envisage a coalition war, but a war in which the United States would proceed entirely on its own, and, if successful, would emerge as the sole victor.

It would seem that this proposed strategy would fit perfectly into Hitler's strategy of defeating his enemies one by one.

No comment is required on (1) the great difficulty of defeating Japan single-handed in the manner proposed by Colonel Yeaton, and (2) delaying the attack on German Europe until our British and Russian allies, with their present great military strength, have been defeated or greatly weakened.